

NORTHERN IRELAND EXECUTIVE ECONOMIC STRATEGY

CONSULTATION ON PRIORITIES FOR SUSTAINABLE GROWTH AND PROSPERITY

JANUARY 2011

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MINISTERIAL FOREWORD



The Northern Ireland Executive took the important step of making the economy the top priority in the Programme for Government (PfG). We committed to growing a dynamic and innovative economy, with the private sector contributing more to wealth creation than it has to date. As outlined later in this document, some important progress has been made, but it is clear that more needs to be done. Furthermore, the recession has also meant that the overarching economic goals contained in the PfG will now take longer to achieve than first envisaged.

One of the important steps the Executive took in response to the recommendations made in the Independent Review of Economic Policy, was to establish a Sub-Committee to prioritise action on the economy and oversee the production of an Economic Strategy for Northern Ireland. 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, and Regional Development, together with the Junior Ministers from OFMDFM).

The intention of the Sub-Committee had been to significantly develop the Economic Strategy by the end of 2010. However, we recognise that the outcome of the UK Government exercise into rebalancing the Northern Ireland economy has the potential to significantly influence the content of the Economic Strategy. In light of this, I am launching a two-stage consultation process with the first phase designed to gauge the views of stakeholders on the proposed framework for the Economic Strategy that the Executive Sub-Committee has drawn up. The second phase will follow later in 2011, and this will also reflect the outcome of the UK Government's consultation on rebalancing the economy in Northern Ireland.

The framework for economic growth, outlined in section three, aims to incorporate 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.

The Executive Sub-Committee believes that the central focus to deliver on these challenges should be to drive export-led economic growth. Encouraging exports and supporting firms in doing business outside of Northern Ireland will provide access to larger and more sophisticated markets. Exploiting such opportunities will enable the private sector to grow and increase wealth. In this way we aim to increase prosperity, tackle

disadvantage and ensure Northern Ireland becomes a fairer and more equitable society.

In launching this consultation report, the Executive Sub-Committee on the Economy recognises the significant challenge in the coming years, particularly given the consolidation in public spending and the changes in state aid which will limit our ability to provide direct financial assistance to industry. That is why we are consulting on the key themes and priorities of the new economic strategy at this initial stage. We want to hear the views of all our key stakeholders and the wider public on our proposed framework for economic growth. In addition to the views gathered as part of this consultation exercise, the work of the recently formed Economic Advisory Group and other relevant advisory groups will also play an important part in informing the priorities of the strategy.

On behalf of the Executive Sub-Committee on the Economy, I invite you to play your part. I encourage all stakeholders to consider this document and contribute to the development of a new economic strategy that will both rebalance and rebuild the economy to deliver the increased living standards and employment opportunities that we all wish to see.

My Executive colleagues and I look forward to hearing your views. We will develop a draft Economic Strategy incorporating the responses to this consultation request and the outcome of the UK Government's review of fiscal incentives.

There will be a further opportunity to input to this process when the draft Economic Strategy is published for consultation later in 2011.

Arlene Foster

Minister of Enterprise, Trade and Investment

Chair of the Executive Sub-Committee on the Economy

January 2011

1 INTRODUCTION

1.1 The Northern Ireland economy has historically under performed across a range of economic indicators as highlighted by the continued gap in living standards with the rest of the UK. Although some progress has been made, particularly in respect of the growth in employment over the past decade, productivity and overall employment rates remain significantly lower in Northern Ireland. This is linked to lower levels of business investment in research & development as well as business start-ups and growth. In addition, Northern Ireland has a greater share of its workforce with no or low qualifications than any other part of the UK. These deficiencies are longstanding and will only be addressed through co-ordinated action.

Previous Approach

1.2 There have been numerous strategy documents on the Northern Ireland economy, including Strategy 2010 which was the last formal economic strategy for Northern Ireland, published under Direct Rule Ministers in March 1999. This set out a vision for Northern Ireland as ‘A fast growing, competitive, innovative, knowledge based economy where there are plentiful opportunities and a population equipped to grasp them’.

1.3 Strategy 2010 was followed by the Economic Vision document (February 2005) and a draft Regional Economic Strategy (January 2007). The Executive’s Programme for Government, published in January 2008, is much wider in its focus but it has placed the economy as the top priority.

1.4 There has been a general welcome for the economic strategies, however, it is recognised that full implementation has not always followed, mainly because they have been developed by a single department. In contrast, this strategy is being developed by the Executive Sub-Committee on the Economy (comprising lead departments involved in economic development policy). The output will be a shared economic strategy with a particular focus on effective implementation. Furthermore, it will recognise that the transition of the economy towards more private sector and value added growth is something that will only be achieved by sustained action over the longer term.

1.5 In addition, it is recognised that there are a large number of strategies across Executive departments which have implications for the economy. On too many occasions there has been a lack of clarity on how the respective strategies interact with, and depend on, each other. In this context, one of the objectives of putting in place an overarching

economic strategy is to draw together the different elements into a single coherent plan for economic development.

Independent Review of Economic Policy

- 1.6** Following the restoration of devolution, it was considered important to review the existing range of measures to support the economy. With a focus on DETI and Invest NI, the aim was to review the effectiveness of their policies and programmes and make recommendations on how they could be changed to help deliver the overarching productivity goal outlined in the Programme for Government. It is for this reason that the DETI Minister commissioned the Independent Review of Economic Policy (IREP) in December 2008.
- 1.7** The final report from the IREP concluded that there were causes for optimism in respect of the potential for growth in the economy over the medium term whilst Northern Ireland continues to be an attractive place to do business. However, some significant challenges were identified such as high inactivity rates amongst those of working age, as well as a poor productivity performance when compared with other parts of the UK, driven by low levels of innovation, skills and entrepreneurship.
- 1.8** Although the Review recognised that the Executive had already taken the important step of making the economy the top priority in the Programme for Government, there was a need to go further in respect of having a much greater emphasis on value added investments and, in particular, prioritising innovation and R&D. The IREP Final report included 58 recommendations across a range of areas including Governance arrangements, Innovation Policy and Finance as well as Policy Development and Delivery.
- 1.9** The DETI Minister accepted the majority of these recommendations and they are currently being taken forward by DETI and other relevant departments involved in economic development. However, one of the main recommendations from the Review was that a permanent sub-committee of the Executive should be established to prioritise action on the economy, including the agreement of an Economic Strategy for Northern Ireland.
- 1.10** The Executive Sub-Committee has now been established to take forward work in developing the Economic Strategy for Northern Ireland. It is chaired by the DETI Minister and incorporates Ministers from DEL, DRD, DE, DFP and junior Ministers from OFMDFM. The Sub-Committee will also continue to engage with Ministers from other departments to ensure that the economic strategy reflects the priorities and actions across the full Executive.

NI Economic Strategy

- 1.11** As a first stage in the process of producing an economic strategy, the aim of this consultation document is to seek views from the public / key stakeholders on a draft strategic framework, including the proposed priorities. This will form the basis for the actions to be put in place to deliver sustainable improvements in economic growth over the next decade. These will be included in the full Economic Strategy.
- 1.12** As a small region, it is essential that the NI economy is in a position to maximise the opportunities from the global recovery whilst also reducing our reliance on the public sector. This is reflected in the medium to longer term objective of rebalancing the economy based on export-led economic growth.
- 1.13** However, it is also important to recognise that the recession continues to have an impact on the local economy with the recovery being fragile and uncertain. In response, the draft strategic framework includes a short to medium term theme of rebuilding the economy which is focused on the need to increase employment levels and improve employability.
- 1.14** The structure of the consultation document is as follows:

Section 2: sets out the performance of the NI economy over the past decade and the impact of the recession;

Section 3: sets out where the Executive wants the economy to be by 2020, as well as the overall strategic priorities for the Executive to ensure that the economy reaches its full potential;

Section 4: sets out some of the key issues in respect of the actions that need to be taken by NI departments in order to deliver on these priorities. In particular, the ongoing UK Government review has the potential to significantly impact on the actions taken by the Executive. At the same time, the more constrained public expenditure environment over the next four years heightens the need for available resources to be targeted on those areas which yield the greatest benefit; and

Section 5: sets out how interested parties should respond to this consultation.

Impact Assessments

- 1.15** Once specific actions are identified and the draft Economic Strategy prepared, it will be subject to the appropriate range of exercises, including screening for equality impact, rural proofing and environmental / sustainable development impacts. The outcomes of these screening exercises will be published along with the full consultation on the draft Economic Strategy in 2011.

Copies of the Document

- 1.16** This consultation document can be sent to you in electronic format or hard copy - or you can access it on the nidirect and DETI websites. This document is also available in other accessible formats if required, i.e. Braille, large print, audio cassette or in a minority language.

Consultation

- 1.17** The comments received in response to this consultation document will inform the development of the Executive's draft Economic Strategy including details of the specific actions that will be taken by NI departments. The draft Economic Strategy will also reflect on the findings of the UK Government's paper on options to promote enterprise in Northern Ireland through fiscal measures, which is due to be published for consultation shortly.
- 1.18** It is the Executive's intention to undertake a further consultation on the draft Economic Strategy once this has been prepared.
- 1.19** Written comments are invited to this initial consultation. A set of consultation questions is included in each section as a guide to the issues that should be considered in consultation responses. **Further details on how interested parties should respond to this consultation are set out in section 5.**

2 NI ECONOMIC PERFORMANCE

- 2.1** In the period prior to the global economic downturn, the Northern Ireland economy had performed well on certain indicators, although a number of significant and long-standing structural challenges remained. In line with its competitors, the economy has been adversely impacted by the economic recession which has partially reversed some of the positive trends.
- 2.2** This section of the consultation document presents a review of the local economy, outlining the areas of progress and the impact of the economic downturn. The commentary highlights the dual need to rebuilding the economy in the aftermath of the recession, and also the longer term need to rebalance the economy through private sector and export-led growth.

Global and National Economic Context

- 2.3** There is now a broad consensus that most Western countries are in economic recovery following a very deep and prolonged global economic downturn. However, the pace of this recovery is variable, and not all sectors will grow to the same extent. Considerable uncertainty exists as many governments attempt to consolidate debt levels and restrain government expenditure.
- 2.4** In this context, the UK appears to have experienced a relatively smooth, if delayed, transition from recession to recovery. The UK formally exited recession in the 4th quarter of 2009 and the latest forecasts¹ suggest growth of 1.7 and 1.9 per cent for 2010 and 2011 respectively.
- 2.5** The UK Government has embarked on a path of fiscal consolidation to ensure that economic growth is more sustained going forward. For Northern Ireland, the Government has committed to publish a paper on rebalancing the local economy. This will include examining proposals for economic enterprise zones, possible mechanisms for changing the corporation tax rate and other economic reform options.
- 2.6** The global challenges are also compounded by the severity of the recession in the Republic of Ireland which is a major destination for Northern Ireland exports, and depressed demand conditions will inevitably impact on local businesses selling to that market. In addition,

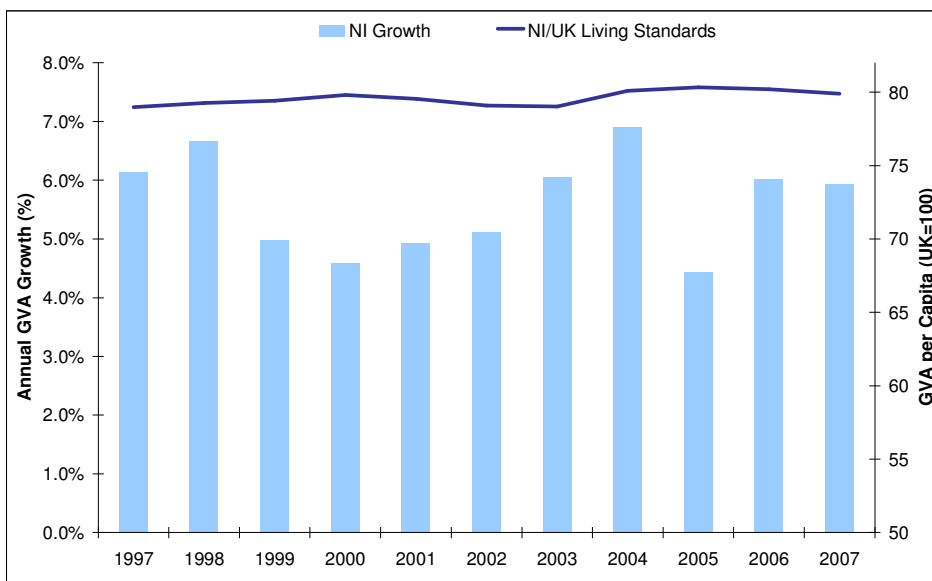
¹ Average forecasts from HM Treasury, Forecasts for the UK Economy: A Comparison of Independent Forecasts (December 2010)

a number of our local banks are exposed to the severe downturn in the Republic of Ireland's property market.

Long Term Economic Trends

2.7 Until the beginning of the economic downturn in 2008, the Northern Ireland economy had experienced a period of comparatively strong economic growth (see Figure 1). For example, between 1997 and 2007, the average rate of growth was marginally above the UK (5.6% compared to 5.4%). However, little progress was made in improving living standards (measured by Gross Value Added (GVA) per capita), which have remained around 80% of the UK average.

Figure 1: GVA Growth and Living Standards, 1997-2007

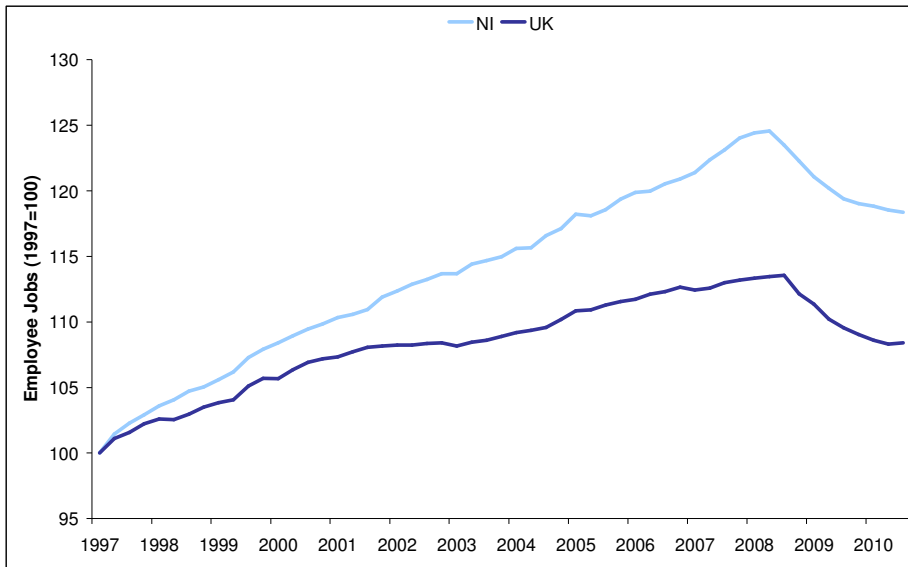


Source: ONS Regional GVA

Note: GVA growth (columns) refers to left axis; living standards (line) refers to right axis

2.8 The rate of economic growth was reflected in increased levels of employment. For example, the Northern Ireland economy added 124,000 jobs between December 1997 and 2007 – an increase of 20.5%. As Figure 2 highlights, this is well in excess of the growth in employee jobs in UK (which grew by 10.7% over the same period).

Figure 2: Employee Jobs, Index (1997=100)



Source: Nomis

Note: March 1997=100

2.9 Despite the growth in employment, the local economy continued to experience a relatively low employment rate and high levels of economic inactivity. The unemployment rate, however, had fallen to one of the lowest within the UK (see Table 1 below).

Table 1: Labour Market Indicators, 1997-2007

Rate (%)	1997		2007	
	NI	UK	NI	UK
Employment	65.5	71.2	67.9	72.9
Unemployment	8.8	6.5	4.3	5.2
Inactivity	28.1	23.8	29.0	23.1

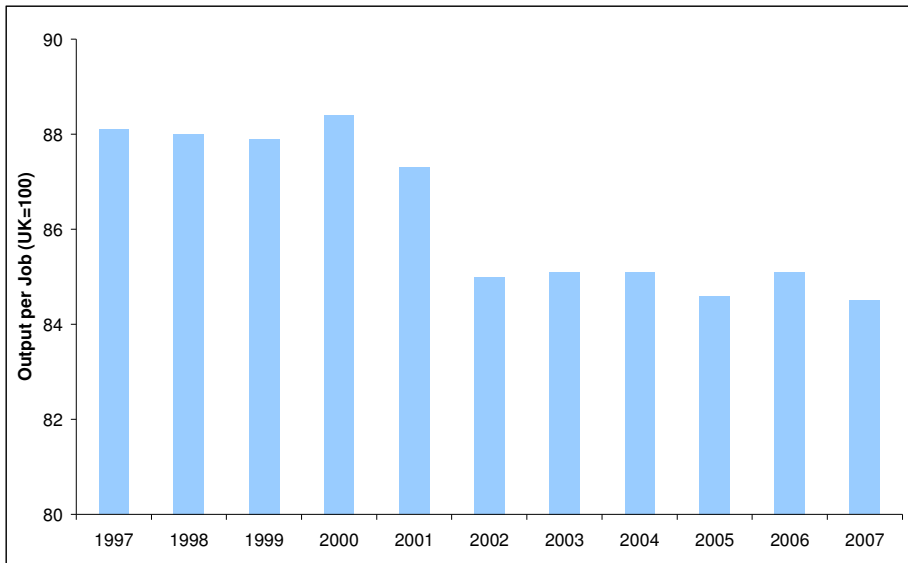
Sources: ONS Labour Force Survey

Note: LFS data refers to Oct-Dec quarter

2.10 In addition to these labour market indicators, Northern Ireland continued to experience comparatively low levels of productivity. As Figure 3 illustrates, labour productivity (as measured by output per filled job) remained significantly below the UK average over the decade and stood at 84.4% in 2007². The factors behind Northern Ireland's poor productivity performance have been outlined in other reports, most notably the Independent Review of Economic Policy, and a summary of the main factors is presented later in this section.

² Relative productivity performance using another measure (output per hour worked) has Northern Ireland at 81.3% of the UK in 2007.

Figure 3: Relative NI Productivity, 1997-2007

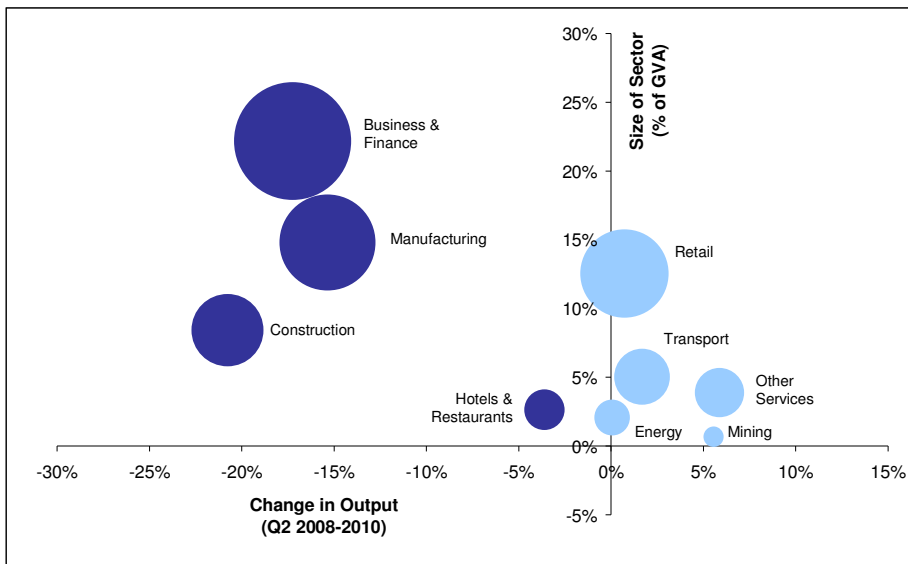


Source: ONS Productivity Bulletin

Performance during the Recession

2.11 The UK has recently emerged from the longest recession since records began, with the economy contracting by six consecutive quarters between Q2 2008 and Q3 2009. In common with other UK regions, Northern Ireland has also faced significant economic pressures. For example, Figure 4 highlights that construction, manufacturing and business & finance have all experienced significant declines since 2008.

Figure 4: Sector Output, 2008-10

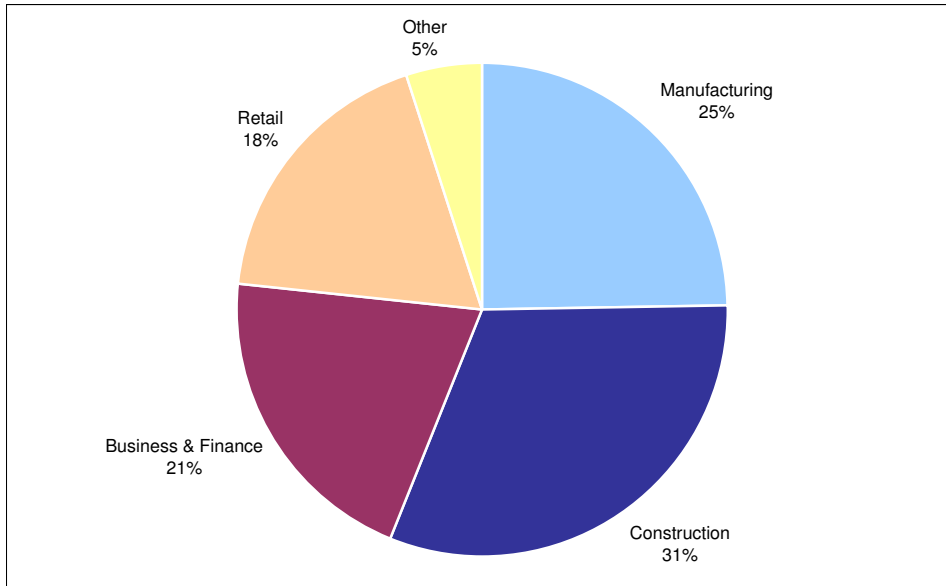


Source: DETI Index of Production; DETI Index of Services, NISRA Construction Bulletin

Note: Circle size represents size of sector (as % of GVA, 2008)

2.12 As a result of the downturn, the rapid job growth experienced in Northern Ireland came to an end in 2008. In total, over 34,000 employee jobs (seasonally adjusted) have been lost since the peak in employment in June 2008. The majority of the job losses have been in manufacturing, construction, retail and business & finance (see Figure 5).

Figure 5: Private Sector Job Losses, 2008-10



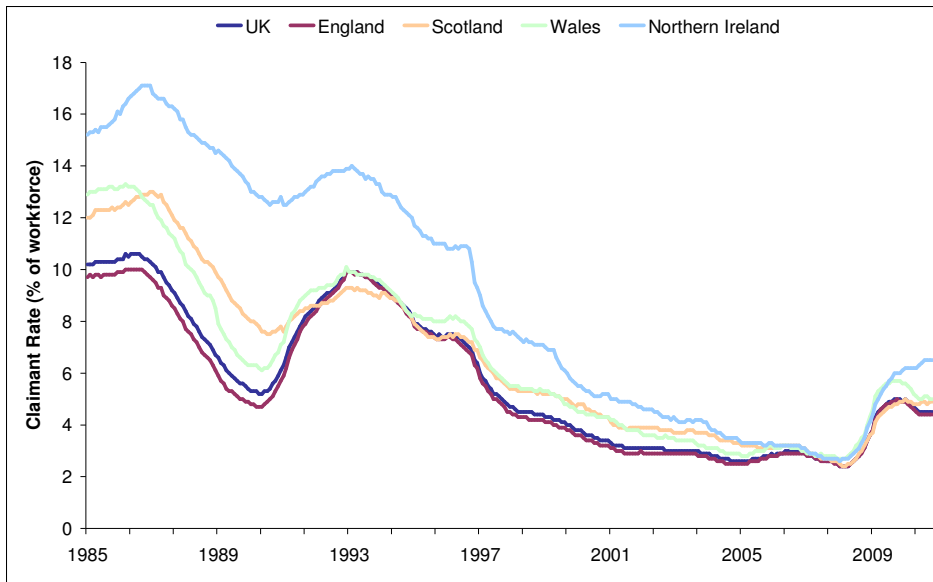
Source: DETI Quarterly Employment Survey

Note: Sectoral data is unadjusted and will not match seasonally adjusted totals

2.13 The rise in job losses has been reflected in the increase in the number of people claiming unemployment benefits. Since March 2008, the claimant count has increased by 34,700 to stand at 58,500 in November 2010, which represents a rise of 146%. The increase has been much larger in Northern Ireland than in Great Britain (which increased by 86% over the same period). It is, however, important to note that the rate remains comparatively low relative to previous decades (see Figure 6), and also when compared to the RoI (where the International Labour Organisation (ILO) unemployment rate has increased to 14.1% - almost double the comparable NI rate of 7.6%).

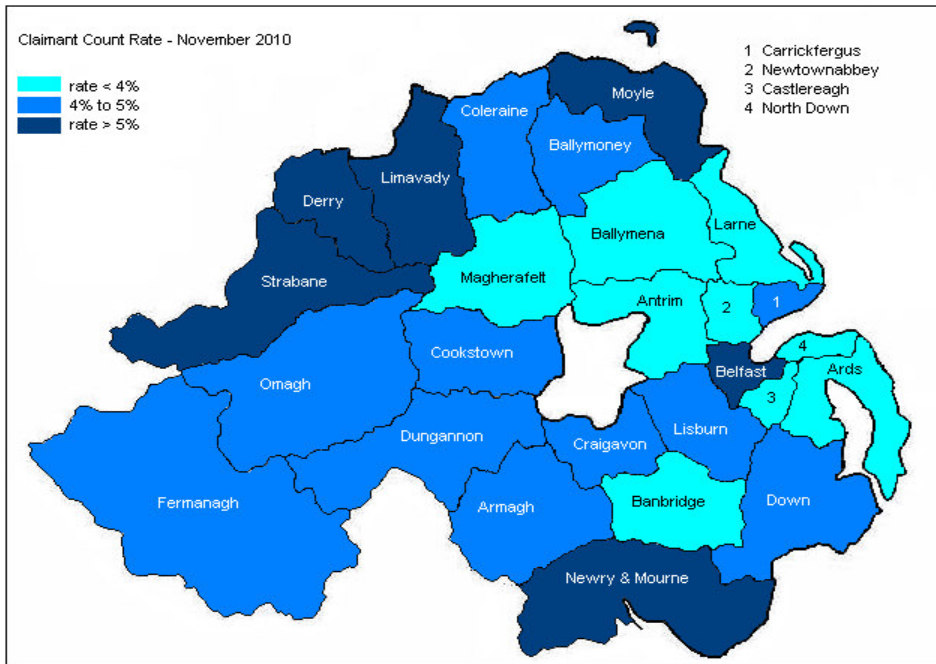
2.14 All areas of Northern Ireland have been hit by the recession, with certain parts of the region experiencing large claimant count increases in percentage terms since March 2008. However, Figure 7 highlights that it is areas with historically high claimant rates (such as the Belfast, Derry, Limavady and Strabane district council areas) that continue to experience large levels of claimant count unemployment.

Figure 6: Claimant Count Rate, 1985-2010



Source: ONS Seasonally Adjusted Claimant Count

Figure 7: Claimant Count Rate by District Council, 2010



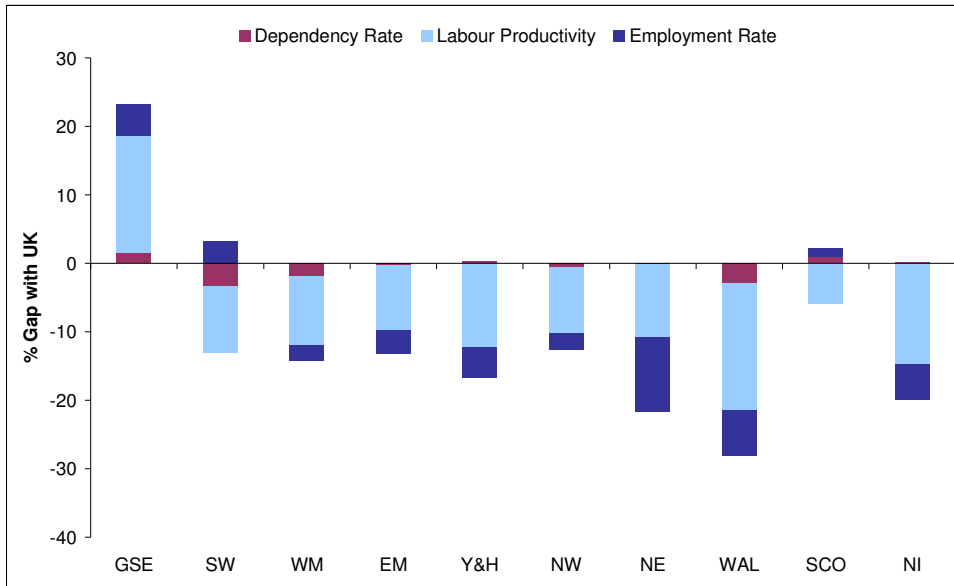
Source: DETI Claimant Count

Current Economic Challenges

2.15 The gap in living standards (GVA per head) can be split into three main components (as outlined in Figure 8), with lower labour productivity and employment the major factors. The current Programme for Government

reflected this when it made the economy its top priority and targeted action toward improving productivity (PSA 1) and employment (PSA 3). In the aftermath of the recession, the twin goals of increasing employment and improving productivity remain an economic and social imperative.

Figure 8: Decomposing the Output Gap, 2008



Source: Oxford Economics

2.16 A further recognised challenge facing Northern Ireland is the need to rebalance the economy toward more private sector led growth. For example, almost 31% of total employment is in the public sector (compared with the UK average of 21%)³. Efforts have already been made to rebalance the economy, particularly in terms of the actions outlined in the Programme for Government which aim to grow the size and value added contribution of the private sector in Northern Ireland. However, it is equally clear that more needs to be done especially given the much tighter public expenditure context and the fact that the growth sectors need to be more broadly based than in the previous decade (where private sector growth was mainly in retail, construction and parts of business services).

2.17 In light of the above and, as outlined later in the consultation document, it is proposed that the focus of this economic strategy should be to drive export-led economic growth. Encouraging exports and supporting firms in doing business outside of Northern Ireland will provide access to larger markets with greater trade opportunities. Exploiting such opportunities will enable the private sector to grow and increase wealth and employment. At present, Northern Ireland performs relatively well in the UK context with regards to exports. However, the challenge is to

³ ONS Regional Analysis of Public Sector Employment 2010

match the export-intensity of other small open economies such as Finland and the Republic of Ireland, where at least half the economy is based around exporting.

2.18 Co-ordinated action will be needed in a number of areas to secure an export-led growth strategy. These will include skills, education, innovation and R&D, inward investment, business growth and economic infrastructure. Although, as section 4 highlights, some progress has been made under the current Programme for Government, it is clear that more needs to be done. This is evident from the fact that Northern Ireland continues to lag the rest of the UK (and other competitors) on a number of key productivity drivers such as:

- **Skills** – a much higher proportion of the working age population (20.3%) with no qualifications compared with the UK average (10.5%);
- **Education** – comparable literacy on science, maths and reading with both UK and OECD averages, but well below top international performers such as Singapore, Finland and Canada;
- **R&D** – Business Expenditure on Research and Development (BERD) as a % of GVA has historically lagged the rest of the UK but increased in 2009 to 1.1% of GVA (compared with the UK average of 1.3%). Despite this, Northern Ireland is still significantly behind top performers such as Finland, Sweden and the US;
- **Innovation** – fewer businesses are innovation-active (55%) than the UK average (58%); and
- **Enterprise** – lowest business startup rate of all the UK regions and below average entrepreneurial activity.

Tackling these underlying economic challenges will be key to addressing the longer term underperformance of the Northern Ireland Economy.

2.19 The Programme for Government has placed ‘growing a dynamic, innovative economy’ as its top priority and recognises that this will increase prosperity and help tackle disadvantage and poverty. It is imperative that everyone in society benefits from economic growth – particularly the most vulnerable – to ensure Northern Ireland becomes a fairer and more equitable society. In doing so, we have a responsibility to ensure this growth is sustainable to benefit the economy, society and the environment.

Conclusions

2.20 In the aftermath of the recession, it is important for Northern Ireland to focus on growing the economy and creating jobs. However, this growth needs to address long-standing issues such as low living standards and high levels of economic inactivity. Going forward, economic growth will need to be driven by the private sector rather than the public sector, which itself must improve its efficiency as it responds to increasing budget pressures over the coming years. In doing so, it is essential that

private sector growth is export-focused, as relying on the small domestic market will not secure the wealth creation needed to benefit society as a whole.

Question 1: Do you agree with the key economic challenges that are expected to influence the performance of the NI economy over the next 10 years?

Question 2: Are there any additional aspects that should have been included and which need to be addressed in the full economic strategy?

3 PRIORITIES FOR GROWTH

3.1 The previous section highlighted the current state of the local economy and the structural challenges that need to be addressed. This section sets out the Executive's vision for the NI Economy over the next ten years as well as the priorities to ensure that this is achieved.

Background

3.2 The priorities set out in this consultation document are based on analysis of what has worked in economically successful regions across the world. Over the past year, a number of research projects have been ongoing to examine the approach taken by countries that are considered to have performed well in respect of different aspects of economic development. The primary objective of this research programme was to see what examples of best practice could be applied by the Executive to the local economy. Although the countries were chosen on the basis that they were the most comparable to Northern Ireland, the limitations of replicating policy were also recognised.

3.3 In terms of overall competitiveness, Finland, the Republic of Ireland, Sweden and Estonia were considered with emerging findings from this research project highlighting the importance of having the right innovation and education policies in place. However, it is also clear that there is not a single correct path with different approaches being taken in similarly successful countries.

3.4 Looking further afield, another research project is considering the approach to productivity, innovation and competitiveness in small open economies, focusing on Singapore and New Zealand. In addition, innovation has been considered in greater depth in a research project comparing European regions which are judged to have had differing degrees of success in improving their performance over recent years. The research highlights the need for a collaborative approach between business, universities and government rather than simply focusing on the total amount of investment in research & development. These research projects are currently being finalised and will be published by DETI when completed.

3.5 Analysis of the US experience and particularly that of the state of North Carolina points to the importance of understanding clearly the relationship between the various drivers of productivity and economic growth. For example, North Carolina has had significant success in attracting inward investment in growth industries over the last decade by ensuring its innovation/R&D and skills development systems are closely

aligned and focused on meeting the needs of industry. In Australia there are also strong examples of state governments working closely with industry to foster and encourage high performance working practices which utilise more fully the R&D and skills resources that are available.

- 3.6** Much of the above research and analysis is ongoing; however, the findings from these and other projects will inform the actions to be included in the full Economic Strategy. However, one clear message to date from the best practice research is in respect of leadership and direction. Whilst there are significant differences in the approaches taken by successful countries and regions, a common theme is that economic development tends to be afforded the highest priority politically with direct personal involvement at the highest levels in the government to drive forward delivery. In addition, it is clear that we need to benchmark performance on the Northern Ireland economy and identify quickly the lessons on what has driven economic success elsewhere.

Question 3: Learning from what has worked in economically successful regions across the world and adapting measures to Northern Ireland's circumstances will be key to meeting the challenges facing the Northern Ireland economy. Are you aware of other successful initiatives around the world from which we could learn?

Question 4: What evidence is there that these initiatives were successful and would be appropriate to meet the challenges facing the Northern Ireland economy?

Vision for 2020

- 3.7** Growing the Northern Ireland economy was the primary focus of the 2008-2011 Programme for Government. Going forward, the aim of rebuilding and rebalancing the Northern Ireland economy, in the aftermath of a sustained global economic downturn, will remain the principal goal of the Executive's collective efforts.
- 3.8** The Economic Strategy will be central to the delivery of our overall strategic aim of an economy which increases wealth and employment opportunities for all. **Our vision for the Northern Ireland economy of 2020 is for it to be characterised by a sustainable and growing private sector, with a high-skilled, flexible workforce working in high productivity, innovative firms which compete in global markets.**
- 3.9** While the global downturn has had a significant impact on the Northern Ireland economy, the previous section has highlighted significant structural weaknesses which have led to persistently lower living standards prevailing in Northern Ireland relative to the rest of the UK. In

order to realise the Executive's vision of the Northern Ireland economy of 2020, it will be necessary to tackle these twin challenges – focusing on actions that will deliver the necessary rebalancing of the Northern Ireland economy over the longer term while taking immediate steps to rebuild the Northern Ireland economy after the recession.

3.10 However, we must recognise the significant challenge in the coming years, particularly given the reduction in public expenditure available to the Executive. This consolidation of public spending will inevitably lead to tough choices having to be made and the Executive recognises that investments to support economic growth will impact on our ability to invest in other priority areas.

Question 5: Looking ahead to 2020, do you share the Executive's long-term vision for the Northern Ireland economy?

Executive Economic Priorities

3.11 In order to deliver the Executive's vision of the Northern Ireland economy of 2020, it is proposed that the priority of this economic strategy should be to drive export-led economic growth. Encouraging exports and supporting firms and their local supply chains in doing business outside of Northern Ireland will provide access to larger markets with greater trade opportunities. Exploiting such opportunities will enable the private sector to grow and increase wealth and employment in Northern Ireland.

Question 6: Given the challenges facing the Northern Ireland economy, do you agree that promoting export-led economic growth should be the key economic priority of the Northern Ireland Executive?

3.12 In order to deliver the longer term priority of the Executive, five strategic themes have been developed. These themes (presented in more detail in section 4) are:

- i. stimulating innovation, R&D and creativity;
- ii. improving employability and the level, relevance and use of skills;
- iii. competing in the global economy;
- iv. encouraging business growth; and
- v. developing our economic infrastructure

- 3.13** The targeting of resources under these themes will bring forward actions and interventions which deliver increases in the productivity and competitiveness of businesses in the Northern Ireland 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 stand alone. They are inter-dependent and action is required across each if the Executive's vision for the economy of 2020 is to be delivered.
- 3.14** As the recession has had a significant impact on the Northern Ireland economy, in particular on the local labour market, it is proposed that this new Economic Strategy should also include the following short to medium term employment themes:
- i. improving employment opportunities and employability; and
 - ii. promoting employment.
- 3.15** These themes (also set out in more detail in section 4) have been included in order to rebuild the local economy following the recession. They 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 medium to longer term. Some steps have already been taken in this area. For example, from 1 January 2011, those who are awarded contracts to build social housing or undertake urban regeneration schemes will now be required to provide work-experience for the unemployed.
- 3.16** It will also be important to examine opportunities offered across every sector of the economy, even where these opportunities are not readily apparent. For example, many of the capital projects supported by the Executive are extremely complex and require innovative inputs and skills from a wide range of specialised small and medium sized local companies. Success in delivering such capital projects can build capabilities within companies and the labour force which can be the foundations of future export-led economic growth.
- 3.17** With that in mind, it will be important to ensure that any employment creating investments which require government assistance in the short to medium term will be self-sustaining into the longer term and, where possible, focus on areas that will build towards attainment of export-led economic growth. This is necessary to allow scarce resources to be diverted into those actions which deliver against our longer term value added priorities while, at the same time, ensuring Northern Ireland is not locked into an economy characterised by high volume, low-value added activity.

Question 7: Do you consider the proposed rebalancing themes to be sufficient to meet the longer term challenges faced by the Northern Ireland economy?

Question 8: Recognising the inter-dependence of these themes, which do you consider to be most important in driving the long-term vision of the Northern Ireland economy?

Question 9: What is your view on the proposed short to medium term rebuilding themes identified in this strategy?

Question 10: Are these sufficient to meet the challenges resulting from the economic downturn?

Question 11: Are there other themes which the Executive should consider when preparing its Economic Strategy?

3.18 It is proposed to make resources available to address the short to medium term rebuilding priorities and, at the same time, direct resources towards those priorities which have been identified as necessary to drive the rebalancing of the Northern Ireland economy. It is proposed that as the economic recovery strengthens, Executive assistance for programmes designed to address the short to medium term themes would be expected to fall and the resources released should be diverted to allow an increased focus on actions to rebalance the local economy and deliver prosperity and employment growth.

Question 12: Do you agree with the proposal to redirect resources from the short to medium term measures to rebalancing measures as the economic recovery takes hold and the labour market situation improves?

3.19 The Executive also proposes a number of cross-cutting themes to inform the development of actions under this strategy. It is proposed these cross-cutting themes should be considered and applied appropriately when developing initiatives under each of the rebuilding and rebalancing themes previously identified. These cross-cutting themes include:

- i. equality;
- ii. balanced sub-regional growth; and
- iii. sustainable development

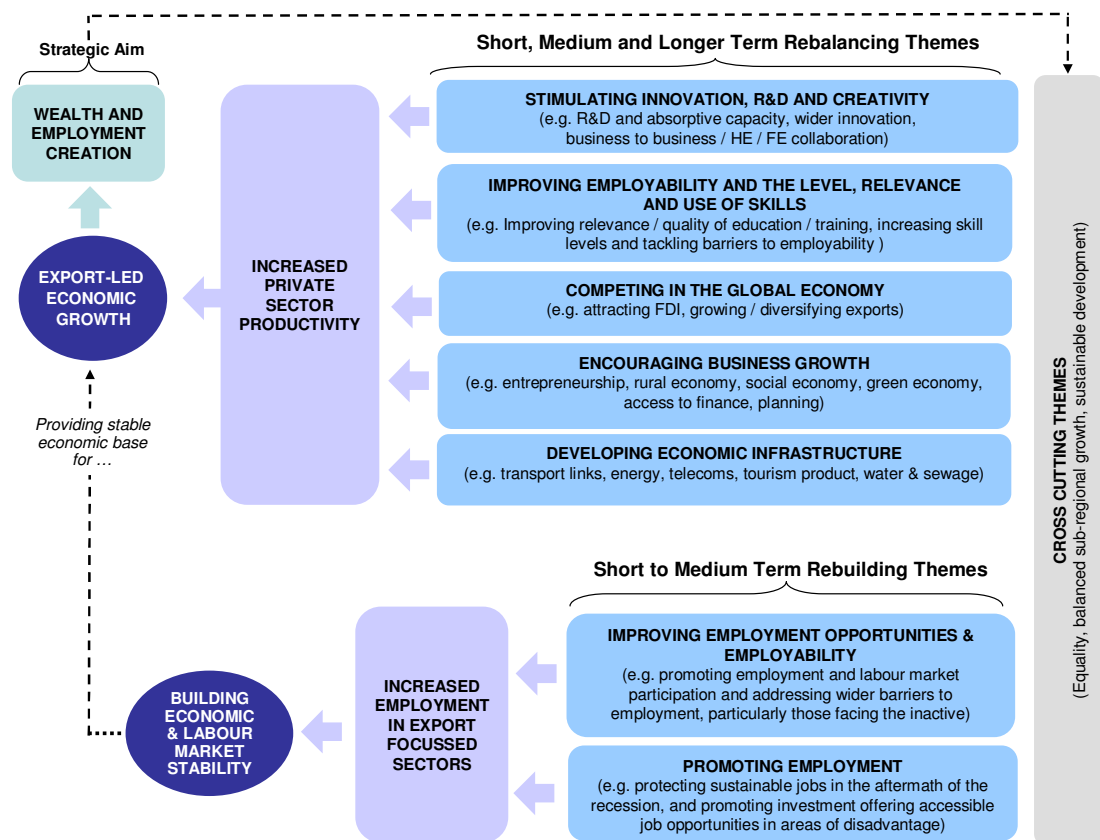
3.20 Growing a dynamic, innovative economy must increase prosperity for all and help tackle disadvantage and poverty. It is imperative that economic growth creates a fairer and more equitable society. The challenge will be to ensure that new policy initiatives will deliver growth that addresses existing patterns of socio-economic disadvantage and ensures balanced sub-regional growth. The principles of sustainability will also cut across all aspects of this strategy.

Question 13: Are there further cross-cutting themes which should be considered in relation to the Northern Ireland Economic Strategy?

Question 14: How do you think these cross-cutting themes should impact on the rebuilding and rebalancing themes identified earlier?

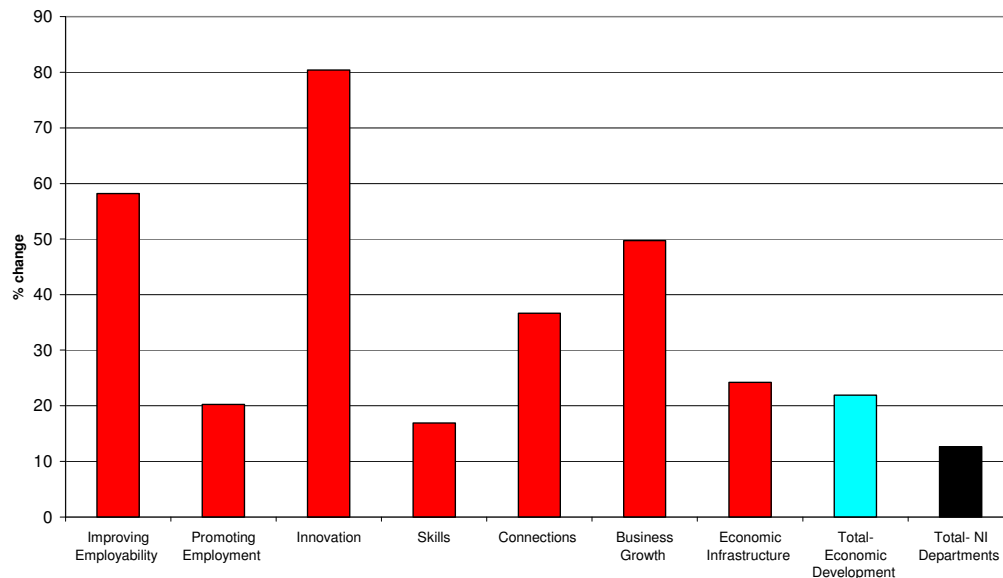
3.21 Figure 9 provides a graphical representation and underlying model of how the proposed themes will interact to deliver the Northern Ireland Executive's vision of the economy of 2020.

Figure 9: Draft Strategic Framework for NI Executive Economic Strategy



3.22 It is also important to consider the extent to which the Executive has allocated funding to these priorities since the restoration of devolution in 2007. Figure 10 shows that current expenditure on programmes linked to economic development has increased by 30.0% between 2007-08 and 2010-11 compared to 12.6% for total current expenditure by NI departments. In addition, there are significant differences between the proposed economic priorities with the greatest increase in expenditure in respect of the Stimulating Innovation and R&D priority. Therefore, there is clear evidence that, in line with the Programme for Government, the Executive has prioritised funding towards the economy since the restoration of devolution with a particular focus on Innovation.

Figure 10: Percentage change in expenditure on Economic Priorities 2007-08 to 2010-11 (Current Expenditure)

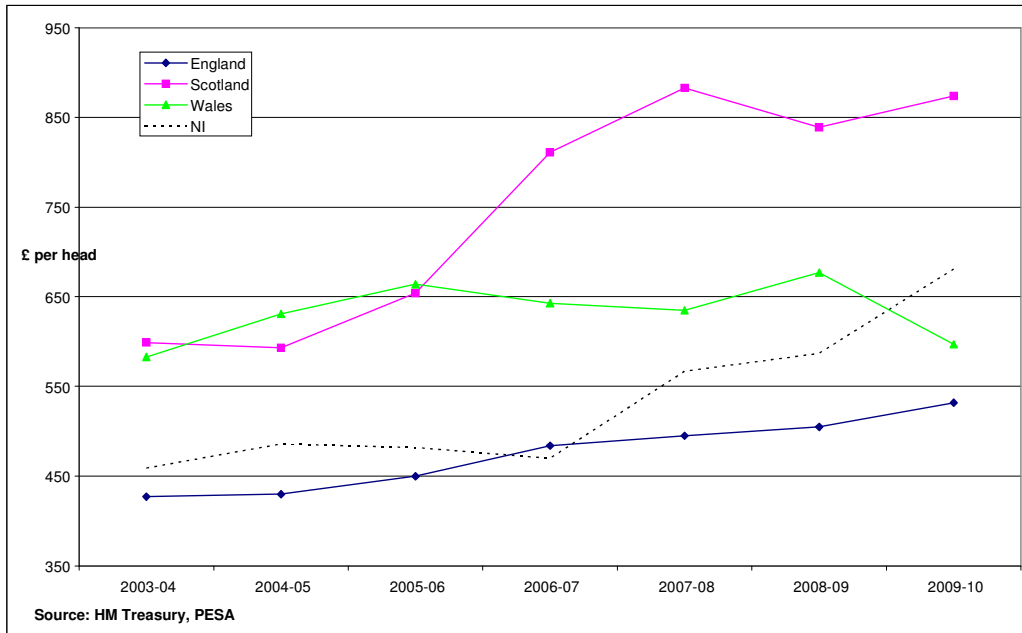


Source: NI Departments

3.23 Figure 11 provides a comparison of the level of expenditure on Economic Affairs in NI with the rest of the UK⁴. It can be seen that, prior to the restoration of devolution, the level of public spending on Economic Affairs per head of population had stagnated and was below that in Scotland and Wales (as well as England in 2006-07). Although some progress has subsequently been made by the Executive in the first two years of the current Budget period, there remains a significant gap with Scotland. The key issue is whether further prioritisation of economic activities is necessary in the coming years.

⁴ Excludes Agriculture because of the distorting impact of NI's more rural economy - public spending on agriculture in NI is 275% greater than in England per head of population.

Figure 11: Public Spending on Economic Affairs (excluding Agriculture) per head of population, 2003-04 to 2009-10



3.24 It is important to note that the figures presented are intended to provide only a broad indication of growth in expenditure on each of the priorities relative to the overall growth in public expenditure in recent years. It should be recognised that some programmes may have a more direct impact on the economy than others and that some programmes often have other broader objectives, over and above support for economic development.

Question 15: Recognising the more constrained public expenditure position in the coming years, do you consider the extent of prioritisation given to the economy to have been sufficient or is there a need to go further in future years?

4 DELIVERING ON GROWTH

- 4.1** As outlined earlier in the consultation document, a valid criticism of previous economic development strategies has been that fine words and aspirations have not been fully reflected in the subsequent implementation. A key aspect of this strategy will therefore be the identification of specific actions to be taken forward including identification of which organisation(s) will be responsible for delivering those actions and details regarding how progress with respect to implementation will be monitored and reported on. It is proposed that the Executive Sub-Committee on the Economy will provide the necessary strategic leadership to ensure identified actions are delivered.
- 4.2** Delivery of the priority themes identified in the strategy will require co-ordinated contributions from all Northern Ireland Departments and their agencies; local councils; the UK Government; community & voluntary sector organisations; the private sector (including social economy businesses) and the trade unions.
- 4.3** While many organisations have a role to play, it is recognised that the main driver of economic growth in Northern Ireland will be the private sector. It is local companies, including social economy businesses, through innovation and workforce development, who will exploit export opportunities by seeking to continuously improve the quality and standard of the goods and services they provide. While the public sector can put measures in place which will create the conditions to enable the private sector to flourish, growth will only be achieved if Northern Ireland companies grasp the opportunities available.
- 4.4** It is recognised that the UK Government has the primary role in respect of national fiscal and competition policy as well as ensuring a stable macroeconomic environment. The UK Government's role in contributing to the rebalancing of the Northern Ireland economy will be considered as part of a wider exercise being taken forward by the UK Government in parallel to this consultation on the priorities of the Northern Ireland Executive.

Question 16: Which are the key organisations able to deliver against the Executive's economic priorities?

Question 17: Are there any areas where roles and responsibilities could be better clarified?

- 4.5** The previous section has highlighted the need to strike a balance between the rebuilding and rebalancing themes, particularly in the short to medium term. The Executive proposes that, in the immediate aftermath of the recession, employment issues will take a greater prominence, whilst still maintaining a sufficient focus on productivity priorities. As the economic recovery takes hold, the Executive proposes a growing focus on the rebalancing priorities which are considered to be essential if real and sustainable economic growth and employment creation is to be achieved.
- 4.6** Given the resource constraints likely as a result of the fiscal position of the UK Government, it will be necessary to decide on the prioritisation between rebuilding and rebalancing priorities in the short term and between the various rebalancing themes in the medium to longer term.

Longer Term Measures: Rebalancing the Economy

- 4.7** Sustainable growth will only be achieved through measures to improve the capabilities of local firms and the attractiveness of Northern Ireland as a destination for inward investment and business growth. As outlined below, certain progress has been made under the Programme for Government, however, as section two has highlighted, the economy still lags behind certain key productivity indicators.

Table 2: Progress on Economic Drivers

Area	Summary of Progress
Innovation	Invest NI leveraged £260m of innovation expenditure since April 2008, strong HE/FE R&D performance and MATRIX initiative
Enterprise	Invest NI supported 585 companies to become exporters for the first time and secured £380m in annual wages and salaries since April 2008
Skills	Over 90,000 additional people in the labour market with Higher Professional and Technical and degree level qualifications over the past decade
Education	A greater proportion of pupils leaving school with a good standard of education (5 or more GCSEs at A*-C including English and Maths)
Employment	More than 53,000 people moved from welfare to work since April 2008 and over 6,600 new FDI jobs promoted with more than 3,900 of these attracting salaries above the NI Private Sector Median
Regional Development	Progressed around £500m of strategic road network including upgrade of M1 / Westlink, widening of M2 and further work to A1 and A4
Infrastructure	Improved international telecoms from Project Kelvin and internal telecoms from the Next Generation broadband Project. £1.358bn planned investment in productive / transport pillars during 2008-11 through ISNI. Investment in our wider social and health infrastructure including the new Enniskillen Hospital.
Business Support (INI)	Invest NI introduced Short Term Aid Scheme and Accelerated Support Fund to help businesses during the downturn
Business Support (DEL)	DEL's Rapid Response initiative, 100% funding for Management and Leadership programmes and joint DEL / INI Assured Skills project and the Skills Solution Service

- 4.8** In focusing on the value added investments, the Executive will ensure that growth in the economy is sustainable and will lead to increased employment opportunities and reductions in poverty.

Stimulating Innovation and R&D

- 4.9** There is considerable evidence which demonstrates the strong links between innovation, productivity and economic growth. This theme involves initiatives which will deliver increasing expenditure on innovation and R&D in all its forms and across all areas of the economy. It will also cover the promotion of a wider innovation agenda incorporating creativity / design and capture the impact that the creative industries make towards stimulating innovation. The strategy will include initiatives aimed at increased collaboration between businesses, higher and further education institutions and the public sector. Ultimately, it will include actions which develop the commercialisation potential of Innovation and R&D as well as programmes designed to promote innovation and the uptake of Science, Technology, Engineering and Maths (STEM) subjects in schools.

Improving Employability and the Level, Relevance and Use of Skills

- 4.10** The most important asset for any economy is its population. For that reason, widening and deepening the skills base of the local economy, to meet the needs of employers, is seen as a key element in the delivery of the Executive's wider economic goals. This theme will cover initiatives at all stages of an individual's learning. At school level it will deliver a renewed focus on raising standards in literacy & numeracy and ICT, on developing the wider interpersonal skills that employers highlight as being important and ensuring that all young people have access to a broader, better balanced range of courses that match their aptitudes and aspirations and the wider needs of the economy. It will include supporting those individuals engaged in mid-career training and development. It will include initiatives aimed at increasing the numbers developing skills in STEM subjects in line with demand and will also focus on increasing skill levels of the workforce and tackling skills and wider barriers to employment.

Competing in the Global Economy

- 4.11** To deliver the Executive's vision of the Northern Ireland economy of 2020, it will be necessary for the economy to strengthen and develop its connections to the wider global economy. This theme will cover efforts to attract and embed greater levels of inward investment into Northern Ireland and also those initiatives aimed at growing and diversifying the export base (including our North-South and East-West trade relationships). It will also cover initiatives aimed at promoting the tourism sector and improving access to Northern Ireland. In an increasingly globalised world, the provision of up to date, impartial careers information, advice and guidance will be vital for raising young people's

aspirations, allowing them to respond positively to the opportunities of a rapidly changing workplace.

Encouraging Business Growth

4.12 Delivery of the Executive's vision for the Northern Ireland economy will be dependent on growing the private sector and making it easier to do business here. This theme will cover initiatives aimed at exploiting market opportunities in emerging sectors including the low carbon/green economy to meet key global challenges such as climate change and waste management. It will include those actions aimed at promoting the social economy and initiatives that will contribute to the development of competitive and sustainable rural businesses. It will also be focused on creating the necessary conditions to support economic growth such as improving business access to finance and implementing an efficient planning system. This theme will also encompass a clear focus on promoting a culture that values enterprise.

Developing Economic Infrastructure

4.13 To underpin economic growth, Northern Ireland needs a modern and sustainable economic infrastructure. This theme will cover initiatives aimed at improving our transport infrastructure (roads, rails etc); our energy infrastructure; our communications infrastructure and our tourism product (including museums and arts venues). It will include supporting urban and town centre regeneration initiatives which provide the infrastructure to stimulate further sustainable private sector investment. It will be about ensuring improved linkages within Northern Ireland as well as improved North-South and East-West connections.

Question 18: Under the rebalancing themes noted above, what do you consider to be the key actions to rebalance the economy and ensure sustained improvements in long-term economic growth?

Short to Medium Term Measures: Rebuilding the Economy

4.14 In response to the recession, the Executive has put a range of measures in place to help mitigate the impact of the downturn. This includes the introduction of a small business rate relief scheme and the Short Term Aid Scheme (STAS) to assist local companies in the downturn. In May 2010 the First Minister and deputy First Minister published "The Executive's Priority Measures to Deal with the Economic Downturn" which set out continuing actions across a wide range of issues such as planning, availability of bank finance, benefit uptake and small business access to procurement projects.

4.15 While action will continue to be taken, the most significant impact of the recession has been on the local labour market. The need to address the challenges this has created is reflected in the two short to medium term priorities identified by the Executive for rebuilding the Northern Ireland economy.

Improving employment opportunities & employability

4.16 This involves ensuring that those individuals impacted by the recession do not become detached from the labour market. It will include measures to promote training and re-skilling amongst those who have lost their jobs during the recession, and will cover initiatives aimed at addressing wider barriers to employment, particularly for the long-term unemployed and the economically inactive.

Promoting employment

4.17 This involves promoting investment offering accessible job opportunities, particularly for those in areas of economic disadvantage. This will include working with the UK Government to ensure that the necessary finance is available to meet the needs of business.

Question 19: Under the rebuilding themes identified above, what do you consider to be the key actions necessary to rebuild the economy after the recession?

Key Delivery Issues

4.18 The Northern Ireland Economic Strategy will be central to the delivery of the Executive's primary goal of an economy which increases wealth and employment opportunities for all. Given the ambition of the strategy and the many priorities, themes and actions which it proposes to cover, the links to other Executive and Departmental strategies are recognised.

4.19 In preparations for the consultation document, we have identified some of the main strategies that are already in place or are currently being developed that will have a material impact on economic growth in Northern Ireland. They include, for example:

- Regional Innovation Strategy
- Higher Education Strategy
- Success through Skills 2
- FE Means Business
- Essential Skills for Living
- Careers Education, Information, Advice and Guidance Strategy
- Success through STEM

- School Improvement Programme
- Social Economy Strategy
- Tourism Strategy
- Regional Development Strategy
- Investment Strategy for NI
- Anti-Poverty Strategy
- Rural White Paper
- Sustainable Development Strategy for NI

4.20 One of the key outputs from the Economic Strategy work will be to have a much clearer outline of roles and responsibilities within government (in terms of economic development) and also how / where each of the various strategies fit together.

4.21 Furthermore, the current constraints on public expenditure will require prioritisation between the various themes identified in the draft Economic Strategy. This may require the targeting of resources towards initiatives under particular rebalancing themes identified above, or it may require the prioritisation of resources across the identified themes but which benefit only particular export focused sectors of the economy (such as those market opportunities identified in the 2008 MATRIX Report)⁵.

Question 20: In allocating resources to support this strategy, should the Executive prioritise particular sectors of the local economy in order to deliver sustainable improvements in long term growth?

Question 21: What sectors should be prioritised and how do these align with the framework and priority themes outlined earlier in the document?

⁵ MATRIX has identified several niche cross-sectoral and cross-disciplinary market opportunities in which Northern Ireland can aspire to an international leadership position (www.matrix-ni.org). MATRIX also puts particular emphasis on fostering collaborations between businesses, universities, colleges and the public sector.

5 HOW TO RESPOND

5.1 The NI Executive invites comments on the questions raised in this consultation document. The questions outlined throughout the document are summarised in Annex A. The consultation period will end on **24 February 2011**. The intention is that the comments received in response to this consultation document will inform the development of the Executive's draft Economic Strategy including details of the specific actions that will be taken by NI departments.

5.2 Written responses should be sent to:

NI Economic Strategy Consultation
Room 124
DETI (on behalf of the Executive Sub-Committee on the Economy)
Netherleigh
Massey Avenue
BELFAST
BT4 2JP

5.3 Electronic responses should be sent to:

Email: NI-Economic-Strategy@nigov.net

5.4 If you require any further information contact:

NI Economic Strategy Consultation
Room 124
DETI (on behalf of the Executive Sub-Committee on the Economy)
Netherleigh
Massey Avenue
BELFAST
BT4 2JP

Telephone: 02890 529478
Textphone: 02890 529304
Fax: 02890 529533
Email: NI-Economic-Strategy@nigov.net

Disclosure of Information

5.5 The paragraphs below explain the policy on the Disclosure of Information and provide guidance on the legal position about any information given in response to this consultation.

- 5.6** The Freedom of Information Act provides the public with the right to request access to information held by public authorities including Government Departments. This includes information provided in response to consultations.
- 5.7** Following the end of the consultation, we will publish details of the responses received on the nidirect and DETI websites. Information you provided in your response, including personal information, could be published or disclosed under the Freedom of Information Act 2000 (FOIA).
- 5.8** Under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals with obligations of confidence. If the information provided as part of this consultation exercise is to be treated as confidential, it would be helpful if you could explain why this should be the case. Although we will take full account of this, we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not be regarded as binding.
- 5.9** For further information about the confidentiality of responses please contact the Information Commissioner's Office (or access the web site at: www.ico.gov.uk).

A SUMMARY OF QUESTIONS

- Question 1** Do you agree with the key economic challenges that are expected to influence the performance of the NI economy over the next 10 years?
- Question 2** Are there any additional aspects that should have been included and which need to be addressed in the full economic strategy?
- Question 3** Learning from what has worked in economically successful regions across the world and adapting measures to Northern Ireland's circumstances will be key to meeting the challenges facing the Northern Ireland economy. Are you aware of other successful initiatives around the world from which we could learn?
- Question 4** What evidence is there that these initiatives were successful and would be appropriate to meet the challenges facing the Northern Ireland economy?
- Question 5** Looking ahead to 2020, do you share the Executive's long-term vision for the Northern Ireland economy?
- Question 6** Given the challenges facing the Northern Ireland economy, do you agree that promoting export-led economic growth should be the key economic priority of the Northern Ireland Executive?
- Question 7** Do you consider the proposed rebalancing themes to be sufficient to meet the longer term challenges faced by the Northern Ireland economy?
- Question 8** Recognising the inter-dependence of these themes, which do you consider to be most important in driving the long-term vision of the Northern Ireland economy?
- Question 9** What is your view on the proposed short to medium term rebuilding themes identified in this strategy?
- Question 10** Are these sufficient to meet the challenges resulting from the economic downturn?
- Question 11** Are there other themes which the Executive should consider when preparing its Economic Strategy?

- Question 12** Do you agree with the proposal to redirect resources from the short to medium term measures to rebalancing measures as the economic recovery takes hold and the labour market situation improves?
- Question 13** Are there further cross-cutting themes which should be considered in relation to the Northern Ireland Economic Strategy?
- Question 14** How do you think these cross-cutting themes should impact on the rebuilding and rebalancing themes identified [earlier]?
- Question 15** Recognising the more constrained public expenditure position in the coming years, do you consider the extent of prioritisation given to the economy to have been sufficient or is there a need to go further in future years?
- Question 16** Which are the key organisations able to deliver against the Executive's economic priorities?
- Question 17** Are there any areas where roles and responsibilities could be better clarified?
- Question 18** Under the rebalancing themes [noted above], what do you consider to be the key actions to rebalance the economy and ensure sustained improvements in long-term economic growth?
- Question 19** Under the rebuilding themes [identified above], what do you consider to be the key actions necessary to rebuild the economy after the recession?
- Question 20** In allocating resources to support this strategy, should the Executive prioritise particular sectors of the local economy in order to deliver sustainable improvements in long term growth?
- Question 21** What sectors should be prioritised and how do these align with the framework and priority themes outlined earlier in the document?