



Northern Ireland
Executive

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Economic Strategy Priorities for sustainable growth and prosperity



building a
better future





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Economic Strategy

Priorities for sustainable growth and prosperity

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MINISTERIAL FOREWORD

This Economic Strategy has been developed by locally elected politicians to meet the particular needs of our economy. It follows two periods of public consultation where we have set out the Executive's vision and priorities for sustainable economic growth and prosperity. I am pleased that various organisations and people have taken the time to respond to our draft Economic Strategy. I have separately published a paper which summarises the responses and how they have informed this final Economic Strategy.

The Strategy is being launched at a time of sustained uncertainty in the global economy and we recognise the impact this continues to have on businesses and individuals throughout Northern Ireland.

The overarching goal of this Strategy is to improve the economic competitiveness of the Northern Ireland economy. In order to achieve this, we are committed to strengthening our competitiveness through a focus on export led economic growth. This means we are prioritising the need to deepen and diversify our export base in order to increase employment and wealth across Northern Ireland. The key drivers of this will be innovation, R&D and the skills of our workforce. As the Strategy outlines, there are certain sectors and markets where we



believe we have the greatest potential to succeed. Equally, we recognise the need to be responsive to national and international market opportunities and we will therefore keep the Strategy under review to ensure that we identify emerging market and technology opportunities.

We also need the right mix of policies to boost our competitiveness and export performance and this includes the power to vary the rate of corporation tax. That is why the Programme for Government and Economic Strategy contain a commitment to secure these powers in a timely and affordable manner. However, irrespective of the outcome on corporation tax, we are confident that the actions outlined in this Strategy will strengthen our economic competitiveness.

Notwithstanding the external threats that may hamper economic growth, we have outlined the strengths and opportunities of the Northern Ireland economy that give us confidence for the future. In developing a more competitive economy, we have identified the twin goals of rebalancing the economy towards higher value added private sector activity, and the need to undertake a more immediate rebuilding phase to address the impact of the global downturn on the local economy and labour market. In Sections 5 and 6 we outline the actions and investments we are taking forward to strengthen our competitiveness under these twin goals.

Following the conclusion to the public consultation on the Economic Strategy, we have included additional actions and targets, particularly in the areas of youth unemployment, investment and exports, which reinforce our ambition to strengthen and grow the private sector in Northern Ireland. All of the targets will be rigorously monitored to ensure implementation of

**MINISTERIAL
FOREWORD**

our commitments. Furthermore, once the outcome in devolving corporation tax powers is known, we will reassess the degree to which we can further strengthen the ambitious nature of our overarching economic goals.

The Economic Strategy has been developed by a Sub-Committee of the Executive to prioritise action on the economy. I chair the Sub-Committee in my capacity as Minister of Enterprise, Trade and Investment and other members comprise the Ministers involved in key aspects of economic development policy (the Ministers for Employment and Learning, Education, Finance and Personnel, Regional Development and the Junior Ministers from OFMDFM).

But such partnership needs to be wider than the Executive and public sector. It also needs to include companies and the workforce within the private and community and voluntary sectors, for it is these groups who remain the key drivers of economic growth, particularly with the ongoing pressures on consumer and public expenditure. It is only as we work together, toward our shared Economic Vision, that we will be able to transform our local economy for the benefit of everyone in Northern Ireland.



Arlene Foster
Minister of Enterprise, Trade and Investment
March 2012



Economic vision for Northern Ireland

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1

ECONOMIC VISION FOR NORTHERN IRELAND

INTRODUCTION

- 1.1 The Executive is committed to working in partnership to build a safe, peaceful, fair and prosperous society where everyone can enjoy a better quality of life now and in the years to come. We need a strong economy to deliver this goal and this Economic Strategy sets out how we plan to grow a prosperous local economy over the short, medium and longer term to 2030.
- 1.2 Building growth and prosperity requires co-ordinated action from all sectors. It will require assistance from across government, and we acknowledge the continued support of the UK Government to help rebalance the economy. However, we recognise that companies and the workforce remain the key drivers of economic growth, particularly with the ongoing pressure on consumer and public expenditure.
- 1.3 Significant volatility remains throughout the global economy and we must keep the Strategy under review. As we move closer to the end of the current budget period, an updated version of the Strategy will be launched to ensure we have the right actions and targets for the period beyond 2014/15.



VISION FOR 2030

1.4 The ultimate aim of this Strategy is to improve the economic competitiveness of the Northern Ireland (NI) economy, as this remains the international benchmark against which developed economies continue to be measured. To that end, we are determined to increase employment and wealth opportunities for all.

1.5 Our economic vision for 2030 is:

‘An economy characterised by a sustainable and growing private sector, where a greater number of firms compete in global markets and there is growing employment and prosperity for all’

1.6 The vision is long term in nature and reflects the reality that it will take some time to rebalance our economy and build a stronger private sector.

1.7 Our commitments are built on an extensive assessment of global best practice in economic development. A summary of this work has been included in Section 3. This research leads us to conclude that we will not be able to make the necessary step change in our economy without significant new policy levers. That is why this Strategy assumes a successful outcome to the current negotiations with the UK Government on granting the Executive powers to vary the rate of corporation tax. In parallel, we recognise the need to progress the measures within our own control to make the NI economy more competitive. Therefore, irrespective of the outcome on corporation tax, we are confident that the actions outlined in this Strategy will strengthen our competitiveness.

1.8 We have set out our framework for growth (Section 4) and the economic priorities that will help deliver the economic vision (Sections 5 and 6). In addition, and unlike previous economic strategies, we have separately published a comprehensive action plan to emphasise our commitment to implementing change.

EXECUTIVE'S ECONOMIC PRIORITIES

1.9 The strategic framework for growth is outlined in Section 4. This shows that the path we have chosen to economic competitiveness is to increase employment and wealth by building a larger and more export-driven private sector. Increased prosperity will create opportunities for all sectors of the economy and we also believe that this approach will tackle disadvantage and help address our wider issues of social deprivation and division.

1.10 We have summarised below our key economic priorities. They are aimed at **rebalancing** the economy to improve the wealth, employment and living standards of everyone in NI. Alongside this, we are taking a number of immediate and complementary actions aimed at **rebuilding** the economy to address the impact of the global economic downturn, particularly on employment.

Rebalancing the NI Economy

1.11 The NI economy has been overly dependent on our public sector for too long. We need to rebalance our economy by growing the private sector and in order to achieve this we plan to:

- stimulate *innovation, R&D and creativity* so that we widen and deepen our export base;
- improve the *skills and employability* of the entire workforce so that people can progress up the skills ladder, thereby delivering higher productivity and increased social inclusion;
- compete effectively *within the global economy* and be internationally regarded as a good place to live and do business;
- encourage *business growth* and increase the potential of our local companies, including within the social and rural economies; and
- develop a modern and sustainable *economic infrastructure* that supports economic growth.

1.12 A summary of the key rebalancing initiatives is outlined in the table below, with further detail provided in Section 5. This includes how we might exploit the benefits from securing additional policy levers such as corporation tax and air passenger duty.

Key Rebalancing Measures

Innovation, R&D and Creativity

- Support £300m investment by businesses in R&D, with at least 20% coming from SMEs
- Support 500 businesses to undertake R&D for the first time and secure 120 Collaborative Projects in R&D
- Support 200 projects through the Creative Industries Innovation Fund by 2015
- Support our Universities to establish 8 spin-out companies by 2013
- Support our Universities and Further Education colleges to undertake 155 knowledge transfer projects on behalf of local businesses by 2014

Skills and Employability

- Increase to 70%, the proportion of young people leaving school having achieved at least 5 GCSEs at A*-C (or equivalent) including English and Maths by 2020
- Deliver 210,000 qualifications at Levels 2, 3, 4 and above by 2015, through Higher Education, Further Education, Essential Skills and Training
- Increase skills in subject areas important to the NI economy such as STEM (implement the actions within the STEM Strategy) and Sales & Marketing
- Improve support to companies and increase the number of people gaining skills in management and leadership

Business Growth

- Promote £400m of investment and 6,300 jobs in locally owned companies (with 50% paying salaries above the Private Sector Median) and a further 6,500 new jobs in new start-up businesses
- Increase visitor numbers and revenue to 4.2m and £676m respectively by December 2014
- Support projects that improve competitiveness, encourage diversification of the rural economy, improve quality of life in rural areas and that protect and enhance the environment, including through the introduction of National Parks
- Reform planning by introducing spatial Local Development Plans; a marine spatial plan and deliver faster and more predictable processing of planning applications
- Invest in social enterprise growth to increase sustainability in the voluntary and community sector

Competing Globally

- Agree with the UK Government on devolving the power to vary corporation tax in a timely and affordable manner to the NI Executive / Assembly
- Develop direct air links with international long haul markets by eliminating Air Passenger Duty on direct long haul flights departing from NI
- Promote £375m of investment and 5,900 jobs from inward investors with 75% paying salaries above the Private Sector Median
- Allocate £3m per annum for the Assured Skills programme to help attract and embed FDI and meet the skills needs of indigenous companies creating new employment
- Increase the value of manufacturing exports by 20% and the value of exports to the emerging economies by 60% by 2014/15
- Develop an agri-food strategy and action plan to drive export led growth in the agri-food sector to 2020

Economic Infrastructure

- Progress the upgrade of key road projects and improve the overall road network to ensure that by March 2015 journey times on key transport corridors are reduced by 2.5%
- Encourage the achievement of 20% of electricity consumption from renewable sources and 4% renewable heat by 2015
- Improve the landscape in public areas to promote private sector investment in towns and cities across Northern Ireland
- Develop Regional Sports Stadiums as agreed with the IFA, GAA and Ulster Rugby

Prioritisation

1.13 Our Economic Strategy recognises the need to build on our existing strengths as well as exploit new opportunities in the global economy. We have a great many local firms who are already competing successfully overseas. We will continue to do all we can to assist these firms and also work with new exporting companies to increase and diversify our export base. To that end, and following a recommendation made in the Independent Review of Economic Policy (IREP), Invest NI will work to support the entire business base to help drive forward the priorities of innovation, R&D and exports.

1.14 Equally, we recognise the need to target those areas which have the greatest potential for growth. The science/industry MATRIX panel has identified a number of markets which we will look to further exploit. These are:

- **Telecommunications & ICT**
- **Life & Health Sciences**
- **Agrifood**
- **Advanced Materials**
- **Advanced Engineering**

1.15 It is within these areas where we already have considerable strengths on which to build. For example, based on the companies identified by the MATRIX panel, the identified markets account for almost 80% of manufacturing exports and 77% of Business Expenditure on R&D (BERD). Therefore, it will be through further investment in these areas that we will be able to build on the progress made in the previous Programme for Government (PfG), which had growing a dynamic and innovative economy as its top priority.

1.16 In addition, MATRIX is conducting further analysis into the market opportunities presented by the green economy sector, with a view to informing how the Executive can further support businesses in this area. The first stage will examine the emerging market opportunities presented by the **sustainable energy** sector and subsequent phases will include transport and construction.

1.17 Although the above areas are mainly manufacturing based, they rely on other sectors of the economy to fully exploit their potential opportunities. For example, the services sector is, and will remain, a key sector including:

- **Business Services**
- **Financial Services**

1.18 It is also important to develop the potential of other sectors that have and will continue to make important contributions to the development of the NI economy. They include:

- **Creative Industries**
- **Tourism**
- **Social Economy**
- **Rural Economy**

1.19 While we will be focusing on these areas, we recognise the need to be responsive to new national and international market opportunities. That is why the Department of Enterprise, Trade and Investment (DETI) has established a unit which will work closely with business leaders, academia and other departments to identify emerging market and technology opportunities. It will identify the likely challenges and opportunities which lie ahead for our economy over the next decade and more, and develop a strategic approach to exploiting these.

Rebuilding the NI Economy

1.20 We are rebalancing our economy to create jobs, wealth and prosperity. However, the global downturn has had a sharp impact on the local labour market and we have decided to take some extra steps to help boost business activity and rebuild the economy. Specifically, we are taking action to:

- promote accessible employment opportunities particularly in areas of economic disadvantage; and
- provide training and re-skilling to those who are unemployed or inactive because of the downturn and address wider barriers to employment so that people do not become detached from the labour market.

1.21 We also recognise the particular impact that the recession has had on young people and we have included a range of additional measures to directly address this issue. They are aimed at encouraging young people to enter employment, education and training.

1.22 We have undertaken a number of actions with further initiatives already underway as shown overleaf.

Short to Medium Term Rebuilding Measures

- Promote £225m of investment and 6,300 jobs with 4,000 to be created by March 2014 under the Jobs Fund
- Develop and implement a strategy to reduce economic inactivity through skills, training, incentives and job creation
- Help the construction industry by delivering key road and rail projects and approximately 8,000 social and affordable homes over the budget period
- Deliver 6,000 work experience and training opportunities for young people by 2015 in priority sectors
- Stimulate 1,150 new employment opportunities in rural areas under the Rural Development Programme by 2015
- Develop and start to implement a Childcare Strategy with key actions to provide integrated and affordable childcare
- Implement the Social Investment Fund to improve pathways to employment, tackle systemic issues linked to deprivation, increase community services and address dereliction
- Increase the number of working age customers in receipt of work-focussed benefits to support them to move into work
- Move 114,000 working age benefit clients into employment by March 2015
- Provide an Employer Subsidy for businesses to recruit individuals who have been unemployed or economically inactive for a period of more than 13 weeks
- Offer a period of supported self-employment for those interested in running their own business
- Explore options to further address graduate unemployment, with a particular focus on ensuring that our actions assist with the longer term rebalancing agenda

Cross Cutting Principles

1.23 We are determined that the wealth and prosperity we are seeking will be used to help reduce poverty, promote equality and tackle existing patterns of disadvantage and division. We are also committed to building an economy that provides opportunities for the present, without compromising the ability of future generations to meet their own needs. We will be guided by the following principles when rebalancing and rebuilding our economy:

- **Balanced sub-regional growth:** we will ensure that all sub regions are able to grow and prosper, whilst recognising the importance of Belfast and Derry/Londonderry as key drivers of regional economic growth;
- **Equality:** we will ensure that no section of the community is left behind; and
- **Sustainability:** we will ensure that we provide prosperity and opportunities for both present and future generations.

INDICATORS & TARGETS

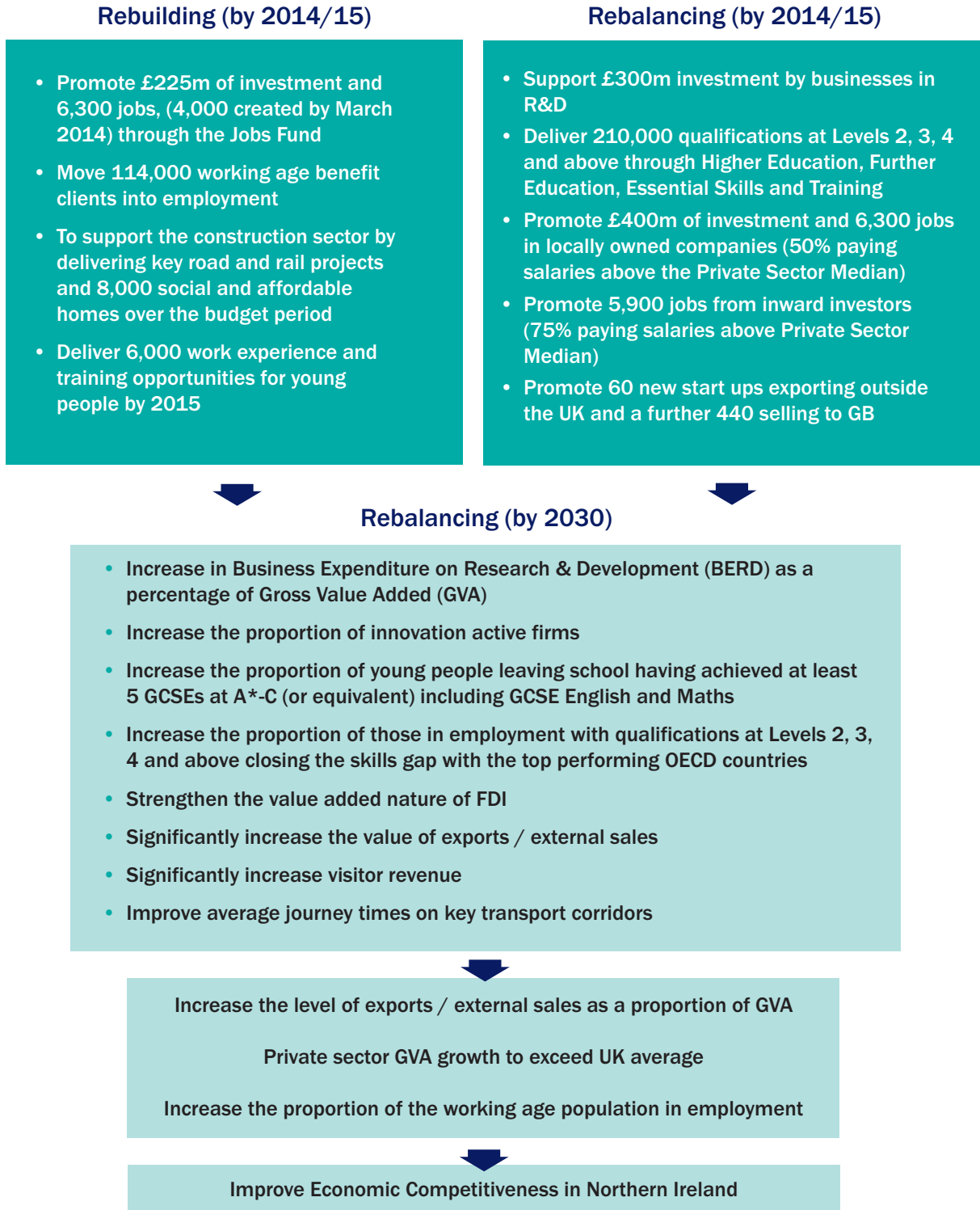
- 1.24 We are determined to implement the actions set out in this Strategy and to measure performance regularly and transparently. There will be full accountability for those charged with delivering the various actions. We have also sought to rationalise and significantly reduce the number of indicators and targets we use to measure our performance. We also recognise that, in certain areas, there is a need to improve the coverage and timeliness of indicators so that we can effectively report on performance.
- 1.25 The key performance indicators for the short, medium and longer term are outlined in Figure 1, with more detail provided in Section 7. We will publish an updated Economic Strategy, including a detailed list of actions and targets for the post 2014/15 period, when the outcome of the UK Government's next Spending Review is known.

Overarching Economic Goals

- 1.26 We are proposing to measure our long term performance against the following strategic indicators:
- increase the level of exports and external sales as a proportion of NI output;
 - increase the proportion of the working age population in employment;
 - NI private sector output growth to exceed the UK average; and
 - NI's economic competitiveness to improve relative to other developed economies.
- 1.27 We have already undertaken work to benchmark our performance on economic competitiveness relative to other countries and regions. We are continuing to refine our approach to this and the Economic Advisory Group, working with the Department of Enterprise, Trade and Investment, is undertaking further analysis on NI's competitiveness during 2012.
- 1.28 We have also published short and medium term targets for each of the identified key indicators on the NI Economic Strategy website¹. Once the outcome of the ongoing work on devolving corporation tax powers is known, we will reassess the degree to which we can further strengthen the ambitious nature of these overarching economic goals. We are also working to ensure that we are able to respond quickly and decisively. For example, we are concluding research that quantifies the specific implications of a reduced rate of corporation tax on the demand for skills, work readiness and Research & Development (R&D) in NI.

¹ This material is accessible at: www.northernireland.gov.uk/economic-strategy

Figure 1: Key Performance Indicators & Targets



- 1.29 It is also important to recognise that we cannot, in isolation, tackle the economic challenges we face. To help deliver on our priorities, we are committed to fostering and promoting our North/South and East/West linkages through day to day contact between the relevant administrations, and through the North South Ministerial Council and the British Irish Council.
- 1.30 We will also continue to support the work of Invest NI and InterTradeIreland in delivering economic growth. This includes the promotion of a competitive enterprise environment and co-operating to ensure the optimal utilisation of economic resources to drive trade and wealth creation.

IMPLEMENTATION

- 1.31 The Strategy has been developed by a Sub-Committee comprising the Ministers in charge of the departments with greatest responsibility for economic growth. The committee is chaired by the DETI Minister and the group will continue to play a key role in overseeing implementation.
- 1.32 Performance will be tracked, and regularly updated against the Key Indicators set out in Figure 1. We will publish annual reports on progress against the actions we are committed to deliver, as outlined in the Comprehensive Action Plan. This will include an annual assessment of the wider health of the NI economy.
- 1.33 The Strategy will also be underpinned by relevant strategies and related action plans to progress each of the Executive's economic priorities. We are currently engaging with key stakeholders to produce supporting strategies covering Innovation / R&D and Enterprise / Business Growth and an Employer Engagement Plan has been published to support the delivery of the NI Skills Strategy.
- 1.34 This Strategy also represents the economic pillar of the Executive's Programme for Government (PfG). The arrangements put in place to monitor implementation of the PfG will also cover the PfG actions outlined in Sections 5 and 6. In addition, we recognise that the actions will be supported by a wide number of cross-cutting strategies and Departmental Corporate Plans.

A photograph of three young adults sitting on a wooden bench outdoors. On the left, a young man in a grey and white striped polo shirt is looking towards the center. In the middle, a young man in a light blue and white striped button-down shirt is smiling broadly. On the right, a young woman with blonde hair, wearing a white cardigan over a dark top and blue jeans, is also smiling. They are all looking at a spiral-bound notebook held by the man on the left. In the background, there is a large, ornate Gothic-style building with red brick walls, multiple spires, and a tall, thin white spire reaching towards the sky. The sky is clear and blue.

**The Northern
Ireland
economy:
Performances
and challenges**

2



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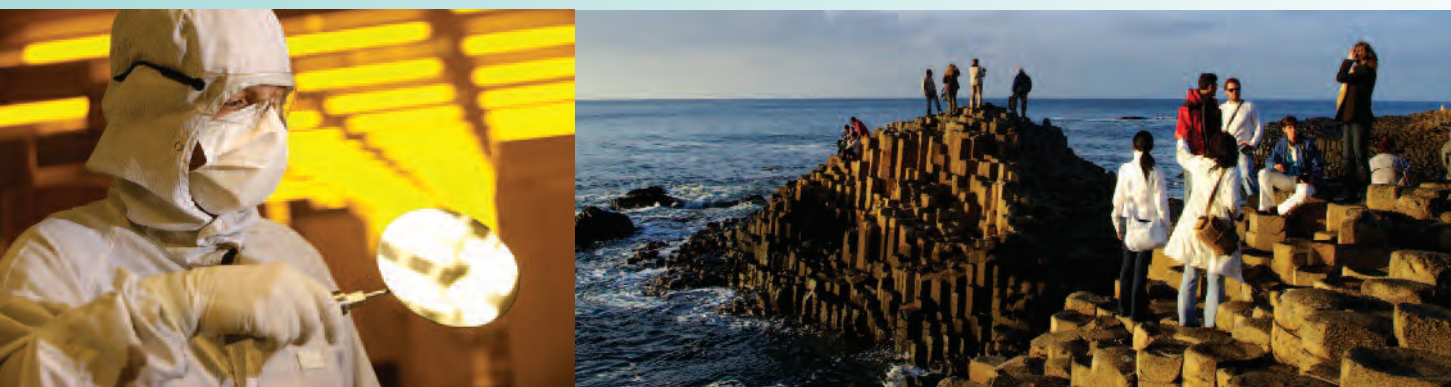
THE NORTHERN IRELAND ECONOMY: PERFORMANCE AND CHALLENGES

INTRODUCTION

- 2.1 The economic performance of the Northern Ireland (NI) economy has been extensively documented in the earlier consultation on the framework for growth². This included an assessment of the impact of the global recession on the local economy and the wider structural challenges that remain. This analysis has been further developed in an overview of the NI economy which is available on the Economic Strategy website³.
- 2.2 In light of the above, the aim of this section is threefold. Firstly, it highlights the economic context within which the strategy is being framed. Secondly, it summarises the main strengths and opportunities that the strategy is seeking to develop and exploit. Thirdly, it concludes on the need to deepen and diversify our export base in order to improve our economic competitiveness.

² http://www.detini.gov.uk/northern_ireland_economic_strategy_-_initial_consultation_paper__priorities_for_sustainable_growth_and_prosperity.pdf

³ A comprehensive evidence base has been developed to inform this Economic Strategy. This material is accessible at: www.northernireland.gov.uk/economic-strategy



ECONOMIC CONTEXT

2.3 A number of critical factors combine to set the context for this Economic Strategy. They include:

- the continued uncertainty in the global and national economies and the impact on the NI economy;
- the capacity for companies to access suitable finance to fund their business plans;
- the impact of the UK-wide welfare reform agenda on the local labour market and wider NI economy;
- the scope for the NI Executive to support company development under revised EU Regional Aid guidelines; and
- the long standing structural issues that continue to hamper economic growth in NI.

The Global Economy

2.4 The majority of the advanced economies have suffered significant declines in economic output and the recovery remains slow. Furthermore, there are significant uncertainties which continue to limit the scale and speed of the global recovery. One of the most significant risks is the high levels of public sector debt in developed economies which have necessitated significant reductions in public expenditure. Several countries have had their credit rating downgraded and, in the most severe cases, EU and wider international support has been needed to keep certain economies afloat. This debt, along with weak economic growth, has led to uncertainty on the forecasts for global and national economic recovery.

- 2.5 The NI economy is inevitably influenced by these developments, with external trade and Foreign Direct Investment (FDI) remaining important sources of employment and wealth.
- 2.6 The region has also been impacted by the UK Government reductions in public spending, with the 2010 Spending Review reducing the resources available to the Executive. The total fall in the Executive's Departmental Expenditure Limit over the current budget period is 2.9%, with resource spending remaining relatively flat and capital spending falling by more than one-third. These figures are net of inflation which will further erode our spending power.

The Economic Downturn

- 2.7 The accompanying overview of the NI economy highlights the degree to which the local economy has been affected by the global recession. The majority of sectors have experienced falls in output, with the construction sector particularly hit (output has fallen by 30% since the start of 2008 and 37% since its peak at the beginning of 2007). Other sectors have also experienced reductions, with business & financial services contracting by around one-quarter (26%) since 2008. Retail and manufacturing have also reported large reductions in output, although the pattern is not universal. For example, some sectors, most notably the agri-food sector, have reported increases in output during the downturn.
- 2.8 The slowdown in the private sector has had a significant impact on the local labour market, with the number of employee jobs in NI falling by almost 35,000 since the employment peak in June 2008. The construction and manufacturing sectors have experienced the largest overall falls in job numbers. Retail has accounted for the largest decrease within services, followed by business & finance (where the job losses have not been in the same order of magnitude as the decline in output).
- 2.9 The scale of total job losses in NI – equivalent to 4.9% of workforce jobs in June 2008 – has been reflected throughout the UK, with Scotland (-5.7%) and Wales (-3.2%) also reporting significant reductions. English regions have also fallen, although the reductions have, on average, been much less (the average fall for English regions was 2.0%).
- 2.10 The job losses in NI have resulted in a significant rise in the number of persons claiming unemployment benefits (which has increased by almost 38,000 since the beginning of 2008, or 161%). Although the percentage increase is much greater than for Great Britain (GB), the unemployment rate of 7.2% remains below GB (8.4%) and significantly below the RoI (14.6%) and EU average (9.8%).

- 2.11 The level of economic inactivity experienced a sharp rise at the beginning of the downturn, although the rate has subsequently fallen back to 27.2%. While this remains above GB, the gap is now narrower than it has been over much of the past two decades. This recent decline has been mainly due to fewer persons sick or disabled (which increased at the start of the downturn) and those looking after the family or home.
- 2.12 The rise in unemployment is an unwelcome but expected consequence of the global downturn. An important element of this Economic Strategy is therefore to ensure that employment opportunities are maximised, not least because recent research⁴ highlights that the longer a person remains unemployed, the less likely they are to find employment. This is especially true for young persons (aged 18-24) who are at most risk of entering prolonged periods of inactivity. For example, between 2007 and 2011 the number of under 25s out of work in NI increased by 155%, which represents the largest increase of all the UK regions. There is therefore an imperative to ensure that those seeking employment have the necessary skills to take advantage of the potential opportunities.

Access to Finance

- 2.13 Following the public consultations, a large proportion of respondents highlighted the ongoing issue of access to finance. Data provided by the British Banker's Association shows that new lending by the main NI banks is decreasing. This is further reinforced by a survey which showed a marked decline in the ability of companies in NI to access finance (the success rate of loan applications in NI fell from 92% in 2007 to 65% in 2010). This trend appears to stem from reduced resources being available for lending within local banks as they seek to repair their balance sheets. Alongside this, many companies who invested in property assets outside their main business are now finding it difficult to access capital to fund their core activity.
- 2.14 The Executive continues to press our local banks to play an active role in initiatives aimed at improving business access to finance. In addition, we continue to press the UK Government on the need to find a way of separating bad property loans from the core business lending of banks. However, despite these efforts, we recognise that credit for business expansion remains both constrained and expensive. Furthermore, in common with many other UK regions, NI has traditionally lacked the vibrant venture capital and debt finance markets that are necessary to support economic growth. It is in response to this, and also recognising the constraints identified previously, that we have outlined actions in Section 5 that will help address this key strategic issue.

⁴ Stam & Long (2010) *Explaining Exits from Unemployment in the UK, 2006-09* Economic & Labour Market Review, Vol 4, No 9.

Welfare Reform

- 2.15 The Coalition Government has introduced a Welfare Reform Bill which aims to introduce changes to the benefit system throughout the UK. We continue to assess the impact of the welfare reform initiatives on our economy, but already it is clear that it will significantly increase the number of people registered as unemployed and hence an increase in the pool of labour available for work.
- 2.16 These reforms will create a major challenge for the economy, particularly in terms of ensuring that we promote employment opportunities and improve the employability and skills of the labour force. That is why stimulating employment is a key aspect of this strategy, not just in terms of the rebuilding phase but also as we work to rebalance the economy over the longer term.
- 2.17 We recognise that many of those joining the labour market as a result of the welfare reform process will be far removed from being job ready and will require significant practical help and support to ensure they are able to fully engage in the labour market. The challenge in preparing such groups for work of any kind is significant and requires new thinking and the development of innovative and flexible responses from the Executive, supported by the business community and the third sector. However, successfully addressing these issues, while difficult in the short term, will lay the foundations for sustainable economic growth in the longer term.

Changes to Regional Aid

- 2.18 The Independent Review of Economic Policy (IREP) outlined the nature and extent of the changing rules on Regional Aid which set the maximum level of financial support that the Executive can provide to individual projects (as a proportion of total investment or equivalent project costs).
- 2.19 Although the limits for aid relating to areas such as innovation / R&D and training remain unchanged, the changes to Regional Aid⁵ from 1 January 2011 have significantly limited the scope for the Executive to support businesses, with permissible aid ceilings being reduced for projects within Belfast and across the rest of NI.
- 2.20 With further potential changes to Regional Aid, the implications for local economic development are very significant. We are therefore committed to ensuring that we achieve the best possible outcome for Regional Aid ceilings and coverage for the post 2013 period and Section 5 highlights the ongoing efforts we are taking in this regard.

⁵ Regional Aid is assistance for investment in the setting up of new business, the expansion of an existing business or business diversification into new products.

Longer Term Challenges

2.21 Alongside the impact of the recession, NI continues to face a range of long term challenges that hamper economic growth. These issues are more fully outlined in the accompanying overview of the NI economy, but they are summarised below:

- living standards have persistently lagged behind GB, with the main factors being lower levels of **employment** and **productivity**. The economic forecasts for these variables, as highlighted in figure 2, also show the scale of the challenge ahead;
- growth in output and jobs has tended to be in relatively low value added areas, which has resulted in **average wages** remaining significantly below the UK;
- an over reliance on the **public sector** as a driver of economic growth in NI. The comparatively small private sector also contributes to a very large fiscal deficit⁶;
- the economy has historically been **under-represented in higher value added sectors** such as finance and business services;
- a large proportion of the population is registered as **economically inactive**, with social exclusion levels well above other parts of the UK;
- almost half of the working age population in receipt of **incapacity benefit** have been diagnosed with mental and behavioural disorders; and
- significant numbers of households which have experienced intergenerational **poverty** or joblessness and are far removed from job readiness and the labour market.

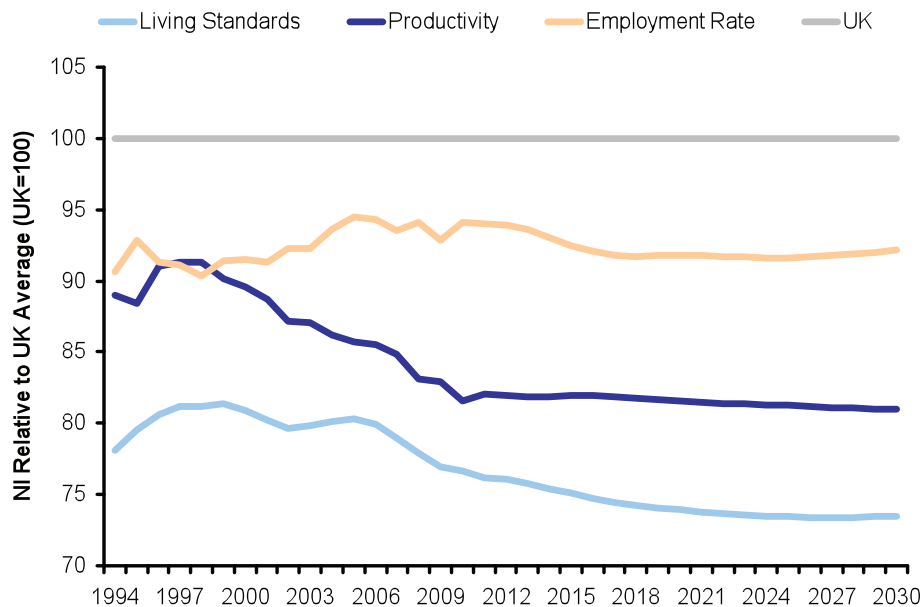
2.22 Recent economic forecasts suggest that the local economy will grow on average by 2.0% per annum up to 2020, compared with UK growth of 2.4% per annum⁷.

2.23 As shown in Figure 2, without the concerted action proposed, Oxford Economics consider that the comparatively low levels of economic growth are not expected to lead to any convergence with the UK. Relative living standards are expected to decrease to around 75% of the UK average by 2030. Productivity is also forecast to continue to decrease, to stand well below its late 1990s peak. Job growth is anticipated on a lower scale in NI than in the recent past which results in a slight fall in the forecast for the relative employment rate.

2.24 It is in light of these structural challenges that the strategic goals of rebalancing and rebuilding the economy have been developed to help grow the economy and strengthen competitiveness.

⁶ <http://www.dfpni.gov.uk/northern-ireland-net-fiscal-balance-report>
⁷ Oxford Economics

Figure 2: Economy Forecasts (NI v UK)



Source: Oxford Economics

THE NI ECONOMY: STRENGTHS & OPPORTUNITIES

2.25 This section of the Strategy has outlined some of the external and internal factors that impede economic growth in NI. These and other issues are included in the chart overleaf (Figure 3). In outlining the Strengths, Weaknesses, Opportunities and Threats (SWOT) facing the NI economy, we place a particular focus on those factors we need to develop and exploit in order to accelerate economic growth and competitiveness.

2.26 The aim is to rebuild and rebalance the economy based on the skills and strengths of our people. We have one of the youngest and fastest growing populations in Europe. Our students continue to outperform their counterparts elsewhere in GB, with literacy levels similar to the OECD average, although we also recognise the long tail of underachievement. Nevertheless, the performance of our school leavers continues to improve with 59% achieving at least 5 GCSEs at A*-C (or equivalent) including English and Maths in 2009/10 (compared to 52.6% in 2005/06). Only 1.7% of school leavers had no formal qualifications in 2009/10 (down from 3.2% in 2005/06). Although the skills profile of the workforce remains weaker than many other OECD countries, this largely reflects a historical outward migration of skilled people as they seek opportunities elsewhere.

2.27 We therefore need to ensure that opportunities exist which will encourage our talented people to remain in NI for employment and to progress up the skills ladder. For those who have moved abroad, there is the potential to attract them back by

Figure 3: SWOT Analysis of the NI Economy



creating high-value job opportunities. We also need to bring back into employment those who have lost their jobs during the recession or have become detached from the labour market.

- 2.28 The economy has a strong indigenous Small and Medium Enterprise (SME) base, with many becoming involved in high-value activities such as exporting and investment in Research & Development (R&D) and innovation. As a result, we have the opportunity to further develop these areas and work towards an economy based on innovative firms competing in export markets. The MATRIX report has already shown the strengths that NI has in high-technology areas and the market opportunities that are available to us. Moreover, NI's Universities and Further Education colleges are increasing the range and depth of their interaction with business, which is helping to underpin the commercialisation of the NI research base.
- 2.29 To complement our local SME base, we also have a strong track record in attracting Foreign Direct Investment (FDI) in both manufacturing and services. Many large multinational employers have invested in the local economy and they continue to be attracted by the improving skills base, the increasing speed and flexibility with which we are meeting company skill requirements and the cost-competitive environment. We are also clear that the ability to vary our own rate of corporation tax would help us attract more value added FDI and integrate these companies into the local economy through supply chain and other linkages. Further detail on this is provided in Section 5.
- 2.30 The tourism sector also provides enormous opportunities for our economy. We have set out ambitious targets to further grow the sector and the revised Regional Transportation Strategy recognises the need to improve connections to key tourism sites. The announcement by the UK Government that Air Passenger Duty (APD) will be reduced on direct long haul flights from NI (and the decision to commence the process of devolving APD to the NI Assembly) will also be used to strengthen the attractiveness of the region as a business and tourism destination.
- 2.31 In the short to medium term, 2012 is a critical year with key events such as the 100th Titanic anniversary, the Cultural Olympiad and other events around the Olympics/Paralympics, as well as the completion of several key capital projects such as the Metropolitan Arts Centre and hosting the Irish Open at Royal Portrush in Summer 2012. A total of £300m of infrastructure investment will come on stream, including the completion of key tourism attractions at Titanic Belfast and the Giant's Causeway Visitor Centre. In 2013, the World Police and Fire Games will be held in Belfast and Derry/Londonderry will also be the UK City of Culture. This offers further opportunities to showcase the region to visitors from across the world and change the global perceptions of NI as a place to live, work, invest and visit.

- 2.32 The global market outlook for agricultural commodities and foodstuffs also indicates a very favourable market balance over the coming decade and beyond. The agri-food industry is well positioned to capitalise on these emerging opportunities, and the reform of the EU Common Agricultural Policy will create additional opportunities to enhance the competitiveness agenda for the sector.
- 2.33 There is also scope for the NI Health Services to drive innovation by engaging more with high-technology companies. Furthermore, given that the health sector typically has a highly skilled workforce, including many from STEM disciplines, enhanced opportunities for closer working will help the private sector to prosper through leveraging of public sector skills and expertise.

EXPORTS AND REGIONAL ECONOMIC GROWTH

- 2.34 The public sector remains an important part of the NI economy. That is why the Executive remains committed to securing the necessary public sector reforms as outlined in the Programme for Government. However, as this section highlights, the constraints on public expenditure mean that the public sector cannot deliver the levels of growth necessary for a major improvement in economic performance. The onus for growth therefore rests with the private and the community / voluntary sectors, working in partnership with the public sector.
- 2.35 In the responses to the public consultations, there was overwhelming support for the priority attached to exports. This was expected given the size of the domestic market and the reality that exporting (including supply chain support to companies that export) represents an important means of improving economic growth and competitiveness. This export-based approach has been followed by many other successful small open economies internationally.
- 2.36 It is well established that economies benefit from external trading⁸. At the firm level, there are also a number of studies which highlight that exporting companies are larger, more productive, pay higher wages and are more capital intensive than those which focus mainly on domestic markets⁹. Evidence also suggests that there are benefits not just from entering export markets, but also from increasing export-intensity¹⁰.
- 2.37 While companies benefit from being in more competitive external markets¹¹, evidence suggests that it is the best performing and most competitive firms that will look to expand into export markets themselves¹². In terms of supporting export

8 Krugman and Obstfeld (2002) *International economics: Theory and policy*, Addison Wesley, 6th Edition

9 Bernard, A.B. and Jensen, J.B. (1999) *Exceptional exporter performance: Cause, effect or both?*, Journal of International Economics, 47

10 Greenaway, D. and Kneller, R. (2008) *Exports, productivity and agglomeration*, European Economic Review, 52

11 Wagner, J. (2002) *The causal effects of exports on firm size and labor productivity: First evidence from a matching approach*, Economics Letters, 77

12 Wagner, J. (2005) *Exports and productivity: A survey of the evidence from firm level data*, The World Economy, 30

growth, the focus therefore needs to be as much on raising company productivity through investing in innovation, R&D and skills as well as encouraging local firms to enter new markets.

- 2.38 We need to significantly increase our export focus if we are to achieve our economic goals, but the challenge is to both grow exports and diversify into new markets. A large majority of sales outside NI are presently destined for either GB or the RoI, which is too narrow. The EU and North America represent large markets to further develop export sales, but we also need to build much greater trade alliances with the fast growing emerging economies such as Brazil, Russia, India and China.
- 2.39 There is also a close link between exports and FDI. In small economies, foreign companies generally use their base to export goods and services. For example, 78% of NI manufacturing exports came from externally-owned companies in 2009/10¹³. Similarly, RoI exports from its Industrial Development Agency (IDA) clients totalled €110bn in 2009 and accounted for over 75% of total Irish exports. The key routes for NI to deliver export-led growth are therefore to ensure local companies are internationally competitive through investing in areas such as innovation, R&D and skills, whilst also attracting export-focused foreign investors.

SUMMARY

- 2.40 The economic challenges facing the NI economy are significant. We continue to feel the impacts of the downturn in the global economy and it will be some time before economic performance and employment returns to pre-recession levels.
- 2.41 The economic forecasts suggest that, unless immediate and co-ordinated action is taken, there is unlikely to be any material convergence to living standards experienced elsewhere in the UK. However, the preceding analysis has identified a range of strengths and opportunities – both local and external – that, if harnessed, could create a step-change in economic performance.
- 2.42 Given the constraints facing the public sector, the onus for economic growth is very much with the private and community / voluntary sectors. Ultimately it will be companies, the workforce and other organisations that will make the necessary investments to increase employment and wealth. However, the Executive has an important role to play in setting the framework for growth and outlining the necessary actions to stimulate growth in areas such as innovation, R&D, skills, education, exports, FDI and entrepreneurship. This also means identifying and supporting business growth in areas where there is the greatest potential, whilst ensuring that the necessary economic infrastructure is in place to capitalise on the existing strengths and opportunities.

¹³ This figure refers to all companies with ownership outside NI (if GB-owned firms are not included the equivalent figure is 53%)



**Growing the economy:
Lessons from
global best
practice**

3



3

GROWING THE ECONOMY: LESSONS FROM GLOBAL BEST PRACTICE

INTRODUCTION

- 3.1 Our economy faces a unique set of economic strengths and weaknesses. Nonetheless, as we work toward our economic vision, there is still much to learn from the experience of other developed economies.
- 3.2 As part of the work in developing this strategy, we have carried out an extensive review of global best practice in economic development. We have sought to identify the particular success factors that have stimulated economic growth and investment. An important element of this work has been to consider the applicability of various policies and programmes to the challenges facing us.
- 3.3 From the evidence gathered, the clear conclusion is on the need to strengthen our competitiveness by improving export performance. There is no single route map to export success, with certain economies, particularly in Sweden and Finland,



achieving success by investing heavily in innovation and R&D. Other countries such as Singapore and the Republic of Ireland (RoI) have developed their economies on the basis of a low corporation tax strategy and a pro-business regulatory environment. In all cases, the need to develop a world class education and skills system is critical for economic growth.

FRAMEWORK FOR ECONOMIC GROWTH

- 3.4 The work on global best practice was used by the Executive Sub-Committee on the economy to develop the framework for economic growth (outlined in section 4). This framework has been endorsed by all key stakeholders during the consultation exercises and has helped inform and prioritise our collective actions, initially over the short to medium term, as we work toward securing our economic vision.
- 3.5 In the medium to longer term, the framework will remain in place, not least because one of the features of other successful economies is that they ruthlessly pursue an economic growth agenda, with the economy consistently regarded as the top priority.

Executive's Economic Priorities

- 3.6 The evidence base has also helped to identify the key actions under each of the pillars that underpin the economic framework, both in terms of the rebalancing and rebuilding agendas. The aim of this section is therefore to summarise, under each of our economic priorities, the key findings from the review of global best practice. Thereafter, we outline the actions being taken by the Executive to achieve our vision for the economy to secure sustainable growth and prosperity.

- 3.7 It should be recognised that this section represents a brief summary of a very extensive work programme. Therefore, as part of launching this Economic Strategy, we have also included access to the full research projects that can be accessed on our dedicated Economic Strategy website: www.northernireland.gov.uk/economic-strategy.

Stimulating Innovation and R&D

- 3.8 The review of best practice illustrates the vital role innovation and R&D plays in economic development. One important feature of this priority is that it can only be successful if it is allowed to develop over the longer term. The key lessons are as follows:
- significant government expenditure needs to be directed towards innovation and R&D, with much of this aimed at developing research capacity and the commercialisation of research;
 - small economies have focused innovation policy on sectors where they have competitive advantages and historic strengths;
 - the majority of research activities in advanced innovation economies take place on a collaborative basis between businesses, higher education and public research institutes;
 - countries are moving beyond providing support for individual company R&D projects;
 - government support for innovation and R&D is mainly targeted at SMEs that lack the resources and capabilities to take forward projects;
 - a competitive approach for research funding is often followed with companies and research institutes showing the economic impact and technological novelty of a project requiring support; and
 - most successful small, open economies have a dedicated innovation agency, and many are setting up public research institutes.

Investment in Skills and Employability

- 3.9 Investment in skills and employability is a vital part of economic success in the countries reviewed. For example, a skilled and employable workforce has provided the bedrock for growth in countries / regions such as Singapore, Sweden, Finland, New Zealand and North Carolina.

3.10 It is the skills base that has provided the platform for successful innovation, export focus and productivity growth. Investment in skills has also acted as a powerful magnet for high value investment, particularly inward investment. The central messages are:

- a sustained focus on skills and employability is critical;
- education and training should be of a high quality with outputs focused on economic needs;
- the skills that are produced must be relevant, and harnessed and utilised to their full potential;
- strong management and leadership skills are important to improve firm level and sectoral productivity and growth;
- investment in vocational and technical training ensures the economy can rapidly respond to changing skills needs;
- building research capacity in the economy requires improvements in research skills, which has been achieved through funding long-term research programmes and attracting leading external researchers to work alongside domestic researchers;
- supporting top-performing international companies requires highly-skilled public sector agencies, as well as sufficient autonomy and incentives to promote a pro-business ethos;
- barriers to employment and employability must be addressed comprehensively; and
- stakeholder engagement is essential to deliver the employability, skills and economic growth agenda.

Connections to the Global Economy

3.11 Successful regions / countries all have strong and growing connections to the global economy. The key lessons include:

- successful small open economies have an intense focus on export markets, achieved through a combination of developing globally competitive indigenous firms and attracting regional headquarters and subsidiaries of foreign-owned companies;
- a low rate of Corporation Tax is a key policy tool used by small economies successful in attracting value added Foreign Direct Investment (FDI);
- all economies were found to explicitly target high value FDI sectors based on key industry strengths in the local economy;

- the research strengths of the economies are viewed as a key part of the value proposition to attract high value FDI companies;
- small economies often base economic activity around anchor institutions, which can be either indigenous companies supported to grow into large multi-nationals, key FDI companies or public sector organisations (Universities and medical research institutes); and
- ensuring that the skills system matches the current and future needs of the economy and can act as a central lever in attracting, retaining and growing high value inward investment and supporting the development of globally competitive firms.

Encouraging Business Growth

3.12 In all of the countries / regions reviewed, they each recognise the need to develop competitive indigenous companies. The key routes to growing successful businesses include:

- working closely with large and often foreign owned companies to develop and strengthen local supply chain linkages;
- ensuring SMEs have adequate access to finance to support their business plans;
- improve the regulatory environment to ensure that it is efficient and pro-business; and
- recognition that every country and region needs to specialise in certain niche areas / sectors.

Developing Economic Infrastructure

3.13 Best practice economies have also worked to ensure that there is strong infrastructure in place to support economic growth. Common policy approaches include:

- building a modern and efficient transportation system to strengthen connectivity within and between countries / regions which is essential for moving both goods and people;
- increasing investment in areas such as telecommunications to improve capacity as digital and knowledge based economies; and
- investing in public infrastructure (eg health and education projects) to improve the standard of living and the attractiveness of the country / region to internationally mobile investment and workers.

Promoting Employment and Improving Employability

3.14 Given the instability in the global economy, the review of best practice also considered actions being undertaken to promote employment and strengthen employability. Some examples of the approaches being taken include:

- incentives are used to promote employment in areas of economic disadvantage;
- promoting the social economy and its contribution to economic growth, particularly in targeting disadvantaged groups, neighbourhoods and individuals;
- provide incentives aimed at getting disadvantaged people into work; and
- linking employers and the unemployed through promoting available incentives (to both local and foreign owned companies) as well as ensuring employment agencies and the public Employment Service are pro-active in working with firms.

SUMMARY

3.15 This section of the Strategy has set out our approach in reviewing global best practice in economic development, the key priorities identified and the type of actions being undertaken by other successful countries / regions. This work has informed our framework for economic growth and the actions we are pursuing with our economic stakeholders.



**Framework
for economic
growth**

4



4

FRAMEWORK FOR ECONOMIC GROWTH

INTRODUCTION

- 4.1 The focus of our strategy is on developing export-led economic growth as the best means of increasing employment and wealth in Northern Ireland (NI) and improving our overall competitiveness.
- 4.2 Based on the research undertaken by the Executive Sub-Committee on the economy, an overarching framework for economic growth has been developed. Feedback from the public consultations has indicated strong support for the framework and the proposed priorities.
- 4.3 Figure 4 provides a graphical representation of the framework and how the themes interact to deliver the NI Executive's vision of the economy for 2030.



EXECUTIVE'S ECONOMIC PRIORITIES

4.4 In order to deliver the longer term priority of the Executive, five strategic **rebalancing** themes have been developed. These themes are:

- Stimulating innovation, R&D and creativity;
- Improving employability and the level, relevance and use of skills;
- Competing in the global economy;
- Encouraging business growth; and
- Developing our economic infrastructure.

4.5 The targeting of resources under these themes will bring forward actions and interventions which deliver increases in the size, structure and strength of our private sector. This should enable local companies to exploit opportunities and compete successfully in export markets, delivering both wealth and employment creation. It is recognised that none of these strategic themes operate in isolation, rather they are inter-dependent and action is required across each if our vision for the economy of 2030 is to be delivered.

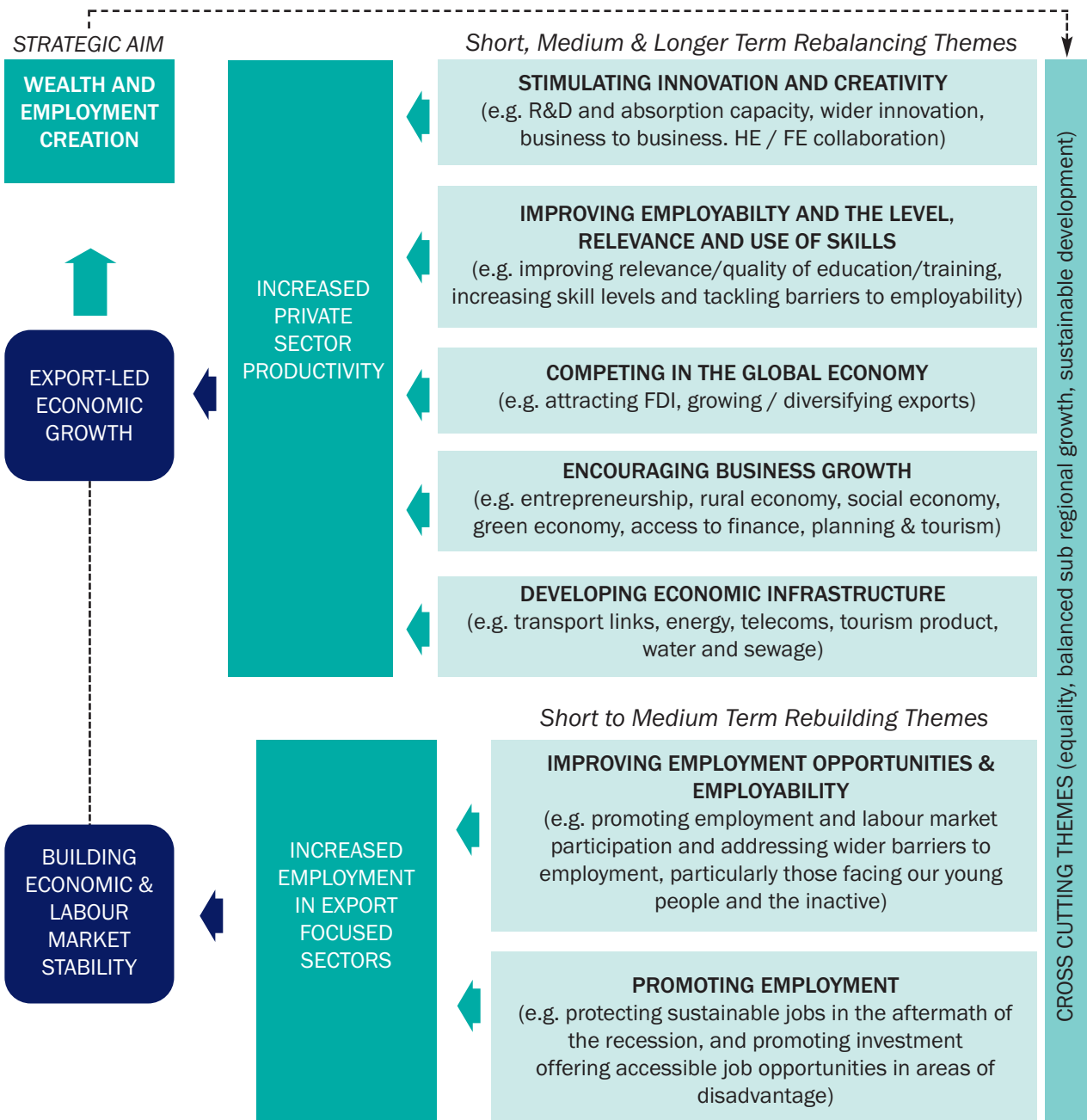
4.6 As the recession has had a significant impact on our economy, in particular on the local labour market, the Economic Strategy also includes the following short to medium term labour market **rebuilding** themes:

- Improving employment opportunities and employability; and
- Promoting employment.

4.7 These themes are designed to promote economic and labour market participation, while at the same time building capability in the labour force which will be the foundation of future export-led economic growth in the economy.

4.8 During the public consultations, it was proposed that an additional theme should be included, namely public sector reform. We recognise and accept that maximising public sector efficiency is vitally important, not least given the size of the sector relative to the overall economy. However, the emphasis of this Strategy is on developing a stronger and more export based private sector. The wider issue of public sector reform is addressed within the Programme for Government which sets the Executive’s commitments to deliver high quality and efficient public services.

Figure 4: Strategic Framework for the Economic Strategy





**Priorities
for growth:
Rebalancing
the NI economy**

5



5

PRIORITIES FOR GROWTH: REBALANCING THE NI ECONOMY

INTRODUCTION

- 5.1 We need to rebalance the Northern Ireland (NI) economy by growing a stronger private sector which will deliver value-added economic growth. This section outlines the steps we are taking to achieve this and the 2030 vision for the NI economy. In the section that follows, we outline the shorter term actions being taken to rebuild the economy in the aftermath of the global economic downturn.
- 5.2 We require access to the right mix of policy levers if we are to rebalance the economy and this includes more fiscal flexibility. In particular, we have concluded that the single measure that would have the most transformative impact on the economy would be the ability to lower the rate of corporation tax. We have welcomed the UK Coalition Government's commitment on this and we have a Programme for Government (PfG) commitment to secure a successful outcome to the ongoing negotiations. We look forward to this power being devolved to the NI Executive in a timely and affordable manner.



5.3 In outlining the steps we are taking to rebalance the economy over the short, medium and longer term, we have included a brief assessment of the impact of devolving corporation tax powers to NI, alongside the other complementary measures required to maximise its impact on the economy. In summary, this section illustrates how we will work to harness our own initiatives, alongside those from the UK Government, to rebalance the NI economy toward stronger private sector and value added growth. Indeed, irrespective of the outcome on corporation tax, we are confident that the measures outlined in this Strategy will strengthen our competitiveness.

5.4 In identifying our economic priorities, we realise that economic growth must create a fairer and more equitable society for all our citizens and sub-regions. We have therefore identified a number of cross cutting themes that have helped inform the priority actions outlined in the Strategy. These themes cover the need for balanced sub-regional growth, equality and sustainability and they are outlined at the end of this section.

Independent Review of Economic Policy

5.5 Prior to outlining our rebalancing priorities, it is important to recognise the important role that the Independent Review of Economic Policy (IREP) has played in determining our Economic Strategy.

5.6 The Review was commissioned by the Minister of Enterprise, Trade and Investment and the majority of the recommendations were accepted for implementation. While the review was focused on the policies and activities of DETI and Invest NI, the panel made several recommendations which impacted on the responsibilities of other Departments. They are currently being taken forward by DETI and other

relevant Departments involved in economic development and significant progress has been made in several key areas including:

- establishing an Executive Sub-Committee on the Economy to prioritise cross-departmental action on the economy;
- improving the co-ordination of economic policy between DETI, Invest NI and DEL to ensure that the demand and supply of skills are aligned to the needs of business;
- forming an Economic Advisory Group, chaired by Kate Barker, a former member of the Bank of England's Monetary Policy Committee, to provide the chair of the Executive Sub-Committee on the Economy with independent economic advice;
- granting increased autonomy to Invest NI, in line with the approach adopted by other successful economic development bodies;
- enabling Invest NI to support the entire business base in NI and to prioritise growth in the key areas of innovation, R&D and exports; and
- making the Planning Act (NI) 2011 and introducing operational changes to streamline planning processes to allow for faster and more predictable decision making.

5.7 The DETI Minister also outlined in her statement to the NI Assembly in March 2011 that the remaining IREP recommendations would be progressed within a comprehensive Economic Strategy and we have published a paper providing an update on the IREP recommendations and how they influenced the development of the Economic Strategy¹⁴.

REBALANCING THE ECONOMY

5.8 The public consultation on the framework for economic growth confirmed the need to invest in innovation, R&D and the skills of our workforce in order to rebalance the NI economy. We begin by outlining the key actions and commitments in these areas and then follow with our remaining economic priorities.

STIMULATING INNOVATION, R&D AND CREATIVITY

5.9 As part of our review of global best practice, we gathered extensive evidence which demonstrates the strong links between innovation and value-added economic growth. The key lessons have been outlined in Section 3, and we are clear on the need to devote significant resources to develop our capacity, particularly in the key MATRIX market sectors¹⁵. This prioritisation recognises the need to develop our existing strengths as a comparatively small regional economy. This includes an

¹⁴ This material is accessible at: www.northernireland.gov.uk/economic-strategy

¹⁵ MATRIX' twenty-three recommendations for accessing market opportunities relate to the wider areas of Telecommunications & ICT; Life & Health Sciences; Agrifood; Advanced Materials and Advanced Engineering. Full details can be found in the MATRIX reports.

increased focus on supporting and growing our areas of excellence in advanced manufacturing and engineering over the next decade and beyond.

5.10 As part of addressing this priority, we recognise that encouraging companies to embrace ambitious growth plans, including increased emphasis on exports and external sales, is a critical part of stimulating innovation and R&D. This highlights how our priorities interact with each other in order to drive forward sustainable growth and prosperity.

Progress to Date

5.11 We have made some progress in building the dynamic innovative economy that was at the heart of the previous Programme for Government (PfG). In summary, this includes:

- supporting an unprecedented 52% rise in total R&D expenditure since 2008, rising to £521m which is the highest figure on record;
- leveraging £327m in additional Business Expenditure on Research & Development (BERD), with 341 companies engaging in R&D for the first time;
- launching a research challenge fund which encourages the agri-food industry and public sector research establishments to collaborate on innovative, high quality technological development projects;
- establishing a Creative Industries Innovation Fund which has made awards to date totalling £3.7m to 134 business projects and 22 sectoral body projects;
- establishing the Innovation Fund & Employer Support Pilot Programme to assist the Further Education sector deliver a skilled workforce and provide a vehicle for other aspects of innovative FE college support for industry and entrepreneurship;
- supporting our local Universities by increasing mainstream research funding by over 11% between 2007/08 and 2010/11; and
- funding Knowledge Exchange in our Universities and Further Education colleges through the HE Innovation Fund and Connected programme at an annual rate of £4m since 2007.

Challenges that Remain

5.12 Notwithstanding the progress to date, it is clear that much remains to be done in order to stimulate innovation, R&D and creativity. For example, although R&D performance in 2010 was close to the UK average, we recognise that NI has historically trailed behind the UK average on this measure and, in turn, the UK itself significantly lags behind the most innovative economies such as Finland and Sweden on overall R&D spend. Furthermore, in terms of NI's wider innovation performance, slightly over half of our local firms were active in innovation during the 2006-08 period, which is the lowest figure for all the UK regions.

5.13 In addition, HM Treasury public spending statistics indicate that NI spends about the UK average supporting Science & Technology. However, much of this spend is in one sector, agriculture, and there is a need to expand into other areas including biotechnology, health research, engineering and other science-based activities. Furthermore, we must also ensure that, over the coming decade and beyond, greater emphasis is placed on supporting high technology manufacturing industries and the MATRIX reports have identified some of the key areas on which to build.

Related Strategies

5.14 A number of strategies and action plans are helping to drive forward progress in this area, they include:

- DARD's Evidence and Innovation Strategy identifies the key strategic research areas for the agri-food and rural businesses sector;
- DCAL's Strategic Action Plan for the creative industries recognised the sector as an important driver of economic and social innovation. A framework for future growth and development of the creative sector will be published early in 2012;
- DEL's Success through Skills – Transforming Futures recognises that skills are the bedrock of an innovation-based knowledge economy, from the schools system, to further and higher education and lifelong learning;
- A Higher Education (HE) Strategy for NI is scheduled for publication early in 2012 and this will highlight the importance of the HE sector to R&D and innovation; and
- DHSSPS's R&D Strategy Research for Health and Wellbeing identifies the need to support and develop the clinical research capacity and infrastructure.

Innovation and R&D: Key Actions

5.15 In addition to the above strategies, DETI is currently developing an Innovation, R&D and Creativity Strategy which will underpin this key economic priority. Work on this is already well advanced and discussions are being held with various stakeholders. The key priorities will include steps to strengthen collaboration and the commercialisation of knowledge. The Strategy will be launched later in 2012.

5.16 We have outlined in the summary box a list of the **key** actions we are undertaking in the current budget period to stimulate innovation, R&D and creativity. However, we recognise that building a more dynamic and innovative economy is a long term project and one which requires significant investment over the lifetime of this Strategy. Indeed, as our review of global best practice has highlighted, it is through sustained investment in innovation and R&D that countries such as Finland and Sweden have been able to emerge as world leaders in this area.

In working to **rebalance** the NI economy during the current budget period, and to stimulate Innovation, R&D and Creativity, **we will:**

- Support £300m investment in R&D, with at least 20% from SMEs
- Support 500 businesses to undertake R&D for the first time and secure 120 Collaborative Projects in R&D
- Expand the Collaborative Network Programme targeting future market opportunities
- Provide £54m funding for University research and investing in collaborative HE/FE engagement with business in 2011/12
- Support our Universities to establish 8 spin-out companies by 2013
- Support our Universities and FE colleges to undertake 155 knowledge transfer projects on behalf of local businesses by 2014
- Support businesses and academia to apply for national and EU funding / programmes. Ensure 100 applications for transnational R&D funding
- Invest £4m via the Creative Industries Innovation Fund and wider sectoral initiatives to stimulate innovation, R&D and creativity
- Significantly increase cross-border innovation and trade activity
- Provide funding of up to £3m per annum for new R&D projects through the Agri Food and Biosciences Institute Research Programme
- Secure up to £5.6m additional investment in agri-food R&D through the DARD Research Challenge Fund by March 2015
- Ensure the adoption of at least 1,500 technologies in the land based and food sectors on an annual basis

5.17 Given the importance of this priority, we will continue to identify how best we can support investment in innovation and R&D. To this end, we have identified a number of complementary actions which we will seek to pursue over the medium to longer term as we build a more knowledge based NI economy. These include:

- exploring how the NI Science Park can further evolve into an Open Innovation Centre that could create the environment where partnerships and collaboration can flourish across sectors;
- progressing the alignment of publically funded research with our economic priorities in order to increase the potential for greater knowledge transfer between business and academia;
- examining ways to increase the rate of commercialisation of publically funded research and public sector Intellectual Property;
- fostering the degree of innovation through increased use of innovative forms of public procurement;
- enhancing the support to companies and research organisations who wish to participate in EU R&D and Innovation funding programmes such as Framework 7 and its proposed successor Horizon 2020;

- working to identify areas where there can be greater collaboration between the health sector and business in order to improve patient care and develop economic development opportunities; and
- examining the need for the establishment of an Innovation Council to ensure that, at the highest level, the Executive, Academia and Business work together to further embed innovation across the NI economy.

5.18 The Strategy for Innovation, R&D & Creativity will outline in greater detail the actions we are undertaking, both for the current budget period and also over the medium to longer term.

IMPROVING EMPLOYABILITY AND THE LEVEL, RELEVANCE AND USE OF SKILLS

5.19 The most important asset for the NI economy remains our people. As we work to progress the skills priority, we recognise there are various dimensions that need to be pursued in tandem. For example, we need to develop further our understanding of the changing demand for skills and ensure that our skills system can respond to that demand. In doing so, we recognise that a flexible and responsive skills system acts as an increasingly important influence on decisions by firms about where to locate and how much to invest.

5.20 To enhance employment and productivity, we need to develop skills at all levels in NI, including employability and essential skills, to ensure that people can progress up the skills ladder. Raising the skill levels for the least skilled has been shown to help them move into employment and also progress within the work place. Investment in Science, Technology, Engineering and Maths (STEM) skills; improved management & leadership; and, sales & marketing skills will also form a critical foundation for economic growth.

5.21 At the school level, we need to deliver a renewed focus on raising standards in literacy, numeracy and ICT capabilities. We also need to develop pupils' wider interpersonal and problem solving skills to equip them for the workplace. At the post-primary level, we need to ensure that all our young people have access to a broader and better range of academic and applied courses that meet their needs and aspirations, and lead to clear progression routes in educational achievement.

5.22 We also recognise the critical importance of good health at an early age in enhancing cognitive functions and in reducing school absenteeism and early drop-out rates. This enables higher educational attainment, a more fulfilling life for the individual and a greater contribution to the local economy.

Progress to Date

5.23 We have made good progress in improving employability and the level / utilisation of skills within the NI economy. For example:

- since April 2008, the number of adult learners achieving a qualification in literacy, numeracy and ICT skills has increased by over 80,000;
- in the three years to March 2011, the Employment Service helped almost 97,000 people find work;
- the numbers of working age that are qualified to levels 2, 3, 4 and above has increased by 51,000 since 2008 improving the NI skills profile;
- we are on target to have created an additional 300 PhD graduates in economically relevant subjects by July 2013;
- we have helped leverage over £160m of skills investment within export focused companies, including investment in management and leadership of some 800 companies and over 3,000 individuals;
- we have delivered the 'Made not Born' events throughout NI to promote the importance of management and leadership in business;
- we have worked to strengthen the rural workforce by securing over 1,600 FE & HE enrolments in programmes offered by the College of Agriculture, Food and Rural Enterprise (CAFRE), as well as delivering industry training programmes to over 10,000 participants per annum;
- we have introduced a school improvement policy (Every School a Good School), a new Literacy and Numeracy Strategy (Count, Read, Succeed) and a revised curriculum, all aimed at improving literacy, numeracy and ICT skills; and
- we worked with the ICT, Tourism and Financial Services sectors to put in place Future Skills Action Plans to address specific skills issues within each of these sectors.

5.24 We have made good progress on educational attainment. Between 2006 and 2010, the proportion of school leavers achieving at least 5 GCSEs A*-C including GCSE English and Maths has increased by 6.4 percentage points from 52.6% to 59.0%, and the proportion of school leavers achieving 3 or more A Levels at grades A*-E has increased by 11 percentage points from 39.8% to 50.8%.

Challenges that Remain

5.25 The accompanying economic analysis outlines a range of significant challenges that remain. For example, many of the countries identified in our review of global best practice have skills profiles that are much stronger than in NI. While, a recent OECD assessment¹⁶ showed that our young people performed significantly above the

¹⁶ The Programme for International Student Assessment (PISA), OECD 2009

OECD average in science and in line with OECD averages in reading and maths, several countries (including Finland, New Zealand, Australia, Singapore and Canada) significantly outperformed NI pupils in these disciplines.

- 5.26 There is a clear need to continue increasing the attainment of those entering the NI labour market and, since over 60% of the 2030 workforce has already completed compulsory education, we also need to up-skill those that are already of working age. Recent research has shown that the skill requirements of jobs in NI will change over the next decade. Over half will require higher level professional and technical skills and HE level qualifications (up from around one third currently) and the number of jobs requiring low level qualifications will subside significantly¹⁷.
- 5.27 There are also pressing issues relating to economic inactivity, with NI continuing to have the highest levels in the UK, with around 40% of the inactive having no qualifications. It is recognised that many of those who are economically inactive face significant barriers to employment, including skills and accessibility issues. These barriers must be overcome so that all sections of our community are able to benefit from growing economic prosperity.
- 5.28 There are similar challenges as we work on the relevance and utilisation of skills within the NI economy. Just over a fifth of recent graduates in employment in NI were shown to be working in what could be regarded as non-graduate jobs¹⁸. In addition, there is evidence that around one quarter of new NI domiciled graduates live, work and / or study outside the region. Some of this can be attributed to the labour market impact of the economic downturn, but graduate underutilisation has been a longer term phenomenon.
- 5.29 We therefore need to ensure our skills resource is deployed more fully in this regard. Employers have a significant role to play, particularly in terms of developing management and leadership practices and skills. Recent research indicates that management and leadership practices in NI are below Italy, GB and Poland¹⁹. The challenge will be to encourage companies and individuals to strengthen their management capabilities to improve skills utilisation, productivity, growth and competitiveness. We must also work to develop sales & marketing professionals, alongside foreign language skills, if NI companies are to compete successfully in global markets.
- 5.30 In relation to tuition fees, maintaining the current balance between public funding and user contribution reflects the Executive's priority to grow the local economy through maximising participation in higher education. Our policy in this area also

¹⁷ Forecasting Future Skill Needs in Northern Ireland (DEL, 2009)

¹⁸ Higher Education Statistics Agency (HESA)

¹⁹ Management Matters (2011)

recognises the critical role that local Universities play in producing graduates to meet existing and new economic opportunities.

5.31 It is recognised that healthier people are more productive and securing good health and well-being can also lead to wider benefits for society as a whole. That is why we are working to implement health strategies which will enhance people's opportunities to secure employment and make a positive contribution to the economy.

Related Strategies

5.32 There are a number of strategies and action plans that outline the sustained emphasis we place on improving employability and the level, relevance and utilisation of skills. They include:

- The NI Skills Strategy – Success through Skills – Transforming Futures remains the key document in driving forward the skills agenda in NI;
- Component strategies include Preparing for Success which outlines the actions being taken to improve the provision of careers education, information and advice;
- Success through STEM outlines how STEM skills will be increased in line with demand;
- 'Working for Success' (the forthcoming Employment Service Strategy) will seek to help people into employment and assist employers fill vacancies;
- Leading to Success – the Management and Leadership Strategy;
- FE Means Business – the Further Education Strategy for NI;
- The emerging HE Strategy which will outline how Higher Education can contribute to the strengthening of NI's position as an outward-looking innovative economy;
- Pathways to Success – the Executive is bringing forward a Strategy to address the issue of those young people not in Education, Employment or Training (NEETs); and
- The school improvement policy (Every School a Good School), Literacy and Numeracy Strategy (Count, Read, Succeed), the Entitlement Framework and a revised curriculum will continue to ensure a focus on raising literacy and numeracy standards in schools and the availability of a wider range of applied and academic courses to assist progression in educational attainment.

Skills: Key Actions

5.33 Despite the progress to date, it is evident that key challenges remain. More must be done to better anticipate and deliver the strategic skills and employability requirements and to respond to future economic challenges and opportunities. We

also need to continue encouraging employers to engage fully in the skills agenda so they can see the merits of raising the skill levels of their employees and utilise those skills effectively. This approach will help employers to capture gains in productivity and competitiveness. Action in these areas will remain important as we move beyond the current budget period.

5.34 We have outlined in the summary box a list of the **key** actions we are undertaking to progress the skills priority. In recognising that a sustained policy focus on skills and employability is critical to long term economic success, we will continue to prioritise

In working to **rebalance** the NI economy, and improve the employability and the level, relevance and use of skills, **we will:**

- Maintain HE tuition fees for local students studying here at current levels subject only to inflationary uplifts, while providing additional student places in areas of economic relevance
- Deliver 210,000 qualifications at Levels 2, 3, 4 and above through Higher Education, Further Education, Essential Skills and Training encouraging people to move up the skills ladder
- Secure over £110m of investment in skills from companies
- Increase skills in subject areas important to the NI economy such as STEM (implement the actions within the STEM Strategy) and sales & marketing.
- Improve support to companies and increase the number of people gaining skills in management and leadership
- Introduce by summer 2012 a framework that assists companies and individuals to identify their key management development needs
- Introduce a single point of contact for employers so that they can identify and access the relevant support
- Increase the number of people graduating with Foundation Degrees
- Continue to invest £18m per annum in education, knowledge and technology transfer in the land based food and rural sectors
- Increase the number of people completing qualifications/attaining skills as they move from benefits into employment
- Work across departments to tackle the increasing issue of those Not in Employment, Education and Training (NEETs)
- Work with Belfast and Derry City Councils and other stakeholders to develop strategic employment strategies for each city
- Work with employers in the priority sectors, and with education and training stakeholders, to address current and future skills issues (including the ongoing work with the ICT sector)

activity in this area over the medium to longer term with a view to improving the skills profile of the work force at all levels. In particular, we will ensure a larger proportion of school leavers have the literacy and numeracy skills required to contribute effectively to economic growth in NI. Our ambition is to close the skills gap with the top performing countries and regions across the globe.

5.35 Building on what has already been achieved, alongside the investments we are committed to deliver over the immediate budget period, we will also seek to develop additional initiatives which will:

- maintain our strategic focus on improving the international standing of the NI skills profile by moving people up the skills ladder and enhancing STEM, management and leadership, employability and the essential skills of literacy, numeracy and ICT;
- through the Assured Skills programme, support FDI and the expansion of existing businesses by assuring companies that the skills they require will be available;
- develop further our understanding of the changing demand for skills and ensure that the skills system can respond to that demand with speed and flexibility;
- contribute to the delivery of the European Union's 2020 strategy for smart sustainable and inclusive growth by developing a European Social Fund (ESF) 2014-2020 programme aimed at enhancing employability and increasing the overall employment rate, in particular for those groups at a disadvantage in the labour market;
- drawing from the experience of other countries, we will work with employers to help them maximise the utilisation of skills within their existing workforce and so improve competitiveness;
- help prepare our young people for the future world of work by ensuring that materials and teaching resources have a much greater focus on the NI business and science base;
- examine ways of encouraging employers to offer appropriate work placements and scholarships particularly in STEM subjects;
- as the economy grows, encourage skilled people (including those non domiciled in NI) to consider NI as a place to live and work;
- promote early resolution of workplace disputes as an alternative to formal litigation through employment tribunals;
- ensure our health strategies and actions (including the new Public Health Strategy) contribute to developing and supporting a healthy and productive workforce; and
- ensure we equip those detached from the labour market with the necessary skills required to fully engage with the world of work.

ENCOURAGING BUSINESS GROWTH

- 5.36 In order to secure our vision for the economy, it is vital that we grow the private sector and make it easier to do business in NI. This theme covers initiatives which will benefit businesses across all sectors of the economy, including the steps being taken to improve access to finance, the planning system and business regulation.
- 5.37 This priority includes initiatives aimed at promoting enterprise and business start-ups. It also covers actions aimed at exploiting market opportunities in emerging sectors, including the low carbon / green economy, in order to meet the key global challenges such as climate change and waste management.
- 5.38 We also recognise that there are unique challenges faced by businesses operating in specific sectors. This priority therefore includes actions aimed at promoting the social economy, tourism and initiatives designed to contribute to the development of competitive and sustainable rural businesses.

Progress to Date

- 5.39 The importance of this priority is shown by the substantial investment delivered in recent years. For example, this includes:
- securing £1.2bn investment commitments by both foreign and locally owned businesses, which helped lever approximately £345m in annual salaries over the last PfG period;
 - supporting almost 8,000 new business starts and 600 companies were assisted to take their first steps in exporting;
 - implementing a £100m package of measures under the Rural Development Programme to improve economic opportunities and the quality of life in rural areas;
 - implementing a £49m package of support for investments in skills and capital equipment to enhance the competitiveness of the agri-food sector under the Rural Development Programme;
 - exploiting the opportunities associated with the development of the sustainable energy sector through capital investment, information provision, skills development and research;
 - developing – in association with companies – world class research capabilities within our Universities in areas such as marine energy, solar, clean energies, bioenergy, turbines and environmental technology;
 - building the capacity of local businesses to sustain new technologies through the Further Education’s Carbon Zero initiative;

- supporting 90 projects (including the Signature Project schemes), of over £160m to stimulate tourism revenue and visitor numbers;
- supporting new social economy businesses with the potential to grow, helping them to build the skills and capabilities to make an impact on the local economy;
- increasing the speed and predictability of decision making on planning applications, particularly on regionally significant projects;
- working to improve the overall regulatory environment in NI; and
- Executive Ministers meeting with local banks to stress the importance of bank lending on a competitive basis to SMEs, including the launch of an independent appeals process for those who feel they have been unfairly denied credit.

5.40 These efforts have laid the foundations for encouraging business growth in NI but we recognise that there is further work to do.

Challenges that Remain

5.41 As the accompanying analysis has shown, NI has proportionally the fewest business start-ups (but the highest survival rates) of all the UK regions. This indicates the lack of competition in the local business base; an issue which has been a longstanding concern.

5.42 The IREP report also identified that while industrial support had helped enhance the growth of small businesses, especially within manufacturing, NI had not been able to sufficiently create many exceptional 'high-flying' companies.

5.43 As outlined in Section 2, access to finance remains a key issue for business growth across the UK, but especially within NI. For example, our local banking sector is in a unique position in that it lacks a major indigenously owned institution with each of our four main high street banks being externally owned. This can mean that UK initiatives to increase access to finance may be less effective in NI. Also, relative to the UK average, we have a higher proportion of SMEs who, due to their size, tend to be more reliant on bank lending as a source of finance.

5.44 In addition, as with many other UK regions, NI has suffered from a lack of venture capital and debt finance markets. This can be attributed to a number of factors, including the relatively small size of the region, a historically conservative approach to business growth, reluctance by some business owners to sacrifice equity and the relatively modest size of potential deals.

5.45 We have ensured that over 85% of businesses across NI have access to broadband services of up to 40Mbps and we invested in a number of small localised networks

offering fixed wireless broadband services. However, we recognise that with three quarters of NI's 69,000 VAT/PAYE registered businesses located in rural areas, there is a particular need to improve access to and speed of broadband in those rural areas that remain un-served by our previous investments. In addition, it is also necessary for us to address rural transport needs. These and other related issues such as the changes to Regional Aid present an enormous challenge as we endeavour to stimulate a pro-business environment within NI.

Related Strategies

5.46 Given the importance of this area to the overall strategy, the Executive, through DETI and Invest NI, is working to develop an accompanying Enterprise Strategy. Work is already underway and we have begun discussions with local Councils and other stakeholders with an aim to publishing later in 2012.

5.47 Within the various areas covered under this priority, there are a number of related strategies which include:

- Invest NI's Access to Finance strategy makes available over £100m of equity and debt funding, financed from a combination of government and private sector sources, to help many of our innovative and high growth potential companies secure the necessary funding streams;
- The Executive's Rural White Paper aims to provide a strategic framework for rural policy, in particular to provide rural businesses with appropriate support and maximise the employment opportunities for rural dwellers;
- The Executive's Strategic Energy Framework identifies a number of key challenges such as fuel diversity, cost and security of supply for power generation and the need to reduce emissions, which points to the need for further development of the Green Economy;
- The Social Economy Enterprise Strategy set out a range of areas for action which supported the growth of the sector;
- The NI Better Regulation Strategy sets out the key strategic actions for regulatory reform. In addition, there are key regulatory reform initiatives being taken forward by DARD to reduce the regulatory burden on the agri-food sector; DOE in developing an environmental better regulation white paper; and DEL in undertaking a review of employment law; and
- Development of a range of priorities for the tourism sector which will provide the policy direction for the sector to 2020 and include a series of ambitious targets to increase the contribution of the sector to the NI Economy.

Business Growth: Key Actions

5.48 In recognition of the progress to date and the challenges that remain, we have outlined in the summary box a list of the **key** actions we are undertaking to progress this priority. The forthcoming Strategy for this priority will also provide greater detail on the actions we are undertaking, both for the current budget period and also over the longer term.

In working to **rebalance** the NI economy, and encouraging business growth, **we will:**

- Promote 6,300 jobs in locally owned companies, with 50% paying salaries above the NI private sector median
- Support £400m of investment in locally owned businesses
- Promote 6,500 jobs in new start-up businesses
- Enable 300 SMEs to access funding through INI's Access to Finance Strategy – to include a £50m loan fund for SMEs
- Support 160 Social Economy start ups
- Invest in social enterprise growth to increase sustainability in the voluntary and community sector
- Work to ensure that NI achieves the best possible outcome in relation to Regional Aid ceilings and coverage post 2013
- Support the implementation of the 'One Plan' in the regeneration of the North-West
- Maximise expenditure under the existing EU Sustainable Competitiveness Programme and prepare for future EU funding
- Encourage rural businesses through diversification into non-agricultural activities, by supporting 1,200 micro-enterprises
- Encourage and develop the green economy and develop the sustainable energy sector
- Deliver faster and more predictable processing of planning applications and achieve new, more stretching performance targets
- Improve the regulatory environment of NI through the NI Better Regulation Forward Work Programme and key strategic reform initiatives in DARD, DEL and DOE
- Deliver key tourism events for 2012 & 2013, to help increase visitor numbers to 4.2m and revenue to £676m by end of 2014
- Successfully conclude on the negotiations with the UK Government to secure the power to vary the rate of corporation tax in a timely and affordable manner

5.49 As we seek to position NI as one of the best regions in Europe to start and grow a business, we accept the need for sustained action and reform to create the conditions that will allow businesses across the whole economy to flourish. We also recognise the need to tackle particular barriers to growth in specific sectors.

5.50 We will build on existing initiatives that seek to ensure NI businesses, at all levels of development, have the finance necessary to support their growth ambitions. We will also work to further improve the regulatory environment, including taking forward a review to ensure an effective employment law framework which will stimulate business confidence while maintaining the rights of individual employees. This will build on the ongoing work to develop employment relations best practice.

5.51 As with the other economic priorities, the actions we will take under this theme will contribute to greater export-led economic growth and strengthen the relative competitiveness of the NI economy. As we move beyond the immediate budget period we will:

- continue to support local businesses to develop linkages with globally competitive companies and research organisations;
- further develop the Venture Capital (VC) market in NI, by developing ways of increasing the level of investments from externally based VC companies into NI companies;
- develop a 2014-2020 Rural Development Programme (co-financed from the EU) that supports economic growth in NI through measures addressing innovation, knowledge transfer, improved competitiveness and job creation in rural areas; and
- support the tourism sector, focusing investment on strategically significant areas including developing the capability of the industry and the quality of the visitor experience and delivering sustained marketing programmes to priority customers.

COMPETING IN THE GLOBAL ECONOMY

5.52 We need to compete more effectively within the global economy. This means attracting and embedding greater levels and higher quality inward investment into NI and also extending the vision of many of our local companies to expand their operations globally, including on a North-South and East-West basis.

5.53 We also need to ensure our workforce has the necessary skills to facilitate international trade, and this includes developing our multi-lingual skills and improving the professional sales and marketing abilities in an international context. It includes approaches which will ensure a flexible and timely response to deliver the skills base required by inward investors and expanding locally based companies.

Progress to Date

- 5.54 We have made significant progress in this priority and we remain an attractive region for business investment. For example, we have been able to secure significant first time investments and business expansion projects from companies such as Bombardier, Almac, Seagate, NYSE, Allstate, Caterpillar and Citi.
- 5.55 The increasing speed and flexibility with which we are meeting company skill requirements is becoming a particularly strong and unique selling point for NI. This is also something we will enhance further through investment in the Assured Skills programme.
- 5.56 Despite the downturn in the global economy, we have been able to secure some notable successes over the previous PfG period:
- promoting over 7,500 new FDI jobs, with over 40% providing salaries 25% above the NI private sector average;
 - securing 7% of FDI attracted to the UK, well in excess of our economy share (2.5%);
 - establishing Belfast as an internationally recognised city for financial services technologies;
 - supporting over 700 firms to enter export markets for the first time and over 1,500 companies diversifying into new markets;
 - providing specific programmes aimed at company directors' export leadership skills;
 - deploying an Assured Skills programme to ensure the delivery of a range of interventions that guarantee potential inward investment companies, or existing companies wishing to expand, that we are able to meet future skills and training needs (supporting the training of 400 newly recruited staff at a cost of just over £1m);
 - providing companies (particularly SMEs) with skills expertise and, if necessary, bespoke training through a specialised team of skills advisers; and
 - supporting ambitious businesses in exploiting trade opportunities in various emerging markets.

Challenges that Remain

- 5.57 With reduced public expenditure, due to the UK Government's deficit reduction plans, and declining consumer expenditure, the onus for economic growth remains on company investment, especially to increase exports. As we later outline, this is an important consideration in devolving the power to vary corporation tax to the NI Executive / Assembly. This is because the evidence outlined in Section 3 and

elsewhere highlights that corporation tax remains a key tool to attract value-added FDI, which typically is export-intensive.

5.58 This Economic Strategy prioritises export-led economic growth and we need to be clear on the scale of the challenge ahead. For example:

- Countries such as Belgium (with exports of goods and services comprising 80% of GDP in 2010), Singapore (211%²⁰), the RoI (99%), Switzerland (54%) and Finland (40%) have achieved high living standards and productivity by focusing on external economies in the absence of a large domestic market;
- comparable export data is not available for NI, but exports of goods (at 19% of GVA) are broadly the same as the UK average. The overall export performance of the UK (at 29% of GDP) is significantly below other successful economies, which indicates that NI also lags well behind these export-focused countries;
- over two-thirds of manufacturing sales made outside NI were destined for either GB or the RoI. NI clearly needs to diversify its export base;
- many NI companies with an exportable product or service are reluctant to take the first step; and
- any further reductions in Regional Aid would limit the ability of the Executive to attract mobile investment projects.

Related Strategies

5.59 The Enterprise Strategy currently being developed to encourage business growth will also cover initiatives to strengthen our capacity to compete globally.

5.60 Within the various areas covered under this priority, there are a number of related strategies and they include:

- Invest NI's Trade Strategy seeks to increase the number of exporters and encourage those already exporting to diversify into new markets; and
- Focus on Food – A Partnership Strategy for the Food industry to help drive growth and greater internationalisation through innovation, supply chain management, improvements in market understanding, capability development and sustainable waste and energy management.

Competing Globally: Key Actions

5.61 We are working through a much wider business base to encourage NI companies to become more integrated into the global economy. In order to achieve this, we will:

²⁰ Exports exceeding GDP indicates that multi-national firms are exporting goods not produced in the source country

- increase the volume of exports from NI-based enterprises, and raise the number of companies exporting by providing market development and capability support to help companies enter and succeed in their chosen markets;
- create the necessary conditions, including further development of a flexible and responsive skills system, to increase the level and quality of international investment entering NI; and
- develop supporting supply chains around key anchor companies (whether indigenous or internationally owned) which embed economic activity within NI.

5.62 We have outlined in the summary box a list of the **key** actions we are undertaking to deepen and diversify the export base in NI, particularly in terms of targeting trade opportunities in the emerging markets.

5.63 The supporting Enterprise Strategy will also outline in greater detail the actions we are undertaking, both for the current budget period and also over the longer term. Our investments in this budget period are aimed at ensuring that we place the NI economy on a higher growth path over the medium to longer term and it is vital that we maintain this focus throughout the lifetime of this strategy.

In working to **rebalance** the NI economy, and improve NI's ability to compete globally, **we will**

- Promote 5,900 jobs from inward investors with 75% paying salaries above the NI Private Sector average
- Allocate £3m per annum for the Assured Skills programme to help attract and embed FDI and meet the skills needs of indigenous companies creating new employment
- Secure total investment of £375m by establishing and growing externally owned companies
- Encourage first time exporters by promoting 60 start ups selling outside UK markets
- Promote 440 new start ups selling to GB
- Increase the value of manufacturing exports by 20% and the value of manufacturing exports to the emerging economies by 60% by 2014/15
- Develop an agri-food strategy and action plan to drive export led growth in the sector to 2020
- Develop direct air links with international long haul markets by eliminating Air Passenger Duty on direct long haul flights departing from NI
- Explore the market opportunities for export growth in fast growing developing economies
- Successfully conclude on the negotiations with the UK Government to secure the power to vary the rate of corporation tax in a timely and affordable manner

5.64 Therefore, as we seek to further improve the attractiveness of NI as an inward investment location and encourage companies based here to become more focused on external markets, we will:

- further hone the focus of our FDI effort to target investment aligned to global market opportunities and our research strengthens as identified by MATRIX and our ongoing foresight work;
- improve our support to assist local companies compete internationally by forging strategic partnerships/relationships with specified regions in fast growing emerging economies, where there are alignments with NI research capabilities and global market opportunities;
- work in collaboration with partners (local government and business organisations) to develop and deliver a full range of support, and remove unnecessary duplication, for companies throughout the export lifecycle covering those who are already competing in international markets to those considering exporting for the first time;
- support the development of local export-focused clusters targeting niche global markets; and
- work with the UK Government to devolve corporation tax varying powers in a timely and affordable manner (as outlined later).

DEVELOPING ECONOMIC INFRASTRUCTURE

5.65 We need a modern and sustainable economic infrastructure to support economic growth and help realise our 2030 vision for the economy. Investment in areas such as transport, energy, telecommunications, water and sewerage, tourism and cultural venues have all become important factors within developed economies.

5.66 The positive relationship between a modern and sustainable economic infrastructure and economic growth has been well established²¹. The quality of the business environment, including transport infrastructure, has been identified as a significant factor alongside issues such as access to markets, labour supply and business accommodation²², all of which impact on the ability of locations to attract, develop and retain competitive businesses. We also recognise that it is the major urban centres which provide the catalyst for growth in NI and a modern infrastructure is necessary to ensure that the benefits of economic growth are accessible to all.

21 Balázs Égert, Tomasz Kozluk and Douglas Sutherland, Infrastructure and Growth: Empirical Evidence, OECD Economics Department Working Papers, No. 685, OECD Publishing, Paris, 2009

22 McQuaid et al, The Importance of Transport in Business' Location Decisions, DfT, London, January 2004

5.67 We previously illustrated that a skilled workforce, over-and-above natural resources, are vital for business success. Therefore, the ability to attract and retain a highly qualified workforce from an increasingly mobile pool has led to increased importance being attached to quality of life issues in business location decisions²³.

5.68 In light of the above, this priority covers initiatives aimed at improving transport, energy, communications and water and sewerage infrastructure, as well as our tourism and cultural products. It includes urban and town centre regeneration initiatives which provide the infrastructure to stimulate private sector investment. In particular, it recognises the importance of Belfast and Derry/Londonderry as important drivers of regional economic growth. This priority is also about ensuring improved linkages within NI, as well as improved connectivity, including on a North-South and East-West basis.

5.69 We also recognise the important role that capital expenditure by the public sector plays in supporting the construction sector. For example, some 80% of DHSSPS capital funding is directed towards construction and this plays an important role in underpinning the sector during the current downturn.

Progress to Date

5.70 The Executive continues to invest in the economic infrastructure of NI, and aspects of our existing infrastructure are justifiably recognised as world class. For example:

- Since 2002, we have delivered, to date, over £3.2bn in transport investment, resulting in significant improvements to regional and local transport linkages;
- the €30m Project Kelvin initiative has delivered direct international connectivity to North America, improved connectivity with mainland Europe and enhanced cross-border telecommunications with the RoI;
- the quality of our internal connectivity has been lifted significantly with almost £51m investment in fibre to cabinet technology, making available broadband services of up to 40Mbps to at least 85% of the business community across NI;
- we have invested in our health infrastructure, including the new South West Hospital at Enniskillen; the Critical Care Unit at the Royal Victoria Hospital; the Neurology Unit, Musgrave; the Mental Health Unit, Gransha; and the Sexual Assault and Referral Centre at Antrim Hospital;
- during the period 2008-2011, we have invested £67m in our Higher Education infrastructure;
- we have invested in the IT infrastructure in the higher and further education institutions to allow an integrated download connectivity of 1GB across all campuses;

²³ Salvesen and Renski, The Importance of Quality of Life in the Location Decisions of New Economy Firms, Centre for Urban and Regional Studies, University of North Carolina, January 2003

- the creation of the Single Electricity Market (SEM), which began cross-border trading in wholesale electricity in November 2007 is already promoting greater competition, enhancing security and diversity of supply and bringing efficiencies through economies of scale;
- we have invested in various water and sewerage projects, with £1bn capital investment up to 2010 and a further £488m planned up to 2013;
- we have invested £42m to help councils divert waste from landfill through reuse and recycling. NI is now recycling an extra 9,939 tonnes of household waste every year;
- we have legislated to reform the planning system and consulted on a new framework for local government in which planning and other powers will be devolved to councils;
- through our Local Air Quality Grant Scheme, we have granted £1.7m to Councils;
- by 2012 almost £300m will have been invested in our tourism infrastructure; and
- we have invested in our clinical research infrastructure to enable the undertaking of research and clinical trials by locally-based investigators which supports inward investment across a range of disciplines.

Challenges that Remain

- 5.71 Notwithstanding the progress to date, much remains to be achieved, particularly in terms of prioritising investment in our ‘economic’ infrastructure. This was a key finding from the Independent Review of Economic Policy (IREP), which highlighted that investment in infrastructure tended to have a greater focus on education and health, although they recognised the increases in the ‘productive’ sector (see paragraph 5.74 for definition).
- 5.72 The tighter public expenditure environment is presenting challenges for all public services, but particularly for capital investment. In the 2010 Spending Review, the NI Executive’s resource Departmental Expenditure Limit (DEL) budget is forecast to rise by 1% (between 2010/11 and 2014/15), whereas the capital DEL budget is planned to fall by over 34%. This pressure, alongside rising inflation, has meant that we have had to delay certain capital investment projects.
- 5.73 There is also the challenge of balancing the needs of the economy with the environment. For example, in acknowledging the benefits of an improved transport infrastructure, we recognise that road transport is now the single largest source of emissions, accounting for 32% of all CO₂ emissions in NI. However, meeting the future needs of the economy and facilitating higher levels of economic growth, particularly in export orientated sectors, will necessitate increased capacity on the transportation network across NI and improved connectivity. While this requires continued investment to improve our infrastructure, we can also dramatically

increase capacity by using the infrastructure in a smarter way, improving our competitiveness and reducing the environmental impact of transport.

5.74 NI has also low levels of electricity generated from renewable sources, with gas, coal and oil accounting for 90% of power generation. This leaves the region vulnerable to fluctuations in both supply and pricing, and it also presents important environmental considerations.

Related Strategies

5.75 The overarching policy document for this economic priority remains the Investment Strategy for NI (ISNI). This sets out the investment programme of over £5 bn that will be injected into the local economy over the current Programme for Government period and which directly assists the construction and related sectors of our economy. The Investment Strategy identifies the priority areas for investment. They are:

- **Networks:** Roads, Public Transport, Gateways, Telecoms & Energy;
- **Skills:** Schools, FE & HE, Youth Services, Libraries;
- **Health:** Primary Care, Public Safety & Technology, Hospitals, Fire & Rescue, Modernisation;
- **Social:** Regeneration, Social Housing, , Culture, Arts, Sports & Inland Waterways;
- **Environment:** Water & Waste Water, Waste Management, Flood Risk Management, Climate Change;
- **Productive:** Enterprise & Innovation, Tourism, Rural Development & Primary Industries, Public Sector Reform; and
- **Justice:** Police, Prison, Forensic Services.

5.76 In addition to ISNI, DRD's Regional Development Strategy sets out how future growth is to be focused on the urban areas of Belfast and Derry/Londonderry, supported by key centres across NI with an emphasis on co-operation between places rather than competition. This is consistent with the IREP report which outlined the need to identify major (urban) centres as catalysts for growth across the region, while ensuring strong linkages between where firms are best located and where workers wish to live.

5.77 Our Marine Bill provides for a marine spatial planning system, with our first marine plan due in 2014. This will increase competitiveness and benefit all users of our seas by providing a mechanism for balancing competing priorities. The marine plan will provide greater certainty as to what uses (eg renewable energy) are likely to be acceptable and where.

- 5.78 In light of the changing context, and taking account of recent trends in transport, DRD are proposing a new approach to regional transportation. This new approach seeks to build on what has been achieved to date and suggests a better way of prioritising strategic transportation interventions. It provides for a refocusing of transport policy that concentrates on moving people and goods rather than vehicles, with a complementary focus on better maintaining our existing infrastructure and using it in a smarter way.
- 5.79 Through the Telecommunications Action Plan for NI we will seek to build upon our early mover status as one of the first regions of the UK to deliver extensive next generation broadband rollout. To ensure our competitive advantage in this area is not eroded, we will continue to work with the telecommunications industry to explore options which build on previous investments that have delivered an extensive fibre-access platform, which is important to delivering next generation services across all of NI.
- 5.80 We have already secured funding under the UK Government's Broadband Delivery UK (BDUK) strategy which will ensure that all premises in NI will be able to access a service of at least 2Mbps. In addition, we are working to determine how best we can rollout the next generation of services involving the upgrade of mobile networks to improve 3G coverage and to support delivery of 4G services from 2013 onwards.
- 5.81 The NI economy faces a major energy challenge over the next decade and needs to overhaul the energy infrastructure to ensure it will be fit for purpose through to 2050 and beyond. Our Strategic Energy Framework outlines the direction for NI energy policy over the next ten years, and sets out four key energy goals of:
- Building competitive markets;
 - Ensuring security of supply;
 - Enhancing sustainability; and
 - Developing our energy infrastructure.
- 5.82 The SEF also sets new and ambitious renewable energy targets for 2020, while also recognising this brings significant implications for investment in new energy infrastructure.
- 5.83 We have set a collective goal for the tourism sector 'to double the income we earn from tourism by 2020'. We recognise the ambitious nature of this goal and there is a continued need for public investment in many areas, and across a range of partners, to deliver a distinctive world class tourism product throughout NI.

- 5.84 In recognising the role of urban and town centre regeneration initiatives to overall economic growth, DSD's draft framework for Urban Regeneration and Community Development aims to boost the economy and tackle disadvantage through the creation of confident, competitive and connected communities. In addition, DOE's new approach to urban planning and design will help revitalise urban centres, making them more attractive places to live, work and invest.
- 5.85 In terms of planning and regeneration, our Councils will lead a community planning process and work with a range of agencies and interests to develop and implement a shared vision for promoting the well-being of their area. They will create spatial Local Development Plans, providing a realistic vision of how their areas should change and what they should be like in the future. They will also manage most development in their areas and enforce planning decisions which will help place a sharper focus on local economic development.

Developing Economic Infrastructure: Key Actions

- 5.86 In recognising the challenges and opportunities presented by investment in our economic infrastructure, the summary box outlines some of the **key** actions we are undertaking to progress this priority.

In working to **rebalance** the NI economy, and develop our economic infrastructure, **we will:**

- Maintain, manage and improve the road network with an aim of reducing journey times on key transport corridors by 2.5% compared with 2003 by 2015
- Spend over £500m on a programme of measures to secure more sustainable modes of travel and achieve an annual average of 77m passenger journeys by public transport
- Improve the strategic transport network by the advancement and completion of a range of major works projects, such as sections of the A5 & A8 and upgrade of the Coleraine to Derry/Londonderry railway line
- Maintain a high quality of drinking water and improve compliance with waste water standards by investing over £600m in water and sewerage infrastructure
- Deliver the objectives of the Strategic Energy Framework
- Ensure that all premises in NI have access to broadband services of at least 2 mbps; increase 3G mobile coverage and optimise mobile networks for delivery of superfast mobile broadband services (4G) and increase access to high-speed telecoms services
- Develop an holistic approach to urban planning which fosters vitality, viability and excellence in urban design, making our towns and cities better places to live, work and invest

- Create sustainable, welcoming and accessible urban centres by having up to date masterplans for each city & town in NI
- Complete key Tourism Signature Projects and exploit the 2012 and 2013 tourism opportunities for NI
- Develop Regional Sports Stadiums by 2015 as agreed with the IFA, GAA and Ulster Rugby
- Devolve to councils responsibility for creating spatial Local Development Plans to manage most development within their areas
- Increase certainty for investors in the marine area by developing a marine spatial plan and further streamlining certain energy licences
- Provide new opportunities for sustainable economic development in our most scenic areas by legislating for the designation of National Parks
- Legislate to modernise the planning system, resulting in faster decisions on planning applications, faster and fairer appeals, and stronger and simpler enforcement and a new duty to further sustainable development and well being
- Maintain and improve the Health and Education Estate infrastructure

5.87 By its nature, the planning and delivery of infrastructure investment takes place over the medium to longer term. We also recognise the need to manage our investments without negatively impacting on the environment and quality of life.

5.88 Building on what we have delivered to date, we will seek to:

- ensure that spatial Local Development Plans are developed and implement our reformed, plan-led development management system;
- implement our marine spatial plan;
- invest to improve our transport infrastructure, and do so in a smarter and more sustainable way;
- overhaul our energy infrastructure to ensure it will be fit for purpose through to 2050. This will include long term investment in the electricity grid, exploring prospects for further development of the natural gas network, encouraging proposals aimed at increasing the security of our energy supply and underscoring our commitment to further integration of EU gas and electricity markets;
- continue to make targeted interventions in telecommunications infrastructure to ensure that we keep ahead of our competitors;
- continue to explore options for further investment in our tourist / cultural amenities, including a fully integrated conference & exhibition facility, development of a new links golf course, upgrading our museums and cultural assets and creating efficient visitor friendly gateways; and
- continue to undertake Urban Regeneration Schemes in areas experiencing dereliction and neglect and redevelop underused sites.

CORPORATION TAX

- 5.89 In conjunction with the commitments already outlined, we believe that securing the ability to vary (and significantly lower) the rate of corporation tax would also enable us to rebalance the NI economy toward greater private sector and value added growth.
- 5.90 In working to secure this lever in a timely and affordable manner, it is clear that this would represent an unprecedented investment in our private sector. As key agents in economic growth, the companies in receipt of such support must ensure that they make the corresponding investments in jobs, skills, innovation and other areas in order to further strengthen their economic competitiveness.
- 5.91 We also recognise that lowering corporation tax would be an important but, by itself, insufficient measure to transform the local economy. In parallel, we must work to improve other areas to grow the private sector in NI and ensure greater export led economic growth. We have therefore outlined other measures that would exploit the benefits from this and other policy initiatives.

Potential Impact on Local Companies

- 5.92 Before considering the impact of lower corporation tax on FDI companies, it is important to recognise the additional benefits that this policy measure could have for indigenous firms in NI. A lower corporate tax rate would allow local companies to retain more of their profits, which could then be re-invested into business expansion plans.
- 5.93 A lower rate of corporation tax would also have the effect of reducing the cost base of local companies, which will make them more competitive in export markets. Indigenous firms face intense competition in these global markets, therefore improvements to their export competitiveness may help secure additional orders. This again would help local businesses grow and create enhanced employment opportunities.

Importance of Corporation Tax for FDI

- 5.94 Research highlights the impact that Foreign Direct Investment (FDI) can have on the economy. Multi-national firms tend to be larger and more productive than domestic firms, and they operate in high-skill / high-wage areas. Attracting FDI, and building it around existing and indigenous companies, is central to achieving our economic vision.

- 5.95 A range of studies have demonstrated the importance of corporate taxes in attracting FDI. Key factors influencing FDI decisions include corporate taxes, market size, labour costs and agglomeration (FDI track record)²⁴. These, alongside a well skilled and educated workforce, are vital if a country or region is to compete effectively for value added FDI.
- 5.96 The experience of the RoI is also relevant, with low corporation tax being a key attribute of their value proposition to internationally mobile FDI. Despite the recession and the fiscal crisis, the RoI remained second only to Singapore in its ability to attract inward investment in 2010²⁵. The Irish government's commitment to maintaining its low corporation tax at a time of major spending cuts and tax increases is also indicative of the importance attached to this as a policy lever to grow the economy.

Potential Impact on FDI into NI

- 5.97 The research undertaken by the NI Executive, and the independent Economic Advisory Group, highlights the impact that lower rates of corporation tax could have on the NI economy²⁶.
- 5.98 Corporate tax is a fundamentally different policy lever to what has previously operated within NI. Currently our value proposition, to attract FDI, remains our skilled workforce and competitive environment (supported by a range of financial incentives that are permissible under Regional Aid guidelines). A lower rate of corporation tax would not only increase the volume of FDI, but also allow us to better compete for higher value added investments that were previously beyond our grasp.
- 5.99 There are already a number of relatively high value areas where NI has demonstrated that it can effectively compete, and where low corporation tax could help stimulate further investment. To help identify the potential sectors, an analysis of NI FDI against RoI FDI, by sector during 2003-10, was carried out²⁷ and supplemented by market intelligence from Invest NI. The sectors and activities where NI could potentially attract additional FDI with low corporation tax are outlined below in Table 1.

24 DETI Sponsored Research – full research paper available later in 2012

25 <http://www.nationalirishbank.ie/PDF/About-the-Bank/Press-release/NIB-fDi-Investment-Performance-Monitor.pdf>

26 In these studies, it was assumed that corporation tax was reduced significantly to 12.5% (<http://www.eagni.com/fs/doc/publications/impact-of-corporation-tax-on-ni-eag-report-final-report.pdf>)

27 Internal DETI analysis

Table 1: Potential Areas for Additional FDI with Low Corporation Tax

	Sectors	Activities / Sub-Sectors
Build on existing successes in some sectors	<ul style="list-style-type: none"> • Software & IT • Aerospace 	<ul style="list-style-type: none"> • Design, development & testing • Technical support centres • R&D
Become much more competitive in other sectors	<ul style="list-style-type: none"> • Financial services 	<ul style="list-style-type: none"> • Fund management, Mergers & Acquisitions, Private equity
	<ul style="list-style-type: none"> • Business & professional services 	<ul style="list-style-type: none"> • Headquarters, Sales & Marketing, Account management & support
	<ul style="list-style-type: none"> • Life & health sciences 	<ul style="list-style-type: none"> • Medical devices, Pharmaceuticals, Biotechnology
	<ul style="list-style-type: none"> • Advanced manufacturing 	<ul style="list-style-type: none"> • Electronic components, Semiconductors
	<ul style="list-style-type: none"> • Creative industries 	<ul style="list-style-type: none"> • Social media / gaming customer support, Advertising Mobile app development

Implementing a Low Corporate Tax Rate

5.100 Securing the powers to lower the rate of corporation tax rate in NI represents our clear commitment to grow the private sector and expand job opportunities. In lowering the rate of corporation tax, we would continue to demonstrate that the economy remains the top priority. As we pursue this agenda, we need to implement the deployment of corporation tax in a planned, transparent and affordable manner.

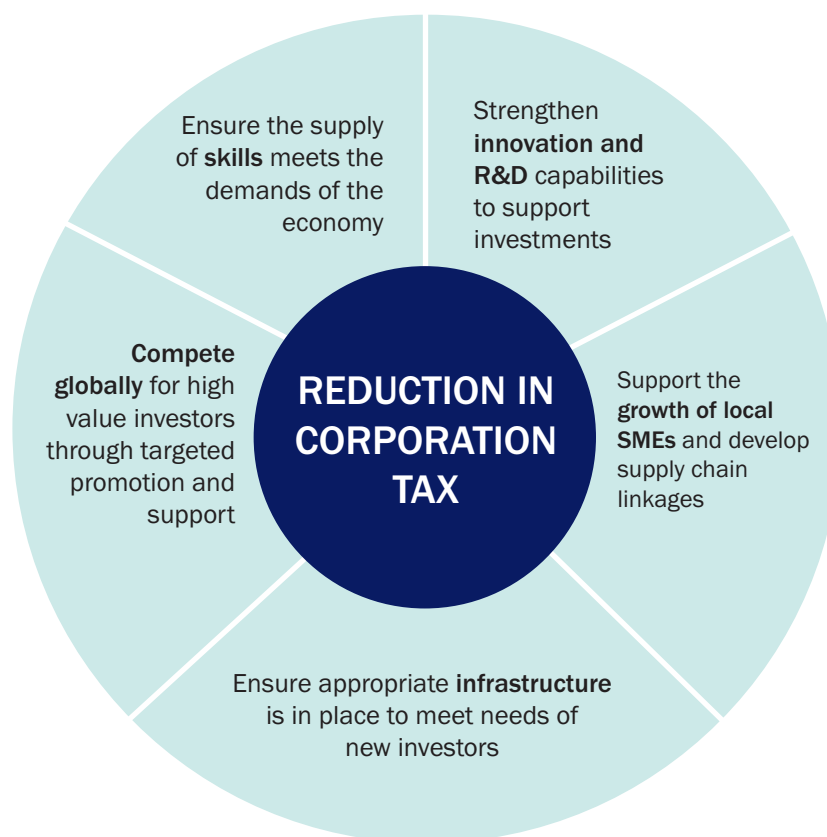
5.101 In such a crucial area, where investments are long term in nature, businesses need a high degree of certainty. Setting out our intentions in advance of implementation would provide that certainty. It would also enable DETI, DEL and Invest NI to adapt their policy approach and target new opportunities. Any announcements on corporation tax will set out the following:

- The goal / level to lower the rate of corporation tax;
- The timing of any steps towards that goal;
- Our plans to ensure the impact on the public finances is managed; and
- Our work to reassess all aspects of the NI economic / value proposition to maximise the return on our investment.

Taking Advantage of Lower Corporation Tax

5.102 We have always been clear that lowering corporation tax will not be sufficient on its own to transform our economy and we need to take complementary measures which will further develop and diversify our export base. These measures are outlined below (Figure 5).

Figure 5: Taking Advantage of Lower Corporation Tax



5.103 In advance of devolving the powers to vary corporation tax, we will undertake further in-depth analysis on maximising the impact on the NI economy. However, the section below represents our initial assessment of what steps we need to take in order to fully exploit the opportunities presented by lowering the rate of corporation tax in NI.

Research Capabilities

5.104 While low corporation tax would make NI more competitive in attracting investment across all sectors, the impact on R&D facilities may be lower as these typically incur costs rather than generate profits. Therefore, our ability to attract

high value R&D investments is also reliant on ensuring that NI has a strong research base for both new FDI firms and local companies looking to grow through innovation.

- 5.105 NI currently has a wide variety of research strengths which can be utilised by the sectors likely to be impacted by lower corporation tax. This is evident in our Universities, as well as in public research institutes and local industry. For example, we have proven strengths in aerospace, advanced manufacturing, agri-food, life sciences, software & IT and financial services. The challenge is therefore not so much to develop new research capabilities but rather ensure that NI can better utilise its current research strengths.

Skills

- 5.106 Having the appropriate skills to meet the needs of companies is a vital part of ensuring that NI can take full advantage of a low rate of corporation tax. NI needs to have a skills base which is sufficiently flexible and responsive to the needs of globally competitive employers. While the new Assured Skills programme is already delivering in that regard, demand for this type of response will only increase in a lower corporation tax environment. The sectors likely to create jobs from a low tax rate require a wide range of skills, including:
- **Business services:** sales & marketing, business studies, law, IT, management, languages;
 - **ICT:** software development, computer science, engineering;
 - **Financial services:** finance, accountancy, law, computer science;
 - **Advanced manufacturing:** engineering, chemistry, composites, electronics, computer science;
 - **Health & life sciences:** biological sciences, physics, chemistry, technology, engineering; and
 - **Creative industries:** design, animation, visual effects, software.
- 5.107 Notwithstanding corporation tax, the demand for higher level qualifications in areas such as STEM, law and market facing creative arts & design is likely to increase. In addition to specific technical skills, companies will also require high standards of literacy, numeracy and ICT, as well as greater management and leadership competencies. Given these issues, we are assessing how the demand for skills and innovative capacity will alter in a lower corporation tax environment. This includes identifying the lessons we can learn from how the skills systems in other economies have altered to best drive the benefits of a lower tax regime.

5.108 As the demand for skills increases in a lower corporation tax environment, the opportunities to market NI as an attractive place to live and work will also increase, giving strength to the drive to attract skilled people into the local labour market.

Local SMEs

5.109 Local SMEs will gain from working with new and multinational companies attracted by low corporation tax. NI currently has a strong local base within software, business services, pharmaceuticals and advanced manufacturing which can link into the supply chains of foreign companies. There is also the potential to support the development of innovative clusters between local SMEs in key FDI sectors, particularly in pharmaceuticals and semiconductors.

Competing in the Global Economy

5.110 Although NI has managed to achieve successes in attracting FDI, a low rate of corporation tax would significantly increase our competitiveness across a much broader range of sectors. This has implications for how we promote NI globally as a location for investment and jobs. Existing relationships with multi-national companies could be used to leverage additional investment from companies already located in NI. However, significant promotion would also be needed in areas where NI has not previously been competitive for inward investment to develop expertise and build contacts with potential new investors.

Economic Infrastructure

5.111 Growing new and existing sectors through lower corporation tax would require the appropriate economic infrastructure to be in place to support investments. We must ensure that, across key infrastructure areas such as energy, transport, water, property and telecommunications, we have the necessary capacity and capability to absorb increasing levels of economic activity.

5.112 To realise our ambitions, we need to continue investing in our strategic network and gateways to improve our connectivity. That includes working closely with other administrations on these islands and engaging with Europe to ensure that our infrastructures join together for the benefits of local businesses and people.

5.113 Telecoms is a further area where NI's economic infrastructure needs to meet the demands of companies, not just within ICT firms but across all sectors. While our telecommunications infrastructure is significantly ahead many of our competitors, potential investments, such as Tier 4 data centres to host advanced large-scale

systems for web-based and data-intensive companies, may require the further upgrading of our current telecoms infrastructure.

INTERNATIONAL AIR ACCESS

- 5.114 As part of rebalancing the NI economy, we need to ensure quick and easy access for international investors. Clearly the demand for this will increase significantly with the growing business base that would follow with reductions in corporation tax in NI. The same issue is true for indigenous companies and for visitors travelling to NI for pleasure.
- 5.115 The recently announced reduction in Air Passenger Duty (APD) for direct long haul flights will assist in retaining the existing flight from Belfast to Newark. However, over the longer term, NI's ability to compete globally can be improved by developing new direct links with international long haul markets that will ultimately support increased inward investment, exporting and in-bound tourism. The UK Government will devolve APD powers to the NI Assembly through the 2012 Finance Bill and this will allow the Executive to bring forward legislation to reduce the rate of APD for direct long haul flights departing from NI to zero.

REGIONAL AID

- 5.116 As outlined earlier, Regional Aid plays a key role in attracting new FDI, as well as encouraging indigenous and foreign owned companies to expand or re-invest. As the Independent Review of Economic Policy highlighted, the changes in Regional Aid from January 2011 have necessitated a new approach to supporting company investment.
- 5.117 In part, these changes have strengthened our resolve to secure the powers to vary corporation tax in NI. However, we also recognise the importance of Regional Aid as a tool to grow and improve the economic competitiveness of NI, particularly our sub-regions. We will therefore continue to work to ensure that post 2013, when the new Regional Aid guidelines will be put in place, that we are able to provide the necessary support for economic development. However, the onus will remain on companies to bring forward viable business plans for assistance.

CROSS CUTTING THEMES

- 5.118 In developing actions and initiatives under the identified themes, we have been guided by the principles of Balanced Sub-Regional growth, Equality and Sustainability.

- 5.119 Many of the actions identified in this section will ensure that economic growth is spread across NI. This does not mean that each place will perform the same role, or that economic growth will be uniform. Rather we will work to ensure that each part of NI is able to realise its full potential, and the distinctive strengths and opportunities of our sub-regions are fully exploited.
- 5.120 The actions identified will also ensure that economic growth is spread to all sections of our society. This goes beyond ensuring that initiatives do not discriminate against any section of society, but rather we have included actions which will be taken to address particular challenges. The most immediate and effective way out of deprivation is through employment and our collective actions will promote equality by increasing opportunities and addressing barriers to employment that impact individuals and communities. These steps must also be seen alongside the broader Executive initiatives that are aimed at tackling disadvantage.
- 5.121 The principles of sustainability also cut across all aspects of this Strategy. Our actions are aimed at providing economic prosperity and opportunities for current generations, without compromising the ability of future generations to enjoy a quality of life that is both positive and rewarding. By ‘sustainability proofing’ the actions identified in this strategy, we will ensure the NI economy retains and improves its competitiveness over the longer term.



**Priorities
for growth:
Rebuilding the
NI economy**

6



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6

PRIORITIES FOR GROWTH: REBUILDING THE NI ECONOMY

INTRODUCTION

- 6.1 In our accompanying economic analysis on the Northern Ireland (NI) economy, it is clear that we have been hit hard by the global recession and banking crisis. Economic output has fallen significantly across all sectors, and the construction industry has been particularly impacted. The slowdown in the private sector has also had an adverse and ongoing impact on the local labour market.
- 6.2 It is for this reason that we have identified the need to take some urgent actions to rebuild the local labour market in the aftermath of the recession. We recognise that the type of support under this theme is, in some aspects, distinct from our mainstream focus outlined in the previous section. This is to support indigenous firms to be more competitive through improvements in innovation and workforce skills, as well as the attraction of high value added FDI projects. However, we believe the current labour market conditions provide a strong rationale for short-term interventions focused primarily on job creation, improving employability and re-skilling / up-skilling.



- 6.3 In pursuing this approach, we recognise the significant negative impacts that arise from protracted periods of unemployment, as individuals lose their skills and become less employable. We believe it is better to provide some form of employment, even on a short-term basis, to avoid the risk that those made unemployed as a result of the downturn are permanently detached from the labour market and unable to take advantage of the opportunities arising from the economic recovery. We also recognise the need to provide opportunities to re-skill and up-skill with a view to building capacity for future growth as recovery takes hold.
- 6.4 We also recognise our younger people will be particularly impacted by the economic downturn. By taking measures to reduce the exposure of young adults to sustained periods of unemployment, we are working to improve their economic prospects, and ensure that their knowledge and energy is retained for the good of the NI economy.
- 6.5 The rebuilding initiative is also supported by the Independent Review of Economic Policy (IREP) which outlined that forecasts for employment pointed to job creation being slower in the short to medium term. As a result, the report highlighted the need, during periods of recession, for the Executive to make certain interventions to support employment and other considerations.
- 6.6 Within the rebuilding priority, there are two issues that our actions seek to address – the need to increase employment levels and improve employability. Together these themes will ensure that individuals impacted by the recession are provided with the necessary opportunities to seek and secure suitable employment. They also cover investments that are aimed at increasing employment through promoting accessible job opportunities, particularly within areas of economic disadvantage.

Progress to Date

6.7 Prior to outlining our actions, it is, of course, important to recognise that this priority marks a sustained effort by the Executive to address the challenges facing the NI economy following the global downturn. For example, some of the steps we have already taken include:

- Establishing an accelerated support fund to assist businesses affected by the downturn;
- Delivering a series of ‘Challenges and Opportunities’ seminars for businesses throughout NI;
- Introducing a Short Term Aid Scheme to provide businesses with support in maintaining significant employment and retaining key staff as they planned and restructured for the future;
- Rolling out a ‘Pathways to Work’ initiative to engage or re-engage those inactive due to health conditions and/or disabilities;
- A Business Improvement Technique programme delivered by Further Education (FE) colleges to assist businesses increase their productivity;
- Introducing an ‘Employment and Support Allowance’ to create a gateway to work for participants;
- An Apprenticeship Scheme allowing redundant apprentices to complete their training;
- The Graduate Internship Programme (GIP) and Graduate Acceleration Programmes (GAP) which provided over 300 graduates with valuable work experience and additional training opportunities;
- The Intro Programme provides 100 places a year for graduates to develop their management skills with NI companies (89% of these graduates have been employed at the end of the programme);
- The Young Persons Employment Initiative (YPEI) offered 50 unemployed young people opportunities to gain valuable work experience in a local government setting;
- Launching initiatives on neighbourhood renewal to help target those communities throughout NI suffering most from deprivation; and
- Delivering increases in professional and technical enrolments and higher education enrolments across the FE sector.

6.8 The above measures were also supplemented with other initiatives outlined in Budget 2010 and include:

- Holding rate relief at 70% for the manufacturing sector until March 2015;
- Limiting business regional rate increases to only 2.7%;

- Bringing forward proposals to double relief provided through the small business rate relief scheme;
- Transferring over £250m from current expenditure to capital investment; and
- Allocating some £1.5bn of capital investment for roads, public transport and water & sewerage over the budget period.

Related Strategies

6.9 One objective of this Economic Strategy is to identify complementary strategies and action plans that are already progressing certain economic priorities identified by the Executive and its Sub-Committee on the economy. In terms of the rebuilding theme, key related strategies include:

- The NI Success through Skills – Transforming Futures which aims to raise the skills levels of the whole workforce and increase the levels of social inclusion by enhancing the employability of those currently excluded from the labour market;
- DEL’s forthcoming ‘Working for Success’ will seek to transform the quality and effectiveness of the Employment Service;
- DSD’s Neighbourhood Renewal Strategy which aims to tackle disadvantage and build communities that are confident, vibrant and sustainable by encouraging investment, skilling people and supporting social economy programmes;
- DARD’s Rural Development Programme which includes an objective to create employment opportunities through promoting entrepreneurship and developing the economic infrastructure in rural areas; and
- DHSSPS’s Investing for Health Strategy which aims to improve the health and well being of the population recognises the interrelationship between improved health and well being and economic development. A successor to Investing for Health is currently under development and this will further emphasise this interrelationship.

Rebuilding the Economy: Key Short to Medium Term Actions

6.10 We have outlined in the summary box a list of the **key** short to medium term actions we are undertaking to progress the rebuilding theme. More detail is provided in the implementation plan that will be launched shortly.

6.11 We recognise that ongoing volatility within the global economy creates further uncertainties for local business. We will therefore continue to keep these short term measures under review and, when necessary, we will move swiftly to take action to support local businesses.

In working to **rebuild** the NI economy, **we will**

- Support investment of £225m and promote 6,300 jobs (4,000 to be created by March 2014) through the Jobs Fund
- Develop and implement a strategy to reduce economic inactivity through skills, training, incentives and job creation
- Move 114,000 working age benefit clients into employment by March 2015
- Deliver 6,000 work experience and training opportunities for young people by 2015 in priority sectors
- Help the construction industry by delivering key road and rail projects and approximately 8,000 social and affordable homes over the budget period
- Maximise the social benefits of investment through the use of social clauses in construction, supplies and services contracts
- Stimulate 1,150 new employment opportunities in rural areas under the Rural Development Fund by 2015
- Develop and start to implement a Childcare Strategy with key actions to provide integrated and affordable childcare
- Implement the Social Investment Fund to improve pathways to employment, tackle systemic issues linked to deprivation, increase community services and address dereliction
- Increase the number of working age customers in receipt of work-focussed benefits to support them to move into work
- Develop and implement a Financial Capability Strategy for consumers
- Provide an Employer Subsidy for businesses to recruit individuals who have been unemployed or economically inactive for a period of more than 13 weeks
- Offer a period of supported self-employment for those interested in running their own business
- Publish for consultation a Public Health Strategy in 2012, recognising the interrelationship between improved health and well being and economic development
- Explore options to further address graduate unemployment, with a particular focus on ensuring that our actions assist with the longer term rebalancing agenda

6.12 In light of the above, we have recently announced the ‘Boosting Business’ initiative which will put in place a comprehensive range of measures to assist companies throughout NI. While this new initiative will be short term in nature, many of the wider objectives are also consistent with the longer term rebalancing priorities required to support business growth. Further detail on the ‘Boosting Business’ initiative can be accessed www.boostingbusinessni.com.

INDICATORS AND TARGETS

INTRODUCTION

- 7.1 We recognise the importance of monitoring the progress of this Economic Strategy to ensure that the Executive's actions are contributing towards a more competitive economy and achieving the ultimate Economic Vision of this Strategy.
- 7.2 The monitoring of indicators and targets will allow us to gauge the effectiveness of these actions. It also allows for any reprioritisation of resources and interventions, particularly given the continued uncertainties in the global economy.
- 7.3 Section 1 details an intentionally focused set of key performance indicators which are structured to help achieve our overarching economic goals. This section details a more comprehensive and wide-ranging set of indicators and targets, inclusive of the priority targets described previously, and specifies how these indicators will be measured and the regularity of their assessment.

ECONOMIC COMPETITIVENESS

- 7.4 Economic competitiveness can be defined as 'the set of institutions, policies and factors that determine the level of productivity of a country²⁸'. The level of productivity sets the prosperity that a particular economy can achieve, the return from investments and ultimately the rate of economic growth.
- 7.5 In prioritising economic competitiveness, it is important to understand the key factors underpinning this and overall economic growth. Central, but not exclusive, to the overall achievement of improved competitiveness for the economy will be the successful

²⁸ World Economic Forum

and appropriate introduction of devolved corporation tax powers to the Northern Ireland (NI) Executive/Assembly. This measure will help boost business investment and enable us to attract a much wider range of Foreign Direct Investment (FDI) that will contribute to export led economic growth.

- 7.6 To assess the competitiveness of the NI economy we will implement a comprehensive and widely-recognised assessment methodology. This will allow for the effective benchmarking of the local economy against our competitors and highlight progress over time as the Executive's strategy is put into action. As with the other performance measures, the process of measuring NI's competitive position will be taken forward annually and reported on by the Executive.

Export Performance and GVA Growth

- 7.7 As recognised in Section 2, given the size and structure of the local economy it is imperative that we target the benefits that can be achieved through an increased focus on private sector exporting. This includes deepening the export base, and the targeting of developing and fast-growing economies, as well as more established countries / regions, as destinations for our products and services.
- 7.8 The emphasis on exporting in the Economic Strategy is illustrated in **Figure 4**. The rate of growth in exports compared to the overall growth in the economy will be a key indicator for this strategy. Securing this will provide the evidence that we are rebalancing the NI economy away from its traditional dependence on the public sector toward greater private and export-led growth.
- 7.9 Currently, the data collected on the level of exports from the local economy is largely restricted to the manufacturing sector, with limited information collated from the services sector. To ensure the appropriate measurement of exports, we are taking the necessary steps to improve the coverage and, where possible, the timeliness of our current surveys on export performance.
- 7.10 Achieving the target of greater private sector output growth, relative to the UK average, will also be an important indicator on rebalancing the NI economy. Given that current economic forecasts suggest that, without a step change in economic policy, the local economy will grow on average by 2.2% per annum up to 2020, compared with UK growth of 2.7% per annum, we believe this is a challenging but realistic target.

Contributing Indicators

- 7.11 The momentum for the improved economic outcomes detailed above will rely on the successful resourcing, implementation and achievement of a number of targets by the Executive and wider stakeholders. These Key Performance Indicators are detailed in **Figure 6**.
- 7.12 Progression of our economic performance indicators will be transparently monitored and regularly updated as new data becomes available. We will publish annual reports on progress against the actions we are committed to deliver. This will include an annual assessment of the wider health of the NI economy.
- 7.13 Once the outcome of the proposal to devolve corporation tax powers is known, we will undertake further work to reassess the degree to which we can further strengthen the ambitious nature of these overarching economic goals.

Figure 6: Performance Indicators

