

John
For info/file please -
Colin
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Department of

**Enterprise, Trade
and Investment**

www.detini.gov.uk

19 July 2004

To: NI Permanent Secretaries

cc see below

From: Wilfie Hamilton

AN ECONOMIC VISION FOR NORTHERN IRELAND - UPDATE

Issue: To let you have sight of an updated version of the draft Economic Vision incorporating comments and recommendations.

Timing: Routine.

Presentational Issues: None at the moment.

Recommendation: That you consider the attached latest draft incorporating suggested changes/improvements and possible adoption of key Departmental targets and revised EDF targets.

1. Thank you for your responses to Bruce Robinson's note of 9 June. The feedback provided to date have been very helpful and we have taken on board most of the suggestions put forward. The latest draft, which was provided to Ian Pearson and Barry Gardiner on 16 July, is attached.
2. In terms of the detail, this is still very much an outline draft and there is a long way to go. We are, of course open to suggestions re structure, layout etc. The intention is to continue working closely with Departments and the Economic Development Forum (EDF) through to early September before coming back to PSG and Ministers with a more substantive draft.

Targets

3. As agreed, the intention is that the Vision will sit above related existing strategies and therefore the detail underpinning it will lie in those strategies. However, consideration is being given to including a number of key targets as requested by Ian Pearson in his response to the initial draft. EDF is currently in the process of refining its framework of medium term strategic priorities (MTSPs) for the NI economy, published in June 2002. The review, which is being taken forward by a sub-group, is aimed at examining the viability of the EDF targets, identifying the interactions between targets and ensuring that the overall framework is properly focused on the areas of

greatest importance to the economy and which can be influenced by policy/actions.

4. It is envisaged that the revised framework will reduce the number of targets (from the current 65 to around 30) and will include a number of intermediate objectives and a small number of key higher-level goals.
5. Given the likely correlation between the EDF and Vision work, it would seem sensible to consider a single set of targets. The revised EDF approach will, of course, have to be cleared by EDF (probably in September), but it is anticipated that EDF will welcome the simplicity and transparency of the proposed approach.
6. In addition we could also supplement the EDF targets with some from key Departmental strategies, if appropriate. It would be useful if Departments, particularly those not associated with EDF, could consider departmental relevant targets which would fit within the emerging Vision.
7. If you have not already done so, I would also ask that you provide the name of a contact within your Departments with whom DETI officials can liaise.

Recommendation

8. You are asked to note progress to date and the direction being taken on targets. A further revised draft will be circulated in September.
9. Comments on the latest draft, together with any appropriate key Departmental targets should be sent to michael.harris@detini.gov.uk by **Friday 6 August 2004**.



WILFIE HAMILTON

cc: Bruce Robinson o/r
Noel Lavery
Malcolm Briant o/r
Paul Dolaghan o/r

AN ECONOMIC VISION FOR NORTHERN IRELAND

Vision

Northern Ireland as a high value-added, highly skilled, innovative and enterprising economy which enables us to compete globally leading to greater wealth-creation and job opportunities for all our people.

[We could expand on this headline by including a few key specifics. e.g.

- R&D and innovation are encouraged, promoted and sustained
- Education, Government and Business are working closely together in support of each other
- Entrepreneurs are championed and nurtured
- The workforce has the right skills for employment opportunities
- Doing business in NI is efficient, straightforward and free of bureaucratic burdens
- Business is supported by good transport, telecommunications and energy infrastructure]

Why do we need an economic vision for Northern Ireland?

For some time now there has been a consensus between key business sectors and Government as to the need for a strategic and economic vision to provide a corporate and cohesive view of the Northern Ireland economy going forward. The headline vision set out above and the supporting rationale set out in this document builds upon the objectives and aspirations set out in previous economic strategy documents and key policy objectives, updated to reflect current circumstances.

An advantage of Northern Ireland's small size is that it greatly assists communication and allows us to work together more easily. This facilitates stronger and more effective partnerships between Academia, Business and Government. The existence of a Vision agreed by all the key stakeholders will bring focus and clarity and inform future decision making. It also provides an agreed and strategic context which will give us a common basis on which to conduct an analysis of the public and private sectors.

Economic background to the vision

Northern Ireland has continued the trend of steady growth that has typified the economy for over a decade and has benefited from a recent period of stability. Since 1998 there has been substantial improvement across a range of indicators – employment levels are up, unemployment rates down and gross value added has grown steadily. Against this must be balanced those factors which fall outside the control of NI Government/Business such as currency

exchange rates. Further analysis of the local economy can be found at Annex A.

In a highly competitive environment, we must be faster on our feet than the opposition. This presents a challenge to our planning procedures, which can appear cumbersome and bureaucratic to potential investors.

It is accepted that Northern Ireland can no longer rely on Foreign Direct Investment (FDI) to provide the majority of new jobs in the future (particularly in today's difficult market conditions). There will, however, always be a role for FDI which provides wider economic benefits to the NI economy e.g. through the introduction of new products/processes, improved management practices, new technology and training. The continued growth of indigenous businesses, and particularly those in high value added/niche markets, will become increasingly important to the economy. Also, encouraging SMEs to be more outward looking and enterprising, innovative and creative is key to future prosperity.

As with the UK as a whole Northern Ireland's productivity has lagged behind its main competitors despite improvements in recent years. Growing productivity requires business and the workforce to be sufficiently flexible to respond to new challenges and take advantage of opportunities.

It is imperative that the Northern Ireland economy continues to improve its competitiveness and moves from a position which is based on low costs to one based on unique value, innovation, creativity and high workforce skills. Quality, innovation, creativity, enterprise, workforce skills and infrastructural investment will be the key to securing a sustainable globally competitive Northern Ireland economy and in so doing driving future growth and prosperity.

The Challenge

The challenge, therefore, is to generate those conditions in the Northern Ireland economy that help us become more globally competitive.

Northern Ireland's economic strengths and weaknesses have been highlighted by economic commentators and strategy documents in the past. It is important now that both Government **and** business look critically at those areas where improvements can be made to ensure Northern Ireland becomes better placed to compete globally. For Northern Ireland to become more globally competitive, it must grow its private services sector, encourage companies to move up the value chain and raise the rate of productivity. Innovation, creativity and skills will also play important roles in enhancing our efficiency and competitiveness. We also need to be ever mindful of the image we project both on a national and worldwide level given our objective of seeking to secure additional FDI and growing Northern Ireland as a tourism destination.

The public sector accounts for a significantly greater share of the economy in Northern Ireland than in the UK – 32% of employee jobs are in the public sector compared with 18% in the UK. The local economy is too dependent on the public sector for job opportunities. Northern Ireland's private sector is too small and needs to expand to become a greater source of wealth creation and employment.

Public Private Partnerships (PPPs) should create opportunities for the private sector in Northern Ireland to strengthen and develop its position by bringing private sector capital and expertise to the delivery of public services.

From a Government perspective, it will be important in the context of a tighter fiscal environment that resources are focussed, as far as possible on those areas which will impact on Northern Ireland's future economic prosperity. This will involve hard choices between economic, social and environmental priorities. Continued investment in skills through education, training and learning and in infrastructure, among others, will be critical. Policies and practices will also need to be put in place which enhance Northern Ireland's 'business friendly' reputation.

[Private Sector perspective/commitments to be inserted]

What must we do

- Move away from an unsustainable reliance upon the public sector in terms of job opportunities and financial support.
- Require the private sector to assume greater responsibility for economic investment.
- Accept that some traditional manufacturing industries will no longer play a lead role in providing the future job opportunities or adding value to the Northern Ireland economy.
- Further integrate linkages between Education, Business and Government.
- Identify the job opportunities of the future and ensure we have a creative and skilled workforce ready to meet these challenges.
- Address Northern Ireland's high economic inactivity rate.
- Identify how the public and private sectors can contribute to economic progress and prioritise funding accordingly.
- Target an appropriate and affordable level of public/private investment at infrastructure projects which support an innovative and competitive economy.

- Look critically at existing regulatory and compliance requirements which have the potential to hinder enterprise and business growth/competitiveness.
- Produce a vision that draws together the various economic plans and strategies already in place and currently being developed.

How will this be achieved?

The Vision will sit above the various strategies aimed at improving, directly or indirectly, aspects of the local economy and incorporate key challenges facing other key sectors: it will provide a focus for action. The approach will encapsulate importantly the private sector's views and objectives on, and responsibility for, developing the economy.

The overarching driver to help achieve Northern Ireland's economic vision is to improve our global competitiveness through increased productivity and value-added. From this flow the following four drivers:

1. Increase investment in R&D and promote innovation/creativity

- Encourage increased spending on R&D, innovation and design by companies across all sectors.
- Develop better and stronger links between the FE/HE sectors and industry/business
- Promote the transfer of knowledge and technology between the research base and industry.
- Encourage greater commercialisation of R&D at university level and further strengthen Northern Ireland's research infrastructure particularly maximising the potential of the Northern Ireland Science Park and the Centres of Excellence.
- Support NI universities in those areas of research where they have the potential to compete with the very best in the world (DEL's Support Programme for University Research)
- Encourage creativity and new ways of doing things to support the thrust of reform and greater competitiveness.
- DARD's significant Science and Technology programme, currently undertaken in-house, will be delivered from 2006 via a new Agri-Food and Biosciences Institute. This will result in a clearer definition between customer and contractor. *[Grateful if DARD would reword]*

- Encourage the tourism industry to make intelligence-based investments and decisions matching marketing and development to current and future customer requirements.
- Encourage innovation and creativity across the new school curriculum at all levels and for all age groups.
- [*Bull point on R&D/innovation in the health sector?*]

2. Promote and encourage enterprise

- Promote a culture which supports enterprise and entrepreneurship and raise the level and quality of business starts.
- Engage entrepreneurs as champions and highlight their successes
- Stimulate and develop greater links between business start ups and universities
- Strengthen linkages between the local business and education sectors (DETI/DEL's Entrepreneurship and Education Action Plan and DEL's Further Education Means Business Strategy (*out for consultation*))
- Assist existing companies to become more enterprising, innovative and creative and capable of competing in the global marketplace.
- Encourage an external, international focus by Northern Ireland companies and assist more companies to compete in international markets.
- Promote cross-global partnerships and business alliances leading to improved product quality and design and the mutual transfer of knowledge.
- Encourage targeted, high value-added inward investment and capitalise on existing links between indigenous and externally-owned businesses.
- Develop learning curricula which teach, value and encourage enterprise, entrepreneurship and creativity throughout the education process from primary to tertiary levels.
- Develop financial incentive packages which stimulate enterprise and which address finance gaps
- Use NITB and Invest NI business development support to develop excellence in conjunction with key partners matching marketing and development to current and future customer requirements.

- Enhance and promote the private sector through greater levels of competitive tendering.
- Develop and shape the implementation of a broadly based strategy for the growth of the Northern Ireland agri-food sector (DARD/DETI/Invest NI – Food Strategy Group).
- Encourage sustainable development of the tourism industry (NITB – Tourism in Northern Ireland, A Strategic Framework for Action)
- Reduce (where possible/practicable) the burdens on business by developing a modern regulatory framework that promotes fairness and sustainability and in which enterprise can flourish.
- Reduce the costs, including insurance premium costs, experienced by businesses as a result of health and safety failures by encouraging the adoption of effective health and safety risk management strategies.
- Develop a modern, co-ordinated and efficient planning process that integrates economic, social and environmental need
- Deliver high and continuously improving standards across the public sector by achieving greater efficiency so that additional resources can be released for frontline services (Gershon Review and Northern Ireland Efficiency Review).
- Through competitive tendering encourage greater opportunities for local businesses to increase capacity by delivering goods and services currently provided by the public sector.
- Encourage the development of creativity in all its forms through inter-departmental working (Inter-departmental Strategy NI: A Creative Region involving DCAL, DETI, Invest NI, DE and DEL).
- Encourage confident, demanding consumers that drive up business performance and competitiveness

3 Ensure our people have the right skills for future employment opportunities

- Invest in the skills of the current and future workforce to ensure they have high level, relevant and continually updated skills (DEL's proposed Skills Strategy/Invest NI's Company Development Programme).
- Ensure that the education system at all levels delivers the skills and qualifications to meet the needs of employers and to support the changing economy.

- Ensure that the skills base is not further eroded by reducing the risk of people leaving the labour market due to work-related illness and providing effective rehabilitation to ensure that people who do become ill can return to work as soon as possible (DETI/HSENI Workplace Health Strategy).
 - Ensure those in the rural community have access to programmes to upskill and reskill (DARD's Vision Action Plan - Lifelong Learning programmes for the rural community).
 - Improve the essential skills of literacy, numeracy and ICT among adults (DEL's Essential Skills Strategy).
 - Strengthen the role of Further Education in the economy and improve partnerships between the colleges and business (DEL's "Further Education Means Business" - out for consultation).
 - Improve NI's working age inactivity rate and ensure those currently out of work gain the skills to compete in the labour market and get jobs (DEL/DSD Welfare Reform Agenda and implementation of the Task Force on Employability and Long-Term Unemployment recommendations).
 - Improve Careers and Information Advice and Guidance services to encourage greater efficiency in learning choices.
 - Major focus and initiatives on the curriculum and post primary review to help young people and unlock their creativity and develop their employability skills *[DE to expand on this]*.
 - Assist companies improve the competencies of their management and workforce.
- 4. Ensure we have the proper infrastructure (transport, energy, telecoms, water and sewerage etc) in place to support business**
- Develop the water and sewerage infrastructure to support economic development as well as to deliver public health and environmental improvements.
 - Facilitate infrastructure improvements to enhance business competitiveness and promote economic development (DRD's Regional Development Strategy – which Departments are required by statute to have regard to in the operation of their development functions).
 - Put in place a transport infrastructure which supports the needs of business and industry in the future (DRD's Regional Transportation Strategy)

- Promote and develop strategic air routes
- Promote and develop gateway ports and airports as drivers for sustainable economic development.
- Achieve a competitive, sustainable, reliable energy market at the minimum cost necessary in an all-island, UK and European context.
- Regeneration (*DSD to expand*)
- Develop a world class telecommunications infrastructure (DETI's Broadband Initiative)
- Promote and develop private equity markets (DETI/Invest NI support to Venture Capital funds and InterTradeIreland Equity Network activities).
- Develop a number of tourism Signature Projects with the potential to deliver world-class excellence drawing visitors from home and overseas.

[Associated Key High Level Targets: build on key relevant departmental targets and revised EDF targets]

ANNEX A

ECONOMIC CONTEXT

Employment growth here is predicted to keep pace with the UK over the next ten years. Growth will be focussed in the private services sector, with the public sector also contributing. The service sector has seen employee levels increase by 15% in the past five years, compared to a 9% increase in the UK as a whole. However, manufacturing employment is expected to fall consistently over the coming decade. In the past five years, NI manufacturing employment has decreased by 15% - slightly less than the UK's 17% decrease.

Unemployment over the past ten years or so has almost halved – from 80,000 in Spring 1990 to 42,000 in early 2004. Indeed the current (seasonally adjusted) unemployment rate of 5.2% is 2.8 percentage points below the EU 15 average. However, NI inactivity rates are the highest in the UK and continuing to rise. The working age inactivity rate in Northern Ireland currently stands at 29.4% compared to 21.4% in the rest of the UK.

Between 1996 and 2002 (latest figures), GVA grew by approximately 28%. Although the rate of growth is below that enjoyed by the UK as a whole, excluding the performance of London and the South East, growth in Northern Ireland GVA per capita was ranked 3rd amongst the remaining 10 UK regions over the period.

Any growth in NI must be seen in context of developments in the global economy. In particular, US economic growth has slowed, however a sustained recovery is anticipated. (Note: For the past nine months America's economy has grown at an average annualised rate of 5.6%, the fastest nine-month growth since 1984; source The Economist Magazine) Equally, sluggish performance by the Euro countries will impact on local firms exporting to these areas in the future.

[Additional input on benchmarking NI against Global/US/EU economies?]