

CENTRAL MANAGEMENT BRANCH



Mr Jim McManus
Clerk to the Committee for Enterprise, Trade and
Investment
Northern Ireland Assembly
Room 375
Parliament Buildings
BELFAST
BT4 3XX

Room 413c
Clarence Court
10-18 Adelaide Street
Belfast BT2 8GB

Telephone: (028 905) 41140
Facsimile: (028 905) 40064
Email: alan.doherty@drdni.gov.uk

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Dear Jim,

Inquiry - Economic Growth & Job Creation

I am writing to you in response to your correspondence of 23 January 2015 in regard to the Committee for Enterprise, Trade and Investment's Inquiry to consider the potential for economic growth and job creation following a reduction in corporation tax in Northern Ireland.

Minister Kennedy considers that his Department has a key role to play in this regard. Therefore I have outlined below the Minister's response to the Committee's Inquiry, covering in turn each of the areas of consideration you outlined in your correspondence.

- 1. What are the key economic drivers (other than low corporation tax) that the Executive can influence in order to maximise the potential of Northern Ireland to attract inward investment, grow the economy and create jobs?**
 - 1.1** To underpin economic growth, Northern Ireland needs a modern and sustainable economic infrastructure. The Regional Development Strategy is aimed at ensuring people can connect with a range of facilities and services and how they get to places of work. Businesses depend on efficient connections for goods and services including the necessary infrastructure to service economic growth. Wealth and value – added employment created by export driven economic growth will help achieve balanced regional growth and sustainable development and enhance equality.
 - 1.2** The Department for Regional Development (DRD) has been taking forward the 'Ensuring a Sustainable Transport Future: A New Approach to Regional Transportation' strategy. This strategy sets out that investment in the road network in Northern Ireland will be supported by significant investment in our bus and railway network, and walking and cycling facilities.

- 1.3** This will allow us to develop a much more integrated and sustainable transport infrastructure focused on meeting the needs of our businesses and communities while protecting our environment.
- 1.4** As part of implementing this Strategy DRD has created a Delivery Plan which stresses the value of further investment in public transport; namely its importance socially, economically and environmentally. When considering the key economic drivers (other than low corporation tax) **that the Executive can influence** in order to maximise the potential of Northern Ireland to attract inward investment, grow the economy and create jobs then there can be no doubt that Transport must be a key consideration.
- 1.5** As the Eddington Transport Study 2006¹ outlined “*Transport cannot of itself create growth: it is an enabler that can improve productivity when other conditions are right. Economic growth itself causes rising transport demands which, if left unchecked, can put the transport network under strain, damaging productivity and competitiveness.*”
- 1.6** Therefore while not an economic driver, transport is crucial to enabling other economic drivers such as access to markets, access to suppliers, lifestyle and living standards which you listed in Appendix 1 of your correspondence. To further put the importance of transport in perspective the American National Economic Council and the President’s Council of Economic Advisers stated that “*A high quality transportation network is vital to a top performing economy.*”² This was emphasised further in the UK’s National Infrastructure Plan 2013; “*the quality of a nation’s infrastructure is one of the foundations of its rate of growth and the living standards of its people. That is why the government has put long-term investment in roads, railways, energy, telecommunications and flood defences at the heart of its growth plan.*”³

2. Which of these key economic drivers are considered priorities for the manufacturing sector?

- 2.1** Again in respect of the manufacturing sector it is important to consider this concept of transport as the ultimate enabler. The Executive’s focus on high value growth has particularly important implications for transport. Economic growth requires access to markets with the size of market area proportional to the value or specialisation of the goods and services produced. As such, growth in high value sectors requires access to larger extended markets in order to create the critical mass of consumers with the means and needs to avail of products and services. For a small region such as the Northern Ireland that means access to international markets, reflecting the findings of the Independent Review of Economic Policy commissioned by DETI, which concluded that it is vital that the economy continues to develop its connectivity to international growth hubs.⁴

¹ <http://www.thepep.org/ClearingHouse/docfiles/Eddington.Transport.Study%20-%20Rod.pdf>

² http://www.whitehouse.gov/sites/default/files/docs/economic_analysis_of_transportation_investments.pdf

³ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/263159/national_infrastructure_plan_2013.pdf

⁴ Barnett, Richard, *Independent Review of Economic Policy*, DETI, Belfast, September 2009, pp108

- 2.2 As outlined by CBI; *“Investment in transport - the backbone of UK industry - is essential to drive economic growth. Transport links are the backbone of the UK's infrastructure “ecosystem”. We rely on our airports, railways and roads to move goods and people and to trade and export. So it is little surprise that 80% of our members tell us transport links are significant to their investment decisions. However, businesses are concerned about transport capacity issues – our 2011 infrastructure survey showed nearly half of respondents rate the UK's transport networks as below average by international standards. UK competitiveness is undermined by a lack of capital investment in recent years (compared with our international competitors), congestion on our roads and the constraints on our aviation capacity.”*⁵
- 2.3 This is supported by a Foresight, Government Office for Science report which set out that another *“way to talk about the infrastructure problem is in terms of key stakeholders’ perceptions of the need for and quality of infrastructure. 568 senior executives from businesses of all sizes and sectors across the UK, including investors, providers, and users of infrastructure responded to a recent survey about infrastructure organised by the CBI and KPMG (2012). The responses indicated that ... **the quality and reliability of transport and digital infrastructure is a significant consideration in investment decisions (>80%)”***⁶
- 2.4 Improvements to transport infrastructure can in particular reap benefits for industry, for example the American National Economic Council and the President’s Council of Economic Advisers stated that, *“A well-performing transportation network keeps jobs in America, allows businesses to expand, and lowers prices on household goods to American families. It allows businesses to manage their inventories and transport goods more cheaply and efficiently as well as access a variety of suppliers and markets for their products, making it more cost-effective for manufacturers to keep production in or move production to the United States. American families benefit too: as consumers, from lower priced goods; and as workers, by gaining better access to jobs.”*
- 2.5 If Northern Ireland’s Public Transport Infrastructure and Road and Rail Networks can be improved then so too will our manufacturers positioning within the global marketplace. They will be able to take advantage of a transport infrastructure and network that enables them to maximise their potential, grow their business and ultimately add real value to the Northern Ireland economy.
3. **Which of these key economic drivers are considered priorities for the services sector?**
- 3.1 The Executive’s focus on high value growth also has important implications for any decisions as to the nature of the transport infrastructure in the longer term. In high value economies, ideas and a skilled workforce, rather than natural resources, are

⁵ <http://www.cbi.org.uk/business-issues/infrastructure/transport/>

⁶ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/283894/ep20-infrastructure-and-manufacturing.pdf

the principle raw material and success enabler of business.⁷ As such, the ability to attract and retain a highly qualified workforce from an increasingly mobile pool has become a key consideration for businesses operating in high value sectors. This has led to increasing importance being attached to quality of life in business location decisions.⁸ Issues or factors considered in this regard are likely to include housing, schools, healthcare, social/leisure amenities and crime, with the importance attached to each very much dependent upon the nature of the business and the location options available. Hence it is clear again that transport investment becomes a vital consideration.

3.2 Modern economic activity takes place on a global scale. Innovation and skills are at the heart of these exchanges and are the driving force of successful cities, regions and countries. Northern Ireland's future prosperity depends on our ability to successfully compete in this global, skills-based and innovative economy, not simply for markets, but also for investment and talent. In order to compete globally we must first be able to connect globally. For that reason, local, regional and global connectivity is an essential requirement underpinning delivery of the Executive's economic and social priorities. The strategic transport network plays a key role in this regard.

4. How well is each of the priority economic drivers currently developed in Northern Ireland to support inward investment, economic growth and job creation?

4.1 As set out in the Programme for Government 2011-15, underpinned by a focus on sustainability and balanced regional growth, the Executive's top priority is to *grow a vibrant economy, which can transform our society while dealing with the deprivation and poverty which have affected some of our communities for generations*. The Executive's focus is to rebuild the Northern Ireland economy following the impact of the global economic downturn. In doing so it also needs to address the long-term economic challenges which continue to confront the local economy.

4.2 Living standards in Northern Ireland have persistently lagged behind the rest of the UK, with social exclusion levels well above other parts of the UK. As such, many of our households live in poverty, with joblessness driven by skills deficiencies and a lack of employment opportunities. In light of these challenges, the strategic goal of the Regional Economic Strategy is to rebalance and rebuild the economy and to promote more balanced regional growth across all parts of Northern Ireland. This has important implications for transport and requires a particular focus on building social and economic connectivity at the regional and local level.

4.3 The Executive's focus on balanced regional growth reflects significant socio-economic variations across the region. Although our most deprived communities are largely concentrated in the urban areas of Belfast and the North West, the

⁷ Love and Crompton, *The Role of Quality of Life in Business (Re) Location Decisions*, Journal of Business Research 44, pp 211-222, New York, 1999

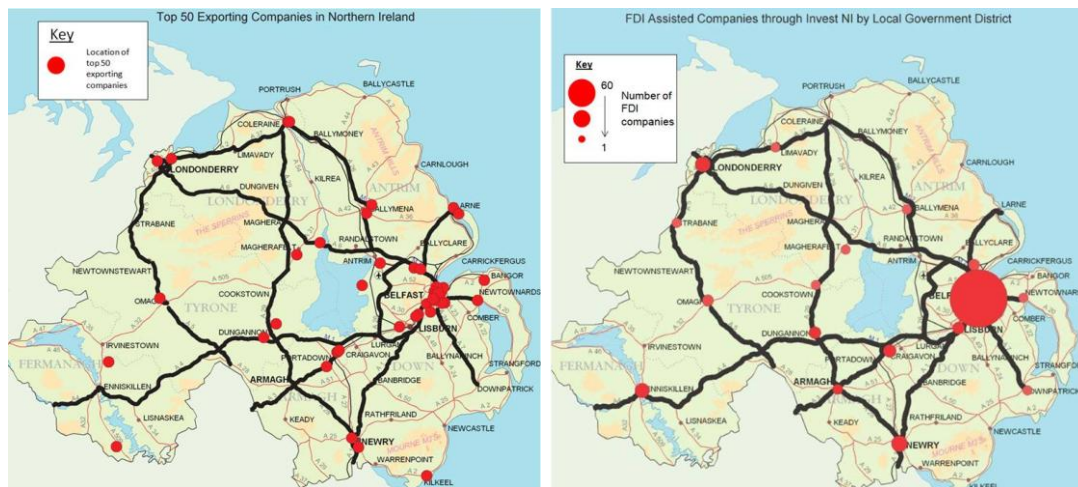
⁸ Salvesen and Renski, *The Importance of Quality of Life in the Location Decisions of New Economy Firms*, Centre for Urban and Regional Studies, University of North Carolina, January 2003

least deprived areas in Northern Ireland are generally located in the east and within the Belfast travel to work area.

- 4.4 Notwithstanding the regional prosperity gap between Northern Ireland and other parts of the UK, over recent years the economy of Belfast has grown significantly with Belfast emerging as one of the most prosperous regions of the UK in terms of Gross Value Added Tax per head. However, in comparison to Belfast, other regions of Northern Ireland continue to underperform, with the North and the West of Northern Ireland among the lowest performing regions of the UK. Perhaps more importantly is the fact that the prosperity gap between Belfast and other areas of Northern Ireland has continued to widen.
- 4.5 While promoting balanced regional growth, it is important to acknowledge that all successful regions have vibrant connected cities at their core and this is particularly so for innovative high value economies. It is for this reason that the Regional Development Strategy highlighted the need to strengthen Belfast as the regional economic driver and Londonderry as the principal city and driver for the North West.
- 4.6 In considering regional competitiveness, the World Economic Forum suggests that ***‘Extensive and efficient infrastructure is critical for ensuring the effective functioning of the economy, as it is an important factor in determining the location of economic activity and the kinds of activities or sectors that can develop within a country. Well-developed infrastructure reduces the effect of distance between regions, integrating the national market and connecting it at low cost to markets in other countries and regions. In addition, the quality and extensiveness of infrastructure networks significantly impact economic growth and reduce income inequalities and poverty in a variety of ways.’***⁹
5. **What actions need to be taken, and by whom, to address any gaps in the priority economic drivers?**
- 5.1 Belfast will continue to be the regional driver for growth. Supporting that will require significant investment in the transport infrastructure of the Belfast area to ensure the capacity exists to efficiently move increasing numbers of goods and people. Failure to invest will constrain growth both at a local and regional level.
- 5.2 Alongside action to enhance the capacity of Belfast there is a continued need to invest in the wider regional transport network to enhance urban and rural connectivity. This is essential to ensure all areas of Northern Ireland, particularly the west and north, contribute to and benefit from increased prosperity, and is a fundamental requirement to building a competitive region.
- 5.3 Diagram 1 below highlights how our key exporting companies and the majority of Foreign Direct Investment in Northern Ireland is located along the Regional Strategic Transport Network and in close proximity to our key export gateways.

⁹ World Economic Forum, The Global Competitiveness Index 2013-14

Diagram 1: the location of top exporting companies in NI & Location of FDI



* Adapted from Irish Exporters Association, Top Exporters in Ireland and Northern Ireland 2011

- 5.4** In building a competitive region, it is important to recognise that we operate in a global and increasingly connected economy. Therefore, if Northern Ireland is to compete for high value investment and our businesses are to be competitive, there is a need to develop; our global connections from our core gateways either directly or through global hubs; and our connectivity within the region between our key hubs and gateways.
- 5.5** Diagram 2 below illustrates the location of our key ports and airports. The Region's airports are significant for the transit of high value goods and the movement of people. In that regard, the connections they provide, both direct and via global hubs such as Heathrow, are essential to future growth. The bulk of our exports, however, connect to the global economy through our ports and this is likely to remain so, pointing to the need to focus on enhancing connectivity to our ports in addition to our airports.

Diagram 2: Northern Ireland Ports and Airports



- 5.6** In considering this it is important to acknowledge that while the Port of Londonderry serves as a key gateway for the North West, it is a port which has not served as an export gateway for manufactured goods for some time. Our key export gateways, therefore, remain in the East, primarily the Ports of Belfast and Larne. Therefore, while it remains important to develop the Western Transport Corridor, if we are to enhance the attractiveness of the North West and the wider region to export investors, there needs to be a corresponding focus on developing our east west connectivity.
- 5.7** As the economy grows, these gateways must have the capacity and capability to facilitate increased growth. Failure to plan for that has the potential to act as a constraint on growth and undermine the ability of our gateways to compete for the share of passengers and freight across the island of Northern Ireland and the Republic of Ireland.
- 5.8** A priority in this context, therefore, is to target investment in the strategic road network with a focus on addressing key bottlenecks and gaps, particularly on key corridors serving our metropolitan areas and gateways. However, there is also potential for rail to positively contribute towards enhanced connectivity and competitiveness.
- 5.9** The focus of rail strategy in Northern Ireland over the last decade has been to halt the historic decline and to maintain the existing network. While that strategy has not provided for extension of the network, it has allowed for the procurement of additional rolling stock to facilitate a 50% increase in the frequency of rail services, in turn delivering significant growth in passenger numbers, up 99.8% from 2004/05 to 2013/14. In 2013/14 over 13 million passenger journeys were made on our railway network. The Department has now published a new strategy to guide future railway investment. The measures and strategic direction set out in *The Railway Investment Prioritisation Strategy* aim to significantly increase the capacity of the rail network, lay the foundations for future electrification of the network and facilitate the first significant expansion in that network for over 50 years.

5.10 Subject to funding being secured, as part of the Department's vision for the future, Minister Danny Kennedy wants to create integrated transport hubs in Northern Ireland's two major cities Belfast and Derry. These will be *state of the art multi-modal transport interchanges that will be central to providing sustainable connectivity across the entire region*. These innovative projects will see Belfast strengthened as the regional economic driver, Londonderry as the principal city of the North West and help these flagship cities become beacons for investment.

6. Conclusion

6.1 When considering the importance of transport it is important to look beyond the revenue generating ability of the transport mode itself. The London Underground is not closed due to operating at a loss because it is likely that London would grind to a halt within hours. Transport is an essential enabler to the regional economy it should not be thought of as a profit centre; "Wealth does not create infrastructure; infrastructure creates wealth."¹⁰

6.2 Transport is about much more than moving people and goods; it is the thread which binds our region together and we must recognise that its quality will have a significant impact on our rate of growth and the living standards of our people. It is imperative that we properly invest in transport to allow us to create an integrated, modern, reliable and environmentally efficient transportation network.

6.3 It should be emphasised that Transport is the definitive enabler of sustained economic prosperity. In being responsible for Regional Development in Northern Ireland, Minister Danny Kennedy will continue to lobby Executive colleagues to support ambitious investment in transportation; convince them that transportation funding is a win-win for everyone and that it will play an integral role in ensuring Northern Ireland maximises its potential and enhances its attractiveness and competitiveness as a region.

I hope that the Committee for Enterprise, Trade and Investment will find this response useful in helping them to maximise the potential of Northern Ireland as a region to attract inward investment, grow its economy and create jobs. The Department is of course happy to provide any further information if required to support the case we have outlined above.

The content of this letter is fully disclosable under the FOI Act after the Review is published, but until then, it should not be disclosed - Section 22 of the FOI Act applies: Information intended for Future Publication.

Yours sincerely

[SIGNED]

Alan Doherty
Departmental Assembly Liaison Officer

¹⁰ John F Kennedy