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## Research and Information Service Briefing Paper

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# Northern Ireland Draft Economic Strategy – Areas of Note for the Employment and Learning Committee

## 1 Introduction

On the 17<sup>th</sup> November 2011 the draft Economic Strategy (the Strategy) for Northern Ireland was released. Interested parties have until the 22 of February 2012 to provide comments and suggestions to the consultation.

This paper provides a brief overview of the main points of the Strategy which are relevant to the work and remit of the Committee of Employment and Learning. In addition, Appendix 1 to this paper provides a table detailing the objectives for DEL as detailed in the Draft Action Plan for the Strategy.

## 2 Key Points

- The draft economic strategy has been developed during a period of significant financial and economic change within Northern Ireland and throughout the world;
- Its main focuses are on rebalancing and rebuilding the Northern Ireland Economy;
- The strategy has five main approaches to rebalancing the economy, of which two have the most impact on the work of the Department for Employment and Learning, although the Department does have a role to play in the remaining three;
- Table 1 of this paper details the key measures of relevance to the Committee - Innovation, R&D and Creativity and Skills and Employability;
- The Draft Economic Strategy Action Plan has also been published and highlights 33 actions to be taken by DEL over the next three years;
- These actions are presented in Appendix 1 and include a number of comments from the author of this paper which may be of note to the Committee;
- Four areas of note are also discussed in this paper: Job promotion and creation; Benefit clients moving into employment by March 2015; Corporation Tax; and Strategic Employment strategies;
  - Job Promotion and creation: 18,500 jobs will be promoted (mainly via Invest NI) with 6,500 new jobs created via new business start-ups. However, it should be noted that previously (based on IREP findings) only 82% of the jobs promoted are created;
  - Benefit clients moved into employment: the Strategy states that it intends to move 114,000 benefit claimants into employment. However, this does not refer to the creation of jobs, rather it is *“the potential that there is for the labour supply”*;
  - Corporation Tax: A large part of the Strategy is based around the assumption that Corporation Tax (CT) will be devolved. This is a significant assumption to make with no clear view of what impact CT will have on NI’s economy, especially with the variation in the cost to NI (potentially anywhere between £225 - £400m based on HM Treasury and Department of Finance and Personnel estimates).  
However, the Strategy is confident that even without CT being devolved that it will strengthen competitiveness; and
  - Strategic Employment Strategies: Cities are drivers of economic growth, acting as centres of innovation and labour market pools. As such strategies for improving employment and lowering economic inactivity in Belfast and Derry will be developed. However, any strategies should take into consideration any possible knock on effects this may have on the rural regions of Northern Ireland as they make act as draws away from these areas.

### 3 The Draft Economic Strategy

The draft economic strategy (the Strategy) has been developed during a period of significant change within both Northern Ireland and throughout the world, with on-going economic difficulties such as the Eurozone crisis, the continuing instability in world financial markets and the stagnant growth and continuing rises in unemployment in the UK.

#### 3.1 Rebalancing the Economy

The Strategy highlights that the NI economy has been overly dependent on the public sector and sets out the intention to rebalance the economy by growing the private sector. It intends to do this by:

- Stimulating Innovation, R&D and Creativity in order to widen and deepen the NI export base;
- Improving the skills and employability of the entire workforce so that people can progress up the skills ladder, thereby delivering higher productivity and increased social inclusion;
- Competing effectively within the global economy and be internationally regarded as a good place to live and do business;
- Encouraging business growth and increasing the potential of local companies, including within the social and rural economies; and
- Developing a modern and sustainable economic infrastructure that supports economic growth.

Whilst all departments have a role to play in each of these aims, the first two have the most relevance for the Committee as they relate directly to the work of DEL. In addition, the Strategy's Draft Action Plan lists a number of actions DEL will be undertaking (See **Appendix 1** for further details).

Please note, also stated in the Strategy but not included in any of the rebalancing measures is the following objective:

*Move 114,000 working age benefit clients into employment by March 2015*

#### 3.2 Key Rebalancing Measures of Relevance to the Committee

The table following details the key measures of relevance to the Committee – Innovation, R&D and Creativity and Skills and Employability as detailed in the Strategy.

The table lists all the action to be taken under these measures, with those most likely to have DEL involvement highlighted in bold.

<b>Innovation, R&amp;D and Creativity</b>	<b>Skills and Employability</b>
Support £300m investment by businesses in R&D, with at least 20% coming from SMEs.	Increase to 70%, the proportion of young people leaving school having achieved at least 5 GCSEs at A*-C (or equivalent) including English and Maths.
Support 500 businesses to undertake R&D for the first time and secure 120 Collaborative Projects in R&D.	<b>Deliver 210,000 qualifications at Levels 2, 3, 4 and above by 2015, through Further Education, Higher Education, Essential Skills and Training.</b>
Support 200 projects through the Creative Industries Innovation Fund by 2015.	<b>Increase skills in subject areas important to the NI economy such as STEM and implement the actions within the STEM Strategy.</b>
<b>Support our Universities to establish 8 spin-out companies by 2013.</b>	<b>Improve support to companies and increase the number of people gaining skills in management and leadership.</b>
<b>Support our Universities and Further Education colleges to undertake 155 knowledge transfer projects on behalf of local businesses by 2014.</b>	<b>Maintain HE tuition fees for local students at current levels subject only to inflationary uplifts while providing additional student places in areas of economic relevance.</b>
<b>Expand the Collaborative Network Programme targeting future market opportunities.</b>	<b>Secure over £140m of investment in skills from companies.</b>
<b>Provide £54m funding for University research and investing in collaborative HE/FE engagement with business in 2011/12.</b>	<b>Introduce a single point of contact for employers so that they can identify and access the relevant support.</b>
<b>Support businesses and academia to apply for national and EU funding / programmes. Ensure 100 applications for transnational R&amp;D funding.</b>	<b>Increase the number of people graduating with Foundation Degrees.</b>
<b>Invest £4m via the Creative Industries Innovation Fund and wider sectoral initiatives to stimulate innovation, R&amp;D and creativity.</b>	Continue to invest £18m per annum in education, knowledge and technology transfer in the land based food and rural sectors.
Significantly increase cross-border innovation and trade activity.	<b>Increase the number of people completing qualifications/attaining skills as they move from benefits into employment.</b>
Provide funding for agri-food research and knowledge exchange, including new PhD studentships.	<b>Work across departments to tackle the increasing issue of those Not in Employment, Education and Training (NEETs).</b>

<b>Innovation, R&amp;D and Creativity</b>	<b>Skills and Employability</b>
Invest up to £2.8m in further tranches of the agri-food research challenge fund.	<b>Work with Belfast and Derry City Councils and other stakeholders to develop strategic employment strategies for each city.</b>
Provide technology support services to the land based and food sectors.	<b>Maintain the strategic focus on improving the international standing of the NI skills profile by moving people up the skills ladder and enhancing STEM, management and leadership, employability and the essential skill of literacy, numeracy and ICT.</b>
<b>Exploring how the NI Science Park can further evolve into an Open Innovation Centre that could create the environment where partnerships and collaboration can flourish across sectors.</b>	<b>Through the Assured Skills programme, support FDI and the expansion of existing businesses by assuring companies that the skills they require will be available.</b>
<b>Progressing the alignment of publically funded research with our economic priorities in order to increase the potential for greater knowledge transfer between business and academia.</b>	<b>Develop further understanding of the changing demand for skills and ensure that the skills system can respond to that demand with speed and flexibility.</b>
<b>Examining ways to increase the rate of commercialisation of publically funded research and public sector Intellectual Property.</b>	<b>Contribute to the delivery of the European Union's 2020 strategy for smart sustainable and inclusive growth by developing a European Social Fund (ESF) 2014-2020 programme aimed at enhancing employability and increasing the overall employment rate, in particular for those groups at a disadvantage in the labour market.</b>
Fostering the degree of innovation through increased use of innovative forms of public procurement.	<b>Drawing from the experience of other countries, the government will work with employers to help them maximise the utilisation of skills within their existing workforce and so improve competitiveness.</b>
Identifying areas where there can be greater collaboration between the health sector and business in order to develop economic development opportunities that support a shared 'Health and Prosperity' agenda. These will primarily cover R&D and Connect Health.	<b>Help prepare young people for the future world of work by ensuring that materials and teaching resources have a much greater focus on the NI business and science base.</b>

Innovation, R&D and Creativity	Skills and Employability
Examining the need for the establishment of an Innovation Council to ensure that, at the highest level, the Executive, Academia and Business work together to further embed innovation across the NI economy.	Examine ways of encouraging employers to offer appropriate work placements and scholarships particularly in STEM subjects.
-	As the economy grows, encourage skilled people (including those non domiciled in NI) to consider NI as a place to live and work.
-	Promote early resolution of workplace disputes as an alternative to formal litigation through employment tribunals.
-	Ensure health strategies and actions (including the new Public Health Strategy) contribute to developing and supporting a healthy and productive workforce.

The Draft Action Plan, published on the 21<sup>st</sup> of December 2011, provides information on the objectives and actions based around the measures discussed above.

Appendix 1 details the draft actions to be undertaken by DEL based on the Strategy: These fall under four of the five themes used in the action plan. These are:

- Theme A: Stimulating innovation, R&D and creativity;
- Theme B: Improving employability and the level, relevance and use of skills;
- Theme C: Encouraging business growth;
- Theme D: Competing in the global economy; and
- Theme F: Rebuilding and improving employment opportunities and employability promoting employment.

In total there are 33 actions which DEL has been tasked with under the draft action plan.

### 3.3 Performance Indicators

The Executive is also proposing to measure long term performance against strategic indicators:

- Increase the level of exports and external sales as a proportion of NI output;
- Increase the proportion of the working age population in employment;
- NI private sector output growth to exceed the UK average; and
- NI's economic competitiveness to improve relative to other developed economies.

It should be noted the second performance indicator is of most significance to the Committee and the work of the Department of Employment and Learning.

## 4 Discussion

This section of the paper provides a few comments on some of the actions to be taken under the Strategy. This section will discuss four of the measures to be undertaken which may be of note to the Committee. Please note, Appendix 1 which lists the actions DEL is responsible for also includes short comments by the paper author.

### 4.1 Job Promotion and Creation

The Strategy states that it will generate 25,000 jobs. This figure is broken down as follows:

- **6,300 promoted jobs** in locally owned companies with 50% paying salaries above the private sector median (PSM)<sup>1</sup>;
- **6,500 new jobs** in the new start-up business scheme supported by INI;

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<sup>1</sup> The Private Sector Median is the median rate of pay within the private sector.

- **5,900 jobs promoted** from inwards investors with 75% paying salaries above the PSM; and
- **6,300 jobs promoted** from the Jobs Fund.

Although this is a matter for the ETI Committee (due to its oversight of INI) this is of note to the Committee as a result of DELs role as one of the Departments of the Economy and the close relation between jobs, employment, skills and training.

It may be worth the Committee noting that “promoting” jobs does not necessarily mean “creating” jobs. In the DETI PSA1 Technical notes<sup>2</sup> it is stated that job promotions:

*are jobs **expected** to be created by a particular project<sup>3</sup>*

Indeed as stated by the Independent Review of Economic Policy (IREP) report:

*Not all promoted jobs are actually created. A few projects fail to materialise at all and others for various reasons created fewer jobs than anticipated at the time of offer.*

The IREP goes on to state that of the jobs *promoted* between 2002/03 and 2004/05, only 82% were *created*.

Based on the Strategy figures this might imply that of the 18,500 jobs to be promoted, 15,170 would be actually created<sup>4</sup>.

The Committee may wish to ask DETI if the definition of job promotion has shifted since the IREP report and how job promotion will be translated into job creation.

This is especially important as a result of the ongoing impact of the UK Government’s Spending Review 2010 and the limited level of funds available to invest into business development (in the DETI final budget for 2011-15 INI has an increase in budget in 2012-13 to £133.8m which drops by £8m to £125.9 in 2013-14 and an increase to £130.5m for 2014-15 – it should be noted however that due to the lack of growth in the NI economy in 2011, INI returned £17.5m to DFP<sup>5</sup>) increasing the need for value for money investments.

It should also be noted that careful examination of the Performance Indicators attached to job creation should be closely monitored. The Committee may wish to ask DEL how job creation will be monitored and at what stages (for example, will records be kept of how long posts are held for following the creation of the job and at what salary per annum the job holder is remunerated at, rather than whether it is above or below the PSM.)

<sup>2</sup> Department for Enterprise, Trade and Investment, Public Service Agreements Technical Notes [http://www.detini.gov.uk/psa\\_1\\_technical\\_notes\\_-\\_deti\\_targets.pdf](http://www.detini.gov.uk/psa_1_technical_notes_-_deti_targets.pdf)

<sup>3</sup> Emphasis added by the author

<sup>4</sup> Based on 82% of 6,300 (5,166) and 82% of 5,900 (4,838).

<sup>5</sup> Northern Ireland Assembly Questions, 7 November 2011 AQW 680/11-15 <http://www.niassembly.gov.uk/Assembly-Business/Official-Report/Reports-11-12/07-November-2011/>

Finally, between 2002/03 to 2007/08, Selective Financial Assistance (SFA)<sup>6</sup> was linked to the promotion of 28,000 jobs and £2.4 billion of investment. This was during a considerable period of growth within NI's economy, which saw GVA<sup>7</sup> grow from £12,578 per head in 2002 to £16,013 per head in 2007. With the onset of the financial crisis and the subsequent recession GVA per head has fallen, with the most recent figures for 2010 showing it at £15,651<sup>8</sup>.

With the continuing problems in the Eurozone and the world economy as a whole, the proposed creation and promotion of 25,000 jobs over the course of four years (2011-2015) should be considered very ambitious and be monitored closely to ensure the target can be met.

#### 4.2 Benefit clients moved into employment by March 2015

As noted above, the Strategy states that it intends to move 114,000 working age benefit claimants into employment by 2015 as part of the "Rebuilding" of the NI economy. However, it should be noted that as stated by the Minister for Enterprise, Trade and Investment this is not the creation of jobs<sup>9</sup>:

*Rather it reflects the work of the Department for Employment and Learning and its employment service in ensuring that people have the skills that are necessary to take up job opportunities.*

The Minister goes on to state that:

*The 114,000 jobs that are referenced in the document as people coming into employment is the potential that there is for the labour supply<sup>10</sup>.*

This target for 114,000 people being added to the labour supply is reflected in the recently published Programme for Government which intends to *Support people (with an emphasis on young people) into employment by providing skillset training*. This key commitment sets out performance indicators of the number of people supported – 65,000 by 2012/13, 89,000 supported by 2013/14 and 114,000 by 2014/15 (all of which is cumulative).

This increase in labour supply is partly a result of the Welfare Reform Bill, which, as stated in the Strategy:

*Will significantly increase the number of people registered as unemployed and hence an increase in the pool of labour available for work.*

The Strategy goes on to state:

<sup>6</sup> Selective Financial Assistance (SFA) is the most significant single programme Invest NI uses to support businesses.

<sup>7</sup> Gross Value Added

<sup>8</sup> Office for National Statistics, <http://www.ons.gov.uk/ons/publications/re-reference-tables.html?edition=tc%3A77-223201>

<sup>9</sup> Minister for Enterprise, Trade and Investment, 17 November 2011 Hansard Launch of Draft Economic Strategy

<http://www.niassembly.gov.uk/Assembly-Business/Official-Report/Reports-11-12/17-November-2011/#2>

<sup>10</sup> Ibid

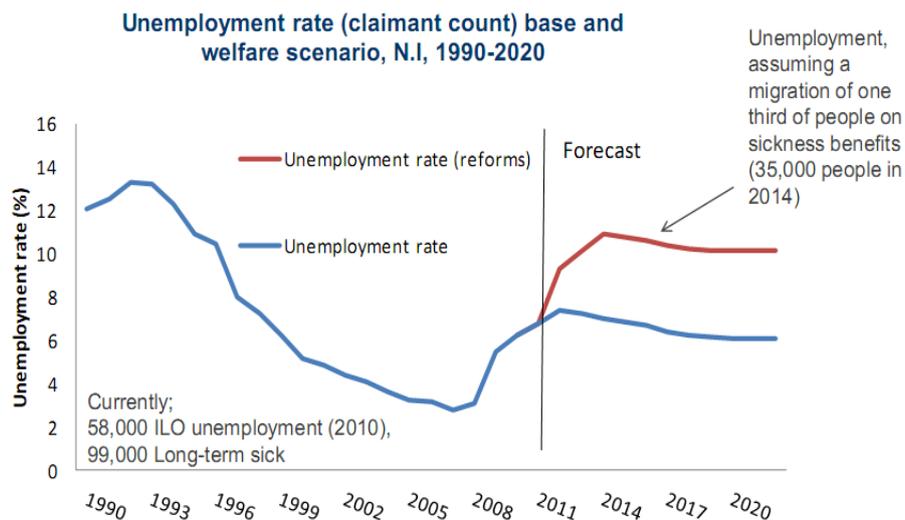
*These reforms will create a major challenge for the economy, particularly in terms of ensuring that we promote employment opportunities and improve the employability and skills of the labour force.*

In addition, a paper submitted to the Committee regarding the January Monitoring round by DEL, stated that 60,900 people were receiving JSA in September 2011 and this figure was expected to reach 61,800 by the end of 2012.

It should be noted that at the recent Northern Ireland Economic Conference, Neil Gibson of Oxford Economics when discussing the economic recovery stated that<sup>11</sup>:

- Oxford Economics' modelling suggests that employment may not recover to the 2007 peak until 2019; and
- Welfare reform could have a significant impact on unemployment.

Figure 1 below highlights the findings of the Oxford Economics modelling, detailing the unemployment rate both before and after changes to the Welfare Benefits system.



Source: Oxford Economics

**Figure 1:** Unemployment rate base and welfare scenario 1990-2020

As can be seen above, if one third of those receiving long-term sickness benefits are moved to unemployment benefits, the unemployment total would be close to 100,000.

In addition significant numbers of those currently unemployed are not looking for high-value added jobs (i.e. 25% seeking 'elementary occupations'), so what are these people going to do?

<sup>11</sup> Northern Ireland Assembly Research Papers, NIAR 669-2011 Report on NI Economic Conference October 2011

The model employed by Oxford Economics found that certain Council areas are going to struggle in the next decade in order to return to the peak level of employment experienced prior to the economic downturn.

**Table 2:** Job change by Council area 2012 - 2022

Council Area	Jobs Change 2012-2022	Year of return to peak
Antrim	2,400	2014
Ards	30	>2022
Armagh	350	>2022
Ballymena	130	>2022
Ballymoney	170	>2022
Banbridge	480	>2022
Belfast	20,610	2016
Carrickfergus	-120	>2022
Castlereagh	2,440	2015
Coleraine	-300	>2022
Cookstown	420	2014
Craigavon	1,570	2016
Derry	1,970	2016
Down	380	>2022
Dungannon	1,130	>2022
Fermanagh	470	>2022
Larne	290	2014
Limavady	550	>2022
Lisburn	4,570	2015
Magherafelt	660	>2022
Moyle	-60	2011
Newry and Mourne	2,700	2016
Newtownabbey	190	>2022
North Down	1,910	2015
Omagh	480	>2022
Strabane	340	2019
<b>NI</b>	<b>43,800</b>	<b>2018</b>

The increasing level (and potential increase) of individuals in receipt of unemployment benefits and the expected increase as a result of the reforms to welfare benefits could have a significant impact on the Department's available resources and ability to meet demand.

This includes factors such as:

- The available finances needed in order to meet the increased demand for benefits;

- Staffing and resourcing needs at Jobs and Benefits offices (including the actual number of staff available to deal with demand, the training of staff in order to meet the needs of clients and on a somewhat more mundane but practical level do the JBO's have sufficient facilities in order to provide services?<sup>12</sup>); and
- What support services will be provided and how will they be targeted (i.e. on a first come first served basis or based on need such as areas suffering from high levels of socio-economic deprivation)?

### 4.3 Corporation Tax

The Draft Economic Strategy highlights the commitment of the NI Executive in pursuing Corporation Tax (CT) as an economic lever in order to boost economic growth. If CT is devolved it will impact on all areas of the NI economy, including employment and learning.

In the recently published Programme for Government, the Executive stated that it would:

*Press for the devolution of Corporation Tax and reduce its level.*

In the PFG it is expected that the devolution of CT would occur on the following timetable:

- **2012/13:** Press for a UK government decision, through participation in Treasury-led Ministerial Working Group; and
- **2013/14:** Obtain approvals and introduce legislation to give effect to any Executive decisions.

No actions are listed for 2014/15 under this priority.

The Strategy, when discussing research carried out prior to its publication, states that:

*This research leads us to conclude that we will not be able to make the necessary step change in our economy without significant new policy levers. That is why this draft Strategy **assumes**<sup>13</sup> a successful outcome to the current negotiations with the UK Government on granting the Executive powers to vary the rate of corporation tax.*

It must also be noted that the Strategy clearly acknowledges that by itself CT is an *insufficient measure to transform the local economy*.

As highlighted above, the Strategy assumes that CT will be devolved to NI, and is subsequently based around these assumptions.

<sup>12</sup> Many Jobs and Benefits Offices are designed with a specific number of booths in which to interview or consult with clients, with specific booths provided for different services (such as signing on, Steps to Work Interviews and initial queries). As a result only a certain number of clients can be seen at any one time resulting in potentially long waiting lists in order to access services.

<sup>13</sup> Emphasis added by the author

This is a significant assumption to make, with various factors impacting on CT including initial costs to Northern Ireland as a result of lost revenue from the cut in CT<sup>14</sup> (prior to any potential increase in foreign direct investment as a result of international companies basing themselves in Northern Ireland).

It should also be noted that Oxford Economics in its presentation to the NI economic Conference, state that CT is forecasted to create 46,000 additional jobs by 2030. This is against a backdrop of potential welfare reforms adding 35,000 people to the unemployment register by 2013.

It must be noted, however, that the Strategy also states that:

*irrespective of the outcome on corporation tax, we are confident that the actions outlined in this draft Strategy will strengthen our competitiveness.*

The Committee may wish to ask DFP/DETI what economic modelling has undertaken regarding the devolution of CT and, perhaps more importantly, what economic levers will be used (apart from the changes to Air Passenger Duty) if CT is not devolved, especially considering the statement above regarding the need for a step change.

#### **4.4 Strategic Employment Strategies**

Action B22 of the Draft Action Plan states that DEL, working with a number of stakeholders, will:

*Develop Strategic Employment Strategies for Belfast and Derry/Londonderry aimed at increasing employment and reducing economic inactivity in NI's two main cities.*

When considering economic inactivity and employment rates in Derry/Londonderry and Belfast it was found that Derry City Council area has the 7th highest economic inactivity rate (32.8%) and Belfast City Council area the 12th highest (29.5%). Ballymena, Omagh and Strabane District Councils had the three highest inactivity rates (38%, 36.3% and 36.3% respectively).

In terms of employment, Derry City Council is the second lowest at 55%, with Belfast City Council the 9th lowest at 65%. Carrickfergus Borough Council has the highest employment rate at 76.6%. Please note these figures are from the 2010 Labour Force Survey, the most recent available<sup>15</sup>.

Whilst both Derry/Londonderry and Belfast have neither the highest levels of economic activity or the lowest employment rates, it should be noted that cities operate as economic drivers. As stated by the OECD<sup>16</sup>:

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<sup>14</sup> Northern Ireland Assembly, Research and Information Service, NIAR 235-2011, Devolution of Corporation Tax

<sup>15</sup> Department of Enterprise, Trade and Investment, Labour Force Survey 2011, <http://www.detini.gov.uk/deti-stats-index/stats-regional-analysis.htm>

<sup>16</sup> OECD, Urban Development, [http://www.oecd.org/document/51/0,3746,en\\_2649\\_34413\\_36886003\\_1\\_1\\_1\\_1.00.html](http://www.oecd.org/document/51/0,3746,en_2649_34413_36886003_1_1_1_1.00.html)

*Productivity levels are generally higher in metropolitan areas and the increased trade and capital flows give rise to increased flows of people, goods, capital, services and ideas. In many OECD countries, metropolitan regions produce a larger percentage of the national GDP than their representative population percentage.*

The report went on to state that strategic vision is necessary to encourage the competitiveness of metro-regions, although it should be noted that the impact a city has on the local region is not necessarily clear:

*Although wealth and economies of scale generated in a metro-region are likely to spill over on a wide territorial scale, metro-regions may drain other areas of their capital (especially talent).*

As Northern Ireland is a predominantly rural region (with 80% of the land mass and 35% of the population, 589,843 individuals based on 2001 census data<sup>17</sup>.) any strategies which focus in on the development of the two main NI cities should also take into consideration any potential impact they may have on rural regions. This includes the potential drawing away of individuals and businesses from areas outside the metro areas.

Rural employment has been taken into consideration in the Strategy, with DARD tasked to *stimulate 1,150 new employment opportunities in rural areas under the Rural Development Fund by 2015*<sup>18</sup>. In addition, training opportunities will be provided for over 16,000 people (Objective B10).

It is important therefore that both urban and rural strategies developed to enhance employment and economic activity in these areas work together and not to cross purposes.

It should of course be noted that as the Strategic Employment strategies have yet to be developed it is not possible to state what impact they may have on the rural environment, although the Strategy itself has been subject to rural proofing.

The Committee may wish to ask the Department for further clarity on this issue in regards what steps it will take to ensure appropriate rural proofing of strategies is undertaken and what actions will be taken to tackle unemployment and skills development in rural areas.

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<sup>17</sup> Please see NIAR 446-10 Rural Development issues and challenges in Northern Ireland for further information on rural development challenges

<sup>18</sup> It should be noted that the RDP runs from 2007-2013, with a further RDP to run from 2014 - 2020