Committee for Enterprise Trade and Investment

Opportunity for Excellence

The Report on the Committee's Inquiry into Growing the Economy and Creating Jobs with Lower Corporation Tax – Volume Two

Together with the Minutes of Proceedings of the Committee Relating to the Report, Written Submissions, Memoranda and the Minutes of Evidence

Mandate 2011/16

Sixth Report - NIA 259/11-16

Membership and Powers

The Enterprise, Trade & Investment Committee is a Statutory Committee established in accordance with paragraphs 8 and 9 of the Belfast Agreement, Section 29 of the Northern Ireland Act 1998 and under Assembly Standing Order 46. The Committee has a scrutiny, policy development and consultation role with respect to the Department for Enterprise, Trade & Investment and has a role in the initiation of legislation.

The Committee has power to:

- Consider and advise on Departmental Budgets and Annual Plans in the context of the overall budget allocation;
- Approve relevant secondary legislation and take the Committee stage of relevant primary legislation;
- Call for persons and papers;
- Initiate inquiries and make reports; and
- Consider and advise on matters brought to the Committee by the Minister for Enterprise, Trade & Investment.

The Committee has 11 members, including a Chairperson and Deputy Chairperson, and a quorum of five members.

The membership of the Committee is as follows:

Democratic Unionist Party	Paul Givan[1] William Humphrey[2] Gordon Dunne Paul Frew[3]
Green Party	Steven Agnew
Sinn Féin	Phil Flanagan (Deputy Chairperson)[4] Megan Fearon[5] Máirtín Ó Muilleoir[6]
Social Democratic & Labour Party	Patsy McGlone (Chairperson)[7] Fearghal McKinney[8]
Ulster Unionist Party	Danny Kinahan[9]

1 With effect from 16th September 2013 Mr Sydney Anderson replaced Mr Stephen Moutray. With effect from 1st December 2014 Mr Paul Givan replaced Mr Sydney Anderson.

2 With effect from 27 February 2012 Mr Paul Givan replaced Mr Robin Newton. With effect from 21 May 2012 Mr Robin Newton replaced Mr Paul Givan. With effect from 16 September 2013 Mr Sammy Douglas replaced Mr Robin Newton. With effect from 6th October 2014 Mr William Humphrey replaced Mr Sammy Douglas.

3 With effect from 24 October 2011 Mr Paul Frew replaced Mr David McIlveen.

4 With effect from 02 July 2012 Mr Phil Flanagan replaced Mr Daithí McKay as Deputy Chairperson.

5 With effect from 10 September 2012 Ms Maeve McLaughlin was appointed as a Member. With effect from 2nd December 2013 Ms Megan Fearon replaced Ms Maeve McLaughlin.

6 With effect from 23 January 2012 Ms Jennifer McCann replaced Ms Sue Ramsey. With effect from 10 September 2012 Ms Sue Ramsey replaced Ms Jennifer McCann. With effect from 21 October 2013 Mr Mitchel McLaughlin replaced Ms Sue Ramsey. With effect from 6th October 2014 Mr Chris Hazzard replaced Mr Mitchel McLaughlin. With effect from 10th November 2014 Mr Máirtín Ó Muilleoir replaced Mr Chris Hazzard.

7 With effect from 23 April 2012 Mr Patsy McGlone replaced Mr Alasdair McDonnell. With effect from 07 September 2012 Mr Patsy McGlone replaced Mr Alban Maginness as Chairperson. Mr Maginness rejoined the Committee as a member from 10 September 2012.

8 With effect from 7th October 2013 Mr Fearghal McKinney replaced Mr Alban Maginness.

9 With effect from 06 February 2012 Mrs Sandra Overend replaced Mr Mike Nesbitt. With effect from 4th July 2014 Mr Danny Kinahan replaced Mrs Sandra Overend.

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List of Abbreviations and Acronyms used in the Report

AFQCC	–	Agri-Food Quest Competence Centre
APD	–	Air Passenger Duty
CBI	–	Confederation of British Industry
CERFVS	–	The Campaign for the Economic Regeneration of the Former Visteon Site
CPD	–	Central Procurement Directorate
DARD	–	Department of Agriculture and Rural Development
DEL	–	Department for Employment and Learning
DETI	–	Department of Enterprise, Trade and Investment
DFP	–	Department of Finance and Personnel
DoE	–	Department of the Environment
DRD	–	Department for Regional Development
EAG	–	Economic Advisory Group
EFG	–	Enterprise Finance Guarantee
ERDF	–	European Regional Development Fund
EU	–	European Union
FDI	–	Foreign Direct Investment
FE	–	Further Education
FSB	–	Federation of Small Businesses
GB	–	Great Britain
GDP	–	Gross Domestic Product
HE	–	Higher Education
HMRC	–	Her Majesty's Revenue and Customs
HR	–	Human Resources
ICT	–	Information and Communication Technology
ICTU	–	Irish Congress of Trade Unions
IDA	–	Industrial Development Agency
IoD	–	Institute of Directors
kV	–	Kilovolts
LDP	–	Local Development Plan
LEA	–	Local Enterprise Agency
MNI	–	Manufacturing Northern Ireland
NI	–	Northern Ireland
NICC	–	Northern Ireland Chamber of Commerce
NIE	–	Northern Ireland Electricity
NIEA	–	Northern Ireland Environment Agency
NILGA	–	Northern Ireland Local Government Association
PfG	–	Programme for Government
R&D	–	Research and Development
RAG	–	Regional Aid Guidelines
RoI	–	Republic of Ireland
SBRRS	–	Small Business Rates Relief Scheme
SFA	–	Selective Financial Assistance
SFT	–	Scottish Futures Trust
SME	–	Small and Medium Enterprise
STEM	–	Science, Technology, Engineering and Mathematics
UCAS	–	Universities and Colleges Admissions Service
UK	–	United Kingdom
UU	–	Ulster University
WRS	–	Wirtschaftsförderung Region Stuttgart

Northern Ireland Assembly

Appendix 4

Research Papers

Research Papers

A Review of Literature Regarding the Determinants of Foreign Direct Investment

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Support for Entrepreneurship in Northern Ireland and Republic of Ireland

Northern Ireland Assembly

Research and Information Service
Briefing Paper

26 November 2014 NIAR 862-14

Daniel Donnelly

A Review of Literature Regarding the Determinants of Foreign Direct Investment (FDI)

1 Introduction

The following paper reviews the literature on FDI determinants. It is the first of a series of papers for the Committee for Enterprise, Trade and Investment that examine Northern Ireland's FDI attractiveness.

The paper begins by outlining a number of definitions and the theory behind FDI determinants.

The later part of the paper looks at available literature from a range of organisations to identify general, sector specific and 'deal breaking' FDI determinants. The paper also looks briefly at how Northern Ireland differs from the rest of the world in terms of the reasons why companies chose to locate here.

Subsequent papers will measure Northern Ireland's performance across the determinants identified in this paper.

2 Definitions and theory

FDI is defined as:

> *Investment from one country into another (normally by companies rather than governments) that involves establishing operations or acquiring tangible assets, including stakes in other businesses.*[1]

It entails:

> *The purchase or establishment of income-generating assets in a foreign country that entails the control of the operation or organisation.*[2]

FDI is considered to bring substantial benefit to host economies according to the **OECD** FDI:

> *…is a key element in international economic integration. FDI creates direct, stable and long-lasting links between economies. It encourages the transfer of technology and know-how between countries, and allows the host economy to promote its products more widely in international markets. FDI is also an additional source of funding for investment and, under the right policy environment, it can be an important vehicle for development*[3]*.*

With these potential benefits in mind creating conditions suitable for FDI is often prominent in the economic goals of policy makers. The Northern Ireland Executive have embedded attracting FDI within their Economic Strategy[4] and are currently seeking devolution of Corporation Tax powers from the UK Government in order to have greater control over fiscal levers which, it is argued, could increase the level of FDI into Northern Ireland.

Economic theory suggests that in order for FDI to take place three types of advantages must be observable. These are ownership advantages, location advantages and internalisation advantages. This is often referred to as the OLI framework which is discussed briefly below:

- Ownership advantages (The 'why' of multinational activity)
- The firm in question must possess advantages over firms in the host country. These may include financial resources, human capital, technological advantages, or size of brand;

  Location advantages (The 'where' of production)

- For companies to engage in FDI there must also be specific locational advantages
- in a particular country, that could not be gained by expanding in its home country or locating in another overseas country. These can include tax and other incentives, infrastructure[5], labour market advantages, logistics or access to markets, regulations or government policy, amongst other factors.

  Internalisation advantages (The 'how' of involvement)

- Not only must firms possess these advantages, but it also must be more advantageous for firms to 'internalise' these advantages by integrating in foreign markets rather than

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1 Financial Times Lexicon, Definition of Foreign Direct Investment http://nia1.me/2cj Accessed on 04/10/14

2 Ibid

3 OECD Factbook 2013, Available at http://nia1.me/29m . Accessed on 27/10/14.

4 "Northern Ireland Economic Strategy (revised)" (2012). DETI. Available at http://nia1.me/29n . Accessed on 28/10/14.

5 Infrastructure is used throughout this paper in a general sense to refer to the physical assets which make up a region's energy management, transport, digital communications, flood management, water and waste networks and the intellectual capital. The significance of each of these elements to a business' decision to locate in a particularly economy will vary from business to business (a communications business may have different priorities than a logistics business for example). The next paper in this series will look at Northern Ireland's infrastructure 'performance' in a micro sense, considering each of these factors.

selling or licensing its products to firms in the host country. This reduces transactions cost and removes the uncertainty of the market.[6]

The 'why' question regarding ownership advantages is a decision based on a firm's assessment of its own capabilities, the 'how' question regarding internalisation is also an assessment by a firm of how best to use its resources to increase profits in another country. These two decisions are largely ones which firms make introspectively. It is the 'where' question regarding advantages of location which policy makers are in a position to influence in order to attract FDI. However, multinational enterprises (MNEs) are diverse, heterogeneous and therefore will seek different characteristics from national economies. To generalise over a 'typical' MNE is unwise due to the range of companies which operate on a multinational basis.

While MNEs globalise in order to seek higher or longer-term profits there is a distinction that can be made between those which are 'cost-orientated' and 'market-orientated'. Cost-orientated MNEs look to increase efficiency by seeking:

- Reduced labour costs;
- Increased labour productivity;
- Cheaper or more secure inputs; and
- Lower tax burden/ government incentives.

Whereas, Market-orientated MNEs look to increase revenue by seeking:

- Access to larger and emerging markets;
- A more favourable regulatory environment;
- Technology and information transfer; and
- To preclude or counteract moves taken by competitors.

These underpinning motivations for FDI are not exclusive or indeed exhaustive and other factors can also play a role. This Briefing Paper seeks to review the literature which has been written on FDI and assess what determinants are important for firms engaging in FDI, with a particular focus on FDI into developed economies which is of greater relevance for Northern Ireland. The conclusions are written with a view to appraise the role of multiple factors, rather than arriving at a definitive answer to what determinant is the main driver of FDI.

3 FDI Determinants by Sector

A working paper commissioned by the **IMF** studied FDI in a number of developing and advanced economies[7]. Its dataset broke FDI inflows down into three sectors[8].

- Primary: Acquisition of resources e.g. mining, fishing, agriculture, oil extraction.
- Secondary: Manufacturing or assembly e.g. automobiles, aerospace, engineering.
- Tertiary: Service provision e.g. information technology, finance, and transport.

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6 Dunning. J.H, (1993) "Re-evaluating the benefits of Foreign Direct Investment". Available online at http://nia1.me/29o (Accessed 06/10/14)

7 Walsh. J,P, and Yu. J, (2010). "Determinants of Foreign Direct Investment: A Sectoral and Institutional Approach." Available at https://www.imf.org/external/pubs/cat/longres.cfm?sk=24135.0 . Accessed on 07/10/14.

8 The three sectors referred to here and throughout the paper correspond to the basic categorisations of industry sectors used in economic theory – primary, secondary, and tertiary. They are broad division of business activity related to but distinct from the sectors referred to in the Northern Ireland Economic Strategy. Those sectors are more specific and are in a sense a subsector of three broader categorisations used in this paper (although it is possible for a business sector to cross a number of these three broad sector classifications – for example the agri-food sector can be defined to include primary, secondary and tertiary activities). These more specific sectors will be addressed in more detail in subsequent papers.

Assessing FDI by sector is useful in that it enables analysis on what macroeconomic factors attract what types of FDI and if there are differences worth noting between what determines FDI inflows between the three different sectors of the economy, given the heterogeneous nature of firms that engage in FDI.

3.1 Macroeconomic variables

The paper evaluates the relationship between FDI and certain macroeconomic variables, such as, inflation, current FDI stock, openness, real exchange rate and GDP per capita. To clarify, openness is a measure of how open a country is to trade and investment, based on what barriers to entry exist.

Primary sector

- FDI in this sector only had a relationship with the current stock of FDI, which was revealed to be a positive determinant. This can be explained by how the primary sector is chiefly concerned with the location of natural resources rather than the broader economic environment.

Secondary sector

- FDI in this sector has a much stronger relationship with macroeconomic variables.
- Current FDI stock proved a positive determinant of FDI.
- A weaker exchange rate leads to more FDI in manufacturing.
- Richer countries get a lower share of manufacturing FDI compared to poorer countries relative to GDP. This can be explained somewhat by the preference for lower labour costs in manufacturing.

Tertiary sector

- There are some relationships with macroeconomic variables, though not in the same areas.
- Current FDI stock proved a positive determinant of FDI inflows.
- The openness of the economy is a strong determinant to tertiary FDI inflows. This has no direct explanation, but could be linked to broader economic liberalisation which is generally positive for the service sector.
- A strong exchange rate is a positive determinant of FDI in the tertiary sector. This may be associated with the high profits and relative high wages which tend to exist in countries with strong exchange rates.

3.2 Qualitative variables

The paper also evaluates the role of qualitative variables in attracting FDI such as a measure of labour flexibility (based on hiring and firing costs), infrastructure quality, financial depth, judicial independence, legal system efficiency, and enrolment rates for primary, secondary, and tertiary education.

Primary sector

- Like was the case with macroeconomic variables FDI in the primary sector showed little relationship with qualitative variables.
- This is unsurprising as the acquisition of natural resources is unlikely to be related to factors such as the development of a financial system, or the quality of the legal system.

Secondary sector

- FDI in the secondary sector demonstrates a greater relationship with qualitative variables, with labour market flexibility and financial depth proving a strong positive determinant of manufacturing FDI.

Tertiary sector

- FDI in the tertiary sector is also demonstrated to have relationships with qualitative variables.
- Judicial independence has a strong effect on levels of FDI in the tertiary sector.
- Quality of infrastructure also has a strong positive impact on tertiary FDI.

3.3 Advanced v Developing economies

The paper then goes on to differentiate how factors differ between the advanced and developing economies.

3.3a Macroeconomic variables

Primary sector

- Primary sector FDI in developing or advanced economies shows little relationship with macroeconomic variables.

Secondary sector

- For secondary sector FDI the relationships with macroeconomic variables remain unchanged when the data is split to differentiate between advanced and developing economies.

Tertiary sector

- When the data is split to differentiate between advanced and developing economies we find that macroeconomic conditions have a strong effect on tertiary FDI in advanced economies.
- A strong exchange rate and a greater stock of current FDI lead to significantly more services FDI inflows amongst advanced economies, and have little effect on developing economies.

3.3b Qualitative variables

Primary sector

- As has been the case throughout this analysis, primary sector FDI shows little relation with qualitative variables, even when split by advanced and developing economies.

Secondary sector

- There are differences that emerge in qualitative variables between advanced and developing economies in the secondary sector. Labour flexibility and financial depth was shown to be a positive determinant initially, when split by economy type, it only remains important for developing economies.

Tertiary sector

- There are some observable differences in the relationship between tertiary FDI when split by advanced and developing economies.
- In advanced economies an independent judiciary leads to more FDI.

- Interestingly a more flexible labour market leads to less FDI, but only in advanced economies.
- Better infrastructure remains important for attracting tertiary FDI in both advanced and developing economies.

3.4 Overview

The IMF working paper demonstrated a number of interesting salient points which are worth considering about the determinants of FDI.

- FDI is not homogenous and can take place across different sectors of the economy.
- FDI is attracted to different characteristics of host economies depending on what sector the inflows take place in.
- Not only is FDI from different sectors attracted to different characteristics, but it also behaves differently within sectors when engaging with advanced and developing economies.

3.5 Policy Implications

Based on the results of their analysis the authors suggest maintaining prudent macroeconomic management, such as strong growth, openness and low inflation. This is especially true for FDI in services in advanced economies. Having an independent judiciary and good infrastructure are also considered positive for services FDI, therefore this is something which should be strived for by policymakers if services FDI is considered desirable. From the perspective of an advanced economy, the research offers little guidance on how to attract FDI in the secondary sector and even less so in the primary sector.

4 The role of Tax and Incentives

A report of determinants of FDI location by fDi intelligence found that regulations/business climate was cited as a motive in 20.6% of cases, while Investment Promotion Agencies (IPAs) or government support was cited in 4.8% of cases. It is important to note that multiple motivations could be potentially cited, however it does highlight tax and incentives as motivating factor for businesses[9].

A study conducted on behalf of the **World Bank** analysed the role of tax and other incentives in determining FDI.

4.1 Key findings

- Tax incentives will generally neither make up for serious deficiencies in the investment environment, nor generate the desired positive externalities.
- The importance of fundamental factors like economic conditions and political climate is underlined by the fact that most investors are often unaware of the full range of incentives when they invest.
- However when factors such as human capital or political stability are equal, then taxes and incentives may exert a significant impact.
- While tax incentives may bring significant increases in investment flows, it may have a negative impact on fiscal revenues and could create opportunities for illicit tax behaviour by multinational companies, such as profit shifting.

9 "The fDi Report" (2014)".Pg 16. fDi Intelligence.

- Much of the impact of tax policy is firm specific. Mobile firms or firms which engage in multiple markets would tend to be attracted by such tax incentives as it gives them an opportunity to exploit different tax regimes across countries[10].

4.2 Overview

The paper mentioned illustrates that FDI may respond to taxation and incentives in different ways and policy makers must guard against automatic assumptions about the relationships between lower tax, increased investment and higher tax revenues. However, it does suggest that all things remaining equal such tax and incentives can serve a role as a 'tie breaker' amongst countries with similar levels of human and physical capital.

A policy analysis conducted by the **OECD** comes to similar conclusions noting that

> *Inbound FDI is recognised as being attracted by macroeconomic stability; a supportive legal and regulatory framework; skilled labour and labour market flexibility well developed infrastructure; and business opportunities tied to market size (with profitability of the domestic market tied to the purchasing power of the population, and foreign markets reached via an extensive network of trade agreements). In other words, a number of non-tax factors are central drivers to FDI decisions. Sound tax policy establishes a basis for fiscal stability which strengthens the business climate. Additionally, in certain cases, tax may be an important factor influencing location decisions[11].*

In gathering together several different empirical studies, the results found a strong negative relationship between FDI and taxation. In broad terms a 1% increase in the tax rate was found to lead to a 3.72% change in FDI. However, this comes with a qualification that sensitivity of FDI to taxation may differ dependent on firm, industry and national conditions and may be subject to diminishing returns.

Alongside the assessment of the influence that tax plays in FDI decision making, the paper also enters a discussion around the factors which policy makers must take into account when making decisions regarding tax levels. Some key points arise out of that.

- It is not only the statutory 'headline' rate which is important when assessing the relationship between tax and FDI but the average 'effective' tax rate, which takes a view that the broader fiscal picture is the most important for investors making location decisions regarding FDI.
- While much preoccupation is given to corporate tax, other taxes such as environmental taxes are said to be "becoming much more important" by tax officials. This is explained by the tax planning powers that MNEs have at their disposal. Corporate tax is said to be already "taken care" of, in that companies have a great degree of freedom in deciding the level of tax they will pay on profits in the host country. This is due to the capacity of large firms to shift profits using complex tax avoidance and accounting measures, which allows for sales in countries with higher corporate tax to be accounted for in countries with lower rates of corporation tax, therefore creating a lower tax burden for the firm in question.
- Like other studies mentioned it notes the fundamental nature of non-tax factors.
    - Competition from low tax countries without developed infrastructure or public services is not considered a serious threat to countries with these advantages, regardless of higher taxes.
    - Large OECD countries with relatively high taxes are amongst the most successful at attracting FDI.

10 Morisset. J, and Pirnia. N,. (2000) "How Tax Policy and Incentives Affect Foreign Direct Investment". Available at http://nia1.me/29q . Accessed on 13/10/14

11 OECD (2007) "Tax Effects on Foreign Direct Investment". Available at http://nia1.me/29r Accessed on 13/10/14.

    - The study notes that of empirical studies into the relationship between FDI and tax some find a strong negative relationship, others do not, which somewhat outlines the complexity of the matter at hand.

- The study notes that governments have a responsibility to balance fairness, investor attractiveness and revenue raising in the tax system.
    - In decision making policy makers must assess the legitimacy of claims made by business interests of locating elsewhere because of more favourable tax regimes.
    - In contrast an over eagerness to attract investment could have negative impacts on revenue.
    - In terms of public opinion there may be a perceived unfairness if highly profitable MNEs are granted lower taxes and other financial incentives.

5 Clustering and Embedding

The location of an industry cluster/ critical mass was cited as a motive in 6.4% of FDI projects (119 projects) in 2013 by **fDi intelligence**[12]. This makes it a worthy factor for appraisal, particularly as the existence of a cluster is often considered to improve the quality of FDI.

A policy paper by **OECD** outlines the importance of not only attracting FDI but maximising the benefits of FDI by embedding it with regional policy. FDI can be seen as more or less advantageous in how it responds to these challenges[13].

- In terms of finance, foreign investment is often criticised for ‘financial leakage’ out of the host region through the remittance of earnings and profits back to the parent company and use of transfer pricing to reduce taxes paid in the host region.
- In terms of technology, foreign investors are accused of not making available their technology to potential users outside the firm, either directly, through linkages with indigenous firms, or indirectly via the demonstration effect. Another issue is the appropriateness of the technology transferred, with the argument put forward that multinationals do not adapt their process technology for use in developing countries to make it more appropriate to a low-skilled labour environment.
- In terms of linkages, it is often argued that there is little sourcing of materials and services locally, and so positive spin-offs for local suppliers are limited, whilst there are often few forward sales linkages or strategic collaborations in the regional economy.
- In terms of vulnerability to closure, the fact that a foreign affiliate is often a replica of another operation elsewhere within the parent group and that overseas headquarters often have a wide choice of possible locations for any investment, leads many commentators to the view that foreign operations attracted by investment incentives are relatively vulnerable to closure.

In order to improve the impacts of FDI, it is therefore important to adopt policies to improve the quality of the FDI attracted. This can be achieved through better targeting in marketing, promotion and incentive provision and making improvements in the quality of local business environment in terms of local skills, infrastructure, technology base and so on.

In giving examples of successful regional embedding of FDI the paper cites Wales where restructuring away from dependency from coal and steel has been led by FDI, with foreign firms becoming more embedded by engaging in local purchasing and tutoring local firms

12 “The fDi Report” (2014)”.Pg 16. fDi Intelligence.

13 Potter. J, (2003) “Embedding Foreign Direct Investment”. Available at http://www1.oecd.org/regional/regional-policy/2489910.pdf . Accessed on 14/10/14.

adding to a diffusion of knowledge and sharing of best practice. The paper also points to Baden-Württemberg in Germany (home to Audi, Porsche and Mercedes-Benz)[14] as another successful region where FDI has been successfully embedded.

Perhaps the most notable example of FDI having real positive externalities in a local economy is the example of Nissan in the North-East of England where "technology transfer" led to revitalising the UK automobile industry and through "demonstration effects" increased the quality of the local supply chain.[15]

As former BBC Economics editor Evan Davis notes:

> *…when Nissan opened in Sunderland it didn't just create one factory's worth of new jobs in the north-east of England, it revamped the supply chains. It shook the UK parts makers out of their low standards and, in doing so, gave the entire British motor industry a future[16].*

5.1 Policy Implications

In order to maximise the effects of FDI it is important that after the initial attraction of FDI there is subsequent after care, which links local firms with new entrants. Knowledge transfer to domestic actors can help build endogenous growth, which in turn can help reduce long-term reliance on incentives to attract FDI.

Academic research published in the **Cambridge Journal of Economics** looked closely at the relationship between FDI and clusters. Its econometric analysis makes several interesting conclusions[17].

- Firms in clusters gain significant spill over benefits from FDI in their region.
- Such advantages are not experienced by non-cluster firms which merely suffer 'crowding out' without the off-setting benefits of FDI.
- Technology transfer, alongside new management techniques can lead to higher productivity within domestic firms within a cluster.
- Both private and social benefit from FDI is greatest when MNEs enter pre-existing clusters. This is explained by foreign to domestic spill overs and technology sourcing.
- This paper suggests that FDI generated clusters can be fragile given that MNEs have the capacity to relocate.

5.2 Overview

Given these points it is suggested that basing a region's competitiveness on international capital is unwise. Rather in order to attract and maximise the potential of FDI the authors argue that regions should support and encourage endogenous cluster development through encouraging cooperation between local firms and developing new SMEs. If a region becomes a centre of accumulated knowledge it will soon become an attractive locality for MNE investment, rather than being attractive through lower cost factors. These steps have the potential to increase the quantity and quality of FDI. The authors suggest a strategy of developing local clusters in order to attract FDI, rather than trying to create FDI based clusters from an originally weak position.

14 "The Automotive Cluster in Baden- Württemberg" (2004). Available at http://nia1.me/29s . Accessed on 28/10/14.

15 Griffith, A.Wall. S, (2012) "Applied Economics", Pearson, London.

16 "Davis, E. (2011). "Made in Britain", Little Brown, London.

17 De Propris, L. and Driffield, N. (2005). "The Importance of Clusters for Spill overs from Foreign Direct Investment and Technology Sourcing", Cambridge Journal of Economics. Available at http://nia1.me/29c .Accessed on 14/10/14.

6 Market Size

Another potential factor determining FDI location is access to larger markets.

The importance of this determinant is exemplified by research carried out by **fDi intelligence** which states that of FDI projects in 2013, "domestic market growth potential" was cited as a motive in 45.4% of projects, while "proximity to markets or customers" was cited as a motive in 33% of projects. It is worth noting that multiple motives can be cited for individual projects, so there may be crossover between these two figures, nevertheless the report characterises FDI in 2013 as "primarily market seeking[18].".

The importance of market size is identified as a determinant in a policy paper commissioned by the World Bank, which states;

> *OECD countries are more likely to invest in countries whose market size is big, are closer in terms of bilateral distance, and with which they share a colonial and linguistic heritage".*
>
> *The same paper notes that "Obviously BRIC (Brazil, Russia, India, and China) offers conspicuous advantages like market size to investors[19].*

Market size is therefore broadly considered an important determinant of FDI.

A review conducted on behalf of the UK Government into the UK's suitability for FDI finds that;

> *Larger, fast growing markets are associated with higher FDI inflows. The literature generally captures these market characteristics by using GDP, GDP per capita, GDP growth, or (at sectoral or firm level) market size measured in terms of industry output. The initial and potential future demand conditions in a market act as a signal to inward investors on the attractiveness of a location. Furthermore, it allows investors to locate where they can take advantage of scale economies. The UK market size, and industry growth performance compares well with its other advanced countries signalling significant potential for inward investors[20].*

It is worth considering the attractiveness to FDI of Northern Ireland's position within the United Kingdom, the world's 6th largest economy, and subsequently the UK's membership of the European Union, the world's largest trading bloc.

An UK Government publication assesses the role that EU membership has contributed to UK successes at attracting FDI[21]. The key findings of which are:

- The UK has seen substantial growth in both inward and outward FDI since accession to the EU, although determining how far the EU was responsible for this is complicated by other factors – in particular the global surge in FDI at the same time. However, the stylised facts support the theory that membership of the EU is a key factor in attracting investment to the UK, and demonstrates the importance of this investment for the UK.
- EU membership has contributed to FDI growth in the UK by reducing access costs to a larger market, enabling greater economies of scale and returns on investment, increasing competition and facilitating agglomeration.
- The UK has been a major beneficiary of FDI flows in the EU, but integration has also enabled growth in outward FDI to EU countries, and increasing returns on this investment.

18 "The fDi Report" (2014)".Pg 16. fDi Intelligence.

19 Wagle, S. (2011). "Investing across Borders with Heterogeneous Firms. Do FDI- specific Regulations Matter?" Policy Research Working Paper, The World Bank.

20 Driffield, N. et al (2013). "How attractive is the UK for future manufacturing foreign direct investment?" .Government Office for Science. Available at http://nia1.me/299 . Accessed on 23/10/14.

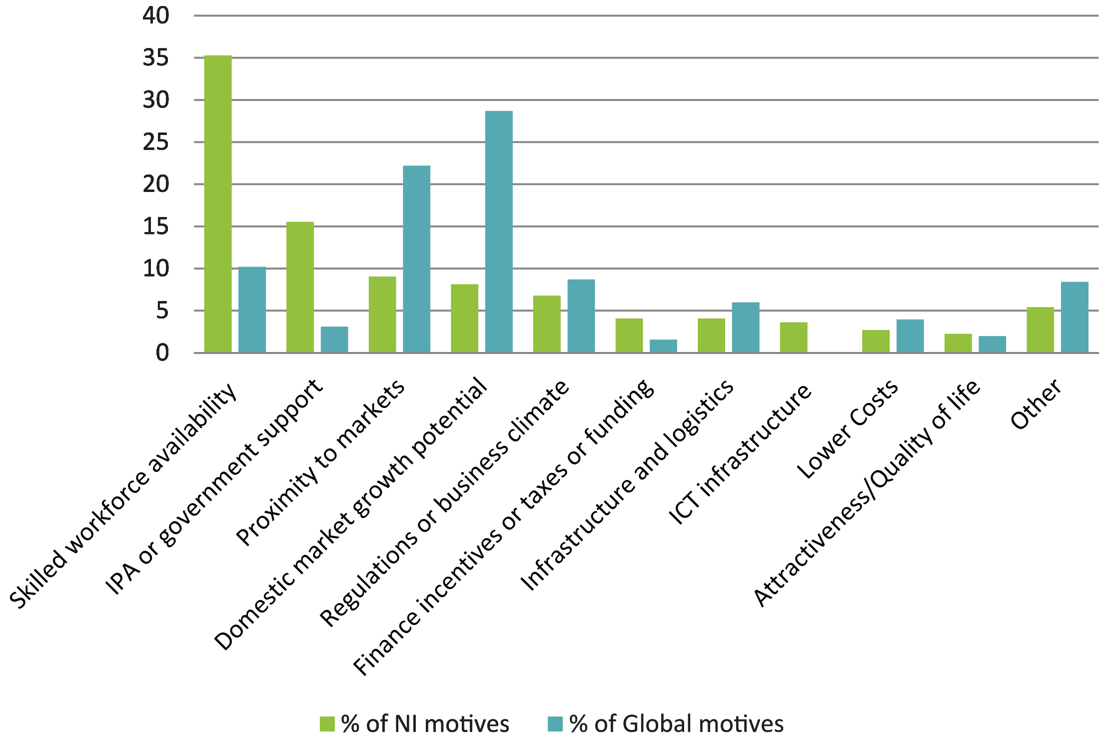
21 "EU membership and FDI". UK Government. Available at http://nia1.me/29a .Accessed on 23/10/14.

- Important potential future FDI gains are possible from further integration, particularly following successful liberalisation of services industries. The long-term FDI cost of withdrawal would be significant.

7 Variation between Northern Ireland and Global Determinants

So far, this paper has evaluated factors which are important for FDI globally. This section evaluates the differences that exist between the motivations for FDI globally and in the specific case of Northern Ireland.

Figure 1: Motives of FDI in NI v Motives of FDI Globally[22]



The above chart extracted from data provided by **fDi Intelligence** at the Northern Ireland Economic Conference 2014 contrasts motivations cited by firms engaging in FDI globally with those cited by firms engaging in FDI in Northern Ireland.

There are notable factors which are cited much more extensively in the Northern Ireland example in comparison to the global study. The existence of an Investment Promotion Agency (IPA) of which Invest NI is a prime example, and/or government support is cited 5 times more in the Northern Ireland case. This can be viewed positively in terms of the performance of Invest NI in contributing to bringing inward investment into Northern Ireland. Also, firms engaging in FDI in Northern Ireland cited the importance of "skilled workforce availability" more than three times as much compared to the global study. This again is something which can be viewed as a positive endorsement of skill levels amongst the local workforce, though this matter as well as other factors will be addressed in more depth in further research.

There are other areas where motivations feature much less in the Northern Ireland study compared to the global study. The motive categorised as "domestic market growth potential" is cited more than three times more in the global study. This is somewhat unsurprising given

22 Figure 1. Created with data from Barklie, G (2014). "Why are firms establishing a presence in NI?" fDi Markets.

the small population of Northern Ireland (1.8 million) and the fact that it contributes only 2% of UK Gross Value Added (GVA) compared to the global study which considers FDI in some of the world's largest emerging economies such as the BRIC countries (Brazil, Russia, India, China) where market size is a key selling point to inward investment. "Proximity to markets" is another factor which was cited considerably more in the global study than in the Northern Ireland case. This figure is somewhat surprising given Northern Ireland's position within the UK which brings with it, as outlined above, membership of the European Union and also the Northern Ireland specific advantage of sharing a land border with the Republic of Ireland, which can be advantageous for investors.

We can view similarities on a number of the determinants such as "regulations or business climate" showing roughly equal import both globally and in the specific Northern Ireland case. This is also the case for "infrastructure and logistics" and with regards "attractiveness/ quality of life". In regards to these factors Northern Ireland is in line with the global trends in motivations for investment.

Interestingly "lower costs" is only cited as a motivation in a small percentage of FDI projects in both the global and Northern Ireland specific study. This is somewhat counter intuitive, as earlier in the paper I indicated the cost-orientated, efficiency seeking motivations which often drive some firms to engage in inward investment. Therefore it is surprising that "lower costs" isn't more highly cited as a motive, especially as competitive costs on wages and property is an advantage of investing in Northern Ireland stressed by Invest NI[23]. Glenn Barklie of **fDi intelligence**, the organisation behind the survey, accounted for these results at the Northern Ireland Economic Conference 2014[24] by explaining that firms often stress positive aspects, such as skill levels, when outlining why they have located in a particular country, rather than citing cheaper inputs into the production cycle, such as comparatively cheap labour or low prices of land. Motivations categorised as "finance incentives or taxes or funding" also score very low in both studies, though in the Northern Ireland case it scores slightly higher, this perhaps is a result of incentives granted by Invest NI. This category may be subject to the same understatement as the "lower costs" category, though this is ultimately speculation.

Table 1: Motivations of FDI globally compared with NI[25]

	% of NI motives	% of Global motives
Skilled workforce availability	35.29	10.21
IPA of government support	15.55	3.11
Proximity to market	9.05	22.22
Domestic market growth potential	8.14	28.71
Regulations or business climate	6.79	8.71
Finance incentives of taxes or funding	4.07	1.58
Infrastructure and logistics	4.07	5.99
ICT Infrastructure	3.62	-
Lower costs	2.71	3.97
Attractiveness/Quality of life	2.26	2
Other	5.43	8.43

23 Written Evidence from Invest NI. Corporation Tax in Northern Ireland- Northern Ireland Affairs Select Committee. Available at http://nia1.me/2al. Accessed on 12/11/14.

24 Barklie, G. (2014). Talk on "Examining the importance of economic drivers- foreign direct investment". Delivered on 07/10/14.

25 Detailed Figures from fDi Intelligence. (2014) "Why are firms establishing a presence in Northern Ireland?"

8 Conclusion

Overall this Briefing Paper has examined a range of literature on the determinants of FDI. FDI is highly diverse and as Section Two demonstrated can be attracted by different factors dependent on whether it takes place in the primary, secondary or tertiary sectors. It was also revealed that FDI in the same sector is attracted to different aspects dependent on whether an economy is advanced or developing. Section Three examined the role of tax and incentives in attracting FDI, it stressed the importance of the tax burden as a whole, particularly the effective tax rate, rather than the statutory 'headline' rate and also noted the fundamental nature of non-tax factors such as infrastructure and public services over low taxes. However it was noted that tax and incentives could become more important in situations when non-tax factors were roughly equal. Section Four discussed not only how the location of an industry cluster can attract FDI, but also how clusters can actually amplify the benefits which FDI can bring to the host economy. Section Five entered a brief discussion of the role that market size plays in determining FDI, whilst also noting the benefits which the UK has received regarding FDI from membership of the EU. Section Six outlined the differences between the factors that motivate FDI in Northern Ireland and how these differ in importance compared to factors which typically motivate FDI globally.

The table below summarises the different factors identified throughout this Briefing Paper which are attractive to FDI. Column one shows the factors which are positive for FDI generally, although as has been noted Northern Ireland's general factors are different from the typical motivations for FDI globally. Column two illustrates factors which are attractive for FDI and aligns them with the specific sector in which they are most favoured. Column three outlines factors which can play important deciding roles in FDI location, particularly in cases were all other factors are roughly equal.

Table 2: Factors identified which are attractive for FDI

1 Generic Factors →	**2 Sector Specific** →	**3 Deal Breakers/ Other Desirables** →
Global • Access to markets • Business climate	**Extraction Industries:** • Natural resources	• Tax levels
	Low Value Added Manufacturing: • Low labour costs • Labour market flexibility	• Government incentives
Northern Ireland • Skilled workforce availability	**High Value Added Manufacturing:** • Specific local skills base • Existence of an industry specific cluster	• Investment Promotion Agency support
	Service Industries: • Infrastructure • Low barriers to market entry	• Quality of Life

Northern Ireland Assembly

Research and Information Service
Briefing Paper

15 January 2015 NIAR 20-15

Aidan Stennett & Daniel Donnelly

FDI determinants in European regions

1 Introduction

The following paper explores Foreign Direct Investment in a number of European regions, specifically

- Nordrhein-Westfalen;
- Scotland;
- Greater Stockholm;
- The Amsterdam Region;
- Copenhagen Capital Region; and
- Greater Zurich Area.

These regions have been selected due to their performance and placing in the FDI Intelligence European Cities and Regions of the Future Report 2014/2015. All regions appear in the report's top ten European regions and perform well in their specific categories: large; mid-sized; and small region. Two regions from each category are examined.

The paper provides an overview of the FDI proposition in each region, examining factors such as business climate, taxation, investment promotion, key sectors, connectivity and research intensity.

The report concludes by highlighting key points of commonality between the regions examined.

2 Large regions

2.1 Nordrhein-Westfalen

Brief

Country: Germany

Political Status: Federal State

Population: 17.5 million (source: NRW Invest)

GDP: €599.8bn (2012, source: NRW Invest)

Key industries: Chemical, Mechanical, Biotechnology.

2.1a Why Nordrhein-Westfalen?

The Nordrhein-Westfalen (NRW) region was placed 1st overall in FDI Intelligence's European Cities and Regions of the Future Report 2014/2015. It also placed 1st in the category of large European regions. This study took into consideration numerous different economic criteria namely, infrastructure, cost effectiveness, human capital and lifestyle, business friendliness, economic potential and FDI strategy. The NRW region placed 5th in Infrastructure, 2nd in Human Capital/Lifestyle, 2nd in Economic Potential, 3rd in Business Friendliness and 2nd in FDI strategy.[1]

2.1b Nordrhein-Westfalen's FDI Proposition

Key elements of the NRW FDI proposition include the region's logistics and infrastructure, business support network (including incentives and its promotion agency), its research intensity, international outlook and already existing industries.

Logistics and infrastructure: The location of NRW in North-West Germany, bordering the Netherlands and Belgium puts out at the heart of the European Market. These logistical advantages are aided by the fact that it has well developed transport infrastructure, including two major international airports, Dusseldorf and Cologne and a further four with European connections. Furthermore, it has a well-developed road and rail network with 6,000 km of railways, 720 km and 2,200 km of high-speed road networks. The state location on the Rhine is of significance as it links NRW to major seaport of Rotterdam. Each year 124 million tons of goods are handled at a total of 120 public or private ports, this includes the Port of Duisburg, the world's largest inland port.

Corporation Tax: Federal corporate tax in Germany is 15%, however a further trade tax is administered at regional level which is typically another 15%.[2] The investment promotion agency for NRW state that the overall tax burden for a joint-stock company (corporation) is 29.8%.[3]

Incentives: NRW benefits from incentives offered by the German Federal government. Germany offers numerous incentives to all investors, regardless of whether they are from Germany or not. There are a number of incentives programs available which can be grouped into two overall packages: the investment incentives package which includes different

1 FDI Intelligence, European Cities and Regions of the Future (2014) (accessed 18 December 2014) http://www.fdiintelligence.com/Locations/Europe/European-Cities-and-Regions-of-the-Future-2014-15.

2 NRW Anglo Info, Trade Tax (accessed 16 December 2014)http://nrw.angloinfo.com/information/money/business-taxes/trade-tax/

3 NRW Invest, 10 Good Reasons for your Investment Decision (accessed 16 December 2014) http://www.nrwinvest.com/NRW_at_a_glance/Good_reasons_for_NRW/index.php

measures and programs to reimburse investment costs; and the operational incentives package containing programs to subsidise costs once the location-based investment has been realised.

Importantly foreign investors are subject to exactly the same conditions available to German investors. Eligibility for such schemes is determined by company size, industry category and type of investment. In most cases incentives are more likely to be granted to SMEs, and in some cases, particularly in relation to R&D, SMEs are specifically targeted.

The German Federal Government incentivises high tech R&D through €5 billion worth of grants, awarding of such grants generally requires collaboration between enterprise and research institutions. Furthermore, public loans are available for foreign investors, with below market value interest rates and generous periods of grace. These are available on the same terms to foreign and German investors.

The investment incentives package consists of:

- Cash incentive programs;
- Public loan programs; and
- Public guarantee programs.

The operational incentives package consists of:

- Labour-related programs;
- Incentive programs; and
- R&D incentive programs.

On top of these federal incentives for innovation, there are also incentives at the regional level with the Regional Economic Development Program NRW. The aim of the program is to secure jobs and investment in structurally weak regions within the state. The awarded grant can be up to 25% of the amount invested, there are extra incentives linked to the securing of jobs. The grants are available for both foreign and domestic firms, provided they meet the characteristics of being an SME.[4]

Research Intensive: NRW has 41 technology centres and more than 40 non-university research facilities form the densest research network in Europe and provide ideal conditions for technology transfer.

It also has 72 universities and technical colleges with more than 686,600 students. Six of the ten largest universities in Germany are located here. Approximately, 76,600 foreign students study at institutes of higher education in North Rhine-Westphalia.

Internationalism: NRW accounts for 27.5% of all foreign investments into Germany, making it the number one investment location. Approximately 15,000 foreign firms operate in NRW, including Ford, Toyota and Vodafone. Foreign firms employ over 760,000 in the state.[5]

Eichener points out that historically NRW benefited from creating a Japanese cultural cluster around Dusseldorf, the state capital, including Japanese schools, restaurants and cultural events and a Japanese Chamber of Commerce. These lifestyle factors make Dusseldorf an attractive proposition for Japanese investors. With 420 Japanese companies based there, of a total of 500 in the NRW, at the time of writing. This is aided further by NRW invest having an

4 NRW Invest, NRW Investment Guide (accessed 08 January 2015) http://www.nrwinvest.com/Publications/Investment_Guide_to_North_Rhine-Westphalia_.pdf

5 *Ibid*

Economic Development Agency in Tokyo. This identifies the importance of cultural factors in decision making.[6]

According to NRW Investment guide there are 19 foreign and six international schools in the state today, this contributes to the feel of region being a global centre.[7]

Investment Promotion Agency: NRW benefits from an active state owned investment promotion agency, which has existed since 1960. This facilitates foreign investments, by offering suitable commercial and industrial sites, advising investors on issues, such as tax and legal and offering assistance with spin offs and start-ups. It also promotes the state globally, with branches in China, India, Korea, Russia, Turkey and the United States.[8]

As outlined below the state government puts considerable time and resource into cluster management in its key industries, facilitating collaborative relationships and promoting the successes such as in automotive, biotech, chemicals, mechanical engineering and nanotechnology.

Eichener notes the evolution in tactics of NRW in trying to attract foreign investment. Initially incentives were delivered from state level and applied broadly, meaning that often firms received financial incentive, when they did not warrant or require them. However this then evolved to incentives being distributed in the smaller regions, closer to the coalface of economic activity. Consensus between previously competing stakeholders such as chambers of commerce and trade unions was also incentivised, and paved the way for the creation of technology centres, which created mutual economic benefit for stakeholders.[9]

Key Industries in the NRW region include:

- **Chemicals:** NRW has successfully built a cluster around chemical industries. NRW is the number one location for chemical industry in Germany and 4th worldwide. The chemical industry employs 120,000 in 400 companies in the state and makes €65 billion of sales. NRW's credentials for chemical industry have been promoted through the use of the Chemsite Initiative which aims *'to intensify company networking as well as cooperation with research and technology facilities along the value chain. This should serve to improve the competitiveness of companies along with the region and its innovativeness*'. It serves as a public-private partnership which markets the Ruhr (a region within NRW) as a chemical region, providing access to training and qualifications for employees , forms innovative networks between companies, enterprise and science.[10]
- **Biotech:** Similarly the biotech sector is also strong , with 3,400 employed, more than any other German state. 42% of German biotech sales originate in NRW and it also achieved the most venture captial of any other German state €80 million. The strength of NRW in biotech is illustrated by the fact that it occupies 9th place worldwide and 1st place in Europe in terms of biotech patent applications. Core biotech companies such as international actors like QIAGEN, as well as other growing dynamic companies, help distinguish NRW as an investment location.[11]

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6 Eichener, V. (2002) Regional Industrial Policy and Foreign Direct Investment in Nordrhein-Westfalen http://klibredb.lib.kanagawa-u.ac.jp/dspace/bitstream/10487/3191/1/kana-5-17-0005.pdf

7 NRW Invest, NRW Investment Guide (accessed 08 January 2015) http://www.nrwinvest.com/Publications/Investment_Guide_to_North_Rhine-Westphalia_.pdf

8 NRW Invest, About Us (accessed 18 December 2014) http://www.nrwinvest.com/About_us/index.php

9 Eichener, V. (2002) Regional Industrial Policy and Foreign Direct Investment in Nordrhein-Westfalen http://klibredb.lib.kanagawa-u.ac.jp/dspace/bitstream/10487/3191/1/kana-5-17-0005.pdf

10 ChemSite, NRW-Location for the Chemical Industry (accessed 06 January 2015) http://www.chemsite.de/chemsite-en/region/chemieland-nrw.php

11 NRW Invest, RW Investment Guide (accessed 13 January 2015) http://www.nrwinvest.com/Publications/Investment_Guide_to_North_Rhine-Westphalia_.pdf

Again the state government engages in cluster promotion and management, through the use of the state agency BIO.NRW. One of the central tasks of BIO.NRW is to initiate and promote scientific and academic contacts and corporate efforts within North Rhine-Westphalia. Another goal is to connect local key actors in biotechnology with regional and national networks, committees and international partners. The biotechnology cluster catalyzes networking by means of its membership in close cooperation with regional, national and international networks, commitees and associations.[12]

- **Mechanical Engineering:** The biggest industrial employer in NRW is mechanical engineering with more than 197,000 employees (21.1% share of German total)[13]. There are 1,487 companies located in NRW and mechanical engineering sector, and are responsible for €48 billion of sales.[14] A dense network of universities with institutes geared to production enables the industry to be strengthened by necessary scientific support.[15]

Making NRW a stronger and more competent location for science and research is one of the main political priorities of state government. Therefore, NRW implements a comprehensive offensive for knowledge and technology transfer in order to efficiently link its science and industry sectors.[16]

2.2 Scotland

Brief

Country: United Kingdom

Political Status: Devolved Regional Parliament

Population: 5.3 million (source: ONS)

GDP: £130bn onshore activity, £148bn with offshore activity included (2012, source: Scottish Government)

Key industries: Oil and Gas, Creative Industries

2.2a Why Scotland?

Scotland was placed 2nd overall in fDi Intelligence's "European Cities and Regions of the Future" 2014/2015. Scotland also finished 2nd in the "large regions" category. This study took into consideration numerous different economic criteria namely, infrastructure, cost effectiveness, human capital and lifestyle, business friendliness, economic potential and FDI strategy. Scotland placed 9th in the economic potential category, 5th in human capital and lifestyle, 4th in terms of business friendliness and 1st in FDI strategy.[17] This makes it a case study worthy of evaluation for lessons learned for Northern Ireland.

According to an "attractiveness survey" by global professional services firm EY, Scotland is the second most popular regional destination for FDI in the UK, behind London. In 2013

12 BIONRW, Bio.NRW-About us (accessed 06 January 2015) http://www.bio.nrw.de/en/about_us

13 EU Regional Innovation Monitor, NRW Socio-economic Profile (accessed 07 January 2015) http://ec.europa.eu/enterprise/policies/innovation/policy/regional-innovation/monitor/base-profile/northrhine-westphalia

14 Invest NRW, Mechanical Engineering in NRW (accessed 14 January 2015) http://www.nrwinvest.com/Important_Industries/Mechanical_Engineering/index.php

15 NRW Invest, NRW Investment Guide (accessed 13 January 2015) http://www.nrwinvest.com/Publications/Investment_Guide_to_North_Rhine-Westphalia_.pdf

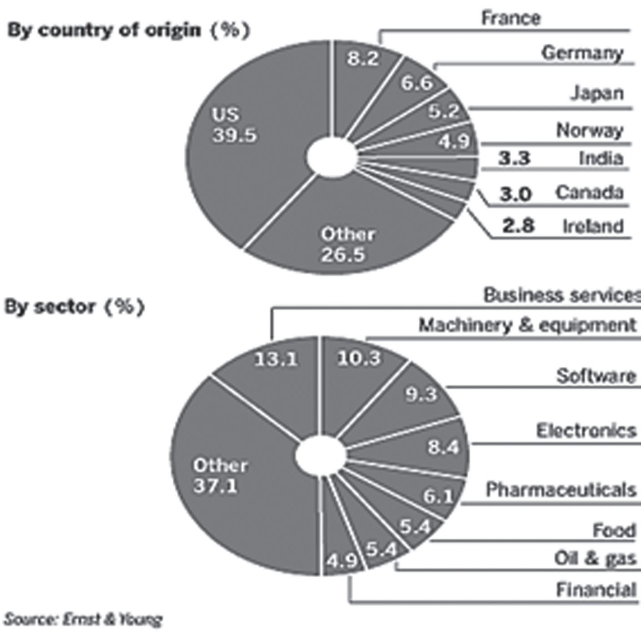
16 EU Regional Innovation Monitor Plus , NRW Policy Trends Profile (accessed 15 January 2015) http://ec.europa.eu/enterprise/policies/innovation/policy/regional-innovation/monitor/base-profile/northrhine-westphalia

17 FDI Intelligence, European Cities and Regions of the Future (accessed 18 December 2014) http://www.fdiintelligence.com/Locations/Europe/European-Cities-and-Regions-of-the-Future-2014-15

Scotland attracted 82 global FDI projects, an 8% increase on the previous year. This has been particularly helped by software projects from the US. Glasgow and Edinburgh account for 38% of projects into Scotland from 2004-2013. Scotland performed much more favourably in terms of R&D projects than the overall UK figure.[18]

Financial Times state that *'Scotland has courted foreign direct investment (FDI) assiduously and successfully since 1945. As a result, foreign multinationals account for about 30 per cent of the employment and half the turnover generated by Scotland's large companies, according to data in the paper. They are also responsible for about 65 per cent of all research and development spending'.*

Figure 1: Scotland's FDI Projects (2004-13)[19]



2.2a Scotland's FDI proposition

Investment Promotion Agency: Scotland's success at attracting FDI can be attributed in part to the work of the investment promotion agency, Scottish Development International. The Economist magazine notes the effectiveness of its operations. Its success is not necessarily to do with subsidies as these are capped at uniform levels throughout Great Britain by EU state-aid rules, but rather with investment into such things as 27 overseas offices which scout for business.

> *Scotland is simply better at co-ordinating different arms of local and central government to deliver what inward investors want—roads for new factories, planning permissions, training packages for workforces and the like. A Scottish government minister cracks the whip at any laggards.*[20]

Scottish Development International devote a lot of time to looking after investors once they are up and running, offering help with local recruitment or supply chain problems. The agency's senior executives occasionally visit overseas headquarters to check chief executives are happy. Chief Executive of Scottish Development International, Anne MacColl says almost

18 EY, 2014 Scotland Attractiveness survey (accessed 06 January 2015) http://www.ey.com/UK/en/Issues/Business-environment/2014-Scotland-attractiveness-survey

19 *Ibid*

20 The Economist, Catching the Scots-Why England trails the Celtic fringe (2013) (accessed 07 January 2015) http://www.economist.com/news/britain/21584358-why-england-trails-celtic-fringe-catching-scots

half of the 76 projects brought in 2012 came from existing investors in Scotland.[21] This demonstrates the contribution that an active investment promotion agency can make

Higher Education: According to the ONS Scotland has the third highest concentration of graduates of any region in the UK (41%), behind only Inner London (60%) and Outer London (45%)[22]. The concentration of high level universities in Scotland is a major contributor to its success at attracting FDI.

According to the European Commission's Regional Innovation Monitor:

> *Scotland's strong academic base is evidenced by the size and international standing of Scottish higher education institutions, with three (Edinburgh, Glasgow and St Andrews) among the world's top 150 universities. Directly employing some 38,455 full-time equivalent staff and teaching some 231,000 students, Scottish universities had a total turnover of £2.84bn (€3.37bn) in 2011/12. Scotland has the highest ratio of cited research papers to GDP in the world and the impact of Scottish research is ranked second in the world. Scottish universities attract around 40,000 international students in each course. In 2011-12 there were 281,630 students in higher education in Scotland, and the number of new entrants was 132,365, which represents one of the largest student bodies in the OECD economies.*[23]

Resource Based FDI: Scotland previously had experienced the footloose nature of multinational activity, over the collapse of the so called "Silicon Glen" of electronics production, when multinationals that had initially set up in towns in Scotland's Central Belt moved facilities to other lower cost locations, such as the Far East.[24]

In recent years there has been a shift towards "natural resource-seeking" investment, which taps the country's natural and geographic advantages. Activity based around these resources is less likely to be subject to footloose multinational activity, provided that the resources are plentiful. As an economist from Glasgow University notes *'you can't make Scotch whisky anywhere else; you can't dig oil out of the North Sea anywhere except Norway or Scotland'*.[25] On the basis of these points Scotland's position as a successful FDI region is perhaps more sustainable than it was previously, although much depends on the extent of the longevity of Scotland's oil and gas resources.

Currently the oil and gas industry employs more than 220,000 people in Scotland, accounts for 13.2% of Scottish GDP, with foreign firms such as Exxon Mobil, Chevron, Apache and Dana Petroleum heavily involved in oil and gas production in Scotland. The average salary within the oil and gas sector stands at £73,000, almost £50,000 more than the average Scottish salary. The spending power that this provides employees boosts the wider Scottish economy.[26]

Key Industry – Creative Industries: On top of this resource based industry Scotland also performs well in Creative Industries. In 2011 the GVA of the Creative Industries sector was £2.8 billion, larger than life sciences. The industry employed 65,200 people in 2012 2.69% of all people employed in Scotland.[27]

21 *Ibid*

22 ONS, Full Report-Graduates in the UK Labour Market (2013) (accessed 07 January 2015) http://www.ons.gov.uk/ons/dcp171776_337841.pdf

23 EU Regional Innovation Monitor, Research Development and Innovation (accessed 07 January 2105) http://ec.europa.eu/enterprise/policies/innovation/policy/regional-innovation/monitor/base-profile/scotland

24 The Scotsman, Silicon Glen: The Miracle That Just Melted Away (2007) (accessed 13 January 2015) http://www.scotsman.com/news/scotland/top-stories/silicon-glen-the-miracle-that-just-melted-away-1-698782

25 Financial Times. Foreign Investors Key to helping Scotland sink or swim (2014) (accessed 06 January 2015) Available at http://www.ft.com/cms/s/2/80a37b6c-18be-11e4-933e-00144feabdc0.html#axzz3O3MnudqN

26 Liddell, G. SPICe (2014) Financial Scrutiny Unit Briefing- Scottish North Sea Oil and Gas Industry (accessed 13 January 2015) http://www.scottish.parliament.uk/ResearchBriefingsAndFactsheets/S4/SB_14-28.pdf

27 Creative Scotland, Creative Industries-Data (accessed 07 January 2015) http://www.creativescotland.com/__data/assets/pdf_file/0018/26811/Creative-Industries.pdf

The public body Creative Scotland has a role supporting the industry in distributing funds and facilitating new projects, from both domestic and foreign investors. It allocated £4 million in 2013/14 to for the purposes of *'development, production and exploitation of feature films, feature documentaries and network television series, attendance at key markets and festivals and a number of film and television talent development initiatives*'.[28]

Film and TV: Scottish Development International is active in the promotion of Scotland as a setting for film and TV. Notable high grossing Hollywood movies have recently been shot in Scotland, Cloud Atlas and World War Z were both shot in Glasgow, while Prometheus was shot in the Isle of Skye.

Scotland utilises its potential in film and TV with low production costs coupled with very different geographical settings with lochs, glens and major cites all within a relatively close proximity.[29]

Gaming: In the area of gaming an effective cluster has developed around Dundee, this is a result in links between universities and the industry in creating a high concentration of gaming engineers.[30] Abertay University offer a number of computer game related courses and the University now enjoys a symbiotic relationship with the gaming industry. This has contributed to Dundee becoming a *'notable cluster for the world video games industry'*.[31]

Incentives for Creative Industries: Scottish Development International actively promotes the tax relief available for creative industries. This is a result of UK wide incentives offered by HMRC offering tax relief for different projects including film, animation, high-end television and video games. Corporation tax relief is in relation to corporation tax which could allow for a larger tax deduction, or in some circumstances a payable tax credit if a loss is made. The production must meet certain stipulations particularly regarding how much of production takes place in the United Kingdom. In the case of films, the film must also pass a "culture test" by the British Film Institute.[32] It is evident that Scottish Development International has utilised the opportunity of such UK tax incentives and promotes them effectively.

Other Incentives: Tax Incentives are also available in other areas. To encourage innovation and entrepreneurship in Scotland, commercialisation of a UK or EU patent in Scotland will result in paying a lower rate of Corporation Tax of 10% until 2017. Furthermore Scottish Development International also provides grants to support salary or capital costs in selective cases.

Scotland also avails of UK tax credits which incentivise Research and Development, these allow for companies to deduct 225% of qualifying expenditure on R and D activities when calculating profit for tax purposes.[33] Such UK incentives strengthen Scotland's position to attract international entrepreneurs' intent on innovation and job creation.

28 Creative Scotland, Funding (access 08 January 2015) http://www.creativescotland.com/funding

29 Scottish Development International, Film and Television (accessed 08 January 2015) http://www.sdi.co.uk/invest/sectors/creative-industries/film-and-tv

30 Scottish Development International, Games (accessed 08 January 2015) http://www.sdi.co.uk/invest/sectors/creative-industries/games

31 BBC News, How Dundee Became a Computer Games Centre (2014) (accessed 13 January 2015) http://www.bbc.co.uk/news/business-29122873.

32 HMRC, Corporation Tax: Creative Industry Tax Reliefs (accessed 08 January 2015) https://www.gov.uk/corporation-tax-creative-industry-tax-reliefs

33 Business Scotland, R&D Tax Credits and Allowances (accessed 08 January 2015) http://business.scotland.gov.uk/view/funding/rd-tax-credits-and-allowances#funding-overview

3 Mid-sized regions

3.1 Greater Stockholm

Brief

Country: Sweden

Political Status: Voluntary Local Government Association

Population: 3.5 million (source: Invest Stockholm)

GDP: €135bn (source: Invest Stockholm)

Key industries: Oil and Gas, Creative Industries

3.1a Why Greater Stockholm?

The Greater Stockholm region was placed 1st in FDI Intelligence's "European Cities and Regions of the Future" Report 2014/2015 in the category of Mid European Regions. The Greater Stockholm region also placed 3rd overall in the league table of "European Regions of the Future". This study took into consideration numerous different economic criteria namely, infrastructure, cost effectiveness, human capital and lifestyle, business friendliness, economic potential and FDI strategy. In the category of mid-sized region Greater Stockholm placed 1st in economic potential, 1st in human capital/lifestyle, 10th in terms of infrastructure, 3rd in terms of business friendliness and 2nd in terms of FDI strategy.[34] This demonstrates its strength in a number of areas and makes it a worthy case for assessment for potential for lessons learned in Northern Ireland.

At national level Sweden has also performed well in the World Economic Forum's Global Competiveness Survey, finishing 10th overall, 3rd in technological readiness, 7th in innovation, and 8th in business sophistication. It is placed in global top 20 on a number of other areas key for investors such as higher education and training, public institutions and macroeconomic environment.[35]

3.1b Stockholm's FDI Proposition

Key aspects of Stockholm's FDI proposition include taxation, incentives, its investment promotion agency, quality of life, existing industry sectors, and R&D and innovation performance.

Corporation Tax: Sweden offers an attractive offering in terms of corporation tax at 22%, which is below the European average.[36]

According to the US State Department investment guide:

The effective rate can be even lower as companies have the option of making deductible annual appropriations to a tax allocation reserve of up to 25 percent of their pre-tax profit for the year. Companies can make pre-tax allocations to un-taxed reserves, which are subject to tax only when utilized. Certain amounts of untaxed reserves may be used to cover losses.

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34 DI Intelligence, European Cities and Regions of the Future (2014) (accessed 08 January 2015) http://www.fdiintelligence.com/Locations/Europe/European-Cities-and-Regions-of-the-Future-2014-15

35 World Economic Forum, Global Competiveness Survey, Sweden- Economic Profile (accessed 08 January 2015) http://reports.weforum.org/global-competitiveness-report-2014-2015/economies/#economy=SWE

36 UK Trade and Industry, Guidance on Investing in Sweden (accessed 12 January 2015) https://www.gov.uk/government/publications/exporting-to-sweden/exporting-to-sweden–2

Due to tax exemptions on capital gains and dividends, as well as other competitive tax rules, such as low effective corporate tax rates, deductible interest costs for tax purposes, no thin-capitalization rules, no withholding tax on interest, no stamp duty or capital duties on share capital, and an extensive double tax treaty network, Sweden is among Europe's most favourable jurisdictions for holding companies[37].

Stockholm is advantaged by Sweden's competitive corporate tax arrangements, and is the number one location for Scandinavian headquarters with half of multinationals operating in Scandinavia locating there, making it Scandinavia's number one choice for regional headquarters.[38]

Tax Relief for Key Foreign Employees: Sweden offers special income tax relief to encourage highly skilled people, such as international executives, experts, researchers and others with special skills, to work in Sweden. The tax relief scheme makes it easier for foreign-owned and domestic companies to attract experts and other key people from abroad to work in Sweden. The tax relief is motivated by the fact that foreign experts and others who live in Sweden for short periods cannot gain full advantage from Sweden's social welfare and pension system.

Between 2001 and 2011 around 3,700 foreign experts were granted tax relief. Those that qualify should be key foreign employees in vital positions. Those that do qualify will only be taxed on 75% of their income for the first three years that they are in Sweden.[39]

Incentives: The Swedish government offers certain incentives to set up a business in various targeted depressed areas. Loans are available on favourable terms from the Swedish Agency for Economic and Regional Growth and from regional development funds. A range of regional support programs, including location and employment grants, low rent industrial parks, and economic free zones are also available. Regional development support is concentrated in the lightly populated northern two-thirds of the country. There are also several European funds that offer subsidies for starting enterprises and a range of incentives to research and development programs provided by the Swedish Government.[40]

Investment Promotion Agency: Invest Stockholm is the investment promotion agency tasked with attracting businesses to the Stockholm region. It offers business development services including visiting programmes for foreign companies, giving assistance in finding possible agents for cooperation, such as establishing links to research companies and tech sources.[41]

It also offers services for expatriates in Sweden, such as assistance with living arrangements, daycare and also networking with other expatriates.[42]

Quality of Life: An article by FDI Intelligence outlines the attractive lifestyle advantages that Stockholm contains:

When Stockholm was awarded the title of European Green Capital for 2010 by the European Commission, it was not only as a result of the environment that the city has managed to create and maintain for its population.

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37 US State Department, Investment Climate Statement (2011) (accessed 12 January 2015) http://www.state.gov/e/eb/rls/othr/ics/2011/157364.htm

38 Invest Stockholm, Regional Headquarters and Shared Service Centres (accessed 13 January 2015) http://www.investstockholm.com/en/Investment-Opportunities/Regional-headquarters–shared-service-centers/

39 Invest Stockholm, Tax Relief for Key Foreign Employees (accessed 14 January 2015) http://www.investstockholm.com/Documents/Invest%20Sweden/Tax%20releif%20for%20key%20foreign%20employees.pdf

40 US State Department, Investment Climate Statement (2011) (accessed 12 January 2015) http://www.state.gov/e/eb/rls/othr/ics/2011/157364.htm

41 Investment Stockholm, Business Development Services (accessed 14 January 2015)http://www.investstockholm.com/en/At-your-service/Business-development-services/

42 Invest Stockholm, Expatriate Services (14 January 2015) http://www.investstockholm.com/en/At-your-service/Expatriate-services/

Notably the city government in Stockholm adopt to ensure that people in Stockholm are never more than 350 metres away from a green space.

Stockholm is an extremely attractive place. Largely made up of myriad islands on an inlet of the Baltic Sea, the city has an industrial feel to it, though greenery – and indeed some spectacular landscape – is always close to hand. Lifestyle is certainly a part of the Stockholm proposition[43].

The Greater Stockholm region also benefits from Sweden's impressive public health record, with it ranked 7th in the World Economic Forum's global competitiveness survey.[44]

Key industry sectors in the Stockholm area include:

- **Automation:** The Stockholm automation cluster is the world's leading cluster for automation technologies. 500 companies are located there with an annual turnover of 30 billion SEK, equivalent to €3.2 billion, which is 10% of global turnover in the industry. The world's largest robot manufacturer ABB, bases its robotics and process operations in Stockholm's automation cluster, 'Robot Valley'.

Robot Valley is a regionally prioritised development initiative, partly financed and supported by the Swedish Governmental Agency for Innovation Systems programme on regional innovation. Robot Valley is located in the west of the Greater Stockholm region and aims to develop an effective innovation system focusing on and promoting innovation within robotics. Its vision is to be a world leader in the development, manufacture and research in the field of robot-based automation.

Robot Valley has been deemed a success in regional cluster development by the European Commission's Regional Innovation Monitor. One of the key influences of the success has been strong engagement by a core group of determined individuals representing industry, academia and the public.[45]

- **Life Sciences:** Life sciences also represent a valuable part of the Swedish economy. There are about 460 companies located in a cluster between Stockholm and the nearby city of Uppsala. The cluster includes world-leading drugs companies such as AstraZeneca, Q-Med and Pfizer, as well as some of the highest globally ranked research institutes, among them Uppsala University, the Karolinska Institute and the Nobel Institute.

There are more than 30,000 experts engaged in life sciences in the region with 6,000 academic scientists, 23,000 experts in industry and 1,800 in government agencies.[46]

- **IT**: The IT sector from November 2013 to October 2014 in Stockholm has witnessed significant growth in venture capital in tech, the number of deals increased by 124% and there was a 338% growth in dollars invested, compared to the same period a year earlier (November 2012 to October 2013). Stockholm was ranked second globally, only behind Beijing in terms of deal growth, making it a possible contender for the title of *'next silicon valley'*.[47]

The IT sector in Stockholm has seen significant growth, between 2000 and 2010 the number of ICT companies in the region went from 14,642 to 19,500. This growth has been aided by

43 Blass, T. (FDI Intelligence) Stockholm: Setting Standards for Scandinavia and Europe (2010) (accessed 12 January 2015) http://www.fdiintelligence.com/Locations/Europe/Stockholm-setting-standards-for-Scandinavia-and-Europe

44 World Economic Forum Global Competiveness Survey, Economic Profile-Sweden (accessed 14 January 2015) http://reports.weforum.org/global-competitiveness-report-2014-2015/economies/#economy=SWE

45 European Commission Regional Innovation Monitor "Robot Valley- Cluster Development (accessed 12 January 2015) http://ec.europa.eu/enterprise/policies/innovation/policy/regional-innovation/monitor/support-measure/robot-valley

46 Stockholm-Uppsala Life Science, Competence and Workforce (accessed 12 January 2015) http://suls.se/business-opportunities/why/competence-and-workforce/

47 CB Insights, The Next Silicon Valley (2014) (accessed 12 January 2015) https://www.cbinsights.com/blog/next-silicon-valley-data/

Stockholm's world class highly developed IT infrastructure with 100% broadband coverage. Stockholm was one of the world's first cities to launch a 4G network.[48]

There exists collaboration in the IT sector between public and private groups to advance the competiveness of IT in the region. Multinationals active in the region such as IBM, Microsoft and Intel participate in the collaborative project alongside local government and the business regional development agency.[49]

The success in ICT for Greater Stockholm region can in some sense be attributed to the tech cluster Kista Science City which lies in Stockholm. The cluster is recognised as Europe's leading IT cluster and exhibits close relationship between private enterprise, research and academia. Today, the area hosts more than 1,000 ICT companies that combined employ around 25,000 people.[50] Working alongside industry in Kista is the IT Department of Sweden's Royal Institute of Technology, Stockholm University's computer science programmes are also located at Kista. This enables knowledge transfer between academia and industry.[51]

Research and Development / Innovation: In Stockholm, the gross expenditure in R&D as a ratio of GDP is 4.3%, which is higher than both the national average of 3.7% as well as the EU27 average of 1.8%. Moreover, the share of gross expenditure in R&D that represents private rather than public investments is higher in the Stockholm region than the EU27 average (72.1% and 63.6% respectively).

This high level of expenditure in business R&D may be explained by the presence of several research-intensive companies, particularly in the sectors of ICT (Ericsson, IBM Svenska and TeliaSonera) and life sciences (AstraZeneca and Pfizer). The high count of patents can be traced to the strong ICT and life sciences clusters present in the region, coupled with a thriving entrepreneurial culture.[52]

This culture of innovation in Stockholm can also be viewed at national level with Sweden finishing 6th in the World Economic Forum's Global competitiveness survey in the categories of *'company R and D spend'* and also in *'capacity for innovation'.* [53]

48 Stockholm IT Region, World Class IT Infrastructure (available 14 January 2015) http://stockholmitregion.com/why-stockholm/world-class-it-infrastructure/

49 Stockholm IT Region, About-Stockholm IT Region (accessed 12 January 2015) http://stockholmitregion.com/about-stockholm-it-region/

50 Stockholm ICT, One of the World's Leading ICT Clusters (accessed 14 January 2015) http://stockholmitregion.com/why-stockholm/one-of-the-worlds-leading-ict-clusters/

51 Kista Science City, KTH-Kista (2014) (12 January 2015) https://www.kth.se/en/ict/om/kth-kista-studera-i-en-av-stockholms-mest-dynamiska-stadsdelar-1.330216

52 European Commission Regional Innovation Monitor, Stockholm - Regional Innovation Report (2011) (accessed 12 January 2015) Monitor. Available at http://ec.europa.eu/enterprise/policies/innovation/policy/regional-innovation/monitor/sites/default/files/report/stockholm_se11_rim_regional_innovation_report.pdf

53 World Economic Forum, Global Competiveness Survey, Economic Profile-Sweden (accessed 14 January 2015) http://reports.weforum.org/global-competitiveness-report-2014-2015/economies/#economy=SWE

3.2 Amsterdam region

Brief

Country: Netherlands

Political Status: Metropolitan area

Population: 2.3 million (Metropolitan Area 2013, source: I Amsterdam)

GDP: Metropolitan area 15.35% of national GDP 2010 (source: OECD)

Key industries: ICT; logistics; creative industries; life sciences; finance; high-tech materials; horticulture and agri-Food

3.2a Why the Amsterdam region?

The Amsterdam region is ranked sixth in the FDI Intelligence European Cities and Regions of the Future. It is defined as a mid-sized region and ranks second of all European regions in this size category overall (it is second to Greater Stockholm). It is placed highly in other areas. Notably it is ranked first in infrastructure, third in economic potential, fourth in human capital and lifestyle, and fifth in business friendliness.

The Amsterdam Region is home to the Netherlands' capital city. It is a metropolitan area with over 2,500 international companies including Google, Telsa, the Industrial and Commercial Bank of China, Yakult, and Tommy Hilfiger.[54] These companies account for 15% of the region's total employment. The area attracts approximately 120 international companies each year and is viewed as base for expansion in the European market.[55]

3.2b The Amsterdam region's FDI proposition

The Netherlands is the sixth largest economy in the EU and the 16th largest in the world. The country's GDP was in excess of €608bn in 2008, approximately 1.29% of global GDP. It is a founding member of the EU and a member of the World Trade Organisation. Strengths of the Dutch market include its early adoption of new technology and being one of the world's most open economies.[56]

The region's FDI proposition is based upon: business climate (including tax incentives); international promotion agency support; existing sectors; its workforce; location; digital connectivity; and quality of life.

Business climate: the corporate tax rate in the Netherlands is 25%, although companies are taxed at the rate of 20% on the first €200,000 of taxable profit. An *'innovation box'* scheme ensures that profit resulting from R&D that leads to patents is taxed at an effective rate of 5%. The personal tax scheme is advantageous to ex-pat workers. Employees recruited from abroad, with specific expertise not already existing in the country, receive a tax-free reimbursement of 30% of their salary. Furthermore, the country has a wage tax credit on qualifying wages earned in the area of technical innovation.[57]

Investment Promotion Agency: The Amsterdam Region's investment promotion agency, the Amsterdam Economic Board, is an umbrella body for government agencies, research institutes and the businesses. They aim to stimulate and support sustainable collaboration,

54 I Amsterdam, Why Amsterdam (accessed 11 January 2015) http://www.iamsterdam.com/en/business/invest/why-amsterdam

55 I Amsterdam, Who's here (accessed 11 January 2015) http://www.iamsterdam.com/en/business/invest/who-is-here

56 UK Trade and Investment Guidance, Exporting to the Netherlands (28 August 2014) https://www.gov.uk/government/publications/exporting-to-netherlands/exporting-to-netherlands

57 I Amsterdam, Fiscal Advantages, Tax system for progress and expansion (accessed 11 January 2015) http://www.iamsterdam.com/en/business/invest/why-amsterdam/fiscal-advantages

innovation and growth in the region, and strengthen international competitiveness.[58] Amsterdam in Business the official foreign investment agency of the Amsterdam Metropolitan Area provides a range of support to businesses seeking to set up in the region, including:

- **Providing market Intelligence** data;
- Providing information on the **investment climate, including** information about the Dutch tax climate, incentives, legal & regulatory framework and labour market;
- **Facilitating fact finding visits;**
- **Providing legal & tax advice;**
- **Helping companies to access talent;**
- **Facilitating introductions to business & partner networks;**
- **Providing relocation support; and**
- **Providing support for international staff.**[59]

Existing sectors: the Amsterdam Region is home to a number of industry sectors:

- ICT – Amsterdam is the location of the largest data transport hub in the world (further details below) and has amongst the fastest average broadband speeds globally. The region's digital infrastructure is an attractive prospect to ICT companies, for example approximately one third of the European data centres are located in Amsterdam. The region is home to 250,000 ICT professionals, 55% of whom hold a bachelors or master's degree. The area has four Universities, one of which, the University of Amsterdam is ranked as having the best Communication and Media faculty and the eighth best Computer Science faculty in Europe. The region is also home to a number of ICT incubators and accelerators (including: 'Start-up Bootcamp'; 'Rockstart'; 'Venturelab'; 'New Economy Docks'; and 'The Start-up Network'.[60]
- Logistics - Amsterdam's location, its airport, seaports, and data-port have made it an attractive location for logistics businesses.[61] Europe's third largest air cargo hub and fourth largest sea cargo hub are found within its borders. Furthermore, it hosts the world's largest trading centre for plants and flower, the Flower Auction Aalsmeer. The region is home to over 2,000 logistics companies, employing 180,000 people.[62] The Netherlands topped the DHL Global Connectedness Index in 2014.[63]
- Creative industries – Amsterdam ranks fourth on the 2013 Martin Prosperity Institute's Global Cities Index, which assess the performance of the creative economy in cities across the world[64]. It is particularly active in the areas of arts, (the performing arts, visual arts, theatre, galleries and museums) media and entertainment (publishing, radio, TV, film, video and gaming), and creative business services (advertising, photography, design and fashion).[65] The creative industry represents 20% of the area's economy, employing over

58 Amsterdam Economic Board (accessed 14 January 2015) http://www.amsterdameconomicboard.com/english

59 I Amsterdam, Invest in Amsterdam, Our Services (accessed 14 January 2015) http://www.iamsterdam.com/en/business/invest/our-services

60 Amsterdam Economic Board, Amsterdam: an unrivalled location for ICT business (accessed 11 January 2015) http://www.iamsterdam.com/media/pdf/business-publications/ict-folder.pdf?la=en

61 I Amsterdam, Logistics (accessed 11 January 2015) http://www.iamsterdam.com/en/business/invest/your-industry/logistics

62 Amsterdam Airport Area, Amsterdam Metropolitan Area: the heart of European and global logistics (accessed 11 January 2015) http://www.aaarea.nl/client/aaarea/upload/pdf/AAA_Factsheet_Logistics_DEF_2013.pdf

63 DHL Global Connectedness Index 2014 (October 2014) http://www.dhl.com/content/dam/Campaigns/gci2014/downloads/dhl_gci_2014_study_low.pdf

64 Martin Prosperity Institute, Insight – Creative and Diverse: Ranking global cities http://martinprosperity.org/2013/08/14/insight-creative-and-diverse-ranking-global-cities/

65 Creative Amsterdam, Creating Opportunities (March 2008) http://www.liesbethkrumeich.nl/CCAA_brochure.pdf

100,000 people in the publishing, advertising, entertainment, TV, gaming and fashion industry with an added value of €3.7bn.[66]

- Life sciences – 20% of all Dutch life sciences economic activity stems from the Amsterdam region. The region has the highest concentration of life sciences research in the Netherlands. It is home to two universities with teaching hospitals. Furthermore, 369 life science companies and organisations are based in the area. The sector employs 20,000 people directly or indirectly. There are a total of 117 life science dedicated companies operating in the Amsterdam Region, of which 50% take part in R&D. There are a total of 4,640 dedicated life science employees in the region, with 28% working in R&D. Particular specialisms include: oncology, neuroscience, immunology, infectious disease, cardiovascular disease, and imaging.[67]
- Finance - Financial and business services employ 26% of the regional labour market and account for 26% of regional GDP. The cluster includes banks, insurance companies, investment companies, holding companies, financial advisors, accounting firms, tax consultants, lawyers and HR companies.[68]
- High-tech materials - the manufacture of high-tech materials employs 94,000 people in the Amsterdam region, across 12,000 companies. The sector is valued at €8.9bn (10% of the Amsterdam Metropolitan Region's gross value added), and has an export value of €20bn (40% of the Metropolitan Region's export value).[69]
- Horticulture and Agri-Food – the Netherlands horticulture sector has a nationwide added value of €10bn. In the Amsterdam region the 1,500 horticulture companies directly employ 15,000 individuals. Agri-food in the Amsterdam region employs 33,000 people across 5,300 companies. It has an added value of €2.7m and provides 8% of the region's exports.[70]

Workforce: 44% of Amsterdam's workforce has participated in higher education. The city's regional workforce is multicultural, including people form 178 nationalities, and multilingual, with 80% of the workforce able to speak English and 90% speaking in two or more languages.[71]

In 2013 the Netherlands ranked as sixth on INSEAD's Global Talent Competitiveness index.[72] A recent study by PWC ranked the Netherlands workforce as the most adaptable in the world. This study assessed the *'ability and willingness of employers and employees to adapt to changing circumstances and align skills with available opportunities'.*[73]

66 Provincie Noord-Holland, Factsheet Creative Industry(accessed 11 January 2015) http://www.noord-holland.nl/web/file?uuid=18f84c73-1913-47b1-83a5-4278e4a9b56b&owner=31e8a914-fbbd-401f-840b-ed9b6f399a96

67 Amsterdam Economic Board, Life Sciences Cluster, Facts and Figures (accessed 11 January 2015) http://www.amsterdameconomicboard.com/clusters/life-sciences-health/feiten-en-cijfers

68 Amsterdam Economic Board, Financial Cluster, Facts and Figures (accessed 11 January 2015) http://www.amsterdameconomicboard.com/clusters/financial-business-services

69 Amsterdam Economic Board, High-tech materials, Facts and figures (accessed 11 January 2015) http://www.amsterdameconomicboard.com/clusters/high-tech-materials/feiten-en-cijfers

70 Amsterdam Economic Board, Horticulture and Agri-food cluster, Facts and Figures (accessed 11 January 2015) http://www.amsterdameconomicboard.com/clusters/horticulture-agrifood/feiten-en-cijfers

71 I Amsterdam, Amsterdam's attraction to foreign investors (accessed 11 January 2015) http://www.iamsterdam.com/en/business/invest/news/amsterdam-attraction-to-foreign-investors

72 INSEA, The Global Talent Competitiveness Index 2013 (November 2013) http://global-indices.insead.edu/gtci/documents/gcti-report.pdf

73 PWC, Adapt to survive – How better alignment between talent and opportunity can drive economic growth (2014, accessed 11 January 2015) http://www.pwc.com/en_GX/gx/hr-management-services/publications/assets/linkedin.pdf

Location and infrastructure: As noted above, the Netherlands tops DHL's Global Connectedness Survey 2014.[74] Amsterdam Airport is Europe's third largest cargo airport, processing 1.5 million tonnes of cargo per year. The airport travels to 98 destinations globally, provides 323 flight connections and transports 52.5m per year (making it Europe's fourth largest passenger airport).[75]

The Port of Amsterdam is Europe's fourth largest. It handles 95 million tonnes of cargo per year, employs 59075 people and has an annual turnover of €143.3m. It is also a busy cruise port. In 2013 137 cruise liners and 1,483 river cruise liners, carrying a total of 710,000 passengers, used the port. Total value added from maritime industry at the Port of Amsterdam is estimated to be €6bn.[76]

Digital connectivity: the Amsterdam Internet Exchange is the world's largest data hub. The exchange interconnects 650 IP networks and its business traffic has a peak of over three terabits per second.[77] The Netherlands is the second most densely cabled country in the world.[78] It has the sixth fastest average internet speeds in the world, and third fastest in Europe.[79] Amsterdam's ICT workforce numbers 250,000 and the region is home to a 33% of Europe's data centres.[80]

Quality of life: In the European Commission's Quality of life survey 2013 Amsterdam scores highly areas such as: overall satisfaction (96% satisfaction rate, second in the EU); satisfaction with public transport (80% satisfaction rate, fifth in the EU); satisfaction with health care services (88% satisfaction rate, second in the EU); satisfaction with sports facilities (78% satisfaction rate, third in the EU); satisfaction with cultural facilities (92% satisfaction rate of 92%, fifth in the EU); satisfaction with schools and educational facilities (75% satisfaction rate, sixth in the EU); satisfaction with streets and buildings (79% satisfaction rate, sixth in the EU); satisfaction with public spaces (87% satisfaction rate, fourth in the EU); satisfaction with the availability of shops (92% satisfaction rate, fourth in the EU); housing availability (88% satisfaction rate, third in the EU); and safety (84% satisfaction rate, seventh in the EU).[81]

74 DHL Global Connectedness Index 2014 (October 2014) http://www.dhl.com/content/dam/Campaigns/gci2014/downloads/dhl_gci_2014_study_low.pdf

75 Amsterdam Airport Area, Amsterdam Metropolitan Area: the heart of European and global logistics (accessed 11 January 2015) http://www.aaarea.nl/client/aaarea/upload/pdf/AAA_Factsheet_Logistics_DEF_2013.pdf

76 Port of Amsterdam, Port of Partnerships (accessed 11 January 2015) http://www.portofamsterdam.nl/docs/nl/Factsheets/2014/Algemeen_UK_2014.pdf

77 Amsterdam Internet Exchange, About AMS-IX (access 15 January 2015) https://ams-ix.net/about/about-ams-ix

78 Amsterdam Economic Board, Amsterdam: an unrivalled location for ICT business (accessed 11 January 2015) http://www.iamsterdam.com/media/pdf/business-publications/ict-folder.pdf?la=en

79 Akami's State of the Internet (Quarter 3, 2014) Amsterdam Economic Board, Amsterdam: an unrivalled location for ICT business (accessed 11 January 2015) http://www.iamsterdam.com/media/pdf/business-publications/ict-folder.pdf?la=en (registration required)

80 Amsterdam Economic Board, Amsterdam: an unrivalled location for ICT business (accessed 11 January 2015) http://www.iamsterdam.com/media/pdf/business-publications/ict-folder.pdf?la=en

81 European Commission, Quality of life in Cities – perception survey in 79 cities (2013) http://ec.europa.eu/regional_policy/sources/docgener/studies/pdf/urban/survey2013_en.pdf

4 Small regions

4.1 Copenhagen Capital Region

Brief

Country: Denmark

Political Status: Regional Council

Population: 1.7 million

GDP: Metropolitan area 42.85% of national GDP 2010 (source: OECD)

Key industries: Clean-tech, life science, ICT, transport and logistics, creative industries, and food.

4.1a Why Copenhagen

Copenhagen in ranked as the third best region for FDI overall in the FDI Intelligence European Regions of the Future. It is ranked as the highest performing small region in Europe. It is also ranked first for its FDI strategy and second for economic potential and business friendliness.[82]

4.1b Copenhagen's FDI proposition

In their appraisal of the Danish economy UK Trade and Investment note that it is an attractive investment destination due to its prosperity, its proximity to the Scandinavian and Baltic economies and to the growing economies of Germany, Poland and Sweden. They highlight the following advantages:

- Easy access to Northern Europe via Copenhagen airport hub and a high quality motorway network;
- A well-educated and productive workforce;
- An country where English is widely spoken;
- An advance telecommunications infrastructure; and,
- A facilitative business start-up environment - a company may be set up in 24 hours online.[83]

Copenhagen City region is Denmark's capital region. According to the area's business development agency, Copenhagen Capacity, the region's FDI proposition is predicated upon market access and connectivity, business climate (including taxation), investment promotion agency, existing business clusters, research and innovation status, labour market flexibility, workforce talent, and quality of life.

Market access and connectivity: Copenhagen provides a link between continental Europe and Scandinavia. The region's main airport, located 10km from Copenhagen city centre, connects to 134 global destinations and provides flights on 24 hour basis. It is the largest

82 FDI Intelligence, European Cities of the Future (2014/15) (February 2014) http://www.fdiintelligence.com/content/download/53088/1366403/file/European%20Cities%20and%20Regions%20of%20the%20Future%202014:15.pdf

83 UK Trade and Investment, Exporting to Denmark (2 July 2014) https://www.gov.uk/government/publications/exporting-to-denmark/exporting-to-denmark

cargo airport in Northern Europe, with direct flights to 31 cargo destinations and handling 360,000 tonnes of cargo per year. The region's port is one of the largest in the Nordic area.[84]

Business climate: the World Bank's ease of doing business report 2015 ranks Denmark as fourth globally, and first in Europe.[85] Foreign companies benefit from a 'plug and play' business registration. This enables businesses to be set up with-in 24 hours.[86]

Corporation tax in Denmark is currently set at 24.5%, but will be reduced to 22% by 2016 – bringing it below the EU average.[87] Denmark does not charge double taxation on Danish countries with branches abroad making the country an attractive location for business wishing to set up a Scandinavian headquarter. Companies may also access a full rebate of tax expenses associated with R&D expenditure. In addition, companies do not incur social security contributions for employees. The country does not charge local, franchise, capital duty, share transfer or net wealth taxes A special tax regime is in place for expatriate staff and researchers working with in Denmark ensuring they pay a reduced rate of tax for their first five years working in the country. In addition, employees from outside Denmark, who are living in working in the country, are entitled to full access to the Danish welfare system.[88]

Investment promotion agency: Copenhagen Capacity is the region's investment promotion agency. It provides business with:

- Market insights;
- Industry knowledge;
- Business start-up assistance;
- Land and property searches;
- Partner searches and match making; and
- Business development assistance.[89]

The agency successful assisted 263 investment projects between 2004 and 2011. It is staffed by 53 employees and can provide assistance in 17 languages.[90]

Existing business clusters. Key industry sectors within the Copenhagen City region are as follows:

- Clean-tech – there are more than 600 clean-tech companies in the region, employing 77,500 people, 34,000 of which work directly with clean-tech (as opposed to ancillary roles). In 2010, Danish exports stemming from green technologies, goods and services was 10.4% of total exports. The Danish government is politically focussed on renewable and sustainable energy, with a long-term goal of meeting all electricity, heating, industry and transport energy needs through renewable energy by 2050. Copenhagen is aiming to become the world's first carbon neutral city by 2025. The existing business cluster has access to a number of research institutions specialising in clean-tech: Risø National Laboratory for Sustainable Energy; University of Copenhagen; Denmark's Technical University; University of Roskilde and Copenhagen Business School; Scion Science Park;

84 Copenhagen Capacity Copenhagen and the World (accessed 09 January 2015) http://www.copcap.com/ExploreCopenhagen

85 The World Bank Doing Business 2015 Going Beyond Efficiency (October 2014) http://www.doingbusiness.org/~/media/GIAWB/Doing%20Business/Documents/Annual-Reports/English/DB15-Full-Report.pdf

86 Ministry of Foreign Affairs, Denmark, 10 Good Reasons to Invest in Denmark (accessed 09 January 2015) http://www.investindk.com/Why-Denmark/10-good-reasons

87 Note: Average EU-28 corporation tax rate is 22.9% 2014, for the EU 27 it is 23.1% see page 37 of http://ec.europa.eu/taxation_customs/resources/documents/taxation/gen_info/economic_analysis/tax_structures/2014/report.pdf

88 Copenhagen Capacity, Taxation (accessed 09 January 2015) http://www.copcap.com/ExploreCopenhagen/Taxation

89 Copenhagen Capacity, Our Business Services (accessed 14 January 2014) http://www.copcap.com/OurBusinessServices

90 *Ibid*

and Copenhagen Clean-tech Park.[91] Copenhagen topped the Siemen's European Green Cities Index in 2014.[92]

- Life sciences – the bio-tech sector in Denmark was valued at €15.3bn in 2011. The medical technology sector was valued at €6.7bn in 2010. A significant proportion of the country's life science industry is located in the Copenhagen City region including six large R&D based pharmaceutical companies, over 50 R&D active biotech companies and 200 R&D active medical technology companies. Approximately 44,000 people are employed in the life sciences private sector. The region is also home 11 universities, five of which have separate life science departments. There are 33 hospitals in the Copenhagen City region, 11 of which are university hospitals. There are approximately 45,000 life science students studying in the region.[93]
- ICT – approximately 50,000 people are employed in the Øresund Region (a region that centres on Copenhagen and the Swedish city of Malmo). The ICT cluster in this region is the 12th largest in Europe. Switzerland's IMD World Competiveness Centre ranks Denmark in the top 5 (out of 59 countries) in the areas of cyber security, broadband subscribers, communications technology, connectivity of people and firms, technology regulation, technological cooperation, information technology skills, computers per capita, development and application of technology, and qualified engineers. There are eight universities in Denmark providing education in ICT related areas, as well nine Danish research and technology organisations. In addition, Copenhagen is home to, or in close proximity, to four science parks.[94]
- Transport and Logistics – the transport and logistics cluster in Copenhagen spans air, road, and maritime transport. It employs 85,000 people, of which 47,000 work directly with international transport. The industry cluster is Denmark's largest export cluster accounting for 22% of total national exports (valued at DKK170bn, approximately €23bn, at current rates – 11 January 2015). The cluster's annual turnover is valued at DKK240bn (approximately €32bn, at current rates – 11 January 2015).[95]
- Creative industries – the creative industries employees 85,000 across Denmark. The sector is accounts for 6%-7% of Danish employment and revenue and contributes to 10% of Danish exports.[96] Copenhagen was ranked sixth on the 2013 Martin Prosperity Institute's Global Cities Index.[97]
- Food – the food sector makes a significant contribution to the Danish economy. It provides 150,000 full-time jobs (5-6% of total employment). The export value of the sector was valued at DKK139bn in 2011 (approximately € 18.7bn, at current rates – 11 January 2015). Foreign food manufactures have invested DKK45bn in Denmark (approximately €6bn, at current rates – 11 January 2015). The food sector recorded 6% of R&D projects in 2008.[98]

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91 Copenhagen Capacity, Cleantech Background (accessed 09 January 2014) http://www.copcap.com/BusinessOpportunities/Cleantech/Background

92 Siemen's European Green Cities Index 2014 (accessed 14 January 2015) http://www.siemens.com/entry/cc/en/greencityindex.htm

93 Copenhagen Capacity, Business Opportunities, Life Science Facts and Figures http://www.copcap.com/BusinessOpportunities/Life%20science/Facts

94 Copenhagen Capacity, Business Opportunities, ICT Facts and Figures http://www.copcap.com/BusinessOpportunities/ICT/Facts

95 Copenhagen Capacity, Business Opportunities, Transport and Logistics Facts and Figures http://www.copcap.com/BusinessOpportunities/TransportAndLogistics/Facts

96 Copenhagen Capacity, Business Opportunities, Creative Industries Facts and Figures http://www.copcap.com/BusinessOpportunities/Creative%20Industries/Facts

97 Martin Prosperity Institute, Insight – Creative and Diverse: Ranking global cities http://martinprosperity.org/2013/08/14/insight-creative-and-diverse-ranking-global-cities/

98 Copenhagen Capacity, Food Sector Facts and Figures (accessed 12 January 2015) http://www.copcap.com/BusinessOpportunities/Foods/Facts

Research and Innovation: According to the European Commission's Regional Innovation Monitor the Copenhagen City Region performance in Research, Development and Innovation is strong. It was ranked as an innovation leader in the Regional Innovation Scoreboard 2014.

The region is home to a number of large and top-performing universities including the University of Copenhagen (the largest university in Northern Europe), the Technical University of Denmark and the Copenhagen Business School. 59% of all Danes with higher education live in the region.

A number of leading global companies are based in Copenhagen and 80% of all high-tech businesses in Denmark are located there. It has the highest level of R&D expenditure in Denmark, 4.3% of regional GDP is spent on R&D compared to 2.5% of GDP at national level (2011 figures). Public sector expenditure on R&D in the Copenhagen region is above average for EU regions. Similarly, the amount of in-house innovation undertaken by SMEs in the Copenhagen region is above the average for EU regions.[99]

Workforce talent: The percentage of 25-64 years olds who have completed tertiary education in the Copenhagen region is 86.3%, the proportion of individuals employed in knowledge intensive industry 77%.[100]

Denmark is ranked third on INSEAD's Global Talent Competitiveness index.[101] The Swiss business school IMD's World Talent Report 2014 ranks Denmark as second for talent overall. The country scores highly on the following measures: investment and development (first); worker motivation (first); readiness of workforce (fourth); and the ability of the university sector to meet the needs of business (fifth).[102]

According to Copenhagen's business promotion agency Copenhagen Capacity, the city region offers employers access to:

- Scandinavia's largest recruitment base of highly-skilled Danish and Swedish employees;
- Scandinavia's biggest pool of private and publicly employed researchers;
- 44,000 employees in the private life science sector;
- 75,000 employees in the clean-tech industry, of which 34,000 are directly employed in green jobs;
- A bilingual/multilingual workforce – 86% of Danes speak English and 58% speak German.[103]

Quality of life: Copenhagen performed well in the European Commission's 2013 Quality of life in cities survey. It was ranked first for overall satisfaction to live in the city (97% satisfaction rate) and scored highly on measures such as: satisfaction with health care service (84% satisfaction rate, ranked sixth overall); satisfaction with cultural facilities (91% satisfaction rate, ranked sixth overall); satisfaction with state of streets and buildings (78% satisfaction rate, ranked sixth overall); satisfaction with public spaces (88% satisfaction rate, ranked third overall); agreement that presence of foreigners is good for the city (89% agreement rate, ranked first overall); safety (92% felt safe in the city, ranked first overall); trust (86% felt that most people in the city could be trusted, ranked first overall); efficiency of public services

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99 European Commission, Regional Innovation Monitor, Denmark, Hovedstaden (accessed 12 January 2015) http://ec.europa.eu/enterprise/policies/innovation/policy/regional-innovation/monitor/base-profile/capital-region-denmark-0

100 *Ibid*

101 INSEA, The Global Talent Competitiveness Index 2013 (November 2013) http://global-indices.insead.edu/gtci/documents/gcti-report.pdf

102 IMD World Talent Report 2014 (November 2014) http://www.imd.org/uupload/imd.website/wcc/NewTalentReport/IMD_World_Talent_Report_2014bis.pdf

103 Copenhagen Capacity, Highly Skilled and efficient employees (accessed 12 January 2015) http://www.copcap.com/ExploreCopenhagen/Talent%20and%20work%20force

(63% believed public services helped people efficiently, ranked third overall); and satisfaction with green spaces and parks (91% satisfaction rate, ranked first).[104]

4.2 Greater Zurich

Brief

Country: Switzerland

Political Status: Metropolitan Area

Population: 1.9 million (in metropolitan area, source: Stadt Zurich)

GDP: Metropolitan area 18.95% of national GDP 2010 (source: OECD)

Key industries: finance; life science; ICT; clean-tech; high-tech; mechanical, electrical and metalworking; headquarters.

4.2a Why Greater Zurich

Greater Zurich is ranked eighth of all European regions in the FDI Intelligence European Regions of the Future. It is classed as a small region and is ranked third overall in this category scoring highly on following measures: economic potential (first); FDI strategy (second); infrastructure (third); and human capital and lifestyle (fifth).[105]

4.2b Greater Zurich's FDI proposition

Greater Zurich is the 'business centre' of Switzerland, a country that was ranked as the world's most competitive economy according to the World Economic Forum's (WEF) Global Competitiveness Report 2014/15. In the UK Government's assessment the Swiss market has a number of strengths:

- Centrally located in Europe;
- Politically and financially stable;
- High productivity;
- Excellent public infrastructure;
- A highly educated workforce;
- An innovative country;
- Purchasing power amongst the world's highest;
- High spend on research and development (R&D) and technology;
- Reliable business, legal and regulatory environment; and
- Low Value Added Tax (VAT) compared to other EU countries.[106]

The Greater Zurich Area's business promotion agency (Greater Zurich Area AG) promotes Zurich as a FDI destination along the following lines: market access; taxation; purchasing power; investment proportion agency support; existing sectors and clusters; workforce and labour market; connectivity; and research, development and innovation performance.

104 European Commission, Quality of life in Cities – perception survey in 79 cities (2013) http://ec.europa.eu/regional_policy/sources/docgener/studies/pdf/urban/survey2013_en.pdf

105 FDI Intelligence, European Cities of the Future (2014/15) (February 2014) http://www.fdiintelligence.com/content/download/53088/1366403/file/European%20Cities%20and%20Regions%20of%20the%20Future%202014:15.pdf

106 UK Trade and Investment, Guidance: Doing business in Switzerland: Switzerland trade and export guide (update 7 November 2014) https://www.gov.uk/government/publications/exporting-to-switzerland/exporting-to-switzerland#switzerland-export-overview

Market access: In terms of market access although Switzerland is not part of the EU its relationship with the EU is governed by a series of bilateral agreements. As a result of these agreements, the EU has:

> *…closer ties with Switzerland than with any other non-European Economic Area (EEA) country. Switzerland is the EU's 4th largest trading partner, while the EU is Switzerland's largest. Over 1 million EU citizens live in Switzerland, and another 230,000 cross the border daily to go to work. Some 430,000 Swiss citizens live in the EU.*[107]

As of 1 January 2015, Switzerland had entered into 33 free trade agreements[108] with countries and unions of states around including China. Five additional trade agreements are in the process of negotiation.[109] Through free trade agreements, countries enter into legally binding commitments to relax access to each other's markets for goods and services.[110]

Taxation: The Swiss tax system is attractive. The tax system is shaped by the country's federal structure. Companies and individuals are taxed at three levels:

- National level – federal tax;
- Cantonal level (Switzerland is made up of 26 cantons)– cantonal tax; and
- Communal level (Swiss cantons are further divided up into municipalities known as communes) – communal tax.

Cantons and communes charge the largest proportion of taxes. Each canton has its own tax laws and levels (although taxes are collected by a single agency), as a result there is a degree of competition between cantons in this area.

With regard to corporation tax, companies are taxed at the place of value creation – where it is based or where it carries out its business activities. Federal corporation tax is charged at a flat rate, but cantonal tax varies by place and often by profit levels or capital. Taxes are levied within the following ranges:

- Direct federal taxes on profits: 8.5%[111];
- Cantonal tax on profits: 5.9% - 16%;
- Cantonal tax on capital: 0.05% - 0.3%; and
- Total tax burden: 14.5% - 25%.[112]

The Greater Zurich Area incorporates a number of cantons – Zurich, Glarus, Grisons, Schaffhausen, Schwyz, Solothurn and Zug. Effective corporation tax rates in these cantons vary, but all are below the EU average (22.9% as of 2014[113]):

- Zurich: 21.17%;[114]

107 European Union, External Action, Switzerland (accessed 08 January 2015) http://eeas.europa.eu/switzerland/index_en.htm

108 This figure includes the EU

109 Switzerland Federal Administration, State Secretariat for Economic Affairs SECO (updated 01 January 2015) http://www.seco.admin.ch/themen/00513/00515/01330/04619/?lang=en

110 UK Trade and Investment, Guidance: Doing business in Switzerland: Switzerland trade and export guide (update 7 November 2014) https://www.gov.uk/government/publications/exporting-to-switzerland/exporting-to-switzerland#switzerland-export-overview

111 Note Direct federal taxes are charged at a regular rate of 8.5%. These are levied on after-tax profit, yielding an effective tax rate of 7.83%

112 Startups.ch Taxation (accessed 08 January 2015) https://www.startups.ch/en/inform/foreignentrepreneurs/taxation/

113 http://ec.europa.eu/taxation_customs/resources/documents/taxation/gen_info/economic_analysis/tax_structures/2014/report.pdf

114 PWC, Switzerland: an excellent choice – from a tax and business point of view (accessed 08 January 2015) http://www.pwc.ch/user_content/editor/files/chall_adv/pwc_switzerland-an-excellent-choice_e.pdf

- Glarus: 15.71%[115]
- Grisons; 16.7%[116]
- Schaffhausen; 15.96%[117]
- Schwys; 11.56%[118]
- Solothurn; 21.80% 2013)[119]
- Zug: 15.38%[120]

Tax optimisation is possible. Companies may be able to secure a binding tax ruling for their effective tax burden from the Swiss tax authorities. Through this it is possible for a company to have a tax rate of below 10%. These benefits are granted on a case by case basis and are dependent on the location and type of business.[121]

Special tax status is available for holding companies (7.83%) and for domiciliary companies, mixed companies and principal companies (ranging from 4%-11%).[122]

Individual taxes in Switzerland are also competitive. The combined tax rate of Federal, Cantonal, Communal and Church tax in the Greater Zurich area ranges from 23.15% in Schwyz to 39.18% in Zurich. Personal deductions are available, these depend on the status of each person – marriage status and number of dependent children for example.[123] Social security expenses and certain business expenses are tax deductible.[124]

Vat rates in Switzerland are amongst the lowest in Europe. The standard rate is 8%; certain goods (such as food, agricultural products and medicine) are taxed at a rate of 2.5%.[125]

Investment promotion agency support: Greater Zurich AG assists potential investors in a number of ways:

- Market analysis;
- Industry insights;
- Advice on business development;
- Networking assistance; and
- Property searches.[126]

115 Kanton Glarus, Location Factor taxes (January 2014) http://www.glarus.ch/documents/Canton_Glarus_Executive_Summary_January_20141392824525652.pdf

116 KPMG Clarity on Investment in Switzerland (August 2014) https://www.kpmg.com/CH/en/Library/Articles-Publications/Documents/Tax/pub-20140805-investment-switzerland-en.pdf

117 PWC, Switzerland: an excellent choice – from a tax and business point of view (accessed 08 January 2015) http://www.pwc.ch/user_content/editor/files/chall_adv/pwc_switzerland-an-excellent-choice_e.pdf

118 *Ibid*

119 Institute for Research in Economic and Fiscal Issues, Taxation in Europe Yearbook 2013 – Switzerland http://en.irefeurope.org/Switzerland,a0915

120 PWC, Switzerland: an excellent choice – from a tax and business point of view (accessed 08 January 2015) http://www.pwc.ch/user_content/editor/files/chall_adv/pwc_switzerland-an-excellent-choice_e.pdf

121 Startups.ch Taxation (accessed 08 January 2015) https://www.startups.ch/en/inform/foreignentrepreneurs/taxation/

122 PWC, Switzerland: an excellent choice – from a tax and business point of view (accessed 08 January 2015) http://www.pwc.ch/user_content/editor/files/chall_adv/pwc_switzerland-an-excellent-choice_e.pdf

123 Santander Trade, Switzerland Tax System (accessed 14 January 2015) https://en.santandertrade.com/establish-overseas/switzerland/tax-system

124 KPMG Clarity on Investment in Switzerland (August 2014) https://www.kpmg.com/CH/en/Library/Articles-Publications/Documents/Tax/pub-20140805-investment-switzerland-en.pdf

125 Santander Trade, Switzerland Tax System (accessed 14 January 2015) https://en.santandertrade.com/establish-overseas/switzerland/tax-system

126 Greater Zurich AG, Our services, (accessed 14 January 2015) http://www.greaterzuricharea.com/en/services/

Existing sectors and clusters: A key aspect of Greater Zurich's FDI proposition is its status as a financial centre. It was second highest ranked European financial centre (behind London) Global Financial Centres Index 2014 and is ranked fifth overall (behind New York, London, Hong Kong and Singapore).[127] Over two thirds of Swiss banks are headquartered in Zurich, including both of the leading banks (UBS and the Credit Suisse Group). Swiss and foreign financial institutions, including those offering specialised services such as hedge fund management, are located in the area. The presence of an established financial centre creates a number of draw factors for potential investors, particularly those working in the financial sector:

- A large pool of highly-qualified specialists
- Required service providers for the financial sector are close at hand; and
- Reliable infrastructure, such as secure power supply and the most modern data lines.[128]

Other key sectors well established in the Greater Zurich area include:

- **Life sciences:** 365 life sciences companies in Zurich (2013) including international companies working in pharmaceuticals, biotech and medical technology (such as Bayer Ag, Zimmer and Stryker). The sector employs 21,000 people and has a total turnover of CHF46.1bn.[129]
- **ICT:** Greater Zurich is home to information technology, media and creative ICT sub-industries, including companies such as Disney Research Zurich, Evernote, Google, Google Research, Uber, IBM Research Lab and Kayak. According to the Great Zurich Area AG (the areas promotion and marketing body) these companies are drawn by the areas central location, research institutions and the high quality of living;
- **Clean-tech:** public sector support has helped develop green industry in the area, which specialises in spatial planning, building services, water and waste management services. Key draw factors have included – research institutions, the 'Swiss-made' brand (and associated international appeal), environment and research friendly legislation, and the location;
- **High-tech:** a number of high-tech or cutting edge technology companies are based in the Zurich area, including those specialising in areas of work such biotechnology, materials science, sensor technology, mechatronics, photonics and optoelectronics. The key draw for these companies is the area's research centres and the availability of specialists and the potential for technology transfers (more on this below);[130]
- **Mechanical, electrical and metalworking (MEM) industry:** an established, export focussed industry, MEM is support by the Swiss vocational training system and the resultant talent pool;[131] and
- **Headquarters:** the Greater Zurich area has been successful in attracting a number of business head offices. Draw factors have included: a central European location; attractive business and individual tax rates; public services; liberal labour laws and an attractive job market; quality of life; low ancillary wage costs; and infrastructure.[132]

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127 Long Finance, Financial Centres Future, the Global Financial Centres Index 15 (March 2014) http://www.longfinance.net/images/GFCI15_15March2014.pdf

128 Greater Zurich Area, Swiss Financial Service Sectors: Globally Significant http://www.greaterzuricharea.com/en/why-greater-zurich-area/industries/financial-services/

129 Greater Zurich Area AG, Life Sciences: Strong in Switzerland http://www.greaterzuricharea.com/en/why-greater-zurich-area/industries/life-sciences/

130 Greater Zurich Area AG High-Tech "Made in Switzerland" (accessed 08 January 2015) http://www.greaterzuricharea.com/en/why-greater-zurich-area/industries/high-tech/

131 Greater Zurich Area AG "Swiss Machinery": Unlimited Talent Pool (accessed 08 January 2015) http://www.greaterzuricharea.com/en/why-greater-zurich-area/industries/machinery/

132 Greater Zurich Area AG Why Headquarters Are Moving to Switzerland (accessed 08 January 2015) http://www.greaterzuricharea.com/en/why-greater-zurich-area/industries/headquarters/

Workforce and labour market: The Global Competitiveness Survey 2014-15 ranks Switzerland as first labour market efficiency, the country scores highly on the following measures: cooperation in labour-employee relations (ranked first); efficient use of talent (ranked first); capacity to retain talent (ranked first); capacity to attract talent (ranked first); hiring and firing practice (ranked second); labour market flexibility (ranked fourth); and pay and productivity (ranked fifth).[133] According to the Greater Zurich AG area is attractive to employers due to a labour market that:

- Has amongst the most liberal labour laws in Europe;
- Is Multilingual, internationally experienced and highly educated; and
- Is Cosmopolitan - Switzerland has signed up to the EU's free movement of people and recruitment from Asian and the USA is a 'routine procedure'.[134]

Research, Development and Innovation: The World Economic Forum's Global Competiveness Report ranks Switzerland as second on it innovation measure. Within this measure the country scores highly in the following areas: capacity for innovation (ranked first); quality of scientific research institutions (ranked first); company spending on R&D (ranked first); university industry collaboration (ranked third); and Patent Cooperation Treaty patent applications (ranked first).[135]

Greater Zurich is home to a number of research institutions including:

- ETH Zurich;
- The University of Zurich;
- The Swiss Federal Laboratories for Material Testing and Research;
- IBM Zurich Research Laboratory;
- The Paul Scherrer Institute;
- The Swiss Centre for Electronics and Micro-technology;
- Google European Engineering Centre; and
- Disney Research Zurich.[136]

Connectivity: The World Economic Forum ranks Swiss infrastructure as fifth in their Global Competiveness Report 2014/15. This is largely predicated on the quality of its overall infrastructure, railways, roads, air transport, and electricity supply – Switzerland is ranked in the top ten on each of these measures (first, second, ninth, eighth, and first respectively).[137] The Country is also ranked sixth on the DHL Global Connectedness Index 2014.[138]

Greater Zurich itself is a central location well connected by road, rail and air. Zurich's international airport is an air traffic hub, connecting to 184 destinations, carrying 25 million passengers and handling 415,362 tonnes of freight in 2013.[139]

133 World Economic Forum, Global Competiveness Report 2014-15, Economy Profiles - Switzerland (accessed 12 January 2015) http://reports.weforum.org/global-competitiveness-report-2014-2015/economies/#economy=CHE

134 Greater Zurich Area AG, Outstanding Business Environment (accessed 08 January 2015) http://www.greaterzuricharea.com/en/why-greater-zurich-area/business-environment/

135 World Economic Forum, Global Competiveness Report 2014-15, Economy Profiles - Switzerland (accessed 12 January 2015) http://reports.weforum.org/global-competitiveness-report-2014-2015/economies/#economy=CHE

136 Greater Zurich Area AG, Adding Value: Intellectual Property Management in the Greater Zurich Area (May 2013) http://www.greaterzuricharea.com/fileadmin/PDF/MMM_Intellectual_A4_en.pdf

137 *Ibid*

138 DHL Global Connectedness Index 2014 (October 2014) http://www.dhl.com/content/dam/Campaigns/gci2014/downloads/dhl_gci_2014_study_low.pdf

139 Greater Zurich AG, Why Greater Zurich, Swiss Infrastructure – Your connection to success (accessed 12 January 2015) http://www.greaterzuricharea.com/en/why-greater-zurich-area/business-environment/

5 Summary and conclusions

The FDI proposition of the cases explored show a number of features.

Nordrhein-Westfalen: NRW benefits from its location in central Europe. This logistical advantage is fully supported by a developed transport infrastructure. The region has a strong industrial heritage, which has been further enhanced by becoming world leading in new futuristic industries. While the tax burden on companies is average by European standards, there exist incentives at federal and regional level to encourage investment. In addition to this the investment promotion agency NRW Invest is highly active globally and endeavours to create and maintain clusters of collaboration between industry and research institutes in NRW's key industries.

Scotland: Scotland's FDI success is based on a number of features. The natural resources which exist in the North Sea give Scotland a significant advantage and have positive externalities on other industries due to the employment and high salaries generated in the oil and gas industry. Scotland's natural landscape also provides opportunities for the creative industries and can prove alluring for investors looking to commission a film or TV series. The high number of quality universities and high concentration of graduates make Scotland an attractive proposition for businesses looking to invest. The relationship between universities and investment can be viewed in the success of the Dundee gaming cluster. Furthermore, these advantages are enhanced again by an active investment promotion agency and UK wide tax incentives which encourage innovative and creative projects.

Greater Stockholm: The success of the Stockholm region is based on their success in high-tech industry. This is most evident in two leading clusters which exist in Stockholm, Robot Valley which specialises in automation, and the Kista Science City which specialises in IT. These two examples have been aided in their development by Stockholm's impressive IT infrastructure, which has often been ahead of the global trend. The capacity for innovation which exists in Stockholm's industry, as well as in Sweden as a whole is evident in high R&D spend, can also attribute for Sweden's success in technologically advanced industries. Sweden's competitive levels of corporation tax, as well as tax relief offered to key foreign personnel, coupled with an impressive lifestyle proposition make it an attractive location for foreign investment.

The Amsterdam Region: the Amsterdam region attracts considerable amounts of foreign investment and outside companies account for 15% of the region's employment rates. A number of factors underpin the region's FDI proposition. The corporate tax regime offers incentives to companies including lower tax rates on their first €200,000 and tax breaks on R&D activity. The region's personnel tax rate is beneficial to expat workers and R&D professionals. Amsterdam has demonstrated strong performance and is international recognised in the ICT, Logistics, creative, life science, finance, high-tech and food sectors. It is home to a multicultural, multilingual, educated and adaptable workforce. It is a well-connected area both in terms of logistic infrastructure and digital connectivity. It scores highly on the European Commission's Quality of life survey, with 96% of residents recording overall satisfaction with their quality of life (topping the survey on this measure).

Copenhagen Capital Region: Denmark is internationally recognised for its business climate, with the World Bank ranking it as the top European region in its Ease of doing business report. Companies may be set up within 24 hours. It corporation tax rate is currently above the EU average, but the country plans to lower the tax to 22% by 2016. Tax breaks are available for R&D and a special tax rate is available for expat workers and researchers. The Copenhagen Capital Region has number of strong performing and internationally recognised sectors: Clean-tech; life sciences; ICT; transport and logistics; creative industries and food. The area is well connected offering a links between Northern and Continental Europe. The region performs well in R&D and innovation and its workforce is ranked highly in international measures of competiveness. The region performed well in the European Commission's Quality of life survey; with 97% of residents expressing satisfaction with the quality of life on offer there – the highest satisfaction rate in the EU.

Greater Zurich Area: Switzerland is ranked as the world's most competitive economy and the Greater Zurich area is viewed as the country's business centre. Despite not being a member of the EU bilateral agreements ensure the country has a close relationship with EU. Corporate tax rates in the Zurich at 21.17% are below the EU average. Tax incentives enable a much more favourable corporation tax for companies who secure a binding agreement with tax authorities, for holding companies and for domiciliary, mixed and principal companies. The region's financial centre is second only to London in Europe. The region performs well in other sectors, including life sciences, ICT, Clean-tech, high-tech, mechanical, electrical and metalworking, headquarters. Switzerland's workforce is ranked as the most competitive in the world. The country's R&D and Innovation performance is ranked as the second best by the world economic forum. The Zurich area is central to the country's research base and is home to a number of public and private research institutions. It a well-connected city and has been recognised as such by both the World Economic Forum and the DHL Connectedness Index.

Overall the FDI propositions of the regions outlined above demonstrate a number of areas of commonality. Each region promotes itself as an investment destination through a holistic approach. They sell a package of features rather than emphasising one particular feature or incentive.

Key aspects appear throughout the case studies:

- Each region is part of a strong national economy;
- Tax rates are often a selling point. In particular tax incentives which enable corporations to lower the effective rate of tax. These take a number of forms (with Great Zurich/ Switzerland showing the greatest variety and the potentially lowest rate of effective tax), although special tax rates are often provided for R&D activity. Individual taxes are important too, for example Copenhagen and Amsterdam regions operate special tax regimes for expat workers which act as a draw factor for talent;
- The business climate and support structure are significant in a number of cases. The example of Scotland and Nordrhein-Westfalen show the role a strong investment promotion agency can play and the value of incentives. Copenhagen's ease of business ranking and the ability to set-up a business within a 24 hour period are notable advantages. The investment agencies of other regions such as Greater Zurich AG, Copenhagen Capacity and I Amsterdam offer businesses take an advisory role offering business support such as market and industry insights, property and talent searches and advice on legal and tax matters.
- Connectivity, whether digitally or traditional infrastructure, is common selling point. Amsterdam is a particularly strong example of the significance of connectivity – its data hub has encourage a third of European data centres to set up there, and it port and airport facilities aid the region's global recognition as a connected city and the development of a significant logistics industry;
- In addition to offering companies access to domestic markets each regions position within the EU, or in the case of Greater Zurich its agreements with the EU, offers investors access to this wider market;
- Each area has a range of high performing existing business sectors. Often these have a positive international reputation such as Zurich's financial sector, Copenhagen's clean-tech industry and Stockholm's automation industry. Furthermore, the regions examined often demonstrate a high concentration of already existing FDI.
- A number of regions demonstrate the importance of historic industrial development. Nordrhein-Westfalen's industrial past, the 'Swiss Made' brand and Amsterdam's port all have historic roots that continue to serve the regions well today;

- Exploiting local advantages is also a common factor – some advantages include location (Nordrhein-Westfalen's central location, or Copenhagen's gateway to Northern Europe) and natural resources (such as Scotland's oil and gas industry);
- Workforce talent and education – a talented workforce is a selling point for all regions. The selling point of high levels of university graduates among the work force is often enhanced by the workforce being bilingual and/or multilingual;
- R&D and innovation – all regions examined perform well in R&D and innovation. They are strong in R&D and innovation intensive industries (such as high-tech, clean-tech and creative industries) and are home to universities and research institutions.
- Quality of life – quality of life is a selling point for a number of regions. This is particularly true of the Copenhagen and Amsterdam regions that score highly in the European Commission's Quality of life in cities survey 2013. Similarly Greater Stockholm's planning policy, that ensure that no one is more than 350 metres away from a green space and its public health services, have been cited as key aspects in the enhancing the area's attractiveness as a destination.

Northern Ireland Assembly

Research and Information Service
Briefing Paper

12 February 2015 NIAR 61-15

Aidan Stennett

Foreign Direct Investment in the Republic of Ireland

1 Heading

The following paper examines the Republic of Ireland's (RoI) Foreign Direct Investment (FDI) proposition by looking at perspectives on how it established itself as a FDI attractive region and current perspectives on its FDI offering. The paper also outlines RoI Government's strategic approach to maintaining and enhancing its FDI proposition up to 2020.

2 Performance

According to the Department of Jobs, Enterprise and Innovation, the RoI's has performed well in attracting FDI in recent years despite challenging economic conditions. The Department highlight the following positives:

- 3,300 (of which 1,100 are IDA Ireland supported) foreign owned firms employ approximately a quarter of a million people between them;
- Agency supported foreign owned firms:
  - directly employed 172,326 people, with a further 124,000 (estimated) employed indirectly in 2013;
  - contributed 72% of corporation tax revenues in 2012;
  - spent €13.2bn on locally sourced materials and services in 2012; and

- invested €1.4bn in R&D (2012), equating to 70% of all business expenditure on R&D.

- In 2012, 52% of foreign investment (164 investments overall) in the RoI emanated from the existing base of agency assisted foreign investors in the region.[1]

As a global economy the Republic of Ireland ranks highly in international performance indexes. It was ranked 10th for FDI inflows in the United Nations Conference on Trade and Development's Global Investment Trends Monitor 2014 (2013 data), placing it above developed economies such as Australia, Spain, Germany, Luxemburg and the Netherlands on this measure.

The World Economic Forum's Global Competiveness Index 2015 ranks the RoI as 25th overall (out of 144 countries) making it the 13th highest ranked European Country.[2] The RoI is ranked in the top twenty economies on a number of measures:

- Health and primary education – ranked eighth;
- Higher education and training measure – ranked 17th, scoring particularly well in the areas of secondary education enrolment (sixth) and quality of the educational system (fifth);
- Institutions – ranked 15th, placed within the top ten in the following measures Irregular payments and bribes (ninth), judicial independence (sixth), and strength of investor protection (sixth);
- Goods market efficiency – ranked 10th, scoring highly in sub measures competition (seventh), and foreign competition (fourth);
- Labour market efficiency – ranked 18th, scoring highly in the capacity to attract talent in particular (ranked 10th);
- Technological readiness – ranked 12th, scoring highly in the technological adoption (second), and FDI and technological transfer (first);
- Business sophistication – ranked 20th; and
- Innovation – ranked 20th.[3]

IBM's Global Location Trends 2014, which measures FDI globally, ranked the RoI as 27th as a global destination. This overall ranking obscures the country's performance on other measures, notably job creation from FDI where it was ranked fourth overall in 2013 (a fall from second in 2012) and in average value added from investment projects where the country was ranked first in 2013.[4]

3 Historic perspectives and the role of corporation tax

Before examining the RoI's current and future FDI proposition it is worthwhile examining how the country developed as an FDI location. As part of a broader paper on the RoI's economy published in 2006 the OECD devoted a section to briefly explaining what it refers to as 'The Irish Miracle'. There is value in repeating this assessment as it provides a succinct overview of the variety of factors that underpinned the country's *'years of economic failure followed*

1 Department of Jobs, Enterprise and Innovation, Policy Statement on Foreign Direct Investment in Ireland (July 2014) http://www.enterprise.gov.ie/en/Publications/Policy_Statement_on_Foreign_Direct_Investment_in_Ireland_PDF_689KB_.pdf

2 World Economic Forum Global Competitiveness Report 2014-15, Country Profile Ireland http://reports.weforum.org/global-competitiveness-report-2014-2015/rankings/

3 *Ibid*

4 IBM, Global Location Trends 2014, http://www-01.ibm.com/common/ssi/cgi-bin/ssialias?subtype=XB&infotype=PM&appname=GBSE_GB_TI_USEN&htmlfid=GBE03629USEN&attachment=GBE03629USEN.PDF#loaded

by its spectacular success from 1993 onwards'. The OECD summarise this development as follows:

In some ways, the interesting question is not why Ireland boomed, but why it took so long to take off. Many of the most important factors behind Ireland's success were in place long before the economy took off in the 1990s. While it was a relative latecomer when it came to opening up trade, it made a decisive shift away from protectionist policies in the 1960s. Its commitment to education was also late, with free universal secondary schooling in place only from 1967. That should have begun to pay dividends in the early 1980s, around a decade before the boom actually began. Tax breaks for exporters and foreign investors had been in place since the 1950s. The benefits of joining the Common Market began in 1973. These included access to a wider market, the opportunity to diversify away from the UK market and of course direct financial transfers. The introduction of the single market was also important as it raised the attractiveness of Ireland as an export platform, especially because it is English-speaking.

The ground work had to be put in place before many of these factors could begin to pay off. That began in 1987, with the fiscal and monetary consolidation that aimed at bringing the deficit down from its level of more than 15% of GNP. Wage moderation played a key role. The social partnership arrangements, which delivered tax cuts in return for wage restraint, possibly helped keep wages in check but some degree of wage restraint was inevitable given how tightly integrated are the Irish and UK labour markets. Alongside the tax cuts, expenditure restraint was also important. Deregulation of key sectors also helped, especially telecommunications and the airline industry. The mid 1980s also saw a decisive shift away from a policy of fighting a rearguard action to try to save dying sectors and towards a policy of laying down the foundations for growth in the new industries. The focus on getting the fundamentals right played a key role in the foreign direct investment boom, especially from US multinationals. A benign external environment contributed. Foreign direct investment was encouraged by the strength of the US economy and the global demand for high-tech products. Finally, and by no means least important, have been demographic factors. Until recently, exceptionally high birth rates have made Ireland one of the youngest countries in the OECD while emigration in the 1950s and 1960s means there are fewer elderly pensioners today than there otherwise would have been. The fall in the dependency ratio has given a considerable boost to activity. All these factors have contributed to, and been magnified by, what is perhaps the most striking feature of Ireland's performance: its ability to create jobs. A highly elastic labour supply (given the stock of Irish emigrants abroad, the initial high level of unemployment and the low level of female participation) helped sustain growth.[5]

The OECD highlights a number of interrelated factors that contributed to the RoI's pre-recession performance. These factors included the corporation tax rate, but, in the OECD's assessment, this is only one of a number of factors positively impacting the country's economic development. Such factors are diverse and include deficit reduction, wage moderation, deregulation, the growth of new industries, the external economy, and the region's demography. The OECD concluded:

If there are any lessons for other countries, they are that there are no simple solutions; that not much will happen until a range of sensible policies coalesce (which means that countries cannot cherry-pick the bits of a reform agenda they like and leave out the rest); and that the catch-up process is not automatic – Ireland is a good example of Robert Lucas's dictum that "a successful theory of economic miracles should … offer the possibility of rapid growth episodes, but should not imply their occurrence as a simple consequence of relative backwardness" … As John Fitz Gerald put it, "these policies, when considered individually, may be unexciting and unimportant. However, the cumulative impact can make the difference between convergence and divergence"...[6]

5 OECD Economic Survey, Ireland (2006) http://homepage.ntu.edu.tw/~lbh/ref/OECD/44.pdf

6 *Ibid*

In the Varney report, Sir David Varney similarly argued that a low corporation tax was one of a number of features of the RoI's economic success:

Taxation has formed a key part of the commentary on the Republic's growth performance. From 1956 to 1980, the major concession came in the form of an exemption from corporation tax for profits derived from exports. Thereafter, in order to come into compliance with the EU requirement of non-discrimination, the exemption was replaced by a preferential 10 per cent corporation tax rate applied to manufacturing and certain internationally traded services.

In 1996, the corporation tax regime came under pressure from the European Commission on state aids aspects, leading to a phased move to unify by 2003 the corporation tax rate across the economy at 12.5 per cent on all trading income. The manufacturing rate continues to apply to 2010 for existing companies. While the low corporation tax regime can be seen as attractive to foreign investors, as well as offering profit shifting opportunities… it cannot in itself explain Ireland's success. Foreign investment to Ireland has not only increased in quantity, but it has also changed in quality. Prior to the late 1980s, it tended to involve low-skill assembly and packaging work across a wide range of sectors, with few local linkages and high profit repatriation. Since then, however, it has been concentrated in technologically sophisticated sectors such as electronics and pharmaceuticals.

The Republic's low corporation tax regime cannot explain these developments, particularly as these taxes have actually risen over time, i.e. from zero in 1958 to 10 per cent in 1981 and 12.5 per cent in 2003. Rather, the Republic of Ireland moved early in trying to establish a 'unique selling point', particularly to US investors. This combined being the lowest tax environment for manufacturing investment among advanced economies with an educated and young English-speaking population, well marketed to take advantage of its historic ties to the USA.[7]

PriceWaterhouseCoopers (PwC), in assessing the potential impact of the devolution of corporation tax to Northern Ireland, again pointed toward a range of factors:

In terms of the impact of low corporation tax as a direct driver of FDI in the Republic of Ireland, we concluded that:

- The Republic of Ireland had a low corporation tax for three decades before the Irish economy began to grow rapidly, while during the 1980s – the period of the boom in US FDI – there were no changes in the Irish tax system.
- As the rate of Irish corporation tax actually increased in the 1980s, it is not therefore straightforward to invoke low corporation tax as an explanation of the timing of the boom.
- It is likely that a growing skills base, a business-friendly administration, membership of the EU, operation costs and a period of aggressive and sustained US investment in European markets all combined with low corporation tax as an explanation of the timing of the boom.
- We note that, while RoI retains corporation tax at 12.5 per cent, this is now complemented by other incentives and advantages including R&D tax credits and IP incentives that have encouraged clustering and investment from specific sectors.[8]

Again, this assessment suggests that a number of interrelating factors have influenced the RoI's economic success, particularly in relation to FDI. In the RoI government's own view the history of FDI in the country has been one of policy shifts and step changes:

7 Quoted in House of Commons Devolution of Corporation Tax to Northern Ireland (28 January 2015) http://www.parliament.uk/Templates/BriefingPapers/Pages/BPPdfDownload.aspx?bp-id=SN07078

8 *Ibid*

We have made some pivotal policy shifts in the past that helped to set Ireland apart in terms of our FDI offering, for example: education reforms in the 1960s; investment in International Financial Services Centre (IFSC) in the 1980s; Global Crossing in the late 1990s; and the step change in Science, Technology and Innovation investments since 2000, among others.[9]

The next section of this paper will look at current assessments of the RoI's FDI proposition, these assessments also point to a combination of factors. The country's deficit is falling and it is on course to meet the EU Stability and Growth Pact limit of below 3% by the end of 2015.[10]

4 Current perspectives on RoI's FDI proposition

More recent assessments of the RoI's FDI proposition – including UK Trade and Investment, the US Department of State, and joint Grant Thornton and Amárch research – again highlight the many factors that influence the country's success at attracting outside investment.

4.1 UK Trade and Investment

UK Trade and Investment comment that the RoI has *'one of the lowest 'onshore' statutory corporate tax rates in the world'* and highlight the country's *'strong economic environment', 'open economy', 'highly educated workforce'* and the *'flexibility and range of Small and Medium Sized Enterprises (SMEs) representing 99.8% of active enterprises'.* [11]

They note that the RoI is home to a number of existing economic clusters that have successfully attracted leading global companies. It hosts:

- Nine out of top ten global pharmaceutical companies, the RoI is the eighth largest pharmaceutical manufacturer globally;
- The ICT sector hosts 10 of the top 10 ICT companies, and 9 of the top 10 companies developed on the Internet, it is a base for companies such as Intel, Microsoft, Twitter, LinkedIn, Facebook, Google and Dropbox;
- 12 of the top 15 medical device companies, the RoI is second largest exporter of medical devices in Europe.

In addition other existing sectors display strong performance:

- Agriculture and food and drink contribute 8% of GDP and support 160,000 jobs. The country is home to a *'large number of well-known indigenous and multinational agri-food companies'*;
- Renewable energy – UK Trade and Investment note that the RoI has increased its focus on the development of renewable energy resources and the region has a natural advantage for the development of wind and wave power.
- Construction – UK Trade and Investment estimate that the construction industry in the RoI was valued at €11bn in 2014, creating an estimated 10,000 jobs in the same year.[12]

Moreover, UK Trade and Investment notes the RoI is emerging from a challenging economic situation post-2008. Although challenges remain, including a reduction in the purchasing

9 The Department of Jobs, Enterprise and Innovation, Policy Statement on Foreign Direct Investment in Ireland (July 2014) http://www.enterprise.gov.ie/en/Publications/Policy_Statement_on_Foreign_Direct_Investment_in_Ireland_PDF_689KB_.pdf

10 UK Trade and Investment, Country Guides Ireland (accessed 10 February 2015) https://www.gov.uk/government/publications/exporting-to-ireland/exporting-to-ireland#challenges-doing-business-in-ireland

11 *Ibid*

12 *Ibid*

power of households and turbulent consumer confidence, there has been marked improvement during 2014.[13]

4.2 United States Department of State

Investment from the US into the RoI has been substantial. As of 2012, US foreign investment stock in the country was valued at $204bn, more than the US investments into China, Russia and Brazil combined. US subsidiaries based in the RoI (700 in total) directly employ 115,000 people and indirectly support employment for a further 250,000. Given the US' penetration into the RoI economy, its perspective on the country as an investment location provides a significant insight into what makes it an attractive FDI location.

The US Department of State (DoS) published an Investment Climate Statement on the RoI in June 2014. This assessment highlighted a range of factors enhancing the RoI's attractiveness as an investment location. It notes:

One of Ireland's most attractive features as an FDI destination is its low corporate tax rate, which has remained at 12.5 percent since 2003. Other factors cited by foreign firms include: the quality and flexibility of the English-speaking workforce, availability of a multi-lingual labour force, cooperative labour relations, political stability, pro-business government policies and regulators, a transparent judicial system, transportation links, proximity to the United States and Europe, and the drawing power of existing companies operating successfully in Ireland (a "clustering" effect). All firms incorporated in Ireland are treated on an equal basis; Ireland's judicial system is transparent and upholds the sanctity of contracts, as well as laws affecting foreign investment.[14]

The report specifically focuses on a number of areas where the RoI is particularly attractive, including:

- Taxation – the DoS calls the RoI's low corporation tax rate one of its '*most attractive features as an FDI destination*'. They add that the government continues to *'oppose proposals not only to harmonise taxes at a single EU rate, but also to standardise the accounting methods used by EU Member States to calculate corporate taxes'.*
- Few additional restrictions on foreign investors – the DoS notes that all firms incorporated in the RoI are treated on an equal basis. There are almost no constraints preventing foreign individuals or entities from ownership or participation in RoI firms (a notable exception is the aviation which must be 50% owned by EU residents to ensure full access to European airspace). Foreign investors are not restricted in the purchase of land for residential or industrial purposes. Formal screening of FDI is common only when the investor is receipt of grants or assistance from one of the investment promotion agencies. Assistance, financial or otherwise, is often predicated on jobs and investment criteria and investors are often assessed to ensure these criteria or met. The DoS states that these processes *'are transparent and do not impede investment'.*
- Investment incentives – Regional Aid Guidelines govern the maximum amount grant aid the RoI Government can provide to companies. The aid ceilings reflect the different levels of development of business and infrastructure in areas outside of Greater Dublin. Grant Aid is currently administered by three bodies – IDA Ireland, Shannon Development, and Udaras.

While Investors are free to choose where in the RoI they would like to locate IDA Ireland has encouraged investment in regions outside Dublin since the 1990s. To encourage the location of firms outside Dublin, IDA Ireland has developed *'magnets of attraction'*, including: a Cross Border Business Park linking Letterkenny with Derry/Londonderry, a regional Data Center

13 *Ibid*

14 The US Department of State, Investment Climate Report, Ireland (July 2014) http://www.state.gov/documents/organization/227418.pdf

in Limerick, and the National Microelectronics Research Center in Cork. IDA Ireland has supported construction of business parks in Oranmore and Dundalk for the biotechnology sector.

The RoI Government's R&D strategy encourages foreign companies to engage in R&D to build the country's knowledge-intensity and innovation economy. R&D support has been provided by the Science Foundation Ireland since 2000. As part of its current strategy the Foundation is investing $200m in R&D annually. A key aspect of the RoI's R&D strategy is its 25% tax credit for qualifying R&D expenditure[15] for companies engaged in in-house R&D activity. This credit may be set against a company's corporation tax liabilities.

- Visa, work permit and residence requirements – the DoS rate the visa, residence and work permit requirements of the RoI as non-discriminatory and 'generally liberal' for US investors. Additional they note that there are *'no restrictions on the numbers and duration of employment of foreign managers brought in to supervise foreign investment projects, though their work permits must renewed annually'.*
- Property rights – the DoS note that both real and intellectual property rights are enforced. The RoI is a member of the World Intellectual Property Organisation and party to the International Convention for the Protection of Intellectual Property.
- Labour force – the DoS notes that the RoI's labour regulation is *'less restrictive compared with most continental EU countries'*. The workforce is characterised by a high degree of labour flexibility, mobility and education. The latter is seen as particularly attractive to foreign investors as it has led to the availability of a young and highly educated work-force. DoS cite the removal of tuition fees from third-level education in 1995 as one of the key driver in the emergence of highly-educated workforce. They note too that 60% of new entrants to third level education undertake business, engineering, computer science or science courses.
- Foreign Trade Zones and Free Ports – The Shannon duty-free Processing Zone provides a number of benefits to eligible companies, including duty free importation of goods from non-EU countries for storage, handling or processing; duty free exporting to non-EU countries from Shannon; and no Value Added Tax (VAT) on imported goods, including capital equipment. This is available to FDI companies as well as local firms.
- Double Taxation Agreements – he RoI has signed double taxation agreements with 70 countries[16]. These agreements, which generally cover corporation tax, income tax and capital gains tax, seek to encourage investors that would be otherwise put off by double taxation[17].
- Corruption – the DoS does not view corruption as a problem for FDI investors.
- Transparency of the Regulatory regime – in the DoS view, the RoI *'employs a transparent policy framework that fosters competition between private businesses in a non-discriminatory fashion'*. This ensures that FDI investors get the same treatment as national enterprise in their dealing with the government.

15 Qualifying R&D activities must be: systematic, investigative or experimental activities; in the field of science and technology; involve one or more of basic research, applied research and/or experimental development; seek to achieve scientific or technological advancement; and involve the resolution of scientific or technological uncertainty.

16 The list is as follows Albania, Armenia, Australia, Austria, Bahrain, Belarus, Belgium, Bosnia & Herzegovina, Bulgaria, Canada, Chile, China, Croatia, Cyprus, Czech Republic, Denmark, Egypt, Estonia, Finland, France, Georgia, Germany, Greece, Hong Kong, Hungary, Iceland, India, Israel, Italy, Japan, Korea (Republic of), Kuwait, Latvia, Lithuania, Luxembourg, Macedonia, Malaysia, Malta, Mexico, Moldova, Montenegro, Morocco, Netherlands, New Zealand, Norway, Pakistan, Panama, Poland, Portugal, Qatar, Romania, Russia, Saudi Arabia, Serbia, Singapore, Slovak Republic, Slovenia, South Africa, Spain, Sweden, Switzerland, Thailand, Turkey, United Arab Emirates, Ukraine, United Kingdom, United States, Uzbekistan, Vietnam and Zambia.

17 Double Taxation Agreements or Treaties are defined as an agreement between two or more countries that reduces the amount of tax that a international worker or company must pay, so they do not have to pay tax twice on the same income http://dictionary.cambridge.org/dictionary/business-english/double-taxation-treaty

- Efficient Capital Markets and Portfolio Investment – the DoS states that RoI capital markets and portfolio investments *'operate freely, and there is no discrimination between Irish and foreign firms'*. It also notes that RoI's successful exit from Troika programme has led to the country re-entering sovereign debt markets and obtaining lower interest rates than it did prior to the economic crisis.[18]

4.3 Grant Thornton and Amárach Research

Joint research by Grant Thornton and Amárach Research published in July 2014, surveyed *'senior level executives and key decision makers in Ireland and North America'* to identify the factors that positively contribute to the county's *'reputation as a place to do business'*. The research used the results of these surveys and quantitative data to highlight positive and negative factors impacting the country's current FDI proposition.[19]

Survey respondents were of the view that the *'12.5% corporate tax rate continues to be A fundamental pillar in Ireland's FDI offering'*. Significantly they added that the *'predictability of the rate is as important as the rate itself'*. The report highlights a number of other attractions of the RoI's tax regime:

- The holding company regime was seen to compare well other offering globally;
- Large network of double taxation treaty agreements;
- The Research and development tax credit;
- Intellectual property (IP) tax regime (IP income qualifies for the 12.5% rate of corporation tax and companies may claim a tax deduction for the capital cost of the IP); and
- A tax exemption on income and gains for investment funds regardless of where their investors are resident.[20]

In the area of 'people talent' respondents expressed a view that the RoI was open to skills from elsewhere in the EU, had a higher proportion of young people with higher education qualifications than other EU countries, provided access to a local pool of skilled talent, and enabled them to attract key mobile staff. Conversely, employers expressed concern that a skills gap (between supply and demand) may impact their ability to grow their business. Businesses were open to recruiting skilled individuals from elsewhere in the EU and provided positive feedback on government measures to bridge skill gaps. There was additional concern, however, that the personal tax regime made it difficult to attract senior staff to the RoI. The report concluded that the RoI's:

> *…people talent is a key differentiator when it comes to organisations making a decision to invest [there]. The country's world renowned education system and educated work force with a perceived 'can do' attitude are all factors which combine to endear Ireland to potential investors'.*[21]

In the area 'Infrastructure and support services' the RoI was deemed to offer advantages to investors through its location in and membership of the EU, which provides access to up to 500 million potential customers and 28% of global GDP. Additionally, the RoI's status as the only country within the Eurozone where English is the principle language was viewed as a *'distinct advantage',* not least because membership of the Eurozone reduces costs and risk associated with currency exchange for companies who chose it as a location of European operations. Other conclusions in this area, both positive and negative, include:

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18 The US Department of State, Investment Climate Report, Ireland (July 2014) http://www.state.gov/documents/organization/227418.pdf

19 Grant Thornton and Amárach Research, Foreign Direct Investment in Ireland: Sustaining the success (2014) http://www.grantthornton.ie/db/Attachments/Grant-Thornton-Foreign-Direct-Investment-in-Ireland_F.pdf

20 *Ibid*

21 *Ibid*

- The RoI banking and financial infrastructure is well developed, with half of the world's top banks and insurance companies have operations there;
- Dublin's attractiveness as a centre of financial services industry has declined in recent years following the financial crash;
- The availability of commercial property has suffered from a lack of development over the last number of years, resulting in a shortage in Grade A space. Supply is however, expected to increase;
- Transport, communications and property infrastructures are challenges to FDI, and can limit investment outside Dublin. These issues are being addressed however.[22]

On the issue of Intellectual Property the study concluded:

Ireland's strong and internationally recognised IP regime and the country's substantial research and development support offering greatly contribute to the island's continued in attracting and retaining business.[23]

On the cost of doing business the report notes despite the cost of doing business declining significantly during the economic crisis, costs have been increasing since the end of 2012. The cost of labour, transportation, utilities and property were viewed as high. In addition, the RoI has higher interest rates compared to the EU average on a range of credit products increasing the cost of credit for businesses.[24]

There are a number of positives, however. Labour productivity, which provides an indication on return of investment on human resource by employers, was amongst the highest in the OECD. The country's employer social security contributions were among the lowest of OECD and EU countries. Despite a high cost of living, the RoI quality of living is ranked highly – Dublin was, for example, ranked 34th of 223 cities (above London and Tokyo) in the Mercer's Quality of Living Ranking.[25]

5 Future strategy

The Department of Jobs, Enterprise and Innovation released a 'Policy Statement on Foreign Direct Investment in Ireland' in July 2014. This statement sets out the government's FDI policy to 2020, a policy that has five main aims:

- Maintaining the RoI's strong performance in the context of intensifying competition globally for investment and talent;
- Building a sustainable and diverse FDI portfolio in terms of sectors and activities and source markets;
- Meeting the ecosystem requirements of globalised multinationals and the mobile young economy;
- Deriving the optimum economic returns for Ireland across a variety of cross-border modes of investment, including greenfield projects, reinvestment, start-ups and M&A; and
- Deploying international best practice in policy execution and gain system wide engagement from relevant partners in policy implementation and investment promotion.[26]

22 *Ibid*

23 *Ibid*

24 *Ibid*

25 *Ibid*

26 The Department of Jobs, Enterprise and Innovation, Policy Statement on Foreign Direct Investment in Ireland (July 2014) http://www.enterprise.gov.ie/en/Publications/Policy_Statement_on_Foreign_Direct_Investment_in_Ireland_PDF_689KB_.pdf

The strategic approach to achieving these aims recognises that:

Ireland's relative cost competitiveness, corporate tax rate and available direct firm level financial supports remain critically important - but in reality they are no longer aspects that will substantially differentiate Ireland's offering for FDI over the longer term. We need both to maintain a competitive offering in these areas and at the same time redouble efforts to develop and reinforce other aspects to truly differentiate Ireland's offering.[27]

As such, the strategy is focussed on developing:

- Talent – by ensuring the region is an 'internationally competitive location for talent attraction and growth';
- Place-making – creating 'competitive, dynamic and globally connected city regions as attractors of investment, and position Dublin as the leading hotbed for start-ups, fast growing firms and talent'; and
- Connected world leading research – to ensure the RoI is 'recognised as one of the most enterprise aligned science, technology & innovation systems in the world, renowned for excellence in research, connecting and collaborating with enterprise, delivering sustainable economic impact, and attracting investment and exceptional talent'.[28]

Within the strategy FDI is viewed as a means of wider economic growth, specifically fostering:

- Job and wealth creation;
- Productivity and value added;
- Development of capabilities and critical mass in key sectors;
- Innovation;
- In-direct job and supply chain creation;
- Access to global value chains for locally owned companies; and
- Ensuring that FDI contributes to regional economic development.[29]

Annex 1 summaries the RoI's strategic approach to FDI promotion to 2020. The strategic approach focuses on a number of key areas:

- Sectors and activities – interventions in this area will seek to further expand and transform the country's top performing sectors and to insulate them from external shocks. It will also see the country positioning itself for new opportunities in areas where it has the potential for greater competitiveness, such as agri-food and clean-tech.
- Source markets – the strategy recognises that the US has been the source of a significant portion of FDI in the RoI (70% of FDI related employment is from US companies). It also notes that European FDI is the second greatest source of FDI. The interventions in this area will seek to increase the diversity of FDI source markets with a particular focus on China, India and Japan.
- Facilitating different modes of investment – interventions here will seek to maintain a diversity in modes of investment including direct investments, mergers and acquisitions, partnerships between research and higher education institutions, and indirect investments through sovereign wealth funds, venture and development funds, and state owned enterprises.
- Nurturing key differentiators – the focus here is on the three elements identified as differentiating the RoI's investment proposition from others (as noted above, talent, place making and connected world leading research). Interventions include:

27 *Ibid*

28 *Ibid*

29 *Ibid*

- Talent – Continuing to nurture talent so that it meets the needs of an advanced economy and that facilitates FDI, entrepreneurship and innovation. The strategy recognises that nurturing the talent pool includes not only developing talent but attracting and retaining talent. The government will monitor supply and demand of skills and intervene were appropriate. To attract talent the government will focus on quality of life, effective place making, ease of mobility, cost of living and personal taxation.
- Place making – interventions in this area are based on the recognition that city regions are the focal points for internationally mobile investment. Place-making involves the interaction of policy makers and stake holders in a range of areas (planning, architects, business, infrastructure, etc.) to ensure to increase the attractiveness of regions as places to live, work and invest. The focus is two-fold enhancing the value proposition of the regions through place making investment (for example national roads infrastructure) and maintaining and enhancing Dublin's attractiveness.
- Connected world leading research – the rationale for interventions in this area is that a dynamic innovation system will prove attractive to investors seeking competitive advantage in the global market. Interventions in this area will seek to build on successes (such as world ranking for scientific research in molecular genetics and genomics, immunology and materials research) by embarking on a Research Prioritisation Exercise and the development of a Science Technology and Innovation policy to 2020.

- Sector ecosystem development – the purpose of interventions in this area are to encourage FDI by strengthening the sectoral ecosystem, cluster policy and governance structures that support the enterprise base. This includes interventions such as: 'pump-priming' self-sustaining, innovative clusters and ecosystems in priority areas; ensuring a proactive, joined-up approach to identifying and addressing ecosystem needs; re-skilling the unemployed in areas of relevance to sectoral needs; targeting investment promotion towards areas of strategic importance to the growth of clusters; and optimising inter-firm connections.
- Cost base – interventions here will seek to increase cost-competiveness (as opposed to low cost) particularly in relation to labour, energy business and professional service costs.
- Infrastructure – interventions here will seek to improve efficiency, enhance productivity and lower costs through investments in public transport, national road networks and urban transport.
- The corporate tax – the government will seek to maintain 12.5% tax rate and to work with the OECD in the area of Base Erosion and Profit Shifting (BEPS)[30].
- Property Solutions – in this area the government, IDA and National Assets Management Agency will continue its work to ensure that potential investors are offered property solutions.
- Investment Promotion – interventions here will be aimed at maintaining the effectiveness of investment promotion and funding carried out by IDA Ireland and sister agencies. This will be achieved in part by *'building relationships and close cooperation with other agencies, State bodies, and Government Departments at national, regional and local level'.*
- Financial Incentives and funding – there are three factors motivating intervention in this area: the recognition foreign companies report that financial incentives influence their investment decisions; the reality that State Aid Funding is becoming more restrictive under the modernisation of State Aid Guidelines, particularly in light of Regional Aid changes;

30 The OECD's work on Base Erosion and Profit Shifting project represents a co-ordinated international effort by the G20 and OECD member countries to tackle the issue of the amounts of corporation tax being paid by multinational corporations. It is not focussed on the rate of corporation tax charged by jurisdictions and the outcome of these discussion will not impact the RoI's 12.5% rate

and the desire to exploit other funding sources to minimise the impact of these change. DJEI will drive a national approach to optimising the value of EU funds in the face of this new reality.

- Effective policy execution – increased global competition has made it increasingly difficult for countries to differentiate themselves from competitors. To maximise the impact of interventions the RoI government will seek to enhance and demonstrate the following traits within their policies: strategic long-term objectives; system-wide engagement; effective partnership and collaboration; and high-level political commitment.[31]

6 Discussion and conclusions

Looking at the RoI FDI proposition through the lens of its historical development, perspectives on it current offering, and its future direction shows that a lower rate of corporation tax has been (and will continue to be) a significant, but not the only, pull factor for businesses. It is perhaps telling that a government department from of the RoI's largest investor, the US, explicitly states that '*One of Ireland's most attractive features as an FDI destination is its low corporate tax rate'*. Similarly, the RoI's resistance to European Commission attempts to harmonise corporation tax rates across the EU suggests that it continues to see it as competitive advantage.

It is equally significant, however, that all of the commentaries outlined above stress that there is more to the RoI's FDI proposition than the rate of tax it offers. Perhaps the most explicit statement to this affect is the government's own strategy for FDI up to 2020 which argues:

Ireland's relative cost competitiveness, corporate tax rate and available direct firm level financial supports remain critically important - but in reality they are no longer aspects that will substantially differentiate Ireland's offering for FDI over the longer term.[32]

As well as maintaining the country's competitive advantage in the area of tax, financial support and relative cost, this strategy seeks to bolster other strengths and address weakness with a view to '*truly differentiate'* the RoI's FDI proposition from that of its competitors.

The country's advantages are identified throughout section four, which provides outside investor perspectives on the area as FDI location. These include:

- The Low corporation tax is complimented with tax incentives for specific activities, such as the country's R&D tax credit.
- These are further complimented by financial incentives such as grant aid. Although changes to State Aid rules will limit the effectiveness of grant aid in the future the RoI Government is currently drawing up plans to maximise other EU funding to mitigate the impact of these changes.
- A strong economic environment that has shown resilience in the wake of the 2008 financial crisis. The RoI has successfully exited the Troika programme, its deficit is falling and it is on course to meet the EU Stability and Growth Pact limit of below 3% by the end of 2015.
- It is home to a base of already existing successful industry sectors – such as ICT and life-sciences - and an established base of FDI, including strong links to the US, which continues to invest in the country.
- The country has a flexible, mobile and educated workforce. In addition 60% of new university entrants undertake courses in business, engineering, computer science or

31 *Ibid*

32 *Ibid*

science. Whilst skills-gaps exist, the country and its businesses are open to securing skills from elsewhere in the EU.

- The country's regulation framework ensures there are few additional restrictions on foreign investors, ensuring they are treated equally to local business (for the most part, although there are often job creation criteria imposed on investors who receive grant funding).
- The country's property rights regime, visa, work permit and residence requirements, Double Taxation Agreements, corruption regulations, the transparency of the regulatory regime and its capital markets and portfolio investment are all viewed as conducive to FDI.
- Whilst the cost of doing business is high in some areas – such as labour, transportation, utilities and property - the country offers is cost competitive in other areas. Labour productivity, is amongst the highest in the OECD and employer social security contributions were among the lowest of OECD and EU countries.

Looking at the future direction of travel of the RoI's FDI proposition, the country's strategy to 2020 demonstrates a desire to build upon existing strengths and a reluctance to rest upon achievements. In this respect the strategy seeks to:

- Expand the top performing sectors and increase competitiveness in other sectors,
- Increase FDI inflows from under represented regions, while maintaining the levels of investment from the US and Europe;
- Diversify FDI by facilitating different mode of investment;
- Enhance the Country's talent pool by developing and attracting the skills necessary for advanced economy that facilitates FDI, entrepreneurship and innovation;
- Continue to develop Dublin city and the regions to attract investors and talent;
- Build upon successes in the area of R&D and innovation;
- Develop the support to sectors and clusters by enhancing sector ecosystems;
- Increase cost competiveness, invest in infrastructure, and ensure investors have a range of property options;
- Maintain the effectiveness of investment promotion agencies and optimise the drawdown of EU funds to mitigate the negative impacts of changes to State Aid rules; and
- Continue to offer 12.5% rate of corporation tax, while working with the OECD on BEPS.

Overall, the RoI case demonstrates a holistic approach to FDI attraction. The country is viewed to offer a package of benefits to investors and its strategic approach to securing future investment seeks to maintain current advantageous whilst enhancing other areas. This is consistent with the findings of Research and Information Service's previous case study analysis on the FDI propositions of various EU regions (NIAR 20-15), i.e. that regions with strong FDI propositions promote themselves based on their overall investment offering rather than emphasising a particular factor or factors of that offering.

It is also consistent with the OECD's 2006 finding:

If there are any lessons [from the RoI experience] for other countries, they are that there are no simple solutions; that not much will happen until a range of sensible policies coalesce.[33]

33 OECD Economic Survey, Ireland (2006) http://homepage.ntu.edu.tw/~lbh/ref/OECD/44.pdf

Annex 1: RoI's FDI Strategy to 2020 summary

Strategic Priority	Areas/Sectors/ Agencies/etc.	Actions
Sectors and activities	• Life Sciences • ICT • Financial Services • Content & Consumer Business Services • Engineering • Food	• Build the RoI's FDI strengths in sectors and activities, supported by national level sector strategies, continued focus on company transformation, and enhanced levels of cross-agency information and market intelligence sharing so that opportunities within and across these sectors are identified at an early stage. • Target increased levels of FDI from firms addressing the Food and Beverage markets including ingredients, consumer foods, nutrition and nutraceuticals, and work with firms already established here to broaden their corporate mandates, including RD&I and HQs. • Target FDI that can commercialise and exploit in Ireland those areas prioritised for research investment. • Seek out new FDI opportunities for the RoI- that will emerge from niche areas and new market segments where we have little activity currently, and/or where FDI can address business environment gaps, further strengthen the manufacturing ecosystem, promote increased productivity, and stimulate innovation in the RoI economy.
Source Markets	• US • Japan • Germany • France • UK • China • India	• Strengthen the RoI's relationship with the US as our principal source market, both for new business and reinvestment opportunities and capture emerging opportunities in European markets. • Further diversify the FDI portfolio, tapping into sectoral opportunities arising from high-growth, emerging and exploratory markets based on the tiered approach set out in the Review of the Trade, Tourism and Investment Strategy 2010-2015. • Position the RoI to take advantage of emerging opportunities arising from re-shoring/next-shoring corporate strategies of foreign and indigenous multinationals. • Continue to monitor developments in relation to international trade negotiations such as the Transatlantic Trade and Investment Partnership (TTIP) and ensure that Ireland is positioned to take advantage of potential FDI related opportunities arising.

Strategic Priority	Areas/Sectors/ Agencies/etc.	Actions
Facilitating different modes of investment	• Direct Investments • Mergers and Acquisitions • Partnerships with research and Higher Education Instituions • Indirect investments through sovereign wealth fund investments, venture and development funds, and state owned enterprises.	• Ensure that the RoI continues to provide an open and attractive environment for the full range of alternative modes of inward investment that can deliver net economic benefits for Ireland, including job creation, new investment, innovation, productivity and scale.

Strategic Priority	Areas/Sectors/ Agencies/etc.	Actions
Nurturing key differentiators	• Talent • Place making • Connected world leading research	• Develop and implement a National Talent Drive that reinforces RoI's reputation for the quality of its people and establishes the region as a hub for talent. Underpinned by a National Skills Strategy. • Human capital development – ensuring the education system is delivering to specific skills demand, nurturing higher-order skills across all levels of education, and implementation of structural reforms in higher & further education and training sector and apprenticeships. • Broader factors to attract and retain mobile talent – incl. personal taxation, visas, work permits, cost of living and place-making aspects. • Ensure city regions provide a credible proposition in a global context, leveraging regionally based assets and potential; supported by: Cross agency Regional Enterprise Development Frameworks for each of the NUTS III regions, which will set out regional enterprise strengths and investment needs to achieve their potential. These will provide strong direction in the preparation of RSESs under the Local Government Reform Act 2014 and the National Spatial Strategy. • Address priority place-specific infrastructure deficits that are impacting negatively on the attractiveness of city regions, through orienting the Public Capital Programme toward investments that support business needs, progressing the development of an urban regeneration investment strategy, and targeting European investment/ development funding over the 2014-2020 period • Enhance the Dublin City Region - as a place to live, invest, grow a business, and nurture innovation. Instigate a coordinated, partnership approach to forward planning and facilitation of Dublin's start-up ecosystem. The new National Spatial Strategy will explicitly set out an urban policy that prioritises accelerated investment in Dublin. • Reinforce enterprise-aligned scientific excellence with impact in line with the Research Prioritisation Exercise providing research and knowledge for enterprises of today and opening future opportunities for investment.
		• Set out the strategic direction for our Science Technology and Innovation policy to 2020, to include ambitious targets to grow a defined number of national research centres that will conduct world leading research of relevance to key growth sectors in Ireland.

Strategic Priority	Areas/Sectors/ Agencies/etc.	Actions
Sector Ecosystem Development & clustering policy	• Financial services • Software • digital content and social media • Film • Tourism • Green tech • Marine • Food	• Build globally competitive clusters and ecosystems for key sectors, combining strong RoI owned and foreign firm activity, sub-supply, research and supportive regulation etc., and specifically implement a more intensive and systematic approach to develop dynamic national sector strategies, involving the full range of stakeholders across the system, and including the appointment of a sector specific Cluster Development Manager/Team to drive the initiative across the system.
Emerging companies & Mobile entrepreneurs	• Existing FDI base and talent base, particularly ICT/ consumer interent space and life sciences	• Position RoI as a leading location for start-ups and fast growing businesses - develop and promote the country's value proposition and IP framework; provide structured access to Enterprise Ireland programmes (such as internationalisation, sales and marketing, and leadership; an enhanced visa regime); extend the tech visa to other areas of unmet demand in high skill areas; promote innovation vouchers and Science Foundation Programmes; and promote place and quality of life aspects. • Work with cities and regions to develop support eco-systems such as Activating Dublin, IT@Cork and others where appropriate. • Enhance RoI's tax environment in an international context to attract and retain mobile entrepreneurs and emerging companies.
Cost base	• Labour costs • Energy cost • Business and professional service costs	• Attain a top 5 international competitiveness ranking in terms of costs of doing business and costs of living by implementing the actions necessary to realise structural reforms in the areas identified by the National Competitiveness Council and Forfás, and by undertaking quarterly monitoring of progress by Government.
Infrastructure	• Public transport • Urban transport • National road network	• The Department of Public Expenditure and Reform will undertake a review of capital expenditure priorities for the period 2015-2019. Capital projects will be prioritised to underpin development and growth of productive sectors and place making objectives.

Strategic Priority	**Areas/Sectors/ Agencies/etc.**	**Actions**
Corporation Tax	• Corporation tax	• Maintain a competitive corporate tax regime that rewards productive investment, including: a continued focus ensuring certainty, stability and predictability for investors; and commitment to maintaining the current 12.5% corporation tax rate. • Continue to engage with the OECD Base Erosion and Profit Shifting process, the European Commission and other international fora on international tax issues.
Property Solutions	• Provision and availability of sites and building solutions for FDI	• Work with market players to provide attractive property and site solutions in regional locations so as to ensure that potential investors are offered a range of property solutions across regions, adopting a partnership approach to facilitate speedy establishment; • Looking forward to 2020, working with other stakeholders, continue to assess and anticipate the changing site and property needs of companies and sectors.
Investment Promotion	• IDA Ireland • Enterprise Ireland • Science Foundation • Connect Ireland • EU State Aid modernisation	• IDA Ireland will develop its new strategy covering the period to 2020 within the context of Ireland's overarching FDI policy framework. • Specific actions aimed at further enhancing agency collaboration will be articulated within the strategies of each agency. • Promote greater enterprise engagement in EU funding programmes including for example, EU Horizon 2020, Innovation and Erasmus funding etc
Policy Execution	• Policy Development • Strategic long-term objectives • System-wide engagement • High-level political championing	• IDA Ireland and the other development agencies involved in the promotion of the RoI for investment, in conjunction with DJEI, should articulate development requirements in line with our current and emerging FDI target areas (sectors/activities, source markets, alternative modes of investment). • DJEI will be the lead advocate driving prioritised delivery of the policy agenda, working with partners across the Government system. • The Action Plan for Jobs process will continue to be an important mechanism for delivery on improving Ireland's attractiveness for FDI, on an annual basis.

Northern Ireland Assembly

Research and Information Service
Briefing Paper

26 February 2015 NIAR 122-15

Aidan Stennett

Foreign Direct Investment in the Republic of Ireland - supplementary

1 Introduction

The following paper supplements *NIAR 61-15: Foreign Direct Investment in the Republic of Ireland*. It responds to an Enterprise, Trade and Investment Committee query on the comparable provision of specific factors in Northern Ireland (NI) and the Republic of Ireland (RoI). These factors are.

- Openness to Foreign Investment;
- Visa, work permit and residence requirements;
- Labour market;
- R&D tax credits and IP incentives; and
- Location outside urban centres.

Where possible the paper compares NI with the RoI directly. In some cases, particularly in the area of visa, work permit and residence requirements where powers are not devolved to NI, and where direct comparisons with NI could not be located the RoI is compared with the UK.

2 Openness to Foreign Investment

NIAR 61-15 cites the US Department of State's (DoS) assessment of treatment of foreign investors in RoI regulatory framework. It states that:

> *…the DoS notes that all firms incorporated in the RoI are treated on an equal basis. There are almost no constraints preventing foreign individuals or entities from ownership or participation in RoI firms (a notable exception is in aviation which must be 50% owned by EU residents to ensure full access to European airspace). Foreign investors are not restricted in the purchase of land for residential or industrial purposes. Formal screening of FDI is common only when the investor is in receipt of grants or assistance from one of the investment promotion agencies. Assistance, financial or otherwise, is often predicated on jobs and investment criteria and investors are often assessed to ensure these criteria are met. The DoS states that these processes 'are transparent and do not impede investment'.*[1]

The DoS draws similar conclusions on foreign investment restrictions in the UK:

> *With a few exceptions, the UK does not discriminate between nationals and foreign individuals in the formation and operation of private companies. U.S. companies establishing British subsidiaries generally encounter no special nationality requirements on directors or shareholders, although at least one director of any company registered in the UK must be ordinarily resident in the UK. Once established in the UK, foreign-owned companies are treated no differently from UK firms. Within the EU, the British Government is a strong defender of the rights of any British- registered company, irrespective of its nationality of ownership.*[2]

They add that *'Local and foreign-owned companies are taxed alike'* and that:

> *The UK imposes few impediments to foreign ownership. The UK subscribes to the OECD Committee on Investment and Multinational Enterprises' (CIME) National Treatment Instrument and the OECD Code on Capital Movements and Invisible Transactions (CMIT).*[3]

Where exceptional exception do exist, these concern specific rules govern the acquisition of UK companies operating in regulated business areas such as banking, financial services, broadcasting, television, energy and utilities.

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1 The US Department of State, Investment Climate Report, Ireland (July 2014) http://www.state.gov/documents/organization/227418.pdf

2 The US Department of State, Investment Climate Report, UK (June 2014) http://www.state.gov/documents/organization/228651.pdf

3 *Ibid*

3 Visa, work permit and residence requirements

On the issue of visa, work permit and residence requirements, NIAR 61-15 states:

> *…the DoS rate the visa, residence and work permit requirements of the RoI as non-discriminatory and 'generally liberal' for US investors. Additionally they note that there are 'no restrictions on the numbers and duration of employment of foreign managers brought in to supervise foreign investment projects, though their work permits must be renewed annually'.*[4]

On the RoI visa and work permit system in general Deloitte comments:

> *An employer must hold an employment permit if it employs a non EEA national in Ireland. Different types of employment permits exist (e.g. work permits and green card permits), and the type of permit required will depend on the salary offered to the employee and the employee's job title. Where an employee is seconded by their foreign employer to work or train in a related Irish entity, an intra-company transfer permit may be applied for. In 2007, a spousal scheme was introduced, enabling the spouse of an individual with an Irish work permit to apply for a spousal work permit once they have secured a job offer from an Irish employer.*[5]

The DoS makes no comment on the UK visa system in their UK investment assessment. Table 1 compares visas/work permit arrangements (for non-EEA countries) applicable to FDI growth – those available to investors and entrepreneurs wishing to set up or invest in the UK and the RoI. Key points from this comparison are as follows:

- Both jurisdictions offer visas tailored toward investors and entrepreneurs, the UK has a specific scheme for graduate entrepreneurs for which no equivalent in the RoI could be found;
- Required levels of investment for investor visa schemes are lower in the RoI;
- Required levels of investment funds for entrepreneur visa schemes (graduate scheme apart) are lower in the RoI;
- Application fees are higher in the UK; and,
- Family members are required to pay additional application fees in the UK for investor schemes; this is not the case in the RoI programme.

4 The US Department of State, Investment Climate Report, Ireland (July 2014) http://www.state.gov/documents/organization/227418.pdf

5 http://www2.deloitte.com/ie/en/pages/tax/articles/investing-in-ireland.html

Table 1: Comparison of Investor and Entrepreneur Visas UK and RoI

	Visa	Purpose	Options/Terms
UK	Investor Visa Scheme[1]	Visa scheme for non-EEA nationals seeking to invest in the UK	• Applicants must invest £2m or more in UK government bonds, share capital or loan capital in active and trading UK registered company; • Applicant must pay £874 to apply in person (or £1,093 online or by post) and a further £874 (or £1,093) for each dependent; • Visa allows applicant to work or study; • Visa is for a maximum of 3 years and 4 months with the option to extend for a further 2 years; • Applicants can apply to settle after 2 years if they £10m, and after 3 years if they invest £5m; • Success applicants may not invest in companies mainly engaged in property investment, property management or property development
	Entrepreneur Visa Scheme[2]	Visa scheme for non-EEA nationals seeking to set up or run a business in the UK	• Applicants must have access to £50,000 in investment funds; • Applicants must pay £874 to apply in person (or £1,093 online or by post) and a further £874 (or £1,093) for each dependent; • Visa is for an initial period of 3 years and 4 months, with the option to extend for a further 2 years; c Applicant can apply for settlement after five years; • Visa allows applicants to set up or take over the running of 1 business or more, work for your business, including being self-employed and take family members with them; • It does not allow applicants to do any work outside your business or access public funds.
	Graduate Entrepreneur Visa Scheme[3]	Visa Scheme for non-EEA graduates who have been officially endorsed by UK Trade and Investment as having a genuine and credible business idea	• Must be endorsed by UK Trade and Investment or current UK Higher Education Institution; • Pay £310 fee when applying from inside the UK (£422 from outside) and additional fees for each dependent; • Allows applicants to stay for one year with option to extend for a further year; • Applicants must demonstrate £945 in savings when applying from inside the UK and £1,890 when applying from outside the UK.

	Visa	Purpose	Options/Terms
RoI	Immigrant Investor Programme[4]	The Immigrant Investor Programme is open to non-EEA nationals and their families who commit to an approved investment in Ireland. Approved participants in the Programme and their immediate family members will be granted rights of residence in Ireland which will allow them to enter the State on multi-entry visas and to remain here for a defined period but with the possibility of ongoing renewal. Successful applicants granted residence for 5 years (subject to review at year 2), further residence applied for in 5 year tranches.	• Immigrant Investor Bond - €1million invested in the bond at 0% interest rate • Enterprise Investment - €500,000 invested in an Irish Enterprise for 3 years • Investment Funds - €500,000 invested in an approved fund. Approved Investment Fund is not available at this point. • Real Estate Investment Trusts (REIT) - A minimum investment of €2 million in any Irish REIT that is listed on the Irish Stock Exchange. • Mixed Investment - Investment in a residential property of minimum value of €450,000 and a straight investment of €500,000 into the immigrant investor bond, giving a minimum investment of €950,000 • Endowment - €500,000 philanthropic donation by an individual (€400,000 where 5 or more individuals pool their endowment for one appropriate project); • Application fee is €750, the fee covers principal applicant and all family members.
	Start-up Entrepreneur Programme[5]	The purpose of the Start-up Entrepreneur Programme is to enable non-EEA nationals and their families who commit to a high potential start up business in Ireland to acquire a secure residency status in Ireland.	• Applicants must have a proposal for a high potential start-up business and must demonstrate access to €75,000 in funding. • High potential start-ups must by in an innovative sector, have international potential, be capable of creating at least 10 jobs and realising €1m in sale, be headquartered and controlled in RoI and less than 6 years old. • Application fee is €350.

Source: Gov.uk visas and immigration & Irish Naturalisation and Immigration Service

4 Labour market flexibility

On the RoI labour force, NIAR 61-15 states:

> *… the DoS notes that the RoI's labour regulation is 'less restrictive compared with most continental EU countries'. The workforce is characterised by a high degree of labour flexibility, mobility and education.*[6]

Labour market flexibility is defined by the International Labour Organisation (ILO) Working Paper for the United Nations Department of Economic and Social Affairs as the ability of the labour market to respond to change. It includes a number of dimensions:

- Employment protection – which governs employer freedom to hire and fire employees;
- Wage protection – which influences the way in which employers may vary wages, including minimum wage and trade union activity;
- Internal and functional flexibility – which concerns *'ability of firms to organize and reorganize internal processes of production and labour use in the interests of productive/ dynamic efficiency, e.g. through the flexibility of working time, job content, skill needs or technical change'*; and
- Supply side flexibility – the ability of workers to demand flexibility in their working patterns.[7]

It should be noted that whilst certain aspects of labour market flexibility might be viewed as placing restrictions on employers, such as employment protection, these same protections may be conversely viewed as positive by employees.

Figures 1 to 4 present the four main indicators the OECD uses to compare the employment protection legislation of its Member countries in 2013 (unfortunately the data is not disaggregated at level that would allow for a comparison of Northern Ireland and the OECD countries). The indicators are measured on a scale where 0 is the least restrictive and 6 is the most restrictive. As can be seen from the figures the UK has one of the least restrictive labour market protection policies of the OECD countries, namely:

- Protection of permanent workers against individual and collective dismissals – the UK has the fourth least restrictive policy on this measure;
- Protection of permanent workers against (individual) dismissal – the UK has the third least restrictive policy on this measure; and
- Regulation on temporary forms of employment – the UK has the third least restrictive policy on this measure.

By contrast the RoI is ranked eighth, seventh and eighth on these measures respectively.

On the remaining measure - Specific requirements for collective dismissal – the UK is ranked joint tenth, while the RoI is ranked joint twenty-sixth.

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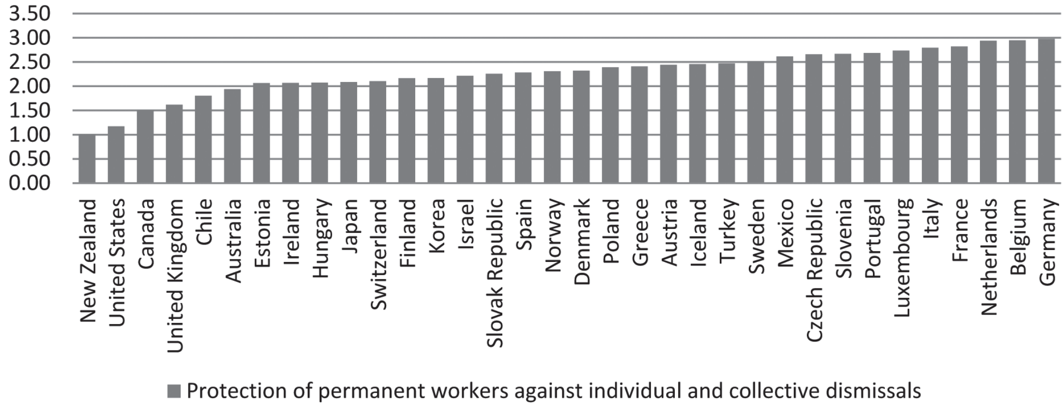
6 The US Department of State, Investment Climate Report, Ireland (July 2014) http://www.state.gov/documents/organization/227418.pdf

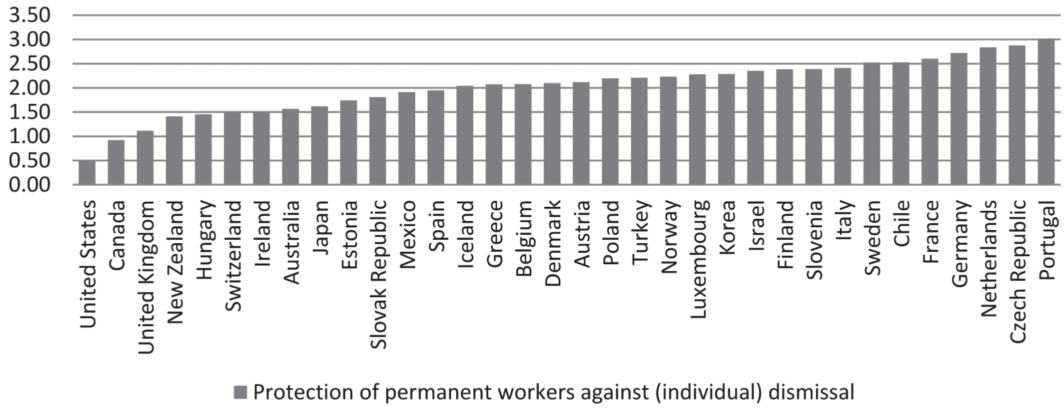
7 Rodgers, G ILO United Nations Department of Economic and Social Affairs, Working Papers: Labour Market Flexibility and Decent Work (July 2007) http://www.un.org/esa/desa/papers/2007/wp47_2007.pdf

Figure 1: Protection of permanent workers against individual and collective dismissals in OECD countries 2013[8]



Source: OECD

Figure 2: Protection of permanent workers against (individual) dismissal in OECD countries 2013[9]

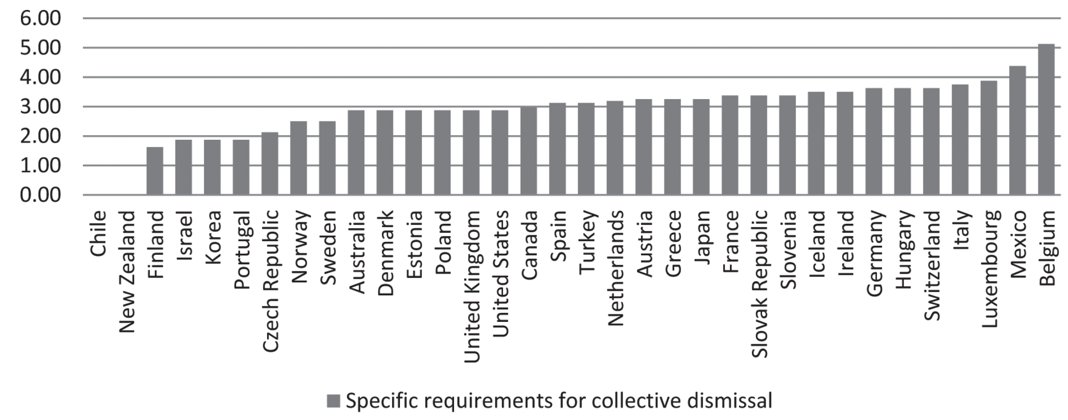


Source: OECD

8 OECD Employment Protection Legislation Data (2013) http://www.oecd.org/els/emp/EPL-data2013.xlsx

9 *Ibid*

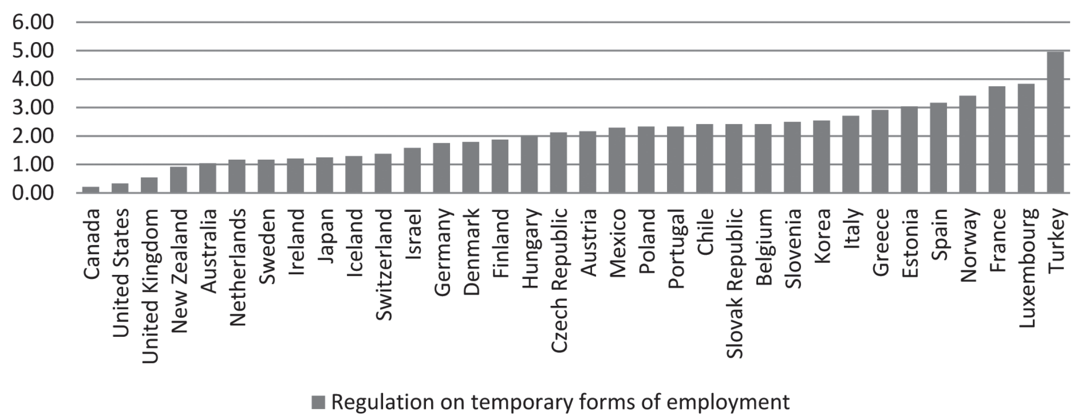
Figure 3: Specific requirements for collective dismissal in OECD countries 2013[10]



Source: OECD

Source: OECD

Figure 4: Regulation on temporary forms of employment in OECD countries 2013[11]



The World Economic Forum's (WEF) competitiveness index compares countries across a number of measures, including labour market efficiency. The indicators used to measure labour market efficiency fall within the UN's four dimensions of labour market flexibility – these indicators are: Cooperation in labour-employer relations; Flexibility of wage determination; Hiring and firing practices; Redundancy costs; Pay and productivity; Reliance on professional management; Brain drain; and Women in labour force.[12]

In 2013, the Economic Advisory Group Northern Ireland published a study which applied the WEF criteria to Northern Ireland and compared these findings with other regions including the UK and the RoI.[13] These results are presented in Table 2. These figures, which are based on

10 *Ibid*

11 *Ibid*

12 Economic Advisory Group Northern Ireland, Competitiveness Index for Northern Ireland (June 2013) http://www.eagni.com/fs/doc/publications/eag-competitiveness-index-report.pdf

13 *Ibid*

2011 data[14], ranks Northern Ireland's overall labour market efficiency (45th of 145 countries) considerably lower than either the UK (5th/145) or the RoI (6th/145).

Commenting on the data the report notes that Northern Ireland's score is above the average of the 145 countries measures, and that:

> *…when compared with the 145 National Group, NI is ranked in the top quartile on:*
>
> - *Cooperation in labour-employer relations;*
> - *Redundancy costs, weeks of salary,*
>
> *All remaining indicators are ranked in the second quartile with the exception of brain drain which falls in the third [quartile].*[15]

Table 2 directly compares NI results with those of the UK and the RoI. NI is ranked below both regions in the areas of:

- Cooperation in labour-employer relations;
- Hiring and firing practices;
- Pay and productivity;
- Reliance on professional management; and
- Brain drain.

In addition, NI is ranked:

- Below the UK as whole, but above the RoI in flexibility of wage determination;
- Below the RoI, but above the UK as a whole(one place higher) in redundancy costs; and
- Above both the UK as a whole and the RoI in women in the labour force.

14 The index is not only focused on labour market efficiency, but examines a range of indicators. There are 113 individual indicators in total. Northern Ireland's standing on these indicators is based on statistical data for 25% of these indicators (28 indicators in all). The NI results for the remaining 75% of indicators (85 indicators) are sourced from an Executive Opinion Survey

15 *Ibid*

Table 2: Competiveness Index for Northern Ireland – comparisons with the UK and RoI (2011 data)[16]

Measure	NI		UK		RoI	
	Value	Rank	Value	Rank	Value	Rank
Overall Labour Market Efficiency	4.57	45	5.42	5	5.00	16
Cooperation in labour-employer relations	4.8	34	5	27	5.3	15
Flexibility of wage determination	5.3	50	5.7	16	4.5	107
Hiring and firing practices	3.3	112	4.4	32	3.9	75
Redundancy costs, weeks of salary*	5.9	23	4.9	24	6.1	18
Pay and productivity	4.2	51	4.8	12	4.4	31
Reliance on professional management	4.7	44	6	9	5.9	12
Brain drain	3.3	80	5.6	4	4.6	25
Women in labour force	5.9	51	5.9	53	5.5	72

Source: EAGNI

16 *Ibid*

5 R&D tax credits and IP incentives

On R&D tax credits and IP incentive in the RoI, NIAR 61-15, quoting PriceWaterhouseCoopers, states:

> *… We note that, while RoI retains corporation tax at 12.5 per cent, this is now complemented by other incentives and advantages including R&D tax credits and IP incentives that have encouraged clustering and investment from specific sectors.*[17]

The R&D tax credit referred to in this statement enables businesses to receive a refund of up to 25% of cost incurred on R&D. The scheme has the following features:

- The scheme allows companies to claim back 25% of qualifying expenditure as a tax credit set against the company's corporate tax liability or in cash;
- Qualifying expenditure must:
  - Be systematic, investigative or experimental activities;
  - Be in a field of science or technology;
  - Involve one or more of the following categories of R&D—a. basic research, b. applied research, or c. experimental development.
  - Seek to achieve scientific or technological advancement; and
  - Involve the resolution of scientific or technological uncertainty.
- Since 1 January 2015 all qualifying R&D expenditure is eligible for the 25% credit (this removes a previous requirement whereby 'the amount of qualifying expenditure is restricted to incremental expenditure over expenditure in a base year (2003) defined as the "threshold amount"').
- Costs which are not wholly and exclusively incurred in the carrying on of the R&D activity, including indirect overheads such as recruitment fees, insurance, travel, equipment repairs or maintenance, shipping, business entertainment, telephone, bank charges and interest, do not qualify as relevant expenditure.
- Overheads which are wholly and exclusively incurred directly in the carrying on of the qualifying R&D activity, for example power consumed in the R&D process, qualify for the credit.
- Where an employee spends an identified proportion of their time "in the carrying on" of qualifying activity, then that same proportion of their emoluments may be considered to be qualifying expenditure. Emoluments may be taken to include pension contributions, bonus payments, health insurance or other items included in the reward package paid to R&D employees.
- Expenditure on the construction or refurbishment of a building for use for qualifying R&D activity may qualify for an R&D tax credit where such expenditure also qualifies for capital allowances.
- Expenditure plant and machinery may qualify for the R&D tax credit where such expenditure also qualifies for capital allowances.
- As an incentive to certain staff, a company may transfer some or all of its R&D credit to 'key employees'[18]. To surrender all or part of credit to employees the company must pay the amount of corporation tax that would have otherwise been reduced, make a claim to

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17 Quoted in House of Commons Devolution of Corporation Tax to Northern Ireland (28 January 2015) http://www.parliament.uk/Templates/BriefingPapers/Pages/BPPdfDownload.aspx?bp-id=SN07078

18 For example "key employees" must *'perform at least 50% of their duties in "the conception or creation of new knowledge, products, methods and systems" and 50% or more of the cost of earnings from their employment must qualify as R&D expenditure.'*

Revenue, and notify each employee in writing of the amount surrendered to that employee. A key employee can claim the credit in the tax year following the tax year in which the accounting period of the company that surrendered the credit ends.[19]

Companies located in Northern Ireland may also avail of a R&D tax credit. Like the RoI scheme this offers tax relief on level of corporation tax paid by companies. There are two schemes, one for SMEs and one for large companies.

In both cases tax relief of 10% is available on qualifying expenditure. The SME scheme offers an R&D tax enhancement of 225%. This means, for example, that for every £100,000 a SME spends on qualifying expenditure the company can deduct £225,000 when calculating its taxable profit, or loss, for corporation tax payments. This means:

As the £100,000 would already be accounted for in its accounts, the balance of £125,000 would be an additional deduction from its taxable profit and the tax saving would be £25,000 (at a Corporation Tax rate of 20%). The equivalent of the company receiving 25p from HMRC for every £1 they spent on R&D activities.

SMEs may choose to surrender their R&D enhanced allowance to HMRC in return for a cash credit. Should they do so, the cash credit may be valued up to 32.63p for each £1 of R&D expenditure.

The large company scheme has a tax enhancement level of 130%, which means, for example, that for every £100,000 a company spends on qualifying expenditure it can deduct £130,000 when calculating its taxable profit, or loss, for corporation tax payments.

A second large company scheme, known as the Above the Line (ATL) Credit currently operates alongside the tax enhancement large company scheme. From 2016, however, the ATL Credit will be the only scheme available to large companies. Under the tax enhancement scheme large companies apply the tax credit to reduce its taxable profit. The ATL credit is calculated directly as a proportion of the companies R&D expenditure (at a rate of 10%), it is then recorded in the company's accounts as a reduction in the cost of R&D.[20]

The ATL Credit:

… allows the benefit of the R&D relief to be accounted for as a reduction of R&D expenditure within the Profit and Loss (P&L) account. The associated tax credit is offset against corporation taxes payable.

The principal intention for the introduction of an ATL R&D tax credit scheme is to increase the visibility and certainty of UK R&D relief. Additionally, it is to provide greater financial support to loss making companies through having the R&D tax credit repayable where there is no corporation tax liability.[21]

The second incentive mentioned in the PriceWaterhouseCooper statement is the IP tax incentive. Historically, RoI engaged in trading activities and earning income from qualifying IP that income will qualify for the 12.5% corporation tax rate. In addition the company may claim a tax deduction for the capital cost of the IP in line with amortisation or over 15 years. This allows companies to reduce their effective rate of corporation tax below the 12.5% headline rate.

In the RoI Budget 2015 the government announced that it would be enhancing IP tax incentives by introducing a 'Knowledge Development Box' (KDB). This will see the introduction

19 http://www.revenue.ie/en/tax/ct/leaflets/research-dev.pdf

20 http://www.out-law.com/articles/2012/december/above-the-line-rd-tax-credits-treatment-will-be-mandatory-from-2016/

21 http://www.ey.com/Publication/vwLUAssets/EY-Tax-services-Above-the-line-RD-Tax-Credit/$FILE/EY-Tax-services-Above-the-line-RD-Tax-Credit.pdf

of a mechanism provide an effective tax rate for IP income that is below the normal headline rate of corporation tax. No definite details of the mechanism have been released to date. A consultation was launched on 14 January 2015 (running until 8 April 2015). The Department of Finance, who are taking the scheme forward, note that the:

> *EU and OECD are currently finalising new rules for the design of such tax incentives and Minister Noonan has already committed that the Irish KDB will comply with those international standards which are expected to be finalised by the end of this year.*[22]

Northern Ireland companies, like companies throughout the UK, may avail of HMRC's Patent Box. This is similar to the KDB proposed in RoI. The Patent Box ensures that companies pay a 10% rate of corporation tax on profits earned from patented inventions. The scheme is being phased in, with the proportion of profits upon which the reduction can be applied increasing on a yearly basis as follows:

- 1 April 2013 to 31 March 2014: 60%;
- 1 April 2014 to 31 March 2015: 70%;
- 1 April 2015 to 31 March 2016: 80%;
- 1 April 2016 to 31 March 2017: 90%; and
- From 1 April 2017: 100%.[23]

To qualify for the Patent Box the company must own or exclusively license-in the patents and must have undertaken qualifying development on them.

Disagreements at European level have led to changes in the incentive. Germany argued that the tax treatment of IP in the UK created inequality in Europe, with the UK's 10% rate being significantly lower than tax relief rates in other Member States (other areas offering patent box regimes have a corporation tax rate of 15% or above). Germany was also concerned that:

> *…the patent box [did] not require the R&D underpinning an eligible patent to have actually occurred in the UK, and that consequently in addition to the legitimate effect of stimulating the commercialisation of innovation in the UK, it [had] the potential to act as a tax haven for multinational companies whose R&D operations are based elsewhere in Europe.*[24]

To overcome these objections and to advance negotiations on new rules for preferential IP regimes within the G20/OECD Base Erosion and Profit Shifting (BEPS) Project the UK and Germany agreed a joint proposal in November 2014. This proposal centred on the following aspects:

- Uplift of qualifying expenditure: where related party outsourcing or acquisition costs are incurred which do not constitute qualifying expenditure, companies will be able to obtain a maximum 30% uplift of their qualifying expenditure (subject to a cap based on actual expenditure) included within the formula;
- Closure and abolition of intellectual property regimes: to allow time for the legislative process, all existing regimes will be closed to new entrants (products and patents) in June 2016 and will be abolished by June 2021;
- Grandfathering: to allow time for transition to new regimes based on the modified nexus approach, intellectual property within existing regimes will be able to retain the benefits of these until June 2021; and
- Tracking and tracing: the forum on harmful tax practices should work to reach agreement by June 2015 on a practical and proportionate tracking and tracing approach that can be

22 http://www.finance.gov.ie/news-centre/press-releases/department-finance-launches-consultation-process-knowledge-development

23 https://www.gov.uk/corporation-tax-the-patent-box

24 http://www.dyoung.com/article-patentbox

implemented by companies and tax authorities, which includes transitional mechanisms for intellectual property from existing into new regimes, and special rules for previous expenditure.[25]

From a practical perspective this will mean that:

- The current patent box regime will continue to be available until 2021 to all companies who enter it up until the 2016 cut off;
- The UK will introduce a new patent box in June 2016 which will run until 2021;
- The new patent box will employ a Nexus Approach, which will ensure *'claimant companies have good UK substance'* by restricting *'qualifying IP income that can benefit from the Patent Box by reference to the claimant company's qualifying research and development (R&D) as a percentage of total R&D and IP acquisition expenditure of the group'*; and
- The UK government has recommended that the Forum for Harmful Tax Practices reach agreement by June 2015 on *'practical and proportionate tracking and tracing approach that can be implemented by companies and tax authorities, and which includes transitional mechanism'.*[26]

6 Location outside urban centres

On steps taken by IDA Ireland to encourage firms to locate outside of Dublin, NIAR 61-15 states:

> *While Investors are free to choose where in the RoI they would like to locate IDA Ireland has encouraged investment in regions outside Dublin since the 1990s. To encourage the location of firms outside Dublin, IDA Ireland has developed 'magnets of attraction', including: a Cross Border Business Park linking Letterkenny with Derry/Londonderry, a regional Data Centre in Limerick, and the National Microelectronics Research Centre in Cork. IDA Ireland has supported construction of business parks in Oranmore and Dundalk for the biotechnology sector.*

In response to a Northern Ireland Assembly question (16 January 2015) seeking information on how the Department of Enterprise, Trade and Investment encouraged FDI to areas outside of Belfast and Derry/Londonderry, the Minister for Enterprise, Trade and Investment stated:

> *Invest NI's track record in attracting high quality Foreign Direct Investment provides a very significant benefit for all of Northern Ireland. A record year in 2013/14 was followed by Invest NI's best ever mid-year results, released at the start of November last year, with some of the achievements from the previous year already surpassed. Those mid-year results show that 40% of the job-related inward investment offers were made to companies outside the Belfast and Londonderry areas.*
>
> *It is important to note that, in order to compete internationally, Invest NI promotes Northern Ireland as a whole. To promote parts of Northern Ireland individually, or to exclude specific areas, would dilute the proposition in what is a very competitive market for FDI. That is not to say that Invest NI does not take steps to understand and appreciate each area's key demographics and attributes. This is achieved through direct engagement with interested parties in a number of ways.*
>
> *For example, Invest NI has engaged with a number of Councils and other stakeholders to help them develop sales propositions which show the strengths and opportunities in their area. The agency has also developed an "FDI app" and a "District*

25 http://www.taxation.co.uk/taxation/Articles/2014/11/13/332310/uk-makes-patent-box-compromise

26 http://pwc.blogs.com/midlands/2014/11/uk-patent-box-uk-and-germany-compromise-on-preferential-ip-regimes-.html

Council App" and is working with a number of Councils on developing this tool. The app will help present a snapshot of the benefits of setting up in Northern Ireland, and in specific areas, to potential investors.

Ultimately the investor will make the decision as to where they locate based on their specific business needs and having considered the options available to them. The requirements will vary depending on the nature of the project, but a company will typically look at existing investors in the same business sector; universities and colleges that offer courses relating to that sector; and suitable, available property. In addition, potential investors are often drawn to population centres that they consider will provide the appropriate number of suitably skilled potential employees. Therefore, a clear understanding and evidence of skill demographics for any region greatly assist a potential investor in considering a particular area.[27]

Selective Financial Assistance (SFA) aid ceilings in Northern Ireland were previously weighted towards firms locating outside of Belfast. However, since changes to Regional Aid Guidelines introduced 1 July 2014 the same aid ceilings apply throughout the region. Table 3 outlines changes to Regional Aid ceilings for large, medium and small companies, comparing upper limits on assistance in the periods 2011 to 2013 and 2014 to 2014.

Table 3: Changes to Regional Aid Ceilings in Northern Ireland between 2011-13 and 2014-2020

	Aid Ceiling		
Area/timeframe	**Large**	**Medium**	**Small**
Inner Belfast (1 July 2011 - 31 December 2013)	10%	20%	30%
Outer Belfast & Rest of NI (1 July 2011 - 31 December 2013)6	15%	25%	35%
All of NI (1 July 2014 - 31 December 2020)7	10%	20%	30%

27 Northern Ireland Assembly Written Questions, AQW4084/11-15 (16 January 2015)

7 Conclusions

From the above it is possible to draw the following conclusions on the specific areas queried by the Committee:

- Visa, work permit and residence requirements – whilst the DoS specifically praised the RoI's arrangement in these areas they made no comment on the UK's policies. Comparison of visa arrangements between the UK and RoI show that similar 'products' are offered to investors and entrepreneurs in both jurisdiction but that the UK tends to be more expensive in terms of required investment funds and application fees.
- Labour market – on the labour market, RoI was praised by the DoS for labour flexibility, and in particular for the lower level of restrictiveness compared to elsewhere in Europe. The latest OECD data (2013) shows that the UK has one of the least restrictive employment regulation regimes of all OECD member countries. It also shows that the RoI is more restrictive than the UK.
- OECD data does not examine NI alone however. The EAGNI Competiveness Index for Northern Ireland does however provide a comparison (based on 2011 data). This ranked NI's overall labour market efficiency as lower than both the UK and the RoI. NI also ranked lower than both regions in five other areas (Cooperation in labour-employer relations; Hiring and firing practices; Pay and productivity; Reliance on professional management; and Brain drain).
- R&D tax credits and IP incentives – the RoI and the UK offer R&D tax credits and IP incentives to companies. The RoI is currently developing a patent box regime similar to the UK's. The UK wide patent box has been subject to criticism at EU level and will be changed from 2016 onwards.
- Location outside urban centres – the DoS draws specific attention to the RoI's magnets of attraction. It is arguable, of course, that the Cross Border Business Park linking Letterkenny with Derry/Londonderry mentioned in this statement is also a benefit to NI. The statement from the ETI Minister quoted in Section 6 suggests that whilst Invest NI promotes NI as a whole, it has engaged with local Councils to assist them in enhancing their FDI proposition. In both the RoI and NI there is recognition that it is the investor who makes the ultimate decision as to where they will choose to invest.

(Footnotes)

1 https://www.gov.uk/tier-1-investor/overview
2 https://www.gov.uk/tier-1-entrepreneur/overview
3 https://www.gov.uk/tier-1-graduate-entrepreneur-visa
4 http://www.inis.gov.ie/en/INIS/Guidelines%20for%20Start-up%20Entrepreneur%20Programme.pdf/Files/Guidelines%20for%20Start-up%20Entrepreneur%20Programme.pdf
5 http://www.inis.gov.ie/en/INIS/Guidelines%20for%20Start-up%20Entrepreneur%20Programme.pdf/Files/Guidelines%20for%20Start-up%20Entrepreneur%20Programme.pdf
6 http://www.niassembly.gov.uk/globalassets/Documents/RaISe/Publications/2012/finance_personnel/3012.pdf
7 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/365657/BIS-14-1152-An-introduction-to-assisted-areas.pdf

Northern Ireland Assembly

Research and Information Service
Briefing Paper

19 March 2015 NIAR 182-15

Aidan Stennett & Barbara Love

Committee for Enterprise, Trade and Investment's business survey – headline results

1 Introduction

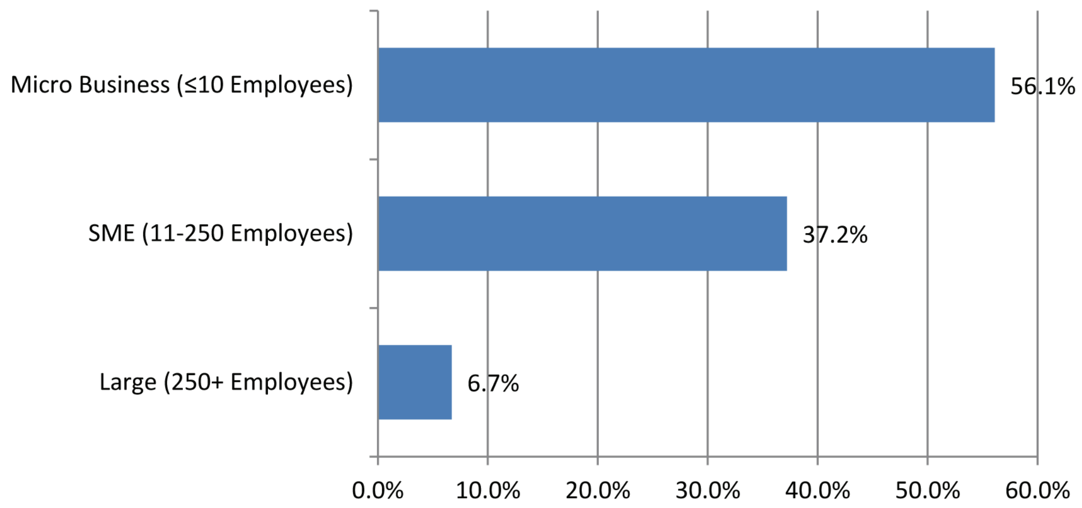
The following paper outlines the headline results of the Committee for Enterprise, Trade and Investment's survey of Northern Ireland businesses.

In total 223 businesses completed this survey which ran from the 1 January 2015 until the 10 March 2015.

2 What size is your business?

Figure 1 shows the proportion of survey respondents falling into three business size categories: 56.1% of respondents represented microbusinesses (businesses with fewer than ten employees); 37.2% of respondents represented SMEs (between 11 and 250 employees); and 6.7% of respondents represented large businesses (more than 250 employees). According to the Interdepartmental Business Register, the make-up of Northern Ireland's business landscape, as of 4 February 2015, was: microbusiness made up 88% of all VAT or PAYE registered business; SMEs (11 to 250 employees) made up 11.4%; and large businesses made up 0.4%.[1]

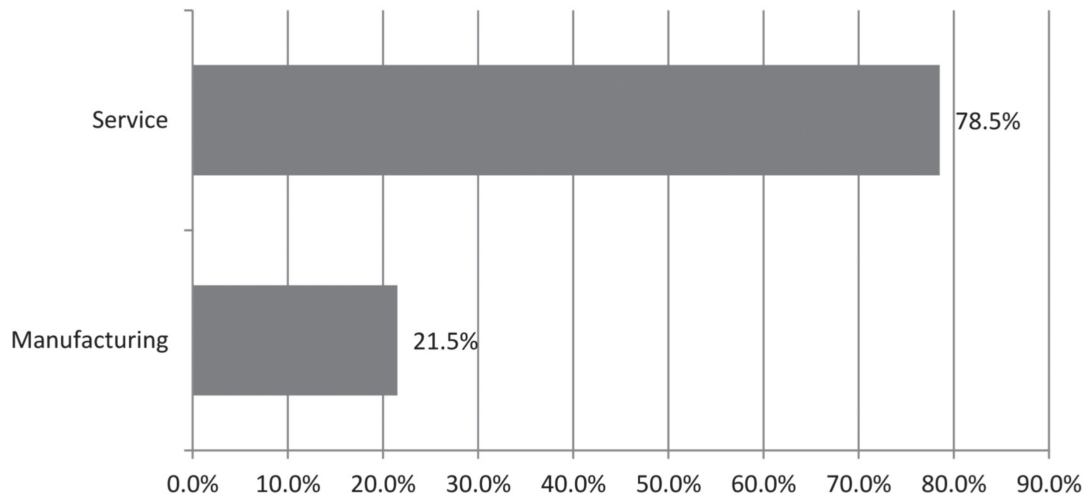
Figure 1: What size is your business (223 respondents)?



3 Do you operate mainly in the manufacturing or service sector?

Figure 2 shows that the majority of those responding to the survey were service sector businesses, 78.5% of respondents operated in this sector, while 21.5% of respondents defined themselves as mainly operating in the manufacturing sector.

Figure 2: Do you operate mainly in the manufacturing or service sector (223 respondents)?

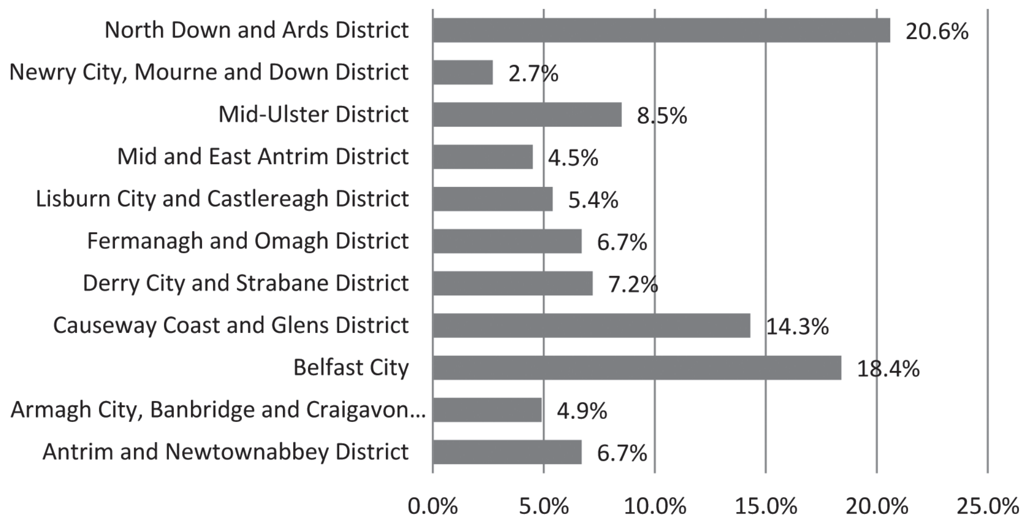


1 http://www.detini.gov.uk/idbr_publication_edition_17_updated_jan_2015.pdf?rev=0

4 In which new council area is your main Northern Ireland business located?

The survey received responses from business in each of the 12 new council areas across Northern Ireland. The largest number of responses came from business in the North Down and Ards District followed by Belfast City.

Figure 3: In which new council area is your main Northern Ireland business located (223 respondents)?

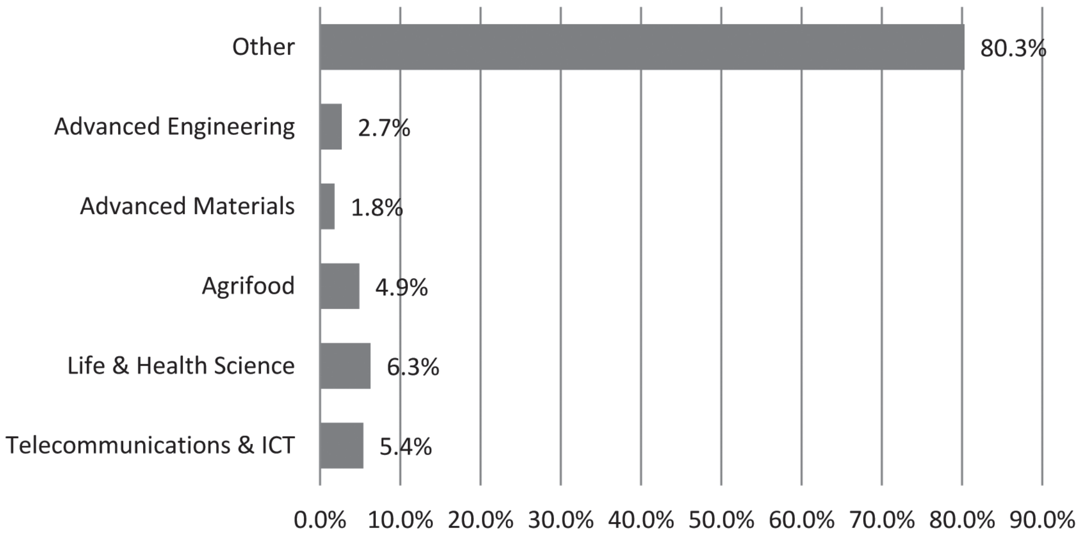


5 Is your business in one of the Economic Strategy Sectors?

Businesses were asked if the operated within one of the five sectors identified in the Northern Ireland Economic Strategy as sectors that have *'the greatest potential for growth'* and are areas the region is seeking to further exploit: Telecommunications & ICT; Life & Health Sciences; Agrifood; Advanced Materials; and Advanced Engineering.

As Figure 4 outlines, the majority of respondents considered themselves to operate in other sectors. Those falling into the 'other' category came from a wide variety of sectors, including construction; retail; finance; tourism; arts; social enterprise; and transport.

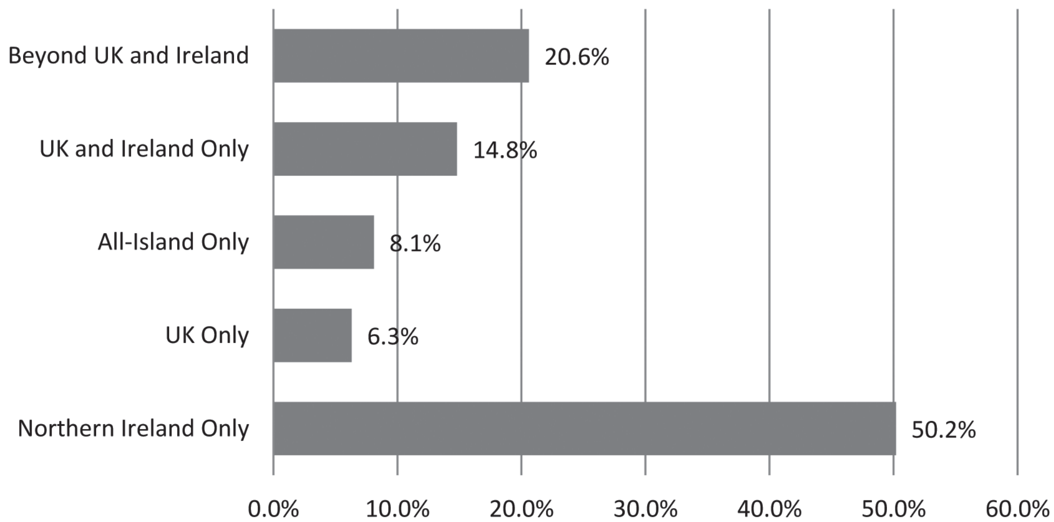
Figure 4: Is your business in one of the Economic Strategy Sectors (223 respondents)?



6 Do you have an international presence or NI presence only?

As Figure 5 shows 50.2% respondents had a Northern Ireland presence only. This means that, when combined, 49.8% of respondents had some sort of presence outside of Northern Ireland. A total of 20.6% of respondents had a presence beyond the UK and the Republic of Ireland.

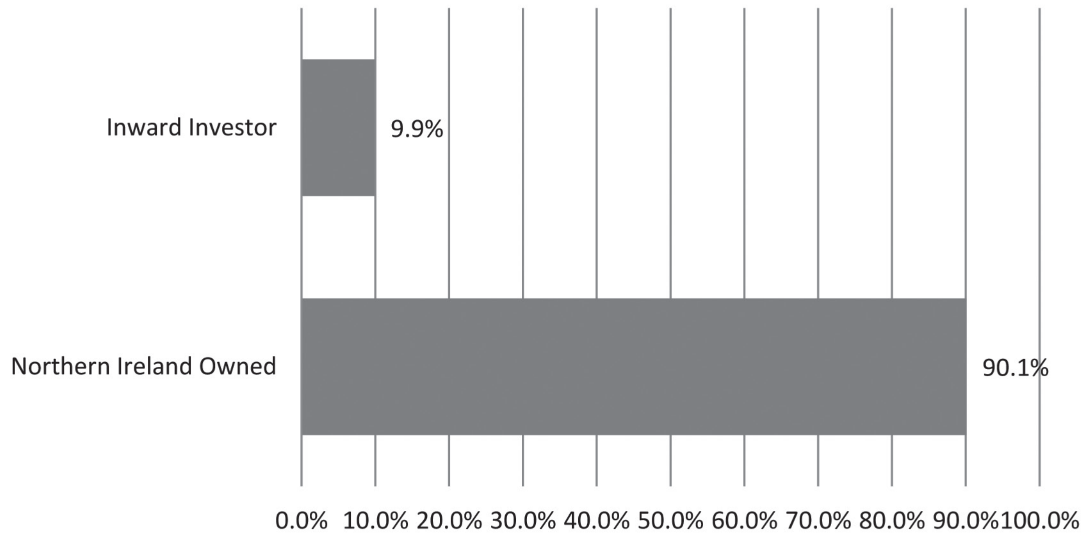
Figure 5 Do you have an international presence or NI presence only (223 respondents)?



7 Is your business NI owned or an inward investor?

The vast majority (90.1%) of respondents to the survey represented Northern Ireland companies, with only 9.9% of respondents being inward investors. Inward investors came from a variety of regions, including: GB, RoI, US, Australia, Denmark, France, Switzerland, and the Middle East.

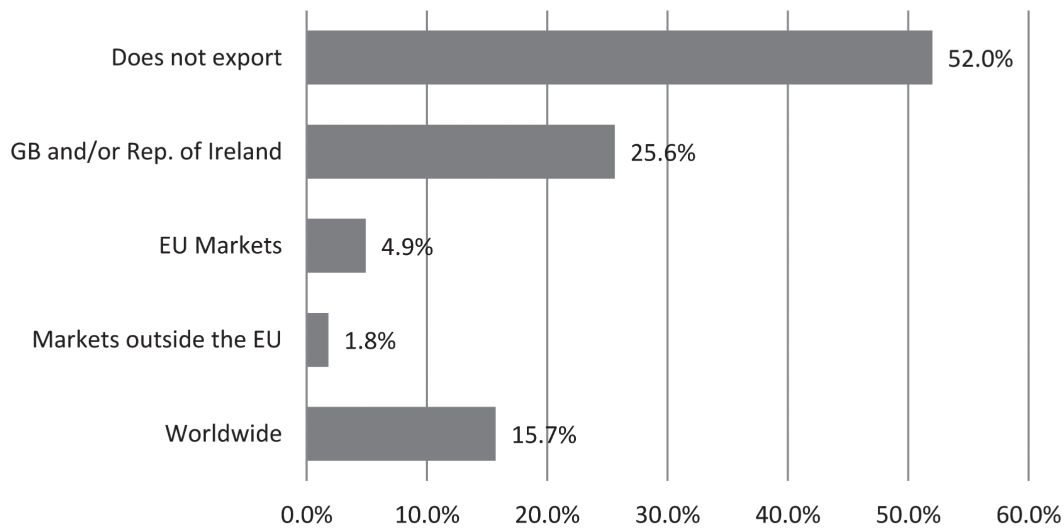
Figure 6: Is your business NI owned or an inward investor (223 respondents)?



8 To which areas outside NI does your business currently export?

Just over half (52%) of survey respondents stated that they did not export. This means that 48% of respondents were exporting businesses. A total 25.6% of respondents exported to GB and/or the RoI, 15.7% exported worldwide, while 4.9% exported to EU markets.

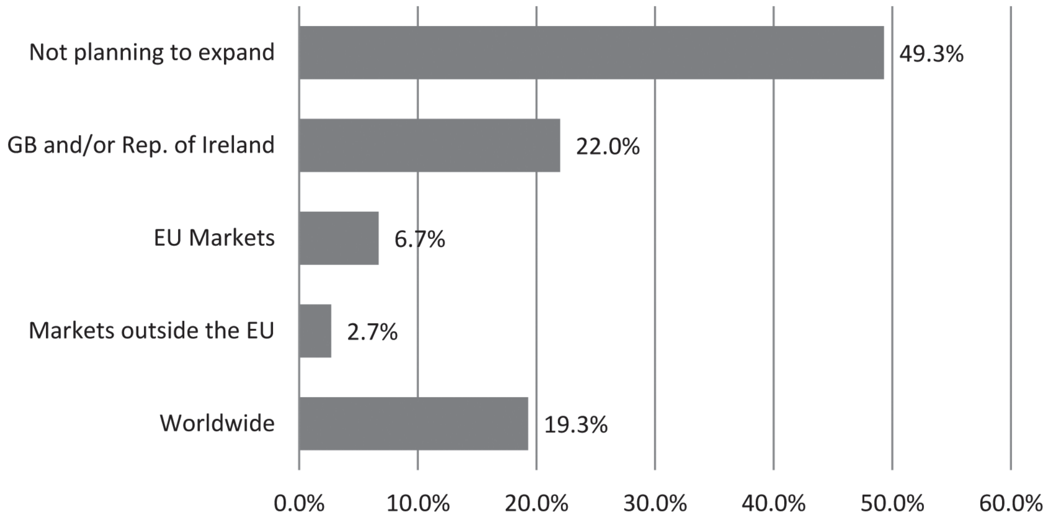
Figure 7: To which areas outside NI does your business currently export (223 respondents)?



9 Does your business wish to expand its export base in the future?

Just under half of respondents, 49.3%, stated that they did not wish to expand their export base in the future. By contrast 50.7% stated that they wished to expand their export base – 22% of respondents would like to expand their export base in GB and/or the RoI, 19.3% would like to expand their export base worldwide, and 6.7% would like to expand their export base in the EU.

Figure 8: Does your business wish to expand its export base in the future (223 respondents)?



10 How would improvement in each of the following factors impact on your business growth?

Business were asked to rate a range of factors, on a four point scale from high impact to now impact, according to how they believed each impacted their business growth. The results are displayed in Figure 9 and in table format in Annex 1. It should be noted that at total 190 respondents addressed this question, although the number responding to each specific variable ranged from 175 to 190.

The following areas were identified as having a high impact by more than 40% of respondents:

- Government Financial Support – 51%;
- Access to markets – 49%;
- Access to finance – 45%;
- Energy costs – 45%;
- Government Practical Support – 44%;
- Skills and Education – 44%;
- Regional Political Climate – 43%;
- Labour cost – 41%; and

- Business regulation – 40%.

Figure 10 ranks the factors according to the proportion of respondents that indicated they were of a high impact on their business growths.

Figure 9: How would improvement in each of the following factors impact on your business growth (190 respondents)?

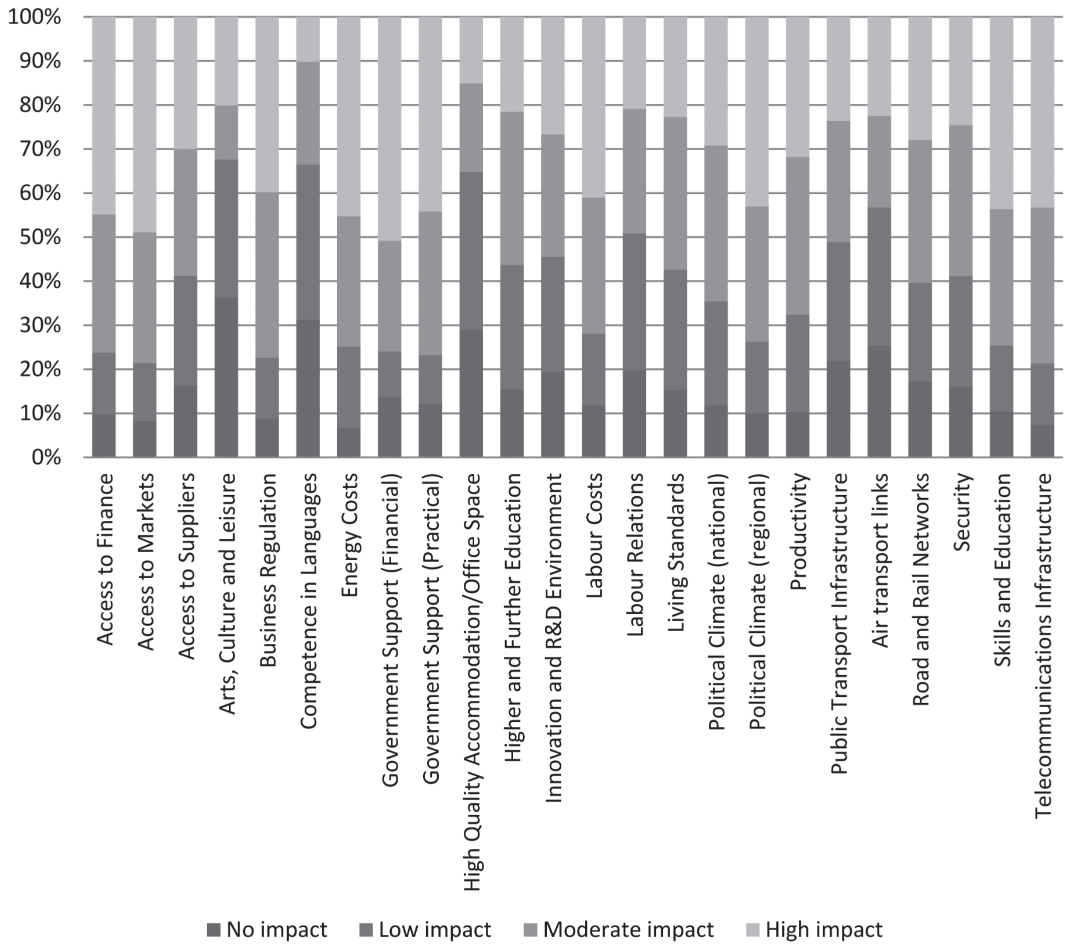
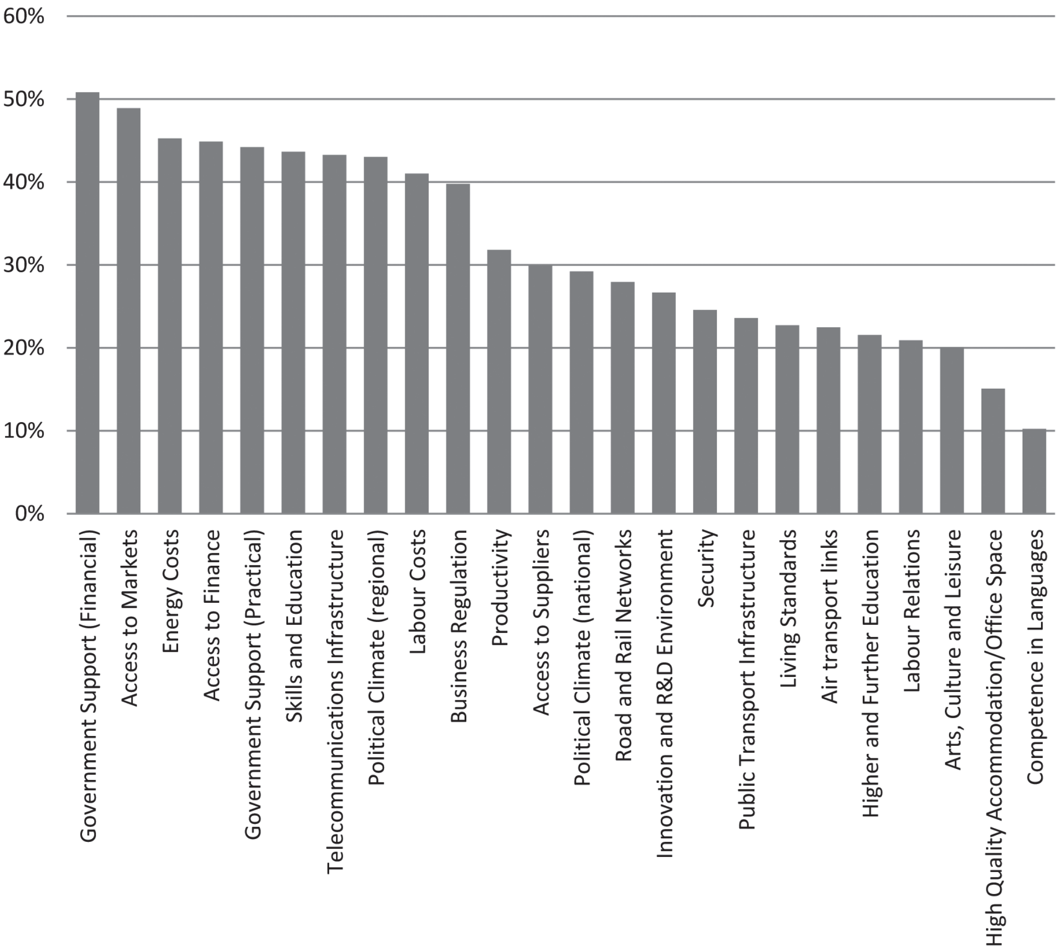


Figure 10: How would improvement in each of the following factors impact on your business growth – Proportion indicating high impact



11 How do you view the quality of current provision in Northern Ireland?

Businesses were also asked to rate their perception of the provision of the same factors on a four point scale from excellent to poor. This is outlined in Figure 11, while Figure 12 ranks each factor according to the proportion of respondents who indicated that provision was poor in that area. A total of 165 individual respondents addressed this question, although the numbers rating specific factors ranged from 153 to 162. The results are outlined in Figure 11, while Figure 12 ranks each factor according to the proportion of respondents who indicated that provision was poor in that area. Factors identified as poor by more than 40% of respondents included (full results for this question are available in Annex 2):

- Regional Political Climate – 54%;
- Energy costs – 53%;
- Government financial support – 43%;
- Government practical support – 43%; and
- Road and rail networks – 40%.

Figure 11: How do you view the quality of current provision in Northern Ireland (165 respondents)?

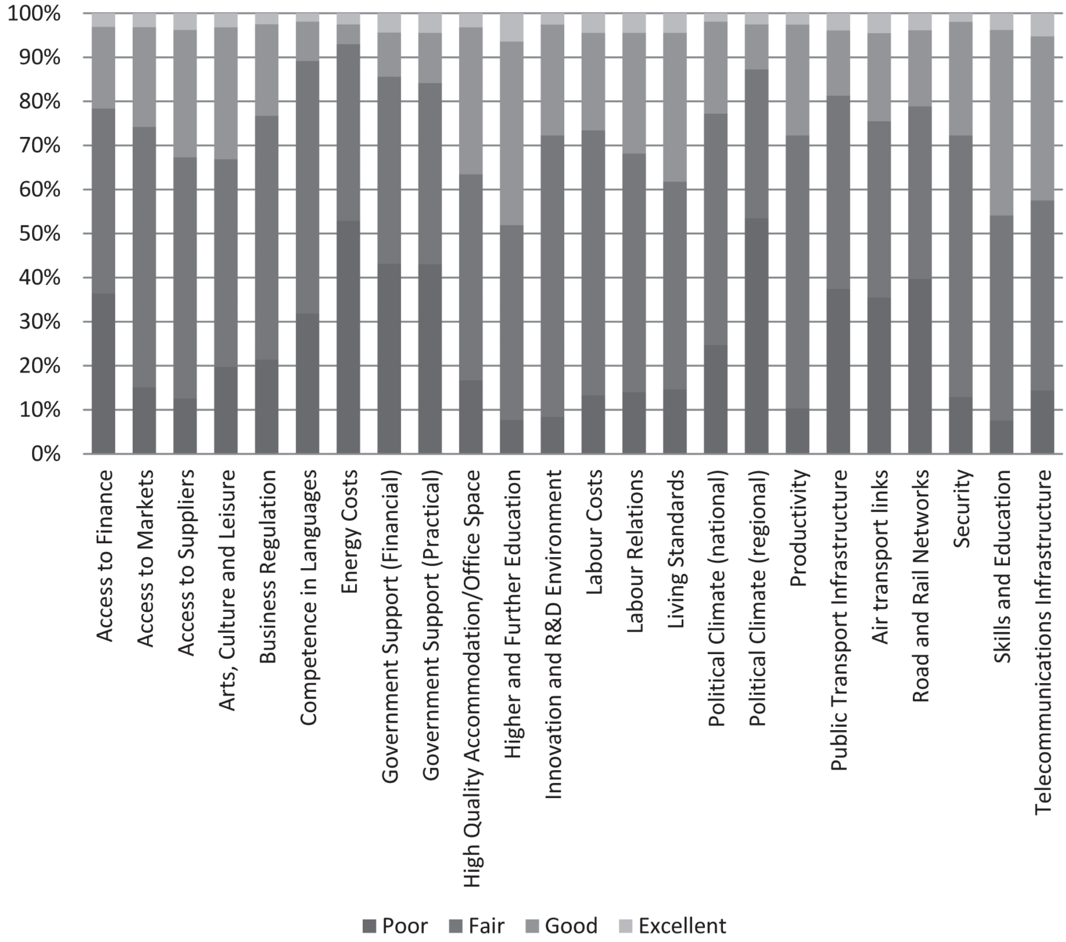
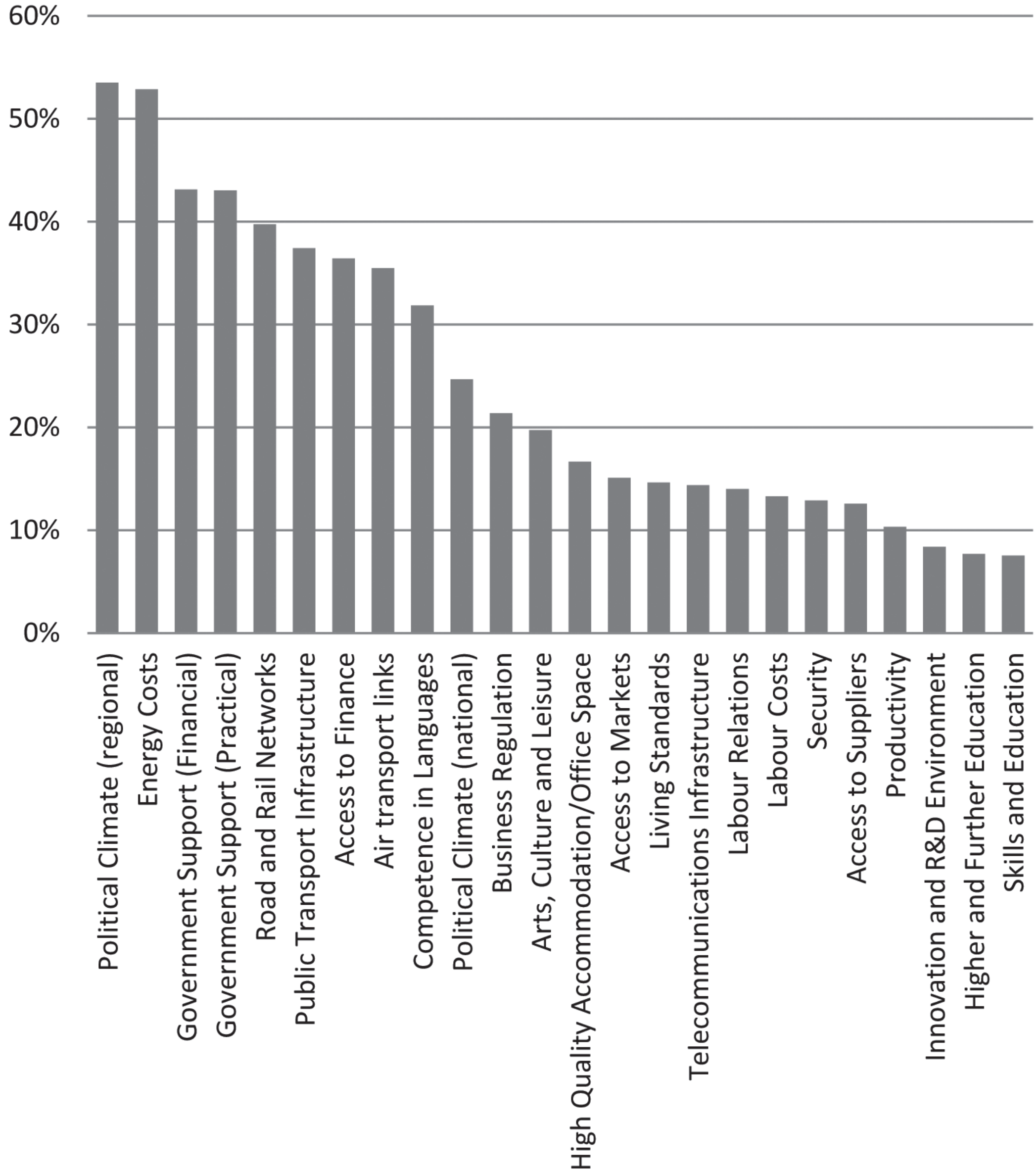


Figure 12: How do you view the quality of current provision in Northern Ireland? – Proportion indicating poor provision



12 Factors identified as having a high impact *and* poor provision

The proportion of respondents who identified each factor as both high impact and having poor provision is outlined in Figures 13 and Table 1. The five factors that the highest proportion of respondents identified as both high impact and poorly provided for were:

- Political Climate Regional – 28.2%;
- Energy Costs – 27.4%;
- Government Financial Support – 26.9%
- Access to Finance – 23.6%; and
- Government Practical Support – 21.5%.

Figure 11: Proportion of respondents identifying factors as having a high impact and poor provision

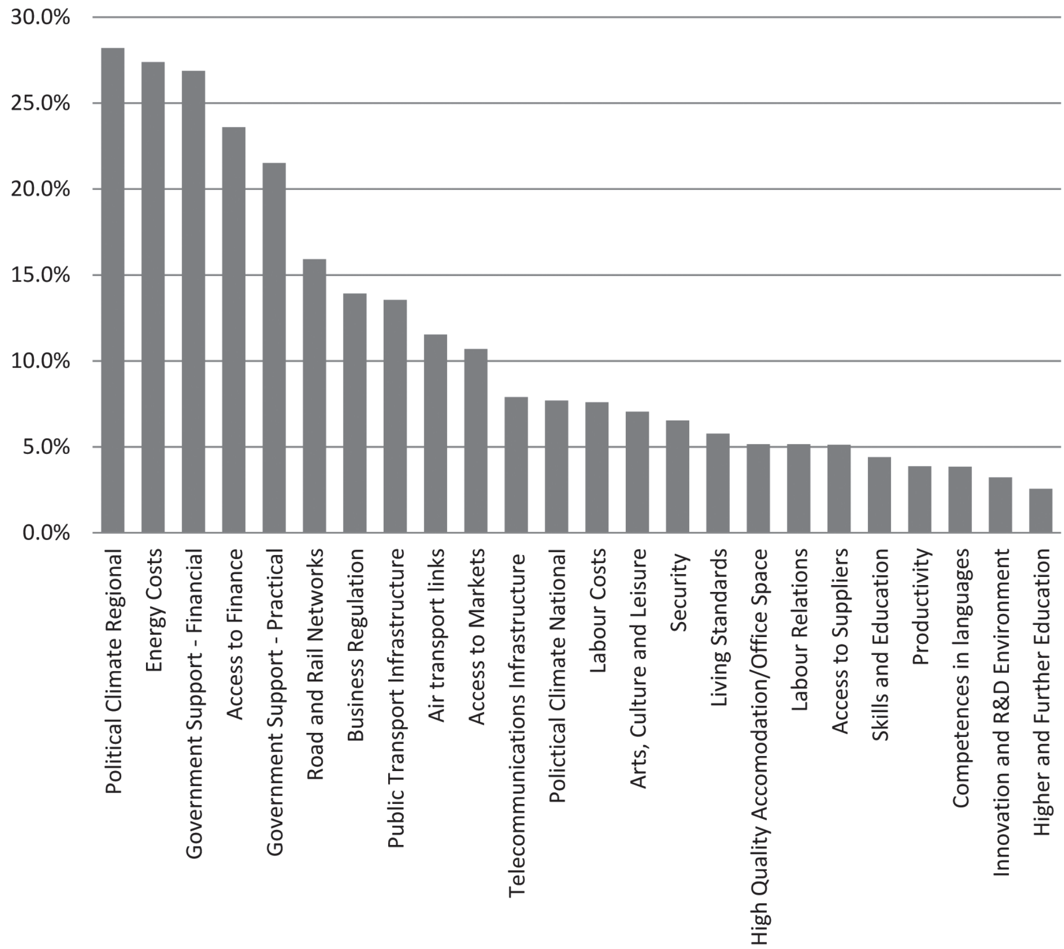


Table 1: Proportion of respondents identifying factors as having a high impact and poor provision

Factor	Proportion
Political Climate Regional	28.2%
Energy Costs	27.4%
Government Support - Financial	26.9%
Access to Finance	23.6%
Government Support - Practical	21.5%
Road and Rail Networks	15.9%
Business Regulation	13.9%
Public Transport Infrastructure	13.5%
Air transport links	11.5%
Access to Markets	10.7%
Telecommunications Infrastructure	7.9%

Factor	Proportion
Political Climate National	7.7%
Labour Costs	7.6%
Arts, Culture and Leisure	7.1%
Security	6.5%
Living Standards	5.8%
High Quality Accommodation/Office Space	5.2%
Labour Relations	5.2%
Access to Suppliers	5.1%
Skills and Education	4.4%
Productivity	3.9%
Competences in languages	3.8%
Innovation and R&D Environment	3.2%
Higher and Further Education	2.6%

Annex 1: How would improvement in each of the following factors impact on your business growth?

	High impact		Moderate impact		Low impact		No impact		Response Count
	Number	%	Number	%	Number	%	Number	%	
Access to Finance	83	45%	58	31%	26	14%	18	10%	185
Access to Markets	89	49%	54	30%	24	13%	15	8%	182
Access to Suppliers	53	30%	51	29%	44	25%	29	16%	177
Arts, Culture and Leisure	36	20%	22	12%	56	31%	65	36%	179
Business Regulation	72	40%	68	38%	25	14%	16	9%	181
Competence in Languages	18	10%	41	23%	62	35%	55	31%	176
Energy Costs	81	45%	53	30%	33	18%	12	7%	179
Government Support (Financial)	93	51%	46	25%	19	10%	25	14%	183
Government Support (Practical)	80	44%	59	33%	20	11%	22	12%	181
High Quality Accommodation/Office Space	27	15%	36	20%	64	36%	52	29%	179
Higher and Further Education	39	22%	63	35%	51	28%	28	15%	181
Innovation and R&D Environment	48	27%	50	28%	47	26%	35	19%	180
Labour Costs	73	41%	55	31%	29	16%	21	12%	178
Labour Relations	37	21%	50	28%	55	31%	35	20%	177
Living Standards	40	23%	61	35%	48	27%	27	15%	176
Political Climate (national)	52	29%	63	35%	42	24%	21	12%	178
Political Climate (regional)	77	43%	55	31%	29	16%	18	10%	179
Productivity	56	32%	63	36%	39	22%	18	10%	176

	High impact		Moderate impact		Low impact		No impact		Response Count
	Number	%	Number	%	Number	%	Number	%	
Public Transport Infrastructure	42	24%	49	28%	48	27%	39	22%	178
Air transport links	40	22%	37	21%	56	31%	45	25%	178
Road and Rail Networks	50	28%	58	32%	40	22%	31	17%	179
Security	43	25%	60	34%	44	25%	28	16%	175
Skills and Education	79	44%	56	31%	27	15%	19	10%	181
Telecommunications Infrastructure	77	43%	63	35%	25	14%	13	7%	178

Annex 2: How do you view the quality of current provision in Northern Ireland?

	Excellent		Good		Fair		Poor		Response Count
	Number	%	Number	%	Number	%	Number	%	
Access to Finance	5	3%	30	19%	68	42%	59	36%	162
Access to Markets	5	3%	36	23%	94	59%	24	15%	159
Access to Suppliers	6	4%	46	29%	87	55%	20	13%	159
Arts, Culture and Leisure	5	3%	47	30%	74	47%	31	20%	157
Business Regulation	4	3%	33	21%	88	55%	34	21%	159
Competence in Languages	3	2%	14	9%	90	57%	50	32%	157
Energy Costs	4	3%	7	4%	63	40%	83	53%	157
Government Support (Financial)	7	4%	16	10%	68	43%	69	43%	160

	Excellent		Good		Fair		Poor		Response Count
	Number	%	Number	%	Number	%	Number	%	
Government Support (Practical)	7	4%	18	11%	65	41%	68	43%	158
High Quality Accommodation/Office Space	5	3%	52	33%	73	47%	26	17%	156
Higher and Further Education	10	6%	65	42%	69	44%	12	8%	156
Innovation and R&D Environment	4	3%	39	25%	99	64%	13	8%	155
Labour Costs	7	4%	35	22%	95	60%	21	13%	158
Labour Relations	7	4%	43	27%	85	54%	22	14%	157
Living Standards	7	4%	53	34%	74	47%	23	15%	157
Political Climate (national)	3	2%	33	21%	83	53%	39	25%	158
Political Climate (regional)	4	3%	16	10%	53	34%	84	54%	157
Productivity	4	3%	39	25%	96	62%	16	10%	155
Public Transport Infrastructure	6	4%	23	15%	68	44%	58	37%	155
Air transport links	7	5%	31	20%	62	40%	55	35%	155
Road and Rail Networks	6	4%	27	17%	61	39%	62	40%	156
Security	3	2%	40	26%	92	59%	20	13%	155
Skills and Education	6	4%	67	42%	74	47%	12	8%	159
Telecommunications Infrastructure	8	5%	57	37%	66	43%	22	14%	153
answered question									**165**
skipped question									**58**

Northern Ireland Assembly

Research and Information Service
Briefing Paper

19th March 2015 NIAR 153-15

Daniel Donnelly

IDA Ireland: Regional targets and policy measures

1 Introduction

As outlined in NIAR 61-15: Foreign Direct Investment in the Republic of Ireland (RoI), RoI in recent decades has performed well globally in attracting inflows of foreign direct investment (FDI), despite challenging economic circumstances.[1] However the spread of FDI has not been equitable across the country, with investment focused around the urban centres of Dublin and Cork.

This briefing paper seeks to outline the objectives set out by IDA Ireland in attracting FDI outside of Dublin and Cork; to evaluate the success in meeting these targets; and to outline the new regional goals in the latest FDI strategy.

2 IDA Ireland, Horizon 2020 Strategy

In the aftermath of the economic crisis in 2009 a comprehensive review of FDI strategy took place, which involved stakeholders from academia, sister agencies and the wider policy making community. The review entitled "Ireland Horizon 2020", unveiled in March 2010, set specific targets to attract 640 investments in the period 2010-2014. In addition it was stated that 50% of investments over the period of the strategy will be located outside Dublin and

1 RaISe (2015), NIAR 61-15, Foreign Direct Investment in the Republic of Ireland

Cork. The strategy did not set targets for approving jobs outside of Dublin and Cork, though this too was monitored.[2]

In order to achieve this objective IDA Ireland stated that:

> *In line with the Government's National Spatial Strategy (NSS), IDA will make smart use of its property portfolio in regions targeted for investment. We will work with local authorities to make potential sites as attractive as possible for investors. IDA has identified key areas of infrastructure improvement that are essential if we are to be successful in winning new investments into the regions outside Dublin and Cork. Transport and energy are vital. The importance of delivering next-generation networks is arguably the most important of all. High speed broadband access across Ireland, delivered in a timely and cost-effective way, must be a national priority and will require government intervention. Advanced FDI projects will require access to cloud computing, which in turn requires high-speed broadband access to be viable for mission-critical functions within a business. IDA believes success in winning FDI for the regions also requires constant vigilance on competitiveness. Local authority charges and infrastructure prices must not be a barrier to investment.*[3]

An Investment Climate Statement by the US Department of State notes the practical steps taken under the Horizon 2020 strategy to deliver these regional targets, with "magnets of attraction" developed. These include:

- A Cross Border Business Park linking Letterkenny and Derry/Londonderry;
- A regional Data Centre in Limerick and;
- Business parks in Oranmore and Dundalk designed for the biotechnology sector.[4]

Table 1: Percentage of investments located and jobs approved outside of Dublin and Cork[5]

Year	Investment	Jobs
2010	37%	42%
2011	28%	27%
2012	23%	34%
2013	30%	35%
2014	37%	N/A

Table 1 demonstrates that IDA Ireland has not delivered on its stated regional objectives, though there has been some improvement, both in jobs and investment from 2011. Please note that the 2014 figure for percentage of jobs approved outside of Dublin and Cork is not currently available.

IDA's 2013 Annual Report admits that "meeting regional targets IDA set under Horizon 2020 has been challenging." However, they go on to restate their commitment "to a wide dispersal of FDI employment throughout Ireland's regions."

In addition to this IDA stresses its commitment to the Republic of Ireland's regions by stating that it:

2 IDA Ireland (2010), Horizon 2020- IDA Ireland Strategy, http://www.idaireland.com/docs/publications/IDA-Ireland-Strategy2020.pdf

3 Ibid

4 US Department of State (2014), 2014 Investment Climate Statement-Ireland, http://www.state.gov/e/eb/rls/othr/ics/2014/227208.htm

5 IDA Ireland (2014), IDA Annual Reports 2010-2013, http://www.idaireland.com/en/about-ida/annual-reports/

…markets each region of Ireland individually online and works with local stakeholders to build a compelling proposition for each region. A partnership approach with local stakeholders is core to IDA's regional work[6]

IDA cite projects wins such as Nypro (Waterford), Sanofi (Waterford) Cook Medical (Limerick), Overstock (Sligo), National Pen (Dundalk), Alexion (Athlone), Vistakon (Limerick), Regeneron (Limerick) and EBay (Dundalk), as examples where they are delivering investment to the regions.[7]

While over the course of the strategy IDA Ireland did not reach its 50% target for investments outside of Dublin and Cork, it points to 2014 as being a relatively successful year for its regional strategy, with 37% of investments located outside of Dublin and Cork, a substantial improvement from the three previous years. While noting the tendency, particularly of the technology sector, to prefer Dublin, IDA Ireland highlights a number of successful high quality investments in regional locations during 2014. These include Jazz Pharmaceuticals (Co.Rosscommon), Beckton Dickinson (Drogheda), Nuvasive (Waterford), Teleflex (Athlone) and Clearstream Technologies (Enniscorthy). Regional investment for 2014 is noted to be particularly strong in the north-east and south-west[8].

3 Policy Statement on Foreign Direct Investment in Ireland

In July 2014 the Department of Jobs, Enterprise and Innovation (DJEI) released a document outlining its strategy and objectives for FDI going forward, including its role boosting regional development.[9] This is outlined below:

FDI has a role to play in regional economic development but it cannot of itself be the regional economic development strategy. Sustainable economic growth and job creation in Ireland's regions will come from a broad base of economic activity and it is critical that potential strengths and assets are recognised and supported across a range of possible sources. The attraction of FDI to regional locations (i.e. outside of Dublin and Cork), its retention and further development, will be aided by focused sectoral ecosystem development with a national and regional perspective and effective place-making policies.[10]

"Place making" as referred to in the policy statement aims to "create competitive, dynamic and globally connected city regions as attractors of investment." At the forefront of this concept is urban design that creates business and lifestyle opportunities. In order to make attractive locations for investment this is said to require collaboration between urban planners, engineers, architects, businesses, local authorities, the construction sector and other relevant stakeholders.

The policy statement emphasises the importance of place making on the basis of a strong interdependency between planning, development and the creation of an attractive environment and enterprise development. Restrictions on state aid means that Irish regions require place making investment in order to address the regional disparities which exist.

6 Ibid

7 IDA Ireland (2014), IDA Annual Report 2013, http://www.idaireland.com/docs/annual-reports/2013/pdf/IDA_Annual_Report_2013.pdf

8 IDA Ireland (2015), IDA Ireland Reports 15,012 Jobs Were Created in 2014, http://www.idaireland.com/newsroom/ida-ireland-reports-15-01/

9 Department of Jobs, Enterprise and Innovation (2014), Policy Statement on Foreign Direct Investment in Ireland, http://www.enterprise.gov.ie/en/Publications/Policy_Statement_on_Foreign_Direct_Investment_in_Ireland_PDF_689KB_.pdf

10 Ibid

The ultimate goal is to create city regions which provide a credible proposition in a globally competitive context that will allow Ireland to differentiate its investment proposition.

In order to aid this development the DJEI planned to introduce Regional Enterprise Development Frameworks for each of the NUTS III regions, these will set out regional enterprise strengths and investment needs. This is with the ultimate aim of producing Regional Spatial and Economic Strategies which introduce a new approach to economic development. In order to facilitate regional investment IDA Ireland is tasked with ensuring that property requirements of potential investors are catered for across the regions.[11]

4 IDA Ireland, Winning: FDI 2015-2019

Following the policy statement on FDI by the DJEI, IDA Ireland unveiled a new FDI strategy in 2015 entitled "Winning: FDI 2015-2019" with new regional targets for the period. Like the previous FDI strategy (Horizon 2020) it places emphasis on the benefits of FDI spreading more evenly throughout the economy of the Republic of Ireland towards "balanced regional growth". It states:

> *While recognising that the ultimate decision on a location rests clearly with each client company, IDA Ireland is committed to a greater dispersal of investments throughout Ireland. In that context, this strategy commits IDA Ireland to regional targets, which are aimed at focusing the collective energy of IDA Ireland and stakeholders on the goal of greater regional dispersal of investment projects.*[12]

In terms of regional targets the strategy differs somewhat from its predecessor in that it sets specific targets for each region, rather than the previous general target of 50% of investments outside Dublin and Cork. Central to this goal is the creation of strong employment growth throughout the regions over the lifetime of the strategy.

Specifically targets are set to achieve a 30%-40% increase in each region outside Dublin. These targets have been designed with a view to increasing the key factors of:

- A critical mass of population and urban centres;
- The ability to attract and develop appropriate skills (talent);
- The existence of clusters in specific industry sectors/activities;
- Alignment with the IDA global team's targets for the sectors, geographies and new opportunities;
- Regional infrastructure and place-making, including social and cultural capital; and
- Availability of property solutions and those planned over the short, medium and longer term of the strategy.

As IDA Ireland admit they can only incentivise and encourage investors to spread across the Republic of Ireland, the decision ultimately lies with those engaging in FDI. The strategy points to Regional Action Plans outlined by DJEI as the appropriate structure for regional stakeholders to engage to maximise future FDI potential.[13]

11 Ibid

12 IDA Ireland (2015), Winning:FDI 2015-2019, http://www.idaireland.com/en/docs/publications/IDA_STRATEGY_FINAL.pdf

13 Ibid

Table 2: Number of Investments attracted to Regions outside Dublin 2010-2014, targets for 2015-2019[14]

Region	2010-2014	2015-2019 (Targets)
South-West	107	139-150
Mid-West	51	66-71
West	71	92-99
Border	47	61-66
Midlands	19	25-27
South- East	34	44-48

Table 2 demonstrates the investments in each region outside Dublin during the period of the previous FDI strategy and the implications in terms of investments of a 30% to 40% increase that the current FDI strategy aims towards. Ultimately the strategy for attracting investment to the regions will be judged on how it performs in relation to these targets in the coming years.

5 Conclusion

IDA Ireland's Horizon 2020 (2010-2014) strategy for FDI contained within it a specific regional target to attract 50% of investments outside of Dublin and Cork, which as outlined above was not met during the course of the strategy. However, IDA Ireland has delivered some notable investments to regions outside of Dublin and Cork, with 2014 being a particularly strong year. Although ultimately investment decisions lie with the investor, the Horizon 2020 strategy addressed problems which can disadvantage regional growth. These include inadequate transport and broadband infrastructure, poor availability of adequate property for business and uncompetitive local authority charges. Therefore an appraisal of Horizon 2020 must be nuanced, recognising that the initially ambitious targets were not met, but also noting that it was not without success.

In combination with DJEI, IDA Ireland's new "Winning: FDI 2015-2019" strategy also places emphasis in achieving investment for the regions, with the new strategy differing from its predecessor in setting specific targets for each region outside Dublin of a 30-40% increase in investments. The new strategy focuses on creating localities and city regions which are attractive for both business and lifestyle, with a focus on adequate planning developed in collaboration with regional stakeholders. With the strategy in its infancy, it is much too early to judge its effectiveness.

14 Ibid

Research and Information Service
Briefing Paper

23 April 2015 NIAR 225-15

Aidan Stennett

ETI Committee - Stuttgart visit

1 Introduction

On the 25 and 26 of March 2015 Members of the Enterprise, Trade and Investment Committee visited the Stuttgart region. The visit, which was hosted by the Stuttgart Region Economic Development Corporation (WRS), formed part of the Committee's inquiry into Economic Growth and Job Creation in a Reduced Tax Environment. The purpose of the visit was to learn from *'good practice in economic growth and development and to look at how a fully integrated approach can support economic development'.*

The Committee attended meetings on a range of topics:

- Regional Governance and the Responsibilities of Verband Region Stuttgart;
- Economic Development for the Stuttgart Region;
- Creative Industries in the Stuttgart Region;
- Investor Services;
- Sustainable Mobility in the Stuttgart Region and in Baden Württemberg;
- The Welcome Service in the Stuttgart Region;
- The Competence Centre Initiative and the Virtual Dimension Centre.

This paper provides an overview of the presentations Committee Members received during their visit. The paper concludes by identifying points of learning which may feed-into the Committee's inquiry.

2 The Stuttgart Region in context

The Stuttgart Region is one of 12 Regional Associations within federal state of Baden-Württemberg[1,2] It is comprised of 179 municipalities organised into five counties – Böblingen, Esslingen, Ludwigsburg, Göppingen and Rems-Murr – along with the city county of Stuttgart. The region is:

> *In geographical, economic and political terms… is at the very centre of the federal state of Baden-Württemberg in the south-west of the Federal Republic of Germany.*[3]

Key figures on the region include:

- The region has an area of 3,654km2 – 10% of Baden-Württemberg's total area;
- It is home to 2.7m inhabitants – 25% of Baden-Württemberg's total population;
- The region has a population of 733 inhabitants per km2; and
- Regional GDP is €100bn – 27% of Baden-Württemberg's total GDP.[4]

The Stuttgart Region has a strong industrial base. As Figure 1 outlines, industry and manufacturing accounts for 35.6% of total employment in the region, a larger proportion of employment than in other comparator regions.

To provide some context to these figures:

- Northern Ireland has a population of 1.830 million (30 June 2013) and a population density of 134.9 inhabitants per km2 (2013).[5]
- Eurostat data estimates Northern Ireland's GDP to be €37,813m (2011).[6]
- The Quarterly Employment Survey (December 2014) shows that manufacturing accounted for 11% of total employment in Northern Ireland.[7]

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1 Alongside Karlsruhe, Tübingen and Freiburg

2 Baden-Württemberg, State Administration, (accessed 31 March 2015) http://www.baden-wuerttemberg.de/en/our-state/state-administration/

3 Stuttgart Region in Europe (accessed 31 March 2015) http://eu.region-stuttgart.de/en/stuttgart_region/

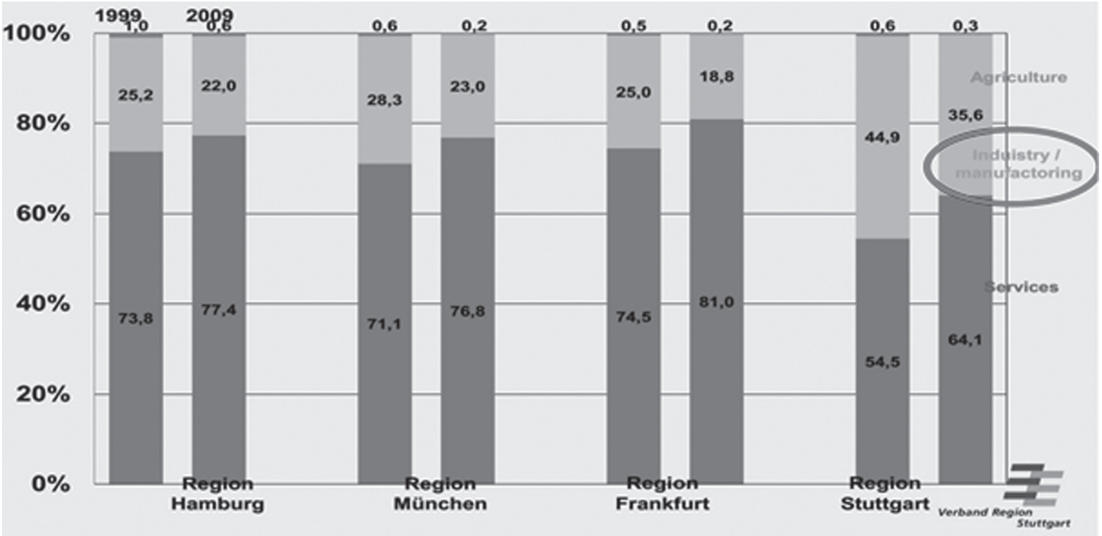
4 Verband Region Stuttgart (accessed 31 March 2015) http://www.region-stuttgart.org/andere-laender/english/

5 NIRSA, NINIS, population and demography

6 Eurostat, Gross domestic product (GDP) at current market prices by NUTS 2 regions (updated 03 March 2014) http://ec.europa.eu/eurostat/data/database

7 Department of Finance and Personnel, Quarterly Employment Survey (December 2014) http://www.detini.gov.uk/20144_table_5.8.xlsx

Figure 1: Employees by business sector



3 Regional Governance and the Responsibilities

Germany's federal structure has a number of tiers of administration. It consists of the Federal Government and 16 Federal States or Länder. The country's 'Basic Law' sets out which functions fall to the government and which are devolved to the Länder.

The Federal Government is responsible for *'all foreign policy issues, defence, including the protection of the civil population, citizenship, currency and money, the unity of the customs and trading area and cooperation between the Federation and the Länder concerning criminal police work'.*[8]

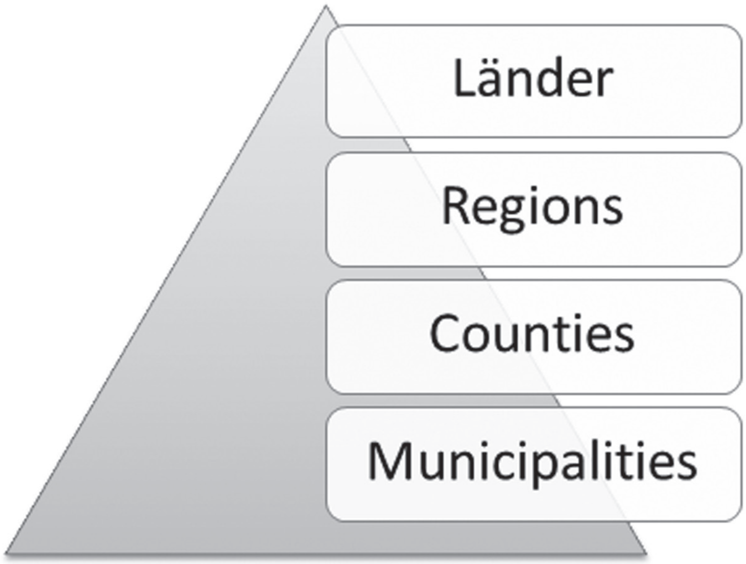
The Länder are responsible for implementing federal legislation. They have the right to legislate in all areas which are not vested solely in the Federation by the Basic Law. Federal and regional powers sometimes overlap in areas such as justice, social welfare, civil law, criminal law, labour law and economic law. The Länder have exclusive legislative powers with regard to culture, education, universities, local authority matters and the police.[9]

The Stuttgart Region is one 12 regions in Baden-Württemberg. It is further subdivided into counties and municipalities.

8 https://www.bundestag.de/htdocs_e/bundestag/function/legislation/competencies/245700

9 http://extranet.cor.europa.eu/divisionpowers/countries/MembersLP/Germany/Pages/default.aspx

Figure 2: Tiers of administration



Following an economic recession in the early 1990s the powers of the Stuttgart Region were strengthened. This saw a number of powers, previously held by other tiers of governments, transferred to the regional level and the creation of the Verband Region Stuttgart (a public corporation and the political and administrative authority in the Region). Regional transport was transferred from the Baden-Württemberg state administration and County to the Region. Economic promotion was transferred from the Municipalities.[10] The region has other important powers:

- Co-funding of infrastructure of regional significance;
- Mandatory Planning;
- Open space development;
- Regional marketing; and
- Supporting Municipalities.[11]

The strengthening of the region enabled a strategic approach to challenges that are not limited to one level, field of action, or municipality – such as adaption to climate change, renewable energy development and mobility.

The Stuttgart Region is also unique in a Baden-Württemberg context in being the only region in Baden-Württemberg to have an elected regional assembly. These developments have led to the Region becoming a significant political entity.

Despite the strengthening of the Region, Municipalities remain strong politically. Each has, for example, a politically strong mayor. Significantly, each Municipality sets its own rate of corporation tax and retains corporation tax revenues. This leads to competition amongst the municipalities, although it is in the municipality's interest to maximise corporation tax revenue. Furthermore, whilst the Region has the power to protect land for industrial development, decision on zoning and the granting of planning permission are within the remit of the municipalities.

10 Thomas Kiwitt, Managing Director, Head of Planning, Verband Region Stuttgart, Stuttgart Region Governance, Spatial Development Local cooperation (presentation 25 March 2015)

11 *Ibid*

The presentation ended by outlining some of the challenges facing the Verband Region Stuttgart and how they are being addressed.

- **Mobility:** mobility is important to Stuttgart's competiveness. It ensures the region is accessible and connected internationally. It is viewed as a driver of prosperity. The region's transport infrastructure is at the limit of its capacity and there is no significant extension to the road network planned. This necessitates the efficient use of transport infrastructure and the promotion of public transport. To facilitate the first, the Verband Region Stuttgart engages in transport orientated land use planning – developments are situated along railway corridors; retail facilities are located close to housing; and the city is densely organised to minimise travel distance. To encourage public transport use the city has instigated a number of schemes. Decisions are based, not only on cost but on what they want to provide to make the region competitive and attractive. For example, the S-Bahn (the regional network), provides a night time service at weekends even thought this is not cost effective. An electric-car scheme, Car2Go, has also been introduced. This scheme allows subscribers to pick-up and drop-off electric vehicles anywhere within a pre-defined area (further details below). It is being funded by €75m of regional running matched by €75m of Baden-Württemberg state funding.
- **Mandatory planning guidelines:** Verband Region Stuttgart has developed binding guidelines for local land use and planning. These guidelines demarcate specific areas for housing and for economic development. They also require development along railway corridors. As noted above, land use and zoning remains the responsibility of Municipalities. To encourage cooperation in planning master plans are drawn up with municipalities. These prioritise a bottom-up approach to decision making and encourage co-funding of projects.
- **Industrial development:** Stuttgart is keen to encourage greater industrial development and operates on the principal of *'more factories, fewer banks'*. This desire to grow is constrained by the limited availability that meets the needs of industrial development (land must be of sufficient size, accessible and close to suppliers and customers). One of the key areas of work of WRS (the region's economic development agency) is assisting investors to locate suitable site. This work is explored in Section 6 on investor services.
- **Attractive cities:** the region aims to maintain the attractiveness of its cities. This is achieved by ensuring the quality of infrastructure and public spaces. A key element of the Region's strategy in this area is to safeguard cities' function as market places. Retail is a viewed as a key driver of a city's cultural and social life. The region places strict restrictions on retail development outside of city limits. For example: retail development on brownfield sites is prevented as a rule; proposed shopping developments must fit the municipalities they seek to set-up in; and the sale of goods traditionally sold in the city centre is prohibited or limited outside city limits (in practice, this means stores such as Ikea are prevented from selling smaller goods, but can sell larger items, when located beyond city limits).
- **Mandatory protection of open spaces:** development on open spaces is prohibited as a rule. The exception to this is the development of renewable energy.
- **Sustainable mobility**: Stuttgart bills itself as the 'birthplace of the automobile'. The car industry is a significant contributor to GDP and job creation. The industry is going through a period of change as it adapts to climate change. To encourage this adaption the Region is promoting research and development in sustainable transport and pilot projects such as the e-mobility scheme. Development in this area is viewed as advantageous as it enhances the region's reputation for innovation.[12]

12 *Ibid*

4 Economic development for the Stuttgart Region

WRS is responsible for economic development within the Stuttgart Region. Their presentation on economic development in the region began by outlining some facts and figures:

- The region is home to 160,000 registered companies and 1.5m economically active people.
- The Region's GDP was €110bn in 2011.
- Business Expenditure on R&D equates to 7.5% of GDP.
- The region is internationally competitive, with over 60% of manufacturing revenue generated abroad.
- It has a low unemployment rate, 4.2%.
- It is a manufacturing 'dominated' region. The sector contributes 39.4% of the region's gross value added. Many of the region's service sector enterprise are reliant on the manufacturing sector.
- It has a 'high research density'. Baden-Württemberg topped the European Union's Innovation Index of regions and countries in 2012, while Stuttgart tops the Baden-Württemberg's own innovation index. The region is home to numerous research institutes and universities. It has a student population of 78,707 (winter semester 2013/14).
- The region has a 'sound sectoral mix', comprising of multinational enterprises and innovative SMEs.[13]

The region's key industries are:

- The automotive industry;
- Mechanical engineering;
- Environmental technology;
- ICT; and
- The creative industries.[14]

WRS was founded in 1995. It has a budget of €8m and a staff of 50 full-time employees. Verband Region Stuttgart is a major shareholder in the organisation. It fulfils the following roles in the region:

- **Marketing for the Stuttgart Region:** WRS marketing work seeks to increase the recognition of the region on the national and international scale. Promotional activities are targeted toward companies, investors, skilled labour and the press. Promotional material takes the form of publications, online PR, trade fairs, press campaigns and advertising. WRS also has a representative office in the US and a European office in Brussels.
- **Investor Support:** WRS' investors support companies who want to locate in the Stuttgart Region and companies from within the region who are seeking to expand or relocate. A key element of their work is to help companies find appropriate sites for their needs. This is delivered through an online real estate market place and real estate market reports. Investor services also work closely with municipalities. They participate in knowledge and experience exchanges with municipal business developers. In addition, WRS consults cities and municipalities on commercial development needs. (WRS' investor services presentation is summarised in Section 6)

13 Stephanie Fleischmann, Head of Strategy and International Relations, Wirtschaftsförderung Region Stuttgart GmbH, Economic Development in the Stuttgart Region (presentation 25 March 2015)

14 *Ibid*

- **Regional cluster policy and network management:** WRS' cluster policy seeks to improve regional economic structures through networks, technology development and start-up support. Clusters and networks stimulate cooperation amongst businesses and between businesses and research institutions. Cluster policy focuses on growth sectors and 'future-orientated' topics – mobility in the automotive sector, mechanical engineering and production technology, energy and environmental technology, creative industry and ICT. The Region's clusters are supported by competence centres, which are business and academic networks focussing on a technological sub-division within a specific industry sector. For example the ICT cluster has a corresponding competence centre focussed on software development (Section 9 looks at the competence centre in more detail). Both clusters and competence centres are supported by horizontal measures such as start-up support, business angel support and recruitment support.
- **Innovation support:** WRS' approach to innovation is to develop it within existing sectors. In this respect they are not seeking to develop new sectors, but to exploit technological development with established industries. To encourage this WRS informs businesses of developments and shares best practice guidance. One example of support in this area is EXPLORE, a WRS project to exploit results of EU-funded research projects. A second aspect of the project is to improve SME access to existing EU research projects.
- **Labour market support:** WRS supports SMEs in the areas of staff recruitment, retention and training. For example, in the area of recruitment WRS will operate trade walls and facilitate company stands at trade fairs. To assist SMEs in retaining staff WRS will assist companies in developing work-life balance and company health strategies. In the area of training WRS awards a Development Innovation Training Award to companies demonstrating best practice in training. The award is organised in conjunction with the regional Chamber of Commerce and Chamber of Crafts.
- **Knowledge based start-up support:** a range of support for knowledge intensive start-ups was outlined. This included: Push a scheme that provides information, advice and supervision for university spin-off companies; Business Angel Support which is tailored toward young knowledge-based companies; and 'HiTURS Region Stuttgart' which connects young technology and experience companies.[15]

Committee Members discussed a number of additional areas, including:

- Access to finance – WRS officials were asked if, in the wake of the financial crisis, firms had experienced any difficulty in accessing finance from banks. It was noted that there is no particular problem in this respect. Although it was added that firms who may find accessing bank finance difficult usually experienced problems with other sources of finance. Business angel financing has been an important source of funding for business. A business angel's forum, an angel network that focuses on high-tech start-ups, was started ten years ago and has proven to be a success. The University of Stuttgart has shown successes in accessing Framework Programme 7 funding. The European Regional Development Fund is not available in the region.
- The role of apprenticeships and vocational education was discussed. Vocational training within Germany is afforded the same status as university education and there is a formalised approach to apprenticeships. Dual learning programmes offer young people integrated work-based and school based learning, with the student spending part of their time in the classroom and part of their time in the workplace. The system is designed to prepare students for the working environment and to match skills with demand. There is also a high-degree of employer buy-in to the system. The system allows for flexibility, enabling course to be tailored to the changes in labour market demand. One of the strengths of the vocational system is that in helps develop a workforce skilled in specialised engineering areas, giving Germany a unique selling point and allowing it to with lower wage economies globally.

15 *Ibid*

- Discussing the education system more generally, Members were informed that there is often business input into education syllabi. For example, the Chamber of Commerce is responsible for course content in some cases. Universities in the Stuttgart region are led by two committees. Company members sit on one of these committees and can influence university policy.
- The concept of Mittelstand was discussed. These are medium to large sized family owned firms that are embedded in their local communities. The local connection encourages active participation in corporate social responsibility. Also, because they are not focussed on short-term gains to shareholders, their strategic thinking is often long-term which can benefit to innovation, which often requires significant up-front costs to secure longer-term benefits.
- The role of trade unions was discussed. The strength of German trade unions and their integration within industry (union representatives sit on company boards) was highlighted as one of the central reason why Germany did not experience the same levels of deindustrialisation as other western countries. It was also noted that trade unions were supportive and accommodating of innovative practices.[16]

5 Creative Industries in the Stuttgart Region

The Stuttgart Region is home to 10,000 creative industry enterprises. These businesses have a combined turnover of €7bn and employ 60,000 people. Creative industries in the region provide a significant number of services to industry, forming part of the supply chain to manufacturing. For example, it is the creative industries that serve the advertising and design needs of the manufacturing industry.[17]

The role of the WRS' Creative Industries Unit is to promote the sector within the region. They assist the sector in a number of ways:

- By initial consultation on and supporting business in foundation, financing and cooperation with other businesses.
- Through marketing and communication – WRS' Creative Industries Unit produces a range of online and print marketing products which highlight the region's creative industries.
- Creative spaces – As noted above office space is at a premium in the Stuttgart area. Part of the work undertaken WRS' Creative Unit is to assist creative industries in identifying spaces in which to operate.
- Cluster management, the Creative Industries Unit initially help in the formation of a Media Initiative Region Stuttgart cluster in 1997. It also represented the cluster in its early stages. The creative cluster has become self-sustaining with over 400 members and now operates without WRS input;
- WRS encourages cross-over projects to highlight the importance of the creative industries to the wider economy. For example, in 2012 it ran a competition to develop a sound for electric-cars (e-cars), in conjunction with the region's Popbüro. The purpose was to address a real safety need, that e-cars are much quieter than combustion engine cars. The competition also demonstrated how different industry the utility of the creative sectors to other industries.
- Internationalisation and EU funding – the Creative Industries Unit show cases Stuttgart's creative industries at international trade shows and events. They take part in EU wide networks and are responsible for the management of EU funding.

16 From discussion with Stephanie Fleischmann following presentation

17 Margit Wolf, Project Manager Creative Industries Unit, Stuttgart Region Economic Development Corporation, Creative Industries in the Stuttgart Region (presentation 25 March 2015)

- Skilled personnel – the Creative Industries Unit supports creatives seeking jobs through job walls at trade fairs, 'Career Walks' (guided tours for students at trade fairs in which companies outline employment options), bonding events, and orientation and consulting for young people.[18]
- As well as the work of the Creative Industries Unit, Committee Members were also briefed on the work of two related agencies – the Stuttgart Region Film Commission and the Stuttgart Region Popbüro:
- The Stuttgart Region Film Commission is an advisory body for film production within the region. It will assist production companies in finding filming locations, obtain permits, and provides information on professionals within the region.
- The Stuttgart Region Popbüro is the regional body for promoting popular music within Stuttgart. It is responsible for raising awareness of the region's poplar music industry. It promotes musicians, groups, companies and start-ups. The Popbüro combines economic and cultural development with youth work.[19]

6 Investor Strategy and Investor Services

WRS' discussion of the Stuttgart Region's investor strategy and investor services began by outlining their key message to investors, namely that the region is *'one of Europe's strongest and most innovative regions'.* This was evidence by the following statistics:

- Manufacturing's share of regional exports is 63%, this compares to 45% in Germany as a whole;
- Private sector expenditure on R&D represents 7% of GDP, compared to 2% in Germany as a whole; and
- The regions unemployment rate is 4%, compared to 7% nationally.[20]

Baden-Württemberg's innovation performance was also highlighted. Data shared with the Committee (outlined in Figure 3) show that Baden-Württemberg's innovation capacity was the highest in Europe in 2014. This placed the region above countries such as Denmark, Finland and Sweden. Additional information (also in Figure 3) shows that within Baden-Württemberg two of the Stuttgart Region's constituent counties – Böblingen and Stuttgart – ranked first and second for innovation capacity within Baden-Württemberg. A third county, Ludwigsburg, was ranked sixth.

18 *Ibid*

19 http://bw-in-austin.de/team-view/wrs/

20 Wolfgang Küstner, Investor Support Services, Wirtschaftsförderung Region Stuttgart GmbH, Investor Strategy and Investor Support Services (presentation 26 March 2015)

Figure 3: Innovation index countries and regions within Europe and within the state of Baden-Württemberg[21]

1	**71,3**	*Baden-Württemberg (Deutschland)*
2	**56,7**	*Bayern (Deutschland)*
3	**55,3**	*Île de France (Frankreich)*
4	**54,6**	*Berlin (Deutschland)*
5	**53,8**	*Dänemark*
6	**53,6**	*Finnland*
7	**52,7**	*Hessen (Deutschland)*
8	**51,2**	*Schweden*
9	**50,9**	*Hamburg (Deutschland)*
10	**49,9**	*Luxemburg*

1	**67,2**	*Böblingen, (LKR)*
2	**61,1**	*Stuttgart, (SKR)*
3	**57,8**	*Heidelberg, (SKR)*
4	**55,2**	*Ulm, (SKR)*
5	**51,7**	*Bodenseekreis, (LKR)*
6	**49,3**	*Ludwigsburg, (LKR)*
7	**46,3**	*Biberach, (LKR)*
8	**43,3**	*Karlsruhe, (SKR)*
9	**42,9**	*Freiburg, (SKR)*
10	**41,8**	*Heilbronn, (LKR)*

The Stuttgart Region's high-standing in the area of innovation capacity is due to it being a location for high-tech industries, including: automotive; mechanical; environment technology; ICT; business to business services; and the creative industries. The Global headquarters of companies such as Daimler, Porsche, Bosch and Trumpf. A number of other global companies, such as IBM, Hewlett-Packard, Ernst and Young, Thales, Sony, Samsung and Lenovo, have located their European or German headquarters in the region. In addition the region is home to a number of research centres – including two Max-Planck Centres; Five Fraunhofer institutes; four institutes of the German Federation of Industrial Cooperative Research Associations; a large-scale German Aerospace Centre research centre; over 100 Steinbeis transfer centres; Universities of Applied Sciences; and academies.[22] [23]

Despite these strengths, WRS Investor Services identified a number of issues. These issues arise from what was referred to as a *'big fish-small bowl'* syndrome; that is the Stuttgart Region is a strong economy but further growth constrained by physical and geographical restrictions – particularly transport infrastructure, traffic congestion, office space and the housing market. Overcoming these constraints shape WRS' investor strategy.[24]

WRS' strategic approach is also shaped by a desire to focus on the region's strengths. They are not, for example, keen to develop the biotech sector in the region. At the same time, they will encourage businesses to maximise opportunities presented by technological changes in existing sectors.

The strategy itself is based on a four pronged approach, with action in each area seeking to maximise strengths and/or mitigate weaknesses:

- **Their sectoral approach** – as already mentioned this approach seeks to develop existing industry by encourage investment in technological enhancements within the sector. This is achieved in part by demonstrating learning from best practice to companies.

21 *Ibid*

22 http://eu.region-stuttgart.de/en/stuttgart_region/research_technology.htm

23 Further information on research centres: the Max-Planck Centres are part of the Max-Planck Society, established in 1948, which operates 82 research institutes (the majority of which are in Germany, although the Society has a global presence). The Frauhofer Institute is Europe's largest application-oriented research organization. The German Federation of Industrial Cooperative Research Associations is a German national organisation responsible for promoting R&D among SMEs. The German Aerospace Centre in Stuttgart consists of six research institutes conducting research into the areas of aeronautics, space, energy, transport and security. Steinbeis centres operate throughout Germany and focus on the transfer of knowledge and technology between science, academia, trade and industry.

24 Wolfgang Küstner, Investor Support Services, Wirtschaftsförderung Region Stuttgart GmbH, Investor Strategy and Investor Support Services (presentation 26 March 2015)

- **A regional approach** – approximately 60% of new investment comes from within the Stuttgart Region from existing companies seeking growth opportunities (for example Bosch are planning to employ a further 1,200 engineers in the coming years). As such the work of WRS Investor Services will assist indigenous companies seeking to expand or relocate their businesses within the region. This, and similar work to assist inward investment into the region, feeds into the organisation's real estate approach outlined below. A key point raised during this discussion was that global companies entering the region are often customers of local companies. In addition to real estate solutions, WRS will offer investors detailed data and information on the region or specific industries within the region.
- **A services approach** – this approach relates to the services offered to investors by WRS. Work here includes the briefing of investors on legal, tax and recruitment issues. Such work is carried out in tandem with experts in each field. WRS will facilitate company to company, and company to research institution networking. The agency will also offer companies a bespoke welcome package to foreign investors.
- **A real estate approach** – the scarcity of real estate within the region necessitates a strategic approach to real estate management, which is a key area of WRS' activities. Achieving this effectively requires working closely with the planning department. The agency is not involved in real estate negotiations, this take place at local level and with the involvement of owners of private land. Such is the importance of WRS' real estate approach agency officials devoted much of the latter part of their presentation to outlining the process they engage in. As such this is laid out in more detail below.[25]

One area of investment promotion that WRS does not engage in is offering financial assistance to investors. This is due to the region's economic strength. Some state credit programmes are available, but are currently unattractive due to low interest rates.

Regional investment promotion does not operate in a vacuum; rather WRS is a partner within a cooperative national and regional structure. At national level German Trade and Industry operates internationally engaging in investment an acquisition and marketing. Baden-Württemberg International, the Federal investment agency, also has an international reach and will engage in similar activity as the national investment agency, albeit with a more specific, state focus.

WRS also cooperates with entities at a sub-regional level, working in closely with municipal and county administrations. For example, County economic promotion officers are co-financed by region, counties, and local banks.

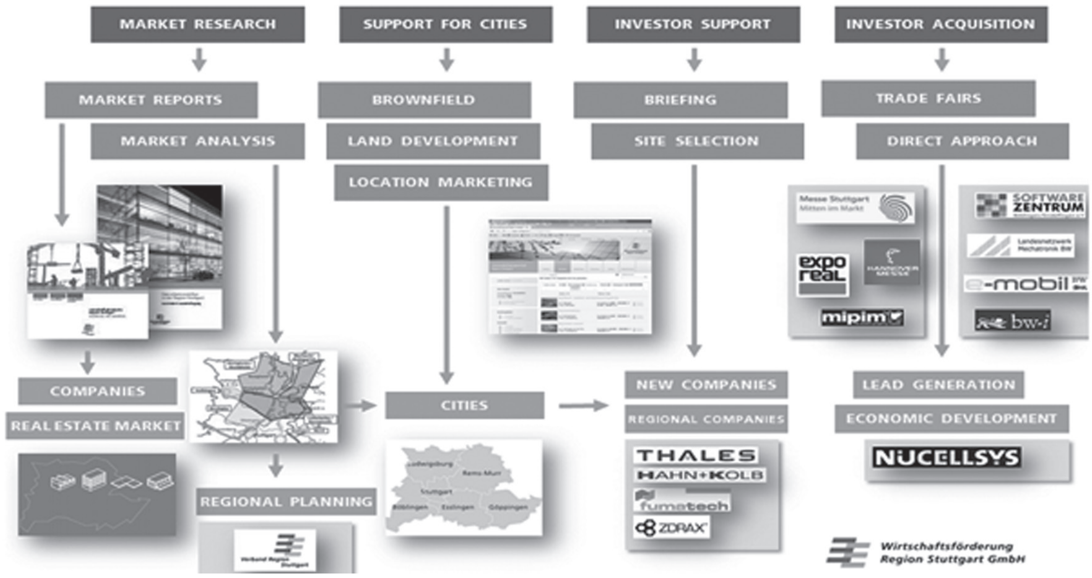
All cooperation is based on the principal of subsidiarity with each level of administration doing *'what it can at its level, within its means'*.[26]

WRS' investor services works across four 'fields of action': market research; support for cities; investor support; and investor acquisition. Figure 4 outlines the process engaged in in each field and how the fields of action interact with each other. For example, market reports on the real estate market feed into WRS' support for cities and the work the undertake to find suitable sites for new and regional companies.

25 *Ibid*

26 *Ibid*

Figure 4: WRS Investor Services – Fields of Action[27]



Supporting companies through site location is the main area of work for WRS Investor Support Services. The service employs real estate experts who can guide clients through the range of available sites and make specific recommendations that meet client needs. As noted above, lands is constrained and whilst the region has the power to protect land for industrial development, decision on zoning and the granting of planning permission are within the remit of the municipalities.

When WRS receive an investment lead, these are passed to cities and counties with each given an opportunity provide a site solution. Companies do, however, retain control of where they set-up. For example, WRS would not pass on a lead to the northern part of Stuttgart if a company is specifically looking for a location in the southern part of the region.

A key development in WRS support to companies in this area has been the development of its Regional Real Estate Database. This database has been online since 1997 and has recently been developed to allow smart phone access. The database allows businesses to search for information on more than 1,000 sites and buildings within the Region's 179 municipalities.

Whilst WRS Investor Support Services will assist business in their site selection. They do not become involved in contract negotiation. This is left to local authorities in the case of communal land and land owners in the case of private land.[28]

7 The Automotive Cluster in Baden-Württemberg

The Automotive Cluster in Baden-Wurttemberg is managed by Automotive-BW. The agency fulfils a number of roles, it:

- Acts as the main point of contact for the cluster;
- Organises conferences, seminars and workshops;
- Leads subject-specific groups;
- Mediates in and facilitates cooperative action;

27 *IBid*

28 *Ibid*

- Provides education and training opportunities;
- Promotes the cluster in trade fairs and congresses;
- Share information on trends, technology and support; and
- Operates an internet platform for marketing and communication.[29]

The cluster is a significant driver of Baden-Württemberg economy. Despite the emergence of other sectors, the wealth of the state is dependent on its automotive and engineering industries. The presentation on the state's automotive cluster focussed on the cluster itself and on how the industry was changing.

The presentation provided some statistics on the automotive cluster:

- 20% of jobs in Baden-Württemberg are in the automotive jobs (and 28% of all German 'autojobs' are located in the state);
- 19% of all German cars are produced in the Baden-Württemberg;
- The cluster comprises of 300 companies, employing 200,000 people; and
- Vehicles account for 26% of turnover, 34% of exports and 33% of investments in Baden-Württemberg.[30]

Figure 5 provides an illustration of some of the key players within Baden-Württemberg's automotive cluster. Some points were raised regarding the operation of the cluster:

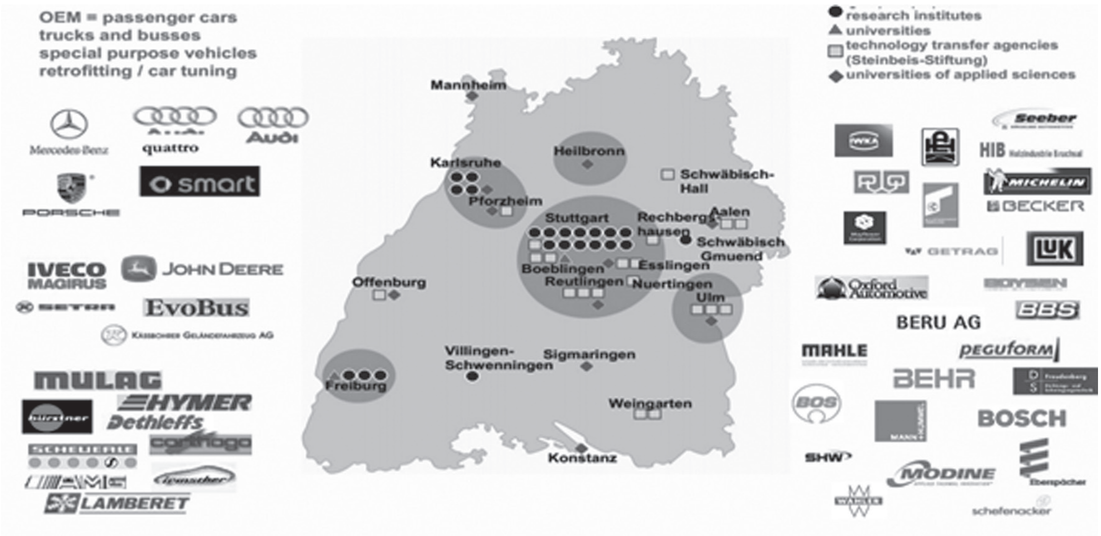
- Automotive manufactures are the central component the cluster, it is they who encourage the growth of supply chains and R&D in the university sector;
- For example, the concentration of large companies in the sector has led to suppliers to these companies headquartering in the area;
- Cooperation between companies within the cluster does take place, but not in competitive areas;
- One example of cooperation is resource sharing to secure cheaper supplies, this is especially true of battery technologies; and
- The cooperation at EU level is essential for Europe to remain competitive with other regions, particularly Asia.[31]

29 http://automotive-bw.de/de/unternehmensbereich/index.php

30 Dr. Rolf Reiner, Cluster Manager automotive-bw / CARS, The Automotive Cluster in Baden-Württemberg (presentation 26 March 2015)

31 *Ibid*

Figure 5: Baden-Württemberg's automotive cluster[32]



The industry is facing challenges and opportunities:

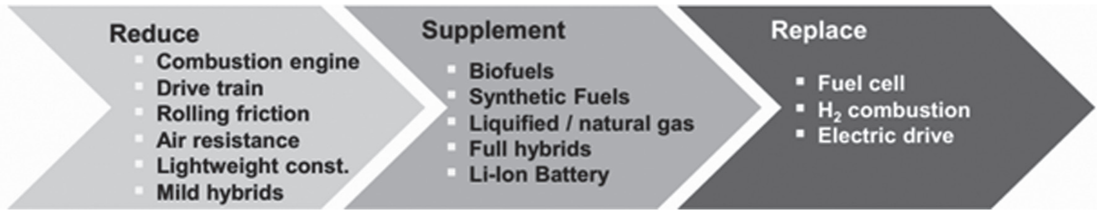
- A raw material shortfall, particularly finite fossil fuel – which presents an opportunity for the development sustainable products and processes;
- A tightening of regulations – in which the social and environmental impact of products will impact future success;
- Environmental and climate change (and government reaction to both) – which restrict future CO2 emissions;
- The emergence of megacities – which is leading to reimagining on the concept of mobility; and
- A change in values – where sustainability is viewed as part of a modern urban lifestyle.[33]

The conclusion drawn from this assessment is that the industry must adapt to a *'clear trend for increased sustainability'*.[34] Importantly, these challenges are not only viewed as obstacles to overcome, but also potential areas in which the sector may innovate to secure competitive advantages in the market.

To capitalise on the challenges faced by the sector, the German Association of the Automotive Industry (VDA) has developed a broad based strategy. This is underpinned by three principles as illustrated in Figure 6 – reduce, supplement and replace.

32 *Ibid*
33 *Ibid*
34 *Ibid*

Figure 6: VDA strategy – Meeting the challenges of the automotive industry[35]



To encourage the realignment of the industry towards sustainability and innovation Automotive-BW has launched TecNet an 'ideas platform' which seeks to address the challenges faced by the industry. Participants take part in three to five meetings per year during which solutions to challenges (E-mobility, energy efficiencies, and light-weight construction) are shared by small companies (intellectual protection is available) and rated the larger companies. The platform enables the matching of skills of SMEs to the technological requirements on the large manufacturers and suppliers.

WRS and e-mobil Baden-Württemberg have also been involved in the development of e-mobility. Baden-Württemberg is one of four German regions selected for a large-scale e-mobility pilot project. The rationale behind all four pilot projects is to:

- Increase the visibility of electric vehicles;
- Increase the number of electric vehicles on roads;
- Develop knowledge and experience; and
- Improve cross-sectoral cooperation.[36]

Baden-Württemberg's project, Living-Lab, consist of 34 projects in a range of areas:

- Intermodality;
- Fleets and distributors;
- Energy, infrastructure and ICT;
- Housing and e-mobility;
- Urban and traffic planning;
- Vehicle technologies;
- Communication and participation;
- Education and training; and
- Impact research and evaluation[37].
- An example of the project in action is Car2go launched in 2012. It is a scheme that allows subscribers to access electric cars from throughout the Stuttgart city (the 'home area'), use the vehicle temporarily and when finished, drop the vehicle off at any point within the home area. Users pay a one-off administration fee of €19.00 to sign up to the scheme and €0.29 per minute of driving (with a maximum of €14.90 per hour or €59.00 per day).[38] The scheme was launched with a fleet of 300 cars. To support its development 500 charging points have been installed throughout the region.[39]

35 *Ibid*

36 *Ibid*

37 *Ibid*

38 https://www.car2go.com/en/stuttgart/what-does-car2go-cost/

39 http://www.livinglab-bwe.de/projekt/alis/

- The Car2Go scheme is just one aspect of the intermodality concept that the regional authorities are seeking to promote. Residents of Stuttgart are encouraged to use different modes of transport depending on the journey they are undertaking. For example, a commuter might use the S-Bahn to enter the city and then use the car2Go scheme or one of the City's electric bikes to move around within the city. The intermodality concept is seen to have two main advantages. It increases the sustainability of the city's transport infrastructure and helps alleviate congestion.

8 The Stuttgart Region Welcome Service

The Stuttgart Welcome Service is one of ten Welcome Centres in the Baden-Württemberg area. It is a joint project of the WRS and Skilled Specialist Alliance Stuttgart that aims to:

> *…attract international skilled specialists and students to the Stuttgart Region for the long term and to assist them in the integration process.*[40]

The project was originally funded by the European Social Fund. It is currently financed (for the 2015/16) by the Baden-Württemberg's Ministry of Finance and the WRS.

The Welcome Service, which has a full-time equivalent staff of 3.5, operates as a one-stop-shop for new entrants to the Stuttgart Region offering advice on:

- Right of residence;
- Learning German;
- Working;
- Training / studying;
- Recognition of degrees from foreign universities;
- Living;
- Nursery school places and school;
- Associations;
- Culture; and
- Contacts.[41]

The Welcome Centre will also direct users towards sources of further advice. The Centre works with the immigration advice services and regional welfare organisations, as well as other regional partners and advisory services.

Between opening in October 2014 and February 2015 the Centre dealt with 1,294 requests for advice. The majority (75%) of these were face-to-face requests; the service also operates via email and telephone. In addition to one-to-one advice the Centre hosts information evenings and events at its premises.[42]

The breakdown of advice offered during this period was as follows:

- 33% on language;
- 30% on working;
- 19% on housing;

40 Dr. Verena Andrei (Project Manager), Stuttgart Region Economic Development Corporation (WRS)/ Wirtschaftsförderung Region Stuttgart GmbH, Stuttgart Region Welcome Service (presentation 26 March 2015)

41 *Ibid*

42 *Ibid*

- 10% on entry requirements; and
- 8% on studies.[43]

Those seeking advice came from within the EU (53%), from third-countries (countries outside the EU – 43%) and from Germany (4%). To accommodate the different backgrounds of those seeking advice it is offered in 12 languages.[44]

9 The Competence Centre Initiative and Virtual Dimension Centre

The Stuttgart Region's Competence Centres (CCs) are thematic regional networks consisting of companies, universities and research centres that seek to provide *'a suitable basis for know-how exchange, innovative cooperation and project approaches among the partner institutions'*. To achieve this CCs link together actors across the supply chain, while the centre itself operates as a 'one-stop shop' for member organisations providing a range of services:

- Guidance on technological solutions;
- Fostering open innovation process;
- Promoting joint learning on both technology and business approach - for example, on how to enter new markets; and
- Exploiting scale effect – such as joint marketing material or joint trade stalls at trade fairs.[45]

They are part of the region's wider approach to cluster and network management, which also includes cluster initiatives (the automotive and creative industries, for example) and horizontal networks (in areas such as finance and education).

In contrast to clusters, which tend to foster cooperation across broad industry sectors, CCs are more specific in their focus. For example, whilst a cluster may form around the automotive industry, a CC would support network formation within a particular sub-division of an industry sector, such as mechatronics. Each CC is a formalised network of 40 to 100 member companies (a membership fee is charged) focussed on a specific technology and integrating regional companies and research bodies working within that technological field.

The region's CC programme began in 1999 with the aim of promoting economic development and to assist SMEs in meeting the challenges of global competition. Regional funding (€2m) was provided to municipalities to establish CCs during an initial implementation phase (2000-2002). This initial funding has leveraged significant private investment.

Since 2003 funding has been provided on a project-orientated basis. This funding is competitive, with CCs applying for funding for specific innovation projects. Project funding in the region €25,000 is provided over a one or two year period to successful applicants.

Currently 11 CCs operate in the Stuttgart Region (see Figure 4). In total 500 companies (80% of which are SMEs) and 50 universities and research institutes participate in a CC.

Demand exists for new CCs from within the Stuttgart region and from outside. CCs can be established with a critical mass of companies, between 10 to 15 companies. New CCs will not, however, receive financial support during their implementation.

43 *Ibid*

44 *Ibid*

45 Dr. Andreas Findeis, Stuttgart Region Economic Development Corporation, Competence Center Programme Stuttgart Region (presentation 26 March 2015)

Factors influencing the success of CCs include:

- The Network Manager: each CC is managed by a Network Manager who is responsible for the set-up and development of the CC. The Network Manager will ideally have knowledge of all companies and people within the network, and will maintain the participation and commitment of these members. The role of the Network Manager in maintaining the network will relive this from the members themselves allowing them to concentrate of their business activities;
- Communication: communication amongst network partners is key to a successful CC. Where possible this communication should be face-to-face, through physical meetings in order to build up trust and develop a permanent forum for exchange. Face-to-face communication is supported by modern technology.
- The CC's institutional status: the legitimacy of CCs and the commitment of members is encouraged by the CC being a registered legal entity. Membership fees (which range from €1,000 to €7,000) also encourage commitment and participation from CC partners.
- Demonstrating benefit: the benefits of participating within a CC network may not always be material. However, it is viewed as necessary to initiate *'concrete projects to ensure the partners' perception of the (net-)work advantages'.*
- The structural mix: a successful CC networks are comprised of a mix of SMEs, large companies, public bodies and research bodies covering all aspects of the process-chain. They encourage bottom-up, rather top-down, development, and public-private partnerships through the strong involvement of the local municipality.

CCs are supported by WRS' Coordination Unit. The role of the Coordination Unit is to:

- Initiate and promote regional innovation projects including competitive regional funding for innovation;
- Provide marketing, communication and public relation support;
- Assist in the organisation of events;
- Provide links to other regional, national and international networks; and
- Provide information and support to help CCs and members to access national and international funding. For example, CCs will assist members who are seeking funding through Horizon 2020.

Committee Members were also briefed the work of the Virtual Dimension Competence Centre (VDC) and given a hands on demonstration of its outputs. The VDC was formed in 2002 and is a network of 100 members and partners. It focuses on virtual engineering, virtual reality, 3d visualisation and content creation.

The VDC Competence Centre operates on a not for profit basis, employing five people in its core business of network management and technology transfer. The Centre engages in:

- Information processing – updating members on important news, facilitating the exchange of information and assisting members in technology assessment;
- Public relations and marketing;
- Matching making – the VDC facilitates research cooperation and business contact;
- Technology transfer – supporting SMEs through information events and demonstrations (the facility has a demonstration centre);
- Funding management – the VDC team researches funding programmes, assist members to form consortia and helps with project management.

10 Learning

The sections above provide an overview of the presentations Committee Members received when visiting the Stuttgart Region. This section uses the information presented to identify points of learning which may provide a useful input into the Committee's inquiry into Economic Growth and Job Creation in a Reduced Tax Environment.

The Stuttgart Region does not offer direct financial assistance to companies. One of Northern Ireland's key tools in attracting investment has been Selective Financial Assistance. This is unlikely to always be the case. In evidence to the Committee, in November 2014, Invest NI stated that they are working with *'the knowledge that selective financial assistance (SFA) will disappear'.*[46]

As such the work of Stuttgart's WRS provides an example of the types of activities Invest NI may choose to engage in, in a post-SFA environment:

- Marketing Northern Ireland;
- Supporting investors in their location decisions;
- Managing clusters and networks;
- Support and encouraging innovation;
- Supporting companies to recruit;
- Assisting knowledge-based or high-growth potential start-ups.

The Stuttgart Region provides a number of examples of an integrated approach to economic development. This integration is evident on both a vertical and a horizontal basis. Vertical integration takes the form of cooperation between the various tiers of government. This can been seen in the interaction between German Trade and Industry and Baden-Württemberg International, where the former works internationally to attract investment in to the country and the latter seeks to attract investment into Baden-Württemberg.

It can also be witnessed in the cooperation between the regional economic development agency, WRS, and the municipalities and counties. Examples of this include the interaction between the region and municipalities in finding locations for investors and the joint region and county funding of County economic promotion officers.

Horizontal integration is also evident. This is evident in the way policy levers available to regional government are generally targeted towards enhancing economic development. For example, planning policy is geared towards facilitating investors and maximising the attractiveness of cities (the guidelines restricting out of town shopping centres or requiring development along rail corridors). Transport policy, whilst chiefly aimed at alleviating congestion, also serves to increase the attractiveness of the city by improving connectivity or by enhancing the travel experience.

The Stuttgart Region's approach to innovation is also of note. They are not aiming for what might be described as 'big bang' moment. That is, they do not wish develop a completely new sector within their economy. Instead they are more focussed on encouraging innovation in already existing sectors by exploiting technological developments and addressing challenges.

The automotive sector is a notable example of this approach. The sector is a significant driver of the Baden-Württemberg's economy (accounting for 20% of all jobs for example). Yet is a sector that faces challenges, most significantly the challenge of increasing the sustainability of its products. Importantly, these challenges are not only viewed as obstacles to overcome,

46 Official Report: Minutes of Evidence Report, Committee for Enterprise, Trade and Investment, meeting on Tuesday, 11 November 2014, Half-yearly Progress Report 2014-15: Invest NI http://aims.niassembly.gov.uk/officialreport/minutesofevidencereport.aspx?AgendaId=10534&eveID=6647

but also potential areas where the sector may innovate to secure a competitive advantage in the market.

The work carried out by the Region's Competence Centres also illustrates this targeted approach to innovation. The Competence Centres have been designed to focus on sub-sectors or specific technologies within already successful cluster. They allow for knowledge exchange and cooperation in these relatively 'niche' areas, enabling growth in these areas and developing specialisms that are of value to the 'parent' cluster.

The discussion on education demonstrated the integration of the business sector within the education system. Business buy-in is essential to the success of the vocational education programme. There is also a degree of business input into university syllabi. Both approaches may help to match the skills developed in education to the needs to industry.

The discussion on Creative industries demonstrated that the sectors importance to the wider economy. The importance of the creative industries in providing support services, such as advertising and design, to the region's manufacturing industry highlighted.

The service provide by Stuttgart's Welcome Service was also of note. The service provides a means of integration for new arrivals to the city. It operates as a one-stop-shop for new entrants, providing information on range of topic such as rights of residence, German language, and school places. It is viewed as an important factor in attracting, integrating, and retaining skilled specialists and students to the region.

Northern Ireland Assembly

Research and Information Service
Briefing Paper

30 April 2015 NIAR 253-15

RaISe

ETI Committee Stakeholder event: 'Growing the Economy and Creating Jobs in A Reduced Tax Environment'

1 Background

On the 14 April 2015 the Committee for Enterprise, Trade and Investment hosted a stakeholder event as part of their Inquiry into 'Growing the Economy and Creating Jobs in A Reduced Tax Environment'.

The event was attended by leading members of Northern Ireland's business community, their representative bodies and representatives from other areas including further and higher education.

The event sought participant views on issues identified as 'of high importance' and 'poorly provided for' in the Committee survey of Northern Ireland business (the survey took place between 26 January 2015 and 10 March and received 223 responses). The factors identified in the survey were as follows:

- Government financial support to business;

- Government practical support to business;
- Transport infrastructure;
- The Regional political climate; and
- Energy costs.

Attendees were divided into four groups. The first three tables discussed the first three topics listed above. Energy costs were not assigned to a specific table as it was thought that the Committee's recent review of electricity policy had covered these issues in sufficient detail. The Regional Political Climate was excluded from in-depth discussions as it was thought the topic was too broad to cover within the context of a stakeholder event. A fourth group was asked to discuss skills and education in Northern Ireland. This was not an area identified in the Committee's business survey, but one that had been consistently raised during inquiry evidence sessions.

Each table was assigned a range of tasks:

- To rank the issues from the highest importance to least, and from most urgent to least;
- To define their issue;
- To define their issue in a 'solved state'; and
- To suggests solutions which might help develop that solve state.

The purpose of this paper is to reflect the discussions each table had on the topics assigned.

2 Table 1: Government Support to Business (Financial)

2.1 Ranking the issue

Participants on table one agreed all six factors were significant to the growth prospects of NI businesses. The degree of significance of any one factor was considered to be dependent upon the type of business and its location.

Transport infrastructure was viewed as a limiting factor for business outside of Greater Belfast. In contrast, the consensus was that the firms within Belfast were well provided for in this area.

Skills shortages were viewed as an 'immediate issue' by the IT industry representative at the table. Others viewed it to be significant but thought it something that would be of greater significance in five to ten years.

There was consensus around the table that energy costs and capacity were both urgent and highly important. Increasing North/South and East/West interconnection was put forward as a way to reduce costs. Participants also commented on the need for greater public and private collaboration in energy matters. They also argued that the public sector should be leading by example in relation to installation of renewable energy solutions.

Government support was not generally viewed as a salient issue, with most participants noting that there were a range of grants available. There were concerns raised that Invest NI's support is not as effective in certain areas, such as retail or agri-food, as it is in other sectors, such as the IT sector.

Ultimately, participants at table one concluded that the regional political climate was the most important issue to business as it was this that underpinned any progress on the other issues discussed. Some specific criticisms of the regional political system were raised:

- There were *'too many strategies and not enough action'*; and
- Decision making is slow, particularly in relation to planning.

One participant suggested there was a wider problem with how the economy is viewed in Northern Ireland, with a focus on funding from Westminster and Europe, rather than recognition of an economy which is something highly relevant and local. This was said to be the case in the media, politics and wider public discourse.

2.2 Defining the issue

Participants at the table had differing views on the level of financial government support available to businesses in Northern Ireland. A contributor from the food and drinks industry argued that the different rules for firms above and below 250 employees was arbitrary and unnecessary for their sector.

The group debated the performance of Invest NI. There was a degree of consensus on this, with participants recognising that the agency's recent record on job creation (20,000 in 18 months) was positive. However others argued that Invest NI was only interested in creating "jobs for clever people" and failed to assist in other areas such as food production.

Participants agreed that government financial support could have more clearly defined aims, with funding directly linked to strategic government outputs. There was a discussion on what the purpose of financial support should. Should it be used, for example, to subsidise firms' losses, to assist investment in land or machinery, or to increase firms' export potential. There were strong voices at the table who argued that exports should be the focus of incentives as they were considered the best way to boost business growth. It was also suggested that government subsidies should be 'backing winners, not losers', as losers will ultimately lose when exposed to market forces.

Participants also discussed what type of economic mix government support was creating and whether the government should be supporting high-skilled *and* low-skilled employment. . A consensus emerged that Invest NI should be aiming to attract both kinds of employment, however participants suggested a debate was required on what that specific mixture should be.

Discussions extended beyond financial support to cover education. The business representatives argued that greater alignment between the education system and the needs of businesses was required. A suggestion was made that secondary school children should come and visit businesses more often and vice-versa that businesses should be in school classrooms explaining the role of their firm and industry.

Participants also touched on the issue of practical government support. They argued that more support was needed for young CEOs and start-up companies to allow for quicker learning and faster business growth.

2.3 Solving the issue

In discussing how financial government support could be improved participants made the following points:

- Streamline financial government support, making it more specific and more outcomes focused.
- Help firms de-risk exports, reducing liability of new firms exporting.
- Business requirements should be better aligned with the education sector and learning in schools.

3 Table 2: Government Support to Business (Practical)

3.1 Ranking the issue

When asked to rank the issues participants on table 2 were of the view that all six were intrinsically linked to the performance of the regional political system and its ability to function correctly. The consensus was that ensuring the stability of the political climate was a prerequisite to securing progress in the other five areas.

3.2 Defining the issue

Participants began by making the point that responsibility for the economy and economic growth was not confined to one Department, but is spread across the executive. As such a joined up approach was necessary, but at present, cross-departmental working was insufficient.

This fed into their discussions around defining the issues with practical government support. Participants noted that while a range of support exists, it is fragmented across Government Departments and agencies. This fragmentation, it was argued, had become more challenging due to the devolution of powers to Councils since 1 April 2015. The issue with practical government support therefore was not its availability but the difficultly firms have connecting with the support they need. In this respect, a consensus formed amongst participants that the most significant problem in accessing practical government support was inadequate signposting.

Business regulation was thought to be equally fragmented across Departments. Again this has recently become more complicated with the Councils also receiving greater regulatory functions, including greater control over planning. It was recognised that many areas of regulation are outside of Northern Ireland's control and often a requirement of EU or UK law. Moreover, as one contributor noted, dealing with regulation is 'part of being in business'. Nevertheless, participants again felt that the fragmentation of business regulation made it difficult to navigate and that better signposting towards sources of advice are needed.

On the issue of signposting, participants recognised that services such as the NI Business Info website do exist, but felt that greater efforts could be made to drive traffic towards such services.

The table discussed what was an apparent 'fear culture' amongst Northern Ireland's business community. This was viewed as a limit on growth, with some firms happy to remain in their comfort zone rather than seeking expansion. This fear culture, participants argued, necessitates a change in mind-set. To encourage this change, business should be encouraged, where appropriate, to take risks and an entrepreneurial attitude should be instilled at a young age.

3.3 Solving the issue

Asked to reflect on a solved state, a consensus formed amongst participants that a properly functioning practical support network would be one in which:

- A continuum of support was offered;
- The new Councils would act as an entry point for businesses; and

- Councils would provide support that met requirements or direct businesses towards more appropriate sources of assistance.

The table discussed whether sources of support could be extended beyond public bodies to include private sector organisations. For example, it was suggested that the legal sector could provide assistance to firms seeking export. This, it was argued, would be the in the interests of the private sector as it would bring new business and provide a revenue stream. On the other hand, it was recognised it would mean that businesses may be required to pay for certain support.

Discussing the ‘fear culture’ raised previously, participants agreed that to overcome this, people in Northern Ireland should be encouraged to become more entrepreneurial. One suggested way of doing this was to teach entrepreneurship at school and to encourage a business positive mentality from a young age.

Participants discussed the role of hubs and clusters. It was noted that when established these can become self-supporting entities within which companies can share knowledge and learning. The Bombardier Aerospace Hub was put forward as an example of a group of businesses working together sharing knowledge and innovation.

On joined up thinking there was a consensus that the proposed Department of the Economy was a step in the right direction. It was thought that the Department would be instrumental in linking business with further and higher education. Participants thought more could be done in this area. In particular, the table discussed the need to ensure that there was a joined up approach across tiers of government. Participants agreed that this vision of a joined-up government would see a cooperative approach that incorporated the Devolved Administration, the new Councils and the UK Government. One participant argued that the Secretary of State for Northern Ireland must do more to encourage partnership between Westminster and Northern Ireland. The need for greater cross-border cooperation on issues affecting enterprises was also identified.

The table noted that a joined-up working was as important in promoting Northern Ireland as an FDI destination. Participants were of the view that selling Northern Ireland was a collective responsibility. The table was of the view that this should not only an economic proposition and that the attraction of other areas such as culture and education were undervalued.

To assist joined-up working those at the table felt the Northern Ireland’s strategic economic thinking should be long-term, rather than focussing on the election cycle. Invest NI was thought to have a key role here as it did not, one contributor stated, ‘come and go like the Executive’.

The table was of the view that local politicians in Northern Ireland were open to business and willing to engage with business leaders. This was viewed to be in contrast to politicians in GB. Despite this, those at the table felt business could have a greater input into policy, particularly the next Programme of Government. The consultations accompanying the last Programmes for Government were dismissed by one contributor as a cosmetic exercise.

In a more general discussion on encouraging economic growth in Northern Ireland participants debated the concept of a Diaspora Strategy. Such a strategy would leverage the skills and talents of those who had left the region and use these global contacts to promote Northern Ireland as an investment location. Participants felt the global contacts of Invest NI and Tourism NI could be utilised to facilitate this. Furthermore, the table felt that there was an opportunity, as the Northern Ireland economy grows, to encourage those who had left Northern Ireland to return bringing with them a wealth of skills and experience – a ‘brain gain’ rather than a ‘brain drain’.

4 Table 3: Transport infrastructure

4.1 Ranking the issue

Participants at table 3 also focussed their discussion on the regional political climate. Whilst participants thought all of the issues were important, the consensus was that the regional political climate should be the most important and urgent issue. Their contentions with the political climate focussed on two areas – decision making and investor perceptions of Northern Ireland. On decision making contributors remarked that 'decisions either are not made, not made in a timely fashion or if they are made are not adhered to'. The development of road infrastructure was cited as an example of where slow decision making at political level was negatively impacting on business development. The Belfast to Derry/Londonderry motorway, planned in 1964 but never developed, was cited as specific example.

On the issue of investor opinions of Northern Ireland, it was argued that the perception of political instability makes it difficult to encourage investors to locate in the region. Participants agreed that political instability harmed business confidence and was detrimental to investment.

4.2 Defining the issue

At least one participant felt that it might be better to consider transport as part of a wider issue of infrastructure within Northern Ireland, but agreed that for the purpose of this event the focus should be on transport infrastructure.

In actually defining the problem with transport infrastructure, participants identified the factors of time and costs and these were thought of in relation to two themes:

- People/goods getting to and leaving Northern Ireland; and
- People/goods moving around within Northern Ireland.

Participants identified a number of challenges in relation to these themes. On airports, participants suggested that the lack of a direct rail link to either of Northern Ireland's airports creates a negative impression amongst visitors and potential investors. They also argued that the relative lack of air links to Northern Ireland was detrimental to business development. For example it makes it difficult for people to attend business meetings in the region and also impacts on local people leaving here to do business elsewhere.

The table discussed the transport of goods in and out of Northern Ireland. Stakeholders noted that the cost of transporting goods across the Irish Sea, was much higher than the cost of transporting goods across the English Channel. There was some debate as to the extent of the difference and the contributing factors. One of the Stakeholders believed that it can be up to five times more expensive, while other stakeholders argued that it is be up to twice as much. Possible reasons for the cost difference were to a lack of competition on the route and a lower volume of goods being transported. This was considered to be an all-Island issue and not limited to Northern Ireland.

Participants argued that Northern Ireland's public transport network was costly, slow and badly designed. There was a consensus that lack of speed in public transport ensured that it was not an appropriate mode of transport for business needs. Participants noted, for example that it was quicker to travel from Belfast to Derry/Londonderry by car (adding to the culture of car dependency) and that the train was quicker 50 years ago than it is today.

Participants raised the cost of public transport, arguing that it actively discouraged people from working further away from home. This was felt to be more problematic for those working in low-wage jobs and had a negative impact on the economy overall.

Participants also argued that there was a disconnect between the physical location of public transport stops and businesses. This resulted in connectivity issues for some businesses and placed limits on the area in which businesses can locate.

The notion that Northern Ireland had a culture of car dependency was discussed. Participants argued that the over reliance on the car was causing congestion on key routes and key times. One reason cited for this car culture was that public transport did not adequately meet the needs of users. Others suggested that there were insufficient incentives and infrastructure to encourage a shift from the car to public transport.

On road infrastructure, participants suggested that Northern Ireland's motorways needed to be improved to make journeys shorter and more cost effective. The table also discussed restrictions on access to roads infrastructure. One participant cited a case study of a local engineering firm who were barred from utilising the motorway network to deliver a wide and heavy load to port. To complete their journey the firm was required to use B roads resulting in a longer and more expensive journey. Participants also argued that there were challenges in accessing town centres to facilitate deliveries or shopping.

4.3 Solving the issue

In broad terms regarding transport, there was a consensus at the table that if infrastructure issues were adequately addressed Northern Ireland would be a place where the movement of goods, services and people was both time and cost efficient.

Specific solutions were identified as follows:

- Proposed road projects should be financed and delivered promptly with the York Street Interchange a priority.
- Existing Rail lines should be upgraded with Derry/Londonderry to Belfast a priority.
- Direct rail links to terminals should be established for both City and International Airports. If there is an issue with the cost to the public purse the airport should be allowed to develop this privately and retain the profit.
- Measures that would limit certain users/journeys in town centres outside certain hours should be considered to alleviate congestion. Some fundamental questions about road use at specific times should be addressed, for example refuse collection should not be allowed to operate during rush hour.
- Create conditions that encourage greater usage of and competition within our ports as it would reduce costs for import and export businesses.

5 Table 4: Skills and education

5.1 Ranking the issue

There was a consensus amongst participants that skills and education should be ranked as the most important issue. The table ranked financial assistance second as it was viewed as a prerequisite to businesses growth. Political stability, which participants ranked third, was viewed as essential to promoting to investors Northern Ireland as pro-business. Energy issues were viewed to be significant to certain business sector only.

5.2 Defining the issue

In defining the issue with skills and education in Northern Ireland, participants at table 4 made the following points:

- Mid-level businesses are unable to access the skilled personnel they need as a result of larger businesses being able to offer better terms (pay, benefits). This problem was thought to be exacerbated by larger businesses having wide calls for recruitment, sweeping up people they may not necessarily need.
- There is a mismatch between the supply of skills and the demand for skills. As a result businesses are experiencing skills gaps when recruiting.
- Too many young people leave school without any qualifications.
- Higher Education is underfunded in Northern Ireland.
- Northern Ireland's education system does not produce enough entrepreneurial people. There is a lack of entrepreneurial mind-set within the schools system resulting in unambitious youth. In addition, teachers generally are not trained in business skills/ entrepreneurism. They are also prone to encouraging young people down academic routes rather than encouraging more vocational training.
- Vocational training and apprenticeships should be a more attractive education pathway.
- Slow economic growth means that some businesses are unable to invest in in-house training and development.

5.3 Solving the issue

Asked to consider what Northern Ireland's skills and education system would look like in a solved state, participants agreed that:

- The supply of skills would match the needs of business. The skills developed at higher and further education would directly match those required by the economy at all levels of qualification and for all job types.
- Northern Ireland's Higher Education sector would be sufficiently funded.
- The skills and education system would provide people with a number of routes into business.
- Businesses should be able to access finance to support training and development needs.

To achieve this, participants argued that the business sector should have greater input into the higher and further education system. One proposal in this area was to create a private college, jointly funded by the private and public sector, which is focussed on delivering skills as defined by the needs of the businesses community. Another suggestion was that business may be approached to run, contribute to or teach specific courses within higher and further education institutions.

Participants discussed how Northern Ireland's system of career guidance might be improved. They concluded that careers guidance teachers should be provided with more accurate information on the types of jobs that will be available when students and pupil finish their courses and the types of skills these jobs require. It was noted that although Labour Marker Information is currently provided to careers guidance departments this information is not always up-to-date.

Participants were of the view that careers guidance could be further enhanced if teachers were trained to encourage entrepreneurship amongst students and pupils. This, it was argued, could help instigate a cultural shift within Northern Ireland and motivate young people to consider business orientated career pathways. A further suggestion in the area of entrepreneurship was to provide loans, similar to student loans, to entrepreneurial young people who did not wish to go to university and had a realisable business plan.

The issue of immigration was discussed. Participants argued that Northern Ireland needed to attract skilled people, including students, academics, businesses people and skilled professionals, from outside of its borders in order to fill skills gaps and up-skill the economy.

Northern Ireland Assembly

Research and Information Service
Briefing Paper

Paper 000/00 5th May 2015 NIAR 106-15

Daniel Donnelly

Northern Ireland's Global Competitiveness in Comparison

1 Introduction

In response to a research request by the Committee for Enterprise, Trade and Investment this briefing note sought to compare economic conditions in regions where Invest NI's global offices were located. As comparable sub-national data was unavailable, country level data has been used in order to make comparisons.

The global data within the table below is sourced from the World Economic Forum's Global Competitiveness Index 2012-2013. The index ranks and scores 144 countries on a wide range of economic factors using statistics collected by recognised international agencies and from the World Economic Forum's Annual Executive Survey to capture concepts that require qualitative assessment.[1]

The data for Northern Ireland has been obtained from the Competitiveness Index for Northern Ireland 2012-2013. This index, commissioned by the Economic Advisory Group for Northern Ireland, uses the same methodology as the World Economic Forum and therefore we can compare and place Northern Ireland in a global context.[2] Thus we can add Northern Ireland to the Global Competiveness Index, which now enlarges the sample from 144 to 145 countries.

1 World Economic Forum (2013), Global Competitiveness Report 2012-2013, http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2012-13.pdf

2 Economic Advisory Group NI (2013), Competitiveness Index for Northern Ireland 2012-2013, http://www.eagni.com/fs/doc/publications/eagcompetitiveness-index-report.pdf

2 Northern Ireland's Global Competitiveness

Alongside Northern Ireland (NI), the below table ranks (out of 145) and scores (worst 1-7 best) the following countries (where Invest NI's global offices are located):

- Germany;
- Republic of Ireland (RoI);
- United Kingdom (UK);
- United States (US);
- United Arab Emirates (UAE);
- India;
- China;
- Singapore;
- Japan;
- Saudi Arabia (Saudi).

Table 1: Global Competitiveness Index[3]: Northern Ireland in Comparison[4]

Country: Score 1-7 Rank /145	Overall		Quality of Electricity Supply		Availability of Financial Services		Government Support for Improved Business Performance		Quality of Overall Infra-structure		Quality of Educational system	
NI	4.5	42nd	6.0	32nd	4.3	87th	3.7	69th	4.0	79th	4.6	30th
Germany	5.5	6th	6.4	19th	5.8	18th	4.5	22nd	6.2	9th	4.9	20th
RoI	4.9	27th	6.5	18th	4.5	78th	4.1	44th	5.2	37th	5.3	9th
UK	5.4	8th	6.7	8th	4.1	3rd	4.1	42nd	5.6	24th	4.7	27th
US	5.5	7th	6.0	34th	4.2	12th	4.2	33rd	5.6	25th	4.7	28th
UAE	5.1	24th	6.4	20th	5.7	27th	5.7	3rd	6.4	6th	5.0	17th
India	4.3	60th	3.2	111th	3.6	44th	3.6	76th	3.8	88th	4.4	35th
China	4.8	29th	5.2	60th	4.6	68th	4.3	32nd	4.3	69th	3.9	58th
Singapore	5.7	2nd	6.7	6th	6.1	9th	5.9	2nd	6.5	2nd	5.8	3rd
Japan	5.4	10th	5.9	37th	5.2	36th	3.6	72nd	5.9	16th	4.2	44th
Saudi	5.2	18th	6.3	21st	5.3	31st	5.2	5th	5.8	23rd	4.4	33rd

Given that Invest NI's global offices are located in some of the world's most advanced economies, and some of the world's largest developing economies, NI is generally less competitive in comparison, placed 42nd out of the 145 countries in the overall index. India, which is placed 60th, is the only country where Invest NI offices are located that scores lower than NI in the overall index.

3 World Economic Forum (2013), Global Competitiveness Report 2012- 2013, http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2012-13.pdf

4 Economic Advisory Group NI (2013), Competitiveness Index for Northern Ireland 2012-2013, http://www.eagni.com/fs/doc/publications/eagcompetitiveness-index-report.pdf

On ‘Quality of Electricity Supply’ NI is placed 32nd in the index, behind Germany, RoI, UK, UAE, Singapore and Saudi Arabia. NI scores marginally higher than Japan and US, and considerably higher than India and China.

On ‘Availability of Financial Services’ NI is in 87th place, last among countries where Invest NI have offices. RoI is also low scoring in this area placing 78th, while UK and Singapore are high scorers in this category.

In the category ‘Government Support for Improved Business Performance’ NI places comparatively low in 69th, scoring marginally better than India and Japan, lower than RoI and UK, and considerably lower than Singapore and Saudi Arabia who score highly in this category.

On ‘Quality of Overall Infrastructure’ NI places 79th, slightly higher than India and marginally lower than China. NI is ranked lower than the UK and RoI, and considerably lower than UAE, Singapore and Germany who score highly in this area.

In terms of ‘Quality of Educational System’ NI performs relatively average in comparison. NI scores better than India, China and Japan and Saudi Arabia, marginally lower than UK and US and considerably lower than Singapore and RoI, who are top performers in this category.

Overall, NI is more competitive than its average score on ‘Quality of Electricity Supply’ and ‘Quality of Educational System’, though is less competitive than the average score on ‘Availability of Financial Services’, ‘Quality of Overall Infrastructure’, and ‘Government Support for Improved Business Performance’.

Northern Ireland Assembly

Research and Information Service
Briefing Paper

21 May 2015 NIAR 62-15

Lynda Conlon & Aidan Stennett

Support for Entrepreneurship in NI and ROI

Key points

- The Northern Ireland Executive Programme for Government (PfG) 2002-2005 made entrepreneurship a priority, recognising that 'promoting competitiveness requires focus on entrepreneurship, innovation and creativity' and committing the Executive to take action to in these areas.
- By contrast subsequent PfG have not included an explicit commitment to promote entrepreneurship.
- The 2008-11 PfG references entrepreneurship in the context of the tourism industry only. The PfG 2011-15 makes passing reference to NI's 'strong entrepreneurial tradition'.
- Promoting entrepreneurship does form part of the NI current Economic Strategy. It is identified as a historic weakness. The strategy sets targets to promote *'6,500 jobs in new start-ups',* support 60 start-ups to sell outside the UK and 440 to sell to the UK and to support 160 social economy start-ups.
- Northern Ireland's innovation strategy seeks to double the business start-up rate from 7% to 14% by 2020.
- In the Republic of Ireland, the recently published National Policy Statement on Entrepreneurship (2014) places entrepreneurship at the centre of the country's economic strategy. It recognises that *'growing the number of successful entrepreneurs and start-ups is, and will continue to be, hugely important for Ireland's economic development and wellbeing'.*

- The National Policy Statement has set out ambitious medium term targets which are aimed at encouraging entrepreneurship. These include increasing the number of start-ups by 25% over five years (representing an additional 3,000 start-ups each year) and increasing the survival rate of start-ups by 25% (representing an additional 1,800 start-ups each year).

1 Introduction

This paper compares the range of support for entrepreneurship in Northern Ireland (NI) and the Republic of Ireland (RoI). It examines these supports against the background of the recently published RoI policy framework, the *National Policy Statement on Entrepreneurship in Ireland*. The paper provides an overview of the relevant schemes and initiatives delivered in NI and RoI. It also highlights the tax based incentives provided to entrepreneurs and initiatives that specifically target High Potential Start-Ups (HPSUs).

2 Policy Background

2.1 Northern Ireland

The Department of Enterprise, Trade and Investment (DETI) has primary responsibility for overseeing the promotion of enterprise and entrepreneurship in NI. However, Invest NI (INI) is tasked with the actual delivery of DETI's policies and strategies. This includes stimulating entrepreneurial activity and providing development support to new and emerging businesses. The current INI Corporate Plan includes a commitment to: 'encourage entrepreneurship and new business development and growth'[1]

In 2003, INI published Accelerating Entrepreneurship Strategy: a Strategy to Increase the Levels of Entrepreneurial Activity in Northern Ireland.[2] This was in response to a Programme for Government (PfG) 2002-2005 commitment to address the historically low level of entrepreneurial activity in NI. Under Priority 5: Sub-priority 4, the NI Executive recognised that "promoting competitiveness requires focus on entrepreneurship, innovation and creativity" and committed to continue to take action to promote these.[3]

INI's strategy sought to accelerate entrepreneurship, increase the number of business start-ups and provide a responsive network of support to meet the needs of all new business start-ups.[4]

The Strategic document was accompanied by the *Entrepreneurship and Education Action Plan.* This inter-departmental initiative aimed to meet the NI Executive's commitment to promote entrepreneurial activity by embedding entrepreneurship in the school curriculum. The INI

1 Invest NI Corporate Plan 2011-2015 (2011) p.17 http://secure.investni.com/static/library/invest-ni/documents/corporate-plan-2011-2015.pdf

2 Invest NI Accelerating Entrepreneurship Strategy: a Strategy to Increase the Levels of Entrepreneurial Activity in Northern Ireland (2003) http://secure.investni.com/static/library/invest-ni/documents/accelerating-entrepreneurship-strategy-first-edition.pdf

3 NI Executive Programme for Government 2002-2005 (2002) p.48

4 Invest NI Accelerating Entrepreneurship Strategy: a Strategy to Increase the Levels of Entrepreneurial Activity in Northern Ireland (2003) p.5 http://secure.investni.com/static/library/invest-ni/documents/accelerating-entrepreneurship-strategy-first-edition.pdf

Corporate Plan 2008-2011 also acknowledged the importance of a co-ordinated approach to entrepreneurship education, pledging to:[5]

> *Liaise with DETI, DEL and DE to ensure that entrepreneurship is embedded effectively at all levels of the education system.*

Subsequent PfGs have not featured an explicit commitment to promote entrepreneurship. PfG 2008-2011 references entrepreneurship only in the context of the tourism industry[6], while PfG 2011-2015 makes only a passing reference to NI's 'strong entrepreneurial tradition'[7].

Invest NI set out a number of relevant targets in their 2011-2015 Corporate Plan: promote 6,500 new jobs through local business starts; support 160 Social Economy start-ups; support 60 start-ups selling outside UK markets; and support 440 new start-ups selling to GB.[8]

The *Northern Ireland Economic Strategy* (March 2012) identified 'low levels of entrepreneurship' as a historic weakness in the NI economy and acknowledged the important role of the NI Executive in:[9]

> *Setting the framework for growth and outlining the necessary actions to stimulate growth in areas such as innovation, R&D, skills, education, exports, FDI and entrepreneurship.*

The strategy sets targets to promote *'6,500 jobs in new start-ups',* support 60 start-ups to sell outside the UK and 440 to sell to the UK and to support 160 social economy start-ups.

Similarly the *Innovation Strategy* (2014-2025) acknowledges the need to encourage 'higher levels of entrepreneurship' and to 'examine ways to encourage our young people to be more entrepreneurial', noting that:[10]

> *Developing this entrepreneurial spirit will be important in achieving our vision of Northern Ireland becoming a highly innovative region, we will therefore examine how we can increase the support offered to our young people to engage in entrepreneurial activity.*

A number of indicators were identified in order to measure the success of the *Innovation Strategy* in delivering on its overarching vision. However, the only target that relates directly to entrepreneurial support in NI is the goal to double the business start-up rate from 7% to 14%[11] by 2020.[12]

2.2 The Republic of Ireland

The *Entrepreneurship in Ireland* report (also known as the 'Goodbody Report'), published in November 2002,[13] was commissioned with a view to making policy recommendations

5 Invest NI Corporate Plan 2008-2011(2008) p.17 http://secure.investni.com/static/library/invest-ni/documents/corporate-plan-2008-2011.pdf

6 NI Executive Programme for Government 2008-2011 (2008) p.33 http://www.northernireland.gov.uk/pfgfinal.pdf;

7 NI Executive Programme for Government 2011-2015 (2011) p.13 http://www.northernireland.gov.uk/pfg-2011-2015-final-report.pdf

8 Invest NI Corporate Plan 2011-2015 (2011) p.17 http://secure.investni.com/static/library/invest-ni/documents/corporate-plan-2011-2015.pdf

9 Northern Ireland Executive Economic Strategy: Priorities for Sustainable Growth and Prosperity (2012) p.30 http://www.northernireland.gov.uk/ni-economic-strategy-revised-130312.pdf

10 Northern Ireland Executive Innovation Strategy for Northern Ireland 2014-2025 (2014) p.35 http://www.detini.gov.uk/innovation-strategy-2014-2025_2.pdf

11 Rate is expressed as a percentage of the total active business base.

12 Northern Ireland Executive Innovation Strategy for Northern Ireland 2014-2025 (2014) p.59 http://www.detini.gov.uk/innovation-strategy-2014-2025_2.pdf

13 Goodbody Economic Consultant Entrepreneurship in Ireland (2002) http://www.competitiveness.ie/media/ncc021101_entrepreneurship_in_ireland.pdf

aimed at encouraging entrepreneurship in RoI.[14] Forfás published a second report identifying the need to improve the entrepreneurial culture in RoI in 2007.[15] Despite these earlier interventions, the first comprehensive national strategy for entrepreneurship in RoI was not published until October 2014, with the release of the *National Policy Statement on Entrepreneurship in Ireland*.[16] This document draws on the report of the Forum on Entrepreneurship published in January 2014. This *Action Plan for Jobs 2014* committed the Government to develop and implement "A clear strategy with medium term actions for entrepreneurship through a National Entrepreneurship Policy Statement.[17]

The National Policy Statement includes a series of targets covering a five-year period. These are:

- Increasing the number of start-ups by 25 per cent (representing 3000 more start-ups per annum);
- Increasing the survival rate in the first five years by 25 per cent (1800 more survivors per annum); and
- Improving the capacity of start-ups to grow to scale by 25 per cent.

Its strategic objectives are set out under six themes:

- Culture, human capital and education;
- Business environment and supports;
- Innovation;
- Access to finance;
- Entrepreneurial networks and mentoring; and
- Access to markets.

The strategic objectives include:[18]

- New mentoring services for start-ups, including a national database of mentors;
- Entrepreneurship programmes in schools, third and fourth level education, and in new apprenticeships systems;
- New targets for government agencies, including a 12 per cent increase in start-ups supported by Enterprise Ireland by 2015;
- New marketing plan to promote Ireland abroad as a location for international start-ups;
- Measures to promote entrepreneurship among under-represented groups, including women, young people, migrants and older people;
- Specific reductions in the administrative burdens facing start-ups, including the length of time it takes to register a new business and the burden of applying for licences;

14 The report was commissioned by Forfás, the National Competitiveness Council, Enterprise Ireland and the Department of Enterprise, Trade and Employment.

15 Forfás Towards Developing an Entrepreneurship Policy for Ireland (2007) http://www.forfas.ie/media/forfas071023_entrepreneurship_policy.pdf

16 Department of Jobs, Enterprise and Innovation National Policy Statement on Entrepreneurship in Ireland (2014) p.8 http://www.enterprise.gov.ie/en/Publications/National%20Policy%20Statement%20on%20Entrepreneurship%20in%20Ireland.pdf
"Department of Jobs, Enterprise and Innovation Action Plan for Jobs 2014 (2014) p.11 http://www.djei.ie/publications/2014APJ.pdf

17 Entrepreneurship Forum Entrepreneurship in Ireland: Strengthening the Start-up Community: Report of the Entrepreneurship Forum (2014) http://www.djei.ie/enterprise/smes/EntrepreneurshipForumReport2014.pdf

18 Department of Jobs, Enterprise and Innovation National Policy Statement on Entrepreneurship in Ireland (2014) pp.12-13 http://www.enterprise.gov.ie/en/Publications/National%20Policy%20Statement%20on%20Entrepreneurship%20in%20Ireland.pdf

- Doubling the volume of funding to start-ups in Ireland from business angel investment; and
- An annual report to the Minister for Jobs, Enterprise and Innovation analysing Ireland's performance in entrepreneurship against domestic and international benchmarks.

The *National Policy Statement* also considers a range of taxation issues which, if addressed, could improve the prospects for start-ups in Ireland. The following aspects of the taxation system may be considered by the Minister for Finance in the context of future Budgets:[19]

- Share-based remuneration in private companies;
- Seed Capital Scheme and Employment and Investment Incentive;
- Capital Gains Tax; and
- Income tax.

The specific objectives to be achieved in 2015 are set out in the Government's current *Action Plan for Jobs*.[20] The ROI Government intends to progress the actions from the *National Policy Statement* during the current year by:[21]

- Utilising the New Frontiers Programme to support emerging entrepreneurs;
- Delivering a pilot of a new Entrepreneur Partnering Programme[22] (the programme will match entrepreneurs with host enterprises, allowing them to house their business for a period of one year); and
- Developing an action programme of support for pre-investment HPSUs.

The *Action Plan* also includes details of 'The Start-up Gathering', a new weeklong networking initiative that will be led by the not-for-profit organisation Start-up Ireland. Using the successful model of 'The Gathering' (2013), a series of events and projects will be held during the week of 05 to 10 October, themed around entrepreneurship, start-ups and existing industry clusters present in Dublin, Cork, Limerick, Galway and Waterford.[23]

Annex 1 outlines further information on the specific actions outlined in the 2015 *Action Plan*.

3 Support providers

This section briefly outlines the various bodies providing support for entrepreneurship in both jurisdictions.

3.1 Northern Ireland

As noted above, DETI has primary responsibility for the promotion entrepreneurship in NI. There are a range of support providers:

19 Department of Jobs, Enterprise and Innovation National Policy Statement on Entrepreneurship in Ireland (2014) pp.26-27 http://www.enterprise.gov.ie/en/Publications/National%20Policy%20Statement%20on%20Entrepreneurship%20in%20Ireland.pdf

20 Department of Jobs, Enterprise and Innovation Action Plan for Jobs 2015 (2015) p.86 http://www.djei.ie/publications/2015APJ.pdf

21 Ibid.

22 Department of Jobs, Enterprise and Innovation Action Plan for Jobs 2015 (2015) p.85 http://www.djei.ie/publications/2015APJ.pdf

23 Department of Jobs, Enterprise and Innovation Action Plan for Jobs 2015 (2015) pp.90 -92 http://www.djei.ie/publications/2015APJ.pdf
The Start-up Gathering was officially launched on 04 March 2015.
http://startupireland.ie/a-big-day-for-irelands-startup-sector-the-startup-gathering-has-its-call-for-proposals/

- **Invest NI** – INI provides a portfolio of support to potential and existing entrepreneurs in NI. The suite of programmes developed by INI, which includes advisory services and grant support, aims to create a supportive environment for indigenous start ups as well as attract overseas entrepreneurs to start their business in NI.
- The schemes and initiatives provided by INI are constantly evolving as sector priorities, target audiences and strategic goals change. Currently, the most high profile schemes aimed at supporting and promoting entrepreneurial activity in NI include:[24]
  - Propel Programme;
  - Regional Start Initiative; and
  - Social Entrepreneurship Programme.
- **Other Government Departments** – entrepreneurship support is not confined to DETI and INI. Other Government Departments have also overseen relevant initiatives. The Department of Agriculture and Rural Affairs (DARD) funds the Rural Youth Entrepreneurship (RYE) Programme, targeting entrepreneurial young people aged between 16 and 30 years[25] as part of its Tackling Rural Poverty and Social Isolation framework. The framework supports a package of measures worth up to £16 million to support vulnerable people in rural communities and target the root causes of social isolation.[26]
- The Department of Education (DE) provides funding to a number of organisations to deliver enterprise, employability and entrepreneurship education to primary and post-primary pupils either in school or at larger regional events.[27] These organisations include Young Enterprise Northern Ireland (the organisation engages with school pupils across NI via a portfolio of primary and post-primary programmes focusing on employability, enterprise and entrepreneurship)[28] and a number of Business Education Partnerships (programmes that enable local teachers to develop and deliver employability and enterprise projects to meet the specific needs of their pupils).[29] 'Enterprise and Entrepreneurship' is a statutory component of the 'Employability' strand of the 'Learning for Life and Work' area of learning for post-primary curriculum.[30]
- **Local Authorities and Local Enterprise Agencies** – Local Authority support in NI has been tailored to the needs of the local area. For example, schemes such as the Business Boot Camp Programme (a cross border initiative for supporting young entrepreneurs)[31] and Belfast City Council's 'High Growth Pre-enterprise Programme' and the 'Belfast Enterprise Academy'[32] are designed to complement the more regional programmes provided by INI. Since of 01 April 2015, the 11 new councils will have responsibility for developing local economies and nurturing enterprise as part of the transfer of powers to local government.

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24 Further details of these programmes are provided in Section 2.3.

25 Rural Development Council News Release: Rural Youth Programme extended (30 July 2014) http://www.rdc.org.uk/news/Latest-News/Rural-Youth-Programme-extended

26 Department of Agriculture and Rural Affairs, Rural Development, tackling rural poverty and social isolation framework http://www.dardni.gov.uk/index/rural-development/rural-poverty-and-social-isolation.htm

27 The recent DE Draft Budget proposed significant cuts to the Business Education budget. This is likely to result in a reduction of funding to bodies tasked with delivering entrepreneurial skills, including YENI and Business Education Partnerships. Department of Education Draft Budget 2015-16: Equality and Human Rights Screening: Reduction in Funding to (1) Business Education (2) STEM (2013) http://www.deni.gov.uk/draft_budget_2015_16_-_equality_screening_-_stem___business_education.pdf

28 CBI Evaluation of Education and Employer Partnerships in Northern Ireland (2014) p.53 http://www.cbi.org.uk/media/2588820/item_5_-_cbi_business-education_report-final.pdf; http://www.yeni.co.uk/

29 Assembly Question AQW 19455/11-15 (06 February 2013)

30 Northern Ireland Curriculum Statutory Requirement for Employability (2007) http://www.nicurriculum.org.uk/docs/key_stage_3/areas_of_learning/statutory_requirements/ks3_employability.pdf;

31 Enterprise NI, Business Boot Camp http://www.enterpriseni.com/pages/33/business-boot-camp

32 http://www.belfastcity.gov.uk/business/businessinformation/startabusiness.aspx

- In 2014, the Northern Ireland Local Government Association (NILGA), with the support of DETI and INI, successfully applied for European Entrepreneurial Region status (EER). The Committee for the Regions awards EER in recognition of outstanding regional strategies that foster entrepreneurship and promote innovation among small and medium enterprises (SMEs). NI earned its EER status for its work on social entrepreneurship, the Food Network initiative and the Aspire programme.[33]
- Entrepreneurial activity has also been supported by Local Enterprise Agencies. All 32 LEAs in NI deliver a suite of pre-start, start-up and business development interventions, including access to low cost accommodation and financial support in the form of the Enterprise Northern Ireland Loan Fund and the NI Small Business Loan Fund.
- **Private sector providers** – A number of private sector providers offer entrepreneurial support in NI. Whilst the Northern Ireland Science Park is amongst the most prominent of these, other companies, such as Advantage NI[34] and Enterprise NI[35], collaborate with the public sector to deliver entrepreneurship programmes, as well as developing their own initiatives.

3.2 The Republic of Ireland

The following bodies have responsibility for promoting entrepreneurial activity in the RoI:

- **Government agencies** – Enterprise Ireland (EI) is the government organisation responsible for the development and growth of enterprise in RoI. It works with entrepreneurs and business people across the full business development spectrum.[36] The range of support available to entrepreneurs includes funding, advisory services, mentoring and networking opportunities and incubator space. Key programmes include:
  - New Frontiers Entrepreneur Development Programme;
  - Innovation 4 Growth Programme;
  - Enterprise START Workshops; and
  - Enterprise START2.
- The agency is also focussed on addressing gaps in the the entrepreneurship landscape. For example, a Female Entrepreneurship Unit was established to deal with the under representation of female-led start-up businesses that achieve considerable scale.[37] Initiatives put in place to tackle this under representation include specifically targeting female entrepreneurs in a number of Competitive Start Fund (CSF) calls. The CSF offers equity investment in exchange for an equity stake in the business. In addition, an experienced business mentor supports each start-up.[38]
- EI also aims to attract international entrepreneurs to RoI, offering a range of supports to high potential, export-focused entrepreneurs and companies. In 2011, a €10 million fund was created specifically to attract entrepreneurs to relocate to Ireland and establish their start-ups here.

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33 Committee for the Regions, Lisbon, Northern Ireland and Valencia win "European Entrepreneurial Region of the Year 2015" (25 June 2014) http://cor.europa.eu/en/news/Pages/european-entrepreneurial-region-award-winner.aspx

34 Advantage NI http://www.advantage-ni.com/Public/Public-View/Other-Advantage-Programmes

35 Enterprise NI http://www.enterpriseni.com/

36 http://www.enterprise-ireland.com/EI_Corporate/en/About-Us/Our-Clients/

37 Enterprise Ireland Call for Proposals for Initiatives to Support Female Entrepreneurship (2013) http://www.enterprise-ireland.com/en/start-a-business-in-ireland/startups%20led%20by%20ambitious%20women/female-entrepreneurship-call-for-proposal.doc

38 Enterprise Ireland Annual Report and Accounts 2013 (2014) p.31 http://www.enterprise-ireland.com/EI_Corporate/en/Publications/Reports-Published-Strategies/2013-Annual-Report-and-Accounts-English.pdf

- Bord Bia, the Irish government agency charged with the promotion, trade development and marketing of the Irish food, drinks and horticulture industry, offers a number of supports to start-up food businesses, including the Food Academy and the Food Works entrepreneurial programme.
- **Local Enterprise Offices** - Responsibility for providing support to locally traded service companies and micro-enterprises in RoI lies with the Local Enterprise Offices (LEOs). Working across the local authority network, LEOs provide a number of supports for entrepreneurs, including:
  - Start Your Own Business Programme;
  - Priming Grant[39]; and
  - Accelerate Management Development Programme.
- LEOs also work to include entrepreneurship in the education system as a means of ensuring the future development of small business in Ireland. A number of initiatives are run by the LEOs at both primary and secondary level culminating in their flagship programme, the Student Enterprise Awards.[40]
- **Private sector providers** - A collaborative approach has been adopted between the private sector and the public sector in RoI to promote entrepreneurial activity. This includes:
  - Four European Business Innovation Centres (BICs) which support new high growth potential start-ups. BICs operate as public-private partnerships, combining both government funding (via Enterprise Ireland) and private contributions.[41]
  - The Rubicon Exxcel Female Entrepreneurship Programme, based at the Cork Institute of Technology (CIT) campus, is a six-month, part time programme which provides women with a business idea related to the science, technology, engineering and mathematics (STEM) sectors with the opportunity to explore and develop their idea. The programme is a joint initiative of the Rubicon Centre and Enterprise Ireland.[42]
  - Going for Growth, which is funded by Enterprise Ireland, the Department of Justice and Equality, KPMG and the European Social Fund (ESF), is a peer-support based programme to promote female entrepreneurship in ROI.[43]
  - Dublin City University's Ryan Academy for Entrepreneurs offers a variety of schemes to develop entrepreneurial capabilities, with specific programmes focusing on women, young people, social enterprise and farm entrepreneurship.[44]

39 https://www.localenterprise.ie/Discover-Business-Supports/Financial-Supports/Priming-Grant/

40 http://www.studententerprise.ie/

41 http://www.corkbic.com/enterpriseirelandandthebic_s

42 http://www.rubiconcentre.ie/launch-exxcel-female-entrepreneurship-programme-stem-rubicon-centre/

43 http://www.goingforgrowth.com/

44 http://www.ryanacademy.ie/

4 Support measures

The tables that follow compare support schemes offered in both jurisdictions. The measures have been organised along the six themes outlined in the RoI's *National Policy Statement*.

4.1 Culture, human capital and education

Table 1: Culture, human capital and education support measures in NI

Measure	Body	Detail
Step 'n' Zones	INI	Step'n'Zones are part of INI's engagement around youth entrepreneurship. The target audience for these events is Key Stage 3 school students (age 11-14).[1]
Global Entrepreneurship Week	INI	An annual student enterprise competition for young people aged 11-13 as part of a worldwide campaign to promote entrepreneurship within the education sector.
Student Entrepreneur Awards	INI/ EI	The EI Student Entrepreneur Awards, co-sponsored by INI, Intel, Cruickshank Intellectual Property Attorneys and Grant Thornton, are an annual business planning competition for young people in the higher and further education sectors throughout NI and ROI.[2]
Young Enterprise Northern Ireland (YENI)	DE (funding)	This business and enterprise education charity is funded by DE and delivers over 100,000 pupil engagements annually in NI. This represents 80% of post-primary schools and 20% of primary schools across NI. YENI delivers a portfolio of 17 primary and post-primary programmes focusing on employability, enterprise and entrepreneurship.[3]
Employability strand of Learning for Life and Work (Post-primary)	DE	'Enterprise and Entrepreneurship' is a compulsory element of the 'Employability' strand and provides pupils with the opportunity to find out what makes an entrepreneur and to develop strategies to promote an entrepreneurial spirit.[4]
Rural Youth Entrepreneurship (RYE)	DARD	RYE is an entrepreneurship awareness raising and developmental programme for young people aged between 16 and 30 years. The programme is funded by the Department of Agriculture and Rural Development through the Tackling Rural Poverty and Social Isolation Framework. By Summer 2014, over 500 young people had been engaged in the initial RYE pilot phase.[5]
Business Education Partnerships (BEPs)	DE (funding)	BEPs are voluntary organisations made up of staff from local schools within a particular geographic area, together with staff from local employers and members of the business and wider community.[6] They have as their aim the development and facilitation of business education activities, aligned to the revised curriculum, and is designed to develop a range of pupils' skills including employability and enterprise. DE currently funds 13 BEPs to run a variety of employability, enterprise and careers type events.[7]

Measure	Body	Detail
Business Boot Camp Programme	Local Authorities	The Business Boot Camp Programme, initiated and run by local authorities, is a cross border programme for 16 to 25 year olds. It is due to run until March 2015. The programme has two phases: Boot Camp START and Boot Camp GROW.[8]
Bright Idea Programme	Local Authorities	This youth entrepreneurship programme, created by the councils in the South East region of NI, is a business start-up programme targeting 18 to 29 year olds.9 The project is part financed by INI, the European Regional Development Fund (ERDF), and the local authorities of Ards, Armagh, Banbridge, Craigavon, Down and Newry & Mourne.
Generation Innovation	Northern Ireland Science Park	Generation Innovation, established by the Northern Ireland Science Park, is a network for entrepreneurial young people. It offers young entrepreneurs the opportunity to finance the development of their business product/idea and access the support and expertise that is required to set up a company, develop a business plan and take the product to market.[10]

1 http://stepnzones.investni.com/about

2 http://studententrepreneurawards.com/about-the-awards/

3 CBI Evaluation of Education and Employer Partnerships in Northern Ireland (2014) p.53 http://www.cbi.org.uk/media/2588820/item_5_-_cbi_business-education_report-final.pdf

4 Northern Ireland Curriculum Statutory Requirement for Employability (2007) http://www.nicurriculum.org.uk/docs/key_stage_3/areas_of_learning/statutory_requirements/ks3_employability.pdf

5 Department of Agriculture and Rural Development Rural White Paper: Action Plan: Annual Progress Report 2014 (June 2014) pp.13-14 http://www.dardni.gov.uk/annual-progress-report-2014-final.pdf

6 Assembly Question AQW 19455/11-15 (06 February 2013)

7 Confederation of British Industry Evaluation of Education and Employer Partnerships in Northern Ireland (2014) p.52 http://www.cbi.org.uk/media/2588820/item_5_-_cbi_business-education_report-final.pdf

8 http://www.enterpriseni.com/pages/33/business-boot-camp

9 http://brightideani.com/wordpress/index.php/about-the-programme/

10 http://generationinnovation.co/

Table 2: Culture, human capital and education support measures in RoI

Measure	Body	Detail
Ireland's Best Young Entrepreneur	LEO and Department of Jobs, Enterprise and Innovation (DJEI)	Supported by the DJEI, this nationwide competition forms part of the Action Plan for Jobs 2014. The competition was open to individuals aged 30 and under and an overall investment fund of €2m was awarded to county winners and national winners. In 2014, all 31 Local Enterprise Offices ran the competition locally and organised regional boot camps for over 400 participants.

Measure	Body	Detail
National Women's Enterprise Day	LEO	The aim of National Women's Enterprise Day is to encourage more women to set up their own businesses and to increase national recognition of the role played by female entrepreneurs. The event consists of a variety of developmental support actions, including industry speakers, information provision, exhibition of state supports for enterprise, facilitated business networking and one-to-one business mentoring. The 2014 National Women's Enterprise Day was hosted by the Local Enterprise Offices and co-financed by the European Social Fund with support from the Department of Justice and Equality.[1]
Student Entrepreneur Awards	EI/INI	The EI Student Entrepreneur Awards, co-sponsored by INI, Intel, Cruickshank Intellectual Property Attorneys and Grant Thornton, are an annual business planning competition for young people in the higher and further education sectors throughout NI and ROI.[2]

1 https://www.localenterprise.ie/Enable-Enterprise-Culture/National-Women-s-Enterprise-Day/

2 http://studententrepreneurawards.com/about-the-awards/

4.2 Business, environment and supports

Table 3: 'Business, environment and supports' measures in NI

Measure	Body	Detail
Social Entrepreneurship Programme (SEP)	INI	INI has operated SEP since 2006. The programme supports the development of new and existing social enterprises and maximise their economic impact in terms of jobs and wealth creation.[1] Responsibility for the SEP will be transferred to the new councils from 01 April 2015.[2]
Social Enterprise Incubation Hubs Signature Programme	DETI and DSD	Eleven Social Enterprise Incubation Hubs across NI offer a range of business advice and practical support to social enterprise entrepreneurs. Business support in the form of training, hot desk facilities and test trading opportunities is provided. Hubs are currently operational in Belfast, Londonderry, Ballymena, Enniskillen, Strabane, Lurgan, Lisburn and Downpatrick.[3]
Propel Programme	INI	The Propel Programme provides training, mentoring and financial support to high growth potential start-up businesses that are innovative and capable of selling in international markets. Entrepreneurs who are successful in getting on to Phase 2 of Propel are provided with a hot desk facility and shared working space with the other Propel participants.[4]
Regional Start Initiative (RSI)	INI	The RSI programme, which has operated since October 2012, is designed to support locally focused entrepreneurs with the key output being a commercial business plan that the entrepreneur can use to attract funds to the business.

1 Invest NI Social Entrepreneurship Programme
http://www.ncb.org.uk/media/1135089/invest_ni_-_social_entrepreneurship_programme.pdf

2 Department of Agriculture and Rural Development Rural White Paper: Action Plan: Annual Progress Report 2014 (June 2014) p.27 http://www.dardni.gov.uk/annual-progress-report-2014-final.pdf

3 Assembly Question AQW 37587/11-15 (16 October 2014)

4 http://www.investni.com/propel-programme.html

5 http://dublinbic.ie/2015/01/enterprise-start-2-programme-2015/

Table 4: 'Business, environment and supports' measures in RoI

Measure	Body	Detail
EnterpriseSTART Workshops	EI	These workshops deliver training and business advice to potential entrepreneurs to assist them in developing their business idea into a tangible business plan. It also provides detail on financial support available from EI and the LEOs.
EnterpriseSTART2	EI	Targeted at potential entrepreneurs who wish to develop a business idea which could become a HPSU, the programme involves two half-day group workshops and two one-to-one mentoring sessions from experienced business consultants. EnterpriseSTART 2 is delivered by EI in partnership with the four regional BICs.[1]
HPSU Feasibility Study Grant	EI	The aim of the HPSU Feasibility Grant is to assist a new start-up company or individual entrepreneur to investigate the viability of a new export orientated business or proposition. The objective of the study is to examine the project's viability and set out investor-ready plans and financials associated with developing and commercialising the product or service on international markets.[2]
New Frontiers Entrepreneur Development Programme	EI	A national entrepreneur development programme delivered at a local level by Institutes of Technology and funded by EI. It is a three-phased programme, based in 14 campus incubation centres across ROI, and delivered by business practitioners and successful entrepreneurs. It offers participants a package of supports to help accelerate their business development and to equip them with the skills to successfully start and grow a company.[3]
Start Your Own Business Programme	LEO	This programme focuses on people with a business idea who are unsure as to how to develop it into a business plan. It is designed to equip these individuals with the necessary skills and knowledge to assess the marketing and financial viability of their business idea.[4]
Accelerate Management Development Programme	LEO	This integrated learning and mentor programme is designed to provide entrepreneurs with the necessary management, leadership and business skills and knowledge to achieve sustainability and growth in their business.[5]
Food Works	EI, Bord Bia and Teagasc	A business development and training programme designed for food and drink start-ups. Piloted by EI, Bord Bia and Teagasc in 2012, it continues to be delivered as a structured, year-long programme focused on entrepreneurial development in the food sector. The programme aims to help young companies achieve scale and become international businesses.[6]

Measure	Body	Detail
Start-up Entrepreneur Programme	Irish Naturalisation and Immigration Service	The purpose of this programme is to enable non-EEA nationals and their families who commit to a HPSU in ROI to acquire a secure residency status in ROI. The programme was established in April 2012 to stimulate productive investment in ROI and to offer residency with its associated advantages to dynamic business professionals with a proven record of success.[7]

1 http://www.enterprise-ireland.com/en/funding-supports/Company/HPSU-Funding/HPSU-Feasibility-Study-Grant-.html

2 http://www.newfrontiers.ie/about

3 https://www.localenterprise.ie/Discover-Business-Supports/Training-Programmes/Start-Your-Own-Business-Programme/

4 https://www.localenterprise.ie/Discover-Business-Supports/Training-Programmes/Accelerate-Management-Development-Programme/

5 http://www.foodworksireland.ie/

6 Irish Naturalisation and Immigration Service Start-Up Entrepreneur Programme: Guidelines (2012) http://www.inis.gov.ie/en/INIS/Guidelines%20for%20Start-up%20Entrepreneur%20Programme.pdf/Files/Guidelines%20for%20Start-up%20Entrepreneur%20Programme.pdf

4.3 Innovation

Table 5: Innovation measures in NI

Measure	Body	Detail
Growth Acceleration Programme	INI	INI assists HPSUs that have an ambition to achieve £1m revenue in 3 to 4 years to commercialize Intellectual Property that can compete in global markets. The Growth Acceleration Programme, together with the Project Definition R&D Grant, assists the company with the development and commercialization of the product.[1]
INVENT Competition	Northern Ireland Science Park (NISP)	The INVENT competition is a commercial educational opportunity designed to encourage entrepreneurs in NI to act on their talents, ideas and energy. The programme is a proof-of-concept stage competition that displays the best new ideas in NI by helping innovators to test and develop their ideas commercially.[2]

1 Assembly Question AQW 39854/11-15 (05 December 2014)

2 http://www.invent2015.co/

Table 6: Innovation measures in RoI

Measure	Body	Detail
Innovation Partnership Programme (IPP)	EI	This programme encourages ROI-based companies to work with Irish research institutes. The IPP provides grants of up to 80 per cent towards eligible costs of the research project. However, grant funding is capped at €100,000 for pre-HPSU and start-up companies.[1]

1 http://www.enterprise-ireland.com/EI_Corporate/en/Research-Innovation/Companies/IPP-Brochure.pdf

4.4 Access to finance

Table 7: Access to finance measures in NI

Measure	Body	Detail
Northern Ireland Spin Out Funds (NISPO)	INI	The NISPO Funds completed its investment period on 31 March 2014, having invested £8.3m in 45 equity deals.[1] Invest NI has provided all of the money invested through the Funds, and over the life of the Funds this will amount to £14m.[2] The Funds have a ten-year life and E-Synergy will continue to manage the NISPO Funds until 2019 - this will enable follow on investments to be made and investments to be realised.
Techstart NI	INI	Techstart NI is an integrated suite of funds and support established to provide assistance to entrepreneurs, seed and early stage businesses and university spin-outs. By October 2014, the fund manager had made its first two investments in local SMEs, offered eleven Proof of Concept grants and held a number of entrepreneur workshops and events.[3]
Jobs Fund	INI	Jobs Fund provides financial assistance to incentivise new business start-up activity by individuals who reside in Neighbourhood Renewal Areas (NRA) and by young people aged 16 to 24 who are Not in Education, Employment or Training (NEET). Through this fund, Invest NI provides employment grant support to investment projects which will create new sustainable jobs.

1 Assembly Question AQO 6832/11-15

2 Assembly Question AQW 28586/11-15 (November 2013)

3 http://www.techstartni.com/

Table 8: Access to finance measures in RoI

Measure	Body	Detail
Competitive Start Fund (CSF)	EI	The CSF assists start-ups by enabling them to test the market for their products and services, and progress their business plans for the global marketplace. Two separate CSFs solely for female entrepreneurs have been launched. EI is committed to rolling out the CSF on a regular basis, with a mix of ICT/industrial, female entrepreneurs and sector-specific calls planned.[1]
Competitive Feasibility Fund	EI	Competitive Feasibility Funds are designed to assist start-ups and individual entrepreneurs to investigate the viability of a growth-orientated business proposition that has the ability to become a HPSU. Competitions run throughout the year in specific regions and sectors. For example, the Competitive Feasibility Fund for the South-East Region was announced recently. In order to apply, businesses had to be located in counties Carlow, Kilkenny, Waterford or Wexford.[2]
Innovative HPSU Programme	EI	EI offers equity investment to HPSU clients, on a co-funded basis, to support the implementation of company business plans. Any EI investment requires match funding by investment by the promoters and/or other investors.[3]

Measure	Body	Detail
HPSU Feasibility Grant	EI	The aim of the HPSU Feasibility Grant is to assist a new start-up company or individual entrepreneur to investigate the viability of a new export orientated business or proposition. The objective of the study is to examine the project's viability and set out investor-ready plans and financials associated with developing and commercialising the product or service on international markets. The maximum grant funding available for a HPSU feasibility study is 50 per cent of eligible expenditures. The maximum level of grant funding currently available is €15,000.[4]
Fund for International Start-Ups	EI	EI has ring-fenced a €10m fund to attract entrepreneurs to relocate to Ireland and establish their start-ups here. The fund, launched in 2011 for international start-ups, offers equity funding to innovative start-ups, led by strong teams and focused on international markets.[5]

1 Department of Jobs, Enterprise and Innovation Action Plan for Jobs 2014 (2014) p.24 http://www.djei.ie/publications/2014APJ.pdf

2 http://www.enterprise-ireland.com/en/funding-supports/Company/HPSU-Funding/Competitive-Feasibility-Fund-South-East-Region.html?utm_source=Newsweaver&utm_medium=email&utm_term=www.enterprise-ireland.com%2Fsef&utm_content=&utm_campaign=Issue+23+-+December+2014

3 http://www.enterprise-ireland.com/en/funding-supports/Company/HPSU-Funding/Innovative-HPSU-fund.html

4 http://www.enterprise-ireland.com/en/funding-supports/Company/HPSU-Funding/HPSU-Feasibility-Study-Grant-.html

5 http://www.enterprise-ireland.com/en/Start-a-Business-in-Ireland/Startups-from-Outside-Ireland/Funding-and-Supports-for-Start-Ups-In-Ireland/%E2%82%AC10-Million-Fund-for-International-Start-Ups.html

4.5 Entrepreneurial networks and mentoring

Table 9: Entrepreneurial networks and mentoring measures in NI

Measure	Body	Detail
Northern Ireland Spin Out Funds (NISPO) Investment Readiness Programme	INI	The NISPO Investment Readiness Programme, managed by E-Synergy, provides support through 'accelerator' and 'incubator' initiatives. The programme aims to provide entrepreneurs with an understanding of the investment process; how to prepare for investment; and how to utilise investment funds to best effect. They also provide support to start-ups in the form of coaching, networking and workshops.[1]

Measure	Body	Detail
PLATO East Border Region (EBR)	Local Authorities	PLATO EBR is an 18 month leadership and business development programme targeted at SMEs and based on the principle of peer-group learning. The programme offers a business support forum where entrepreneurs can network and discuss business ideas with established 'parent' companies in the region.[2] The PLATO EBR Programme is a partnership between the ten Council areas of Newry and Mourne, Down and Banbridge District Councils, Armagh City and District Council, Craigavon, Ards and North Down Borough Councils in NI and Louth, Monaghan and Meath Councils and Louth and Monaghan County Enterprise Boards in the ROI. It is part-financed by the European Union's INTERREG IVA Cross Border Programme managed by the Special EU Programmes Body.[3]
Northern Ireland Science Park (NISP) CONNECT	Northern Ireland Science Park (NISP)	NISP CONNECT is an entrepreneurship acceleration programme, based at the Northern Ireland Science Park, which supports the development of early-stage companies through a series of educational seminars, mentorship programmes and capital competitions. NISP CONNECT links prospective entrepreneurs with a network of highly experienced business people in NI and further afield so that they can access the resources and knowledge required to bring their products to market. It offers a number of programmes including 'Springboard'[4], 'Frameworks'[5] and 'Generation Innovation'[6].

1 http://www.nispofunds.com/investmentreadinessprogramme.html

2 http://www.platoebr.com/pages/index.asp?title=About_PLATO_EBR__Cross_Border_Business_Development_Programme

3 http://www.platoebr.com/pages/index.asp?title=About_PLATO_EBR__Our_Programme_Partners

4 http://www.nisp.co.uk/nisp-connect/springboard/

5 http://www.nisp.co.uk/frameworks/

6 http://www.generationinnovation.co.uk/

Table 10: Entrepreneurial networks and mentoring measures in RoI

Measure	Body	Detail
Enterprise Ireland Mentor Network	EI	The EI Mentor Network helps companies identify and overcome obstacles to growth. Mentors are senior executives, drawn from the private sector, with a proven record of accomplishment in business. They can provide tailored advice, guidance and support to help a start-up accelerate growth and build management capability.[1]
Mentor Panels for HPSUs	EI	EI organises monthly Mentor Panels where companies in the early stages of development can present their business plan or investment proposal. The Mentor Panel is composed to suit the needs, sector and required expertise of the attending companies.
'Entrepreneurs in Residence' Program (Proposed)	EI	The National Policy Statement made a brief reference to a pilot of this campus-based programme to encourage and mentor aspiring entrepreneurs.[2]

Measure	Body	Detail
IdeaGen	EI	IdeaGen is an initiative designed to inform and connect the brightest innovators and entrepreneurs in ROI. By bringing together researchers, sectoral experts and entrepreneurs, IdeaGen aims to stimulate the next wave of research collaborations and market-led business innovations. Structured networking, on the spot brainstorming and insights into successful commercialisation strategies, complements presentations by industry experts.[3]
Dublin BIC Entrepreneurship Series	Dublin Business Innovation Centre (DBIC)	This is a seminar style forum for identifying and discussing business issues and trends with high profile entrepreneurs.[4]

1 http://www.enterprise-ireland.com/en/funding-supports/Company/HPSU-Funding/Mentor-Grant.html

2 Department of Jobs, Enterprise and Innovation National Policy Statement on Entrepreneurship in Ireland (2014) p.64 http://www.enterprise.gov.ie/en/Publications/National%20Policy%20Statement%20on%20Entrepreneurship%20in%20Ireland.pdf

3 http://www.enterprise-ireland.com/en/Events/OurEvents/IdeaGen/Overview.html

4 http://dublinbic.ie/our-services/training-events/

4.6 Access to markets

Table 11: Access to markets measures NI

Measure	Body	Detail
Export Starts/ Global Starts	INI	Dedicated programmes for entrepreneurs who are starting an export-focused business or have an established business and are seeking to enter export markets for the first time. Businesses are typically supported in areas of job creation, marketing, ICT, skills and strategy and R&D.[1]

1 Assembly Question AQW 39854/11-15 (05 December 2014)

Table 12: Access to markets measures RoI

Measure	Body	Detail
First Flight Programme	EI	First Flight is a mentoring and training process designed to assist HPSUs approach new export markets.[1]

1 http://www.enterprise-ireland.com/en/funding-supports/Company/HPSU-Funding/First-Flight-Initiative.html

5 Tax incentives

The following section looks at tax incentives available to entrepreneurs in both jurisdictions.

5.1 Tax incentives in NI

Entrepreneurs in NI are eligible for the UK-wide Entrepreneurs' Relief which means that Capital Gains Tax (CGT) is paid at a lower rate of 10% on qualifying assets (instead of the normal rate of 18% or 28%).[45]

5.2 Tax incentives in RoI

The ROI *Action Plan for Jobs 2014* notes that:

> *The right conditions for entrepreneurship include the adoption of responsive public policies such as fiscal policy where both tax rates and targeted tax reliefs can support entrepreneurship, investment and influence business decisions.*

However, the *National Policy Statement* considers the tax environment for entrepreneurs and investors in ROI to be particularly challenging, especially when compared with the UK's tax rates.[46] A range of tax incentives are currently available to entrepreneurs in RoI:

- Start-up company relief provides relief from corporation tax for new start-ups for the first three years of trading in respect of profits from a new trade and chargeable gains on the disposal of assets used in the trade. Such relief applies if the total corporation tax payable for an accounting period does not exceed €40,000. Marginal relief is available if the total corporation tax payable is between €40,000 and €60,000.[47]
- An extension of the existing three year relief for start-up companies was announced in Budget 2015. The relief is being extended to new business start-ups until the end of 2015 and a review of the operation of this measure will take place in 2015.[48]
- **The Start Your Own Business** (SYOB) scheme provides relief from income tax for people who were long-term unemployed (unemployed for 12 months or more and in receipt of social welfare support or training) immediately before starting a business.
- SYOB provides an exemption from income tax up to a maximum of €40,000 per annum for a period of two years for qualifying individuals. The relief is available in respect of unincorporated businesses set up between 25 October 2013 and 31 December 2016.[49]
- The **Seed Capital Scheme** (SCS) is a tax relief incentive scheme aimed at people in PAYE employment who want to start up their own business. The scheme allows those who invest in their new company to claim up to 41 per cent of their investment back from PAYE they have paid over the previous 6 years.

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45 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/323651/hs275.pdf; http://www.att.org.uk/Resources/CIOT/ATT%20and%20CIOT%20Shared%20Resources/Entrepreneurs_%20Relief.pdf

46 Department of Jobs, Enterprise and Innovation National Policy Statement on Entrepreneurship in Ireland (2014) p.26 http://www.enterprise.gov.ie/en/Publications/National%20Policy%20Statement%20on%20Entrepreneurship%20in%20Ireland.pdf

47 Office of the Revenue Commissioners Tax Relief for New Start-up Companies (2014) http://www.revenue.ie/en/about/foi/s16/income-tax-capital-gains-tax-corporation-tax/part-15/15-03-03.pdf

48 Department of Finance Summary of 2015 Budget Measures: Policy Changes (2014) http://www.budget.gov.ie/Budgets/2015/Documents/2%20Summary%20of%202015%20Budget%20Measures%2014%20Oct%2000.09.pdf

49 Office of the Revenue Commissioners Supporting Job Creation and Other Enterprise Supports: Tax Relief, Deductions and Exemptions (2014)http://www.revenue.ie/en/about/publications/supporting-job-creation.pdf

- SCS has not been used extensively which indicates that reforms may be required to improve the promotion and uptake of this scheme.[50] It was announced in Budget 2015 that the scheme will be rebranded as 'Start-Up Relief for Entrepreneurs (SURE)' and will be extended to individuals who have been unemployed up to 2 years.[51]
- **Capital Gains Tax (CGT) Entrepreneurial Relief:** Following a number of CGT rate increases in recent years, the ROI CGT rate has increased to a relatively high 33%. These increases coincide with a period when many other countries enhanced their competitiveness as a location for entrepreneurial activity by significantly improving their tax treatment of capital gains.[52]
- CGT Entrepreneurial Relief, announced in Budget 2014, is an incentive to encourage entrepreneurs to invest and re-invest in assets used in new productive trading activities.[53]
- The relief applies from 01 January 2014 to individual entrepreneurs who:[54]
  - Have made disposals of assets since 01 January 2010 on which they have paid capital gains tax;
  - Invest at least €10,000, in the period from 01 January 2014 to 31 December 2018, in acquiring chargeable business assets that will be used in a new business; and
  - Subsequently (after a minimum period of 3 years) dispose of those chargeable business assets at a gain, giving rise to a capital gains tax liability.
- Section 45 of *Finance (No 2) Act 2013* originally introduced Entrepreneur Relief.[55] However, the *Finance Act 2014*[56] revised the scheme in order to satisfy the EU Commission's General Block Exemption Regulations and obviate the need for formal EU approval of the relief from a State-aid perspective.[57] These changes include:[58]
  - Targeting the relief at individuals involved in newly created enterprises or enterprises created within the last 7 years;
  - Placing a cap of €15 million on the total risk finance investment made in each such enterprise; and
  - Ensuring that risk finance investment is at the commencement of the new business.
- Other changes made to Entrepreneurial Relief ensured it was compatible with the commercial reality of conducting business on the ground.

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50 Department of Jobs, Enterprise and Innovation National Policy Statement on Entrepreneurship in Ireland (2014) p.27 http://www.enterprise.gov.ie/en/Publications/National%20Policy%20Statement%20on%20Entrepreneurship%20in%20Ireland.pdf

51 Department of Finance Summary of 2015 Budget Measures: Policy Changes (2014) http://budget.gov.ie/Budgets/2015/Documents/2%20Summary%20of%202015%20Budget%20Measures%2014%20Oct%2000.09.pdf

52 Department of Jobs, Enterprise and Innovation National Policy Statement on Entrepreneurship in Ireland (2014) p.27 http://www.enterprise.gov.ie/en/Publications/National%20Policy%20Statement%20on%20Entrepreneurship%20in%20Ireland.pdf

53 Department of Finance Summary of 2014 Budget Measures: Policy Changes (2013) http://www.budget.gov.ie/Budgets/2014/Documents/Summary%20of%20Budget%202014%20Taxation%20Measures.pdf

54 Revenue Operational Manual: Capital Gains Tax Entrepreneur Relief [19.06.02A] (2015) http://www.revenue.ie/en/about/foi/s16/income-tax-capital-gains-tax-corporation-tax/part-19/19-06-02a.pdf

55 Finance (No.2) Act 2013 Section 45 http://www.irishstatutebook.ie/2013/en/act/pub/0041/sec0045.html#sec45

56 Finance Act 2014 Section 52 http://www.irishstatutebook.ie/2014/en/act/pub/0037/sec0052.html#sec52

57 Written Question 44357/14 (03 December 2014) http://oireachtasdebates.oireachtas.ie/debates%20authoring/debateswebpack.nsf/takes/dail2014120300068?opendocument#WRA02450

58 Written Question 44357/14 (03 December 2014) http://oireachtasdebates.oireachtas.ie/debates%20authoring/debateswebpack.nsf/takes/dail2014120300068?opendocument#WRA02450

6 Support for High-potential start-ups

This section outlines the support for high-potential start-ups in the two jurisdictions.

6.1 Northern Ireland

In the 2014 *Innovation Strategy*, the NI Executive committed to supporting 'businesses with high growth and export potential'. in the following ways:[59]

- Encouraging entrepreneurs to commercialise their innovations and give them the tools to start and grow their businesses to a global level;
- Challenging entrepreneurs to focus as much on the processes of building their businesses as developing their technologies;
- Working with those businesses that succeed and wish to continue to grow rapidly to help accelerate their growth and scaling; and
- Funding a Business Accelerator to foster the growth of early stage high tech start-ups.

In terms of the support currently available to HPSUs, DETI has stated that NI offers a similar range of assistance to that provided in ROI, noting that:[60]

> *Compared to many regions, NI has an excellent offering to assist HPSU companies along with the growing start up ecosystem.*

The Propel Programme, launched in August 2009, is INI's bespoke programme of support aimed at entrepreneurs with high value and high growth knowledge-based ideas with significant export market potential.[61] It is an intensive 12 month programme, providing participants with:[62]

- A series of business development workshops;
- Specialist advice from local and international business experts;
- Introductions to potential investors
- Strategic business planning support; and
- One-to-one bespoke guidance through mentorship work.

In addition to the Propel Programme, INI recently announced (15 May 2015) the launch of a Northern Ireland Accelerator Programme to support technology based HPSUs to access early stage venture capital/angel investment. SOSventures are delivering the programme, which received £2.6m in funding from INI.[63]

The private sector also offers specially tailored programmes aimed at developing entrepreneurial capacity among HPSUs. For example, NISP CONNECT offers the Springboard programme to companies with high potential growth to assist them in the development and delivery of a successful commercialisation strategy.[64]

59 Northern Ireland Executive Innovation Strategy for Northern Ireland 2014-2025 (2014) p.50 http://www.detini.gov.uk/innovation-strategy-2014-2025_2.pdf

60 Department of Enterprise, Trade and Investment National Policy Statement on Entrepreneurship in Ireland: Departmental Response (22 January 2015)

61 Invest NI Propel Programme: Interim Valuation – Final (2012) p.ii http://secure.investni.com/static/library/invest-ni/documents/propel-programme-interim-evaluation-report-27-march-2012.pdf

62 http://www.investni.com/propel-programme.html

63 Invest NI, Launch of Accelerator Support for High Potential Start-ups (15 May 2015) https://www.investni.com/news/launch-of-accelerator-support-for-high-potential-start-ups.html

64 http://www.nisp.co.uk/nisp-connect/springboard/

6.2 Republic of Ireland

In the most recent *Action Plan for Jobs*, a number of targets focused specifically on HPSUs, including:[65]

- Provide business development and financial supports to 185 HPSUs;
- Develop an action programme of support for pre-investment HPSUs;
- Develop an action programme of support for scaling post-investment HPSUs;
- Drive the establishment of 15 spin-out companies that are of Enterprise Ireland HPSU quality; and
- Implement a structured programme to support new HPSUs to access new overseas markets and customers.

Enterprise Ireland is responsible for supporting HPSU companies in ROI and provides a range of financial assistance packages including:[66]

- HPSU Feasibility Study Grant;
- Innovative HPSU Fund;
- Competitive Feasibility Fund; and
- Competitive Start Fund.

Enterprise Ireland also delivers soft supports to HPSUs in the form of tailored advice, guidance and support through the New Frontiers Entrepreneur Development Programme and the Enterprise Ireland Mentor Network.

65 Department of Jobs, Enterprise and Innovation Action Plan for Jobs 2015 (2015) pp.86-90 http://www.djei.ie/publications/2015APJ.pdf

66 http://www.enterprise-ireland.com/en/funding-supports/Company/HPSU-Funding/

Annex 1: 2015 Action Plan – actions by theme[67]

Culture, Human Capital and Education
Broaden and deepen work to support entrepreneurship in schools. (DES)
Examine the Entrepreneurship in the Schools activity in each LEO area and develop strategies to increase participation and impact. (EI, LEOs, DJEI)
Continue to support female entrepreneurship via promotional and support programmes.(EI)
Ireland's Best Young Entrepreneur: Building on the successful launch and in response to the IBYE (Irelands' Best Young Entrepreneur) Programme during 2014, assess the impact and outcomes, and develop an appropriate 2015 Programme. (EI/LEOs)
Student Enterprise Award: Building on the successful 3rd Level Student Enterprise Award Programme target a greater number of student participants (Target 500) and enhance the quality of the applications contributing to a greater Entrepreneurial spirit in this student cohort.(EI)
Support entrepreneurship by training more scientists in SFI supported research teams to launch their own businesses and supporting translation of research to commercial opportunities. (SFI)
Develop a new, disruptive, societal impact scheme including public consultation on topics to be funded. (SFI)
Map relevant entrepreneurship activities in higher education institutions as part of the overall strategy for higher education engagement with enterprise and embed entrepreneurship support within the HEI System Performance Framework. (DES, HEA)
Develop an enterprise engagement strategy for higher education to include entrepreneurial education as an important part of the national framework for enterprise engagement. (HEA)
Set out performance indicators and measures to benchmark entrepreneurial activity in Irish higher education. (DES, HEA)
Work with the Department of Social Protection to promote the Back to Work Enterprise Allowance, and support these start-ups with appropriate interventions e.g. mentoring, microloans. (EI, EOs, DSP)

Business Environments and Supports
Support 130 new Entrepreneurs via the New Frontiers programme. (EI)
Provide business development and financial supports to 185 High potential and early stage Start-ups.(EI)
Each LEO will identify how it can facilitate hubs where start-ups can be established in a supportive network before moving on to accommodate for the next cohort of emerging enterprises. A key approach will be to build on the 100+ Community Enterprise Centres across the country by implementing local protocols to ensure the LEOs are fully integrated into the enterprise development plans of each county. (EI, LEOs)
The Centre of Excellence in Enterprise Ireland will develop a competitive fund to promote innovation within and across LEO's to enhance the support environment for start-ups, with a particular emphasis on regions that have struggled to achieve employment growth. Enterprise Ireland will also publish a report each year on the start-up environment across the LEOs network, identifying areas of excellence and areas for improvement and innovation. (EI, LEOs)
Under the new pilot Entrepreneur Partnering Programme, match founders and start-ups with leading enterprises in a region, which will act as hosts and mentors for up to one year to bring budding businesses to the next level of success. (EI, LEOs, IDA, DJEI)

67 Department of Jobs, Enterprise and Innovation Action Plan for Jobs 2015 (2015) pp.86-90 http://www.djei.ie/publications/2015APJ.pdf

Business Environments and Supports
Support a further cohort of new food entrepreneurs under Food Works 3 and promote market outlets for food start-up companies. (Bord Bia, EI, Teagasc)
Develop a joint strategy for the positioning of Ireland to take advantage of new opportunities in the Electronic Payments sector, so as to support innovation, entrepreneurship and attract mobile investment.(EI/IDA)
Examine the Advisory Group on Small Business (AGSB) recommendations from December 2014 and report back to the Group. (DJEI)

Innovation
Continue to promote the Immigrant Investor Programme (IIP) and Start-up Entrepreneur Programme (STEP) to leverage the potential of migrant entrepreneurs and investors. (D/Justice and Equality and others)
Develop an action programme of support for pre-investment HPSUs. (EI)
Develop an action programme of support for scaling post-investment HPSUs.(EI)
Promote Ireland internationally as a start-up location and attract 15 new overseas start-ups to establish their business here. (EI)
Drive the establishment of 15 research spin-out companies that are of EI HPSU quality.(EI)
Devise an implementation plan following recommendations from the evaluation of European Space Agency Membership. Target 5 new high performance entrant companies for European Space Agency (ESA) engagement. (EI)
In collaboration with the European Space Agency manage the initialisation of the European Space Agency (ESA) Incubator.(EI)
Initiate scoping study for development of a Coastal Resource Hub & Marine Innovation Park at Páirc na Mara, Cill Chiaráin, Co. Galway. (ÚnaG)
Develop advanced property solutions for innovative companies seeking to move from the incubator phase to market. Units will be suitable for specific sectors, including Life Sciences & Food as well as further property solutions for Business Support Services and Creative Enterprises. (ÚnaG)

Access to finance
Increase the usage of Equity financing by SMEs (DJEI, D/Finance, Revenue, EI, LEOs)
As announced in Budget 2015, extend the existing 3-year tax relief for new start-up companies until end-2015. (D/Finance)
Launch 6 Competitive Start Funds to support 85 Start-ups. (EI)
Build on the success achieved to date on the Competitive Feasibility Funds and launch 4 targeted funds during the year in the West, Midlands, Mideast, and one sectoral fund. (EI)
Competitive Start Fund (CSF) for the Agri-Sector: Following the launch of the Competitive Feasibility for the Agri-Sector in September 2014, explore launching a Competitive Start Fund to further support potential start-up businesses in this sector. (EI)

Networks and Mentoring
Increase the level of start-up support in Ireland by supporting commercially managed accelerators. (EI)
A Working Group will implement reforms in mentoring. (DJEI)

Networks and Mentoring
Access to Markets
Continue the successful Food Academy initiative (which is run in conjunction with retail outlets) to nurture start-up food businesses through workshop style training and assistance with routes to market. (Bord Bia)
Implement a structured programme to support new HPSUs to access new overseas markets and customers. (EI)

Northern Ireland Assembly

Appendix 5

Other Papers

Other Papers

DRD Strategic Drainage infrastructure Plan

Dr Leslie Budd briefing paper – The Consequences for the Northern Ireland Economy from a United Kingdom exit from the European Union

Institute of Directors Jobs Plan

DETI briefing regarding access to finance

DETI briefing paper regarding Air Passenger Duty

Institute of Directors supplementary information

Invest NI press release regarding Grade A Office Accommodation

DETI Programme for Government 2011-15 Departmental Delivery Plans – Progress at 31 March 2015

DETI briefing paper regarding 2014-2020 NI ERDF Investment for Growth and Jobs Programme

DETI response to Committee queries 11 May 2015

DETI press release regarding Agri-Food Competence Centre

DETI press release – Bell launches accelerator support for high potential start-ups

NILGA response to NI draft budget 2015-16

Grow NI response to Committee queries

DETI Briefing regarding Energy Demand

CBI response to Committee queries

DETI briefing paper regarding quarterly update on the Northern Ireland Broadband Improvement Project

NILGA Northern Ireland fiscal powers note

University of Ulster – Research Report on Air Passenger Duty

Dr Leslie Budd briefing paper – draft Committee report

Survey response summary

Department of the Environment written submission

Correspondence from the Department for Regional Development regarding Strategic Drainage Infrastructure Plan

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Your reference: DALO/D64/2014
Our reference: SUB/770/2014

Paul Carlisle
Clerk to the Committee for Regional Development
Committee Office
Room 254
Parliament Buildings
BELFAST BT4 3XX

30 September 2014

Dear Paul

Strategic Drainage Infrastructure Plan

Departmental officials are scheduled to brief the Committee on 8 October on the subject of the proposed Strategic Drainage Infrastructure Plan. I attach a briefing paper for the consideration of Committee members.

This letter and enclosure is fully disclosable under FOI.

Yours sincerely

Alan Doherty
Departmental Assembly Liaison Officer

A Strategic Drainage Infrastructure Plan for Northern Ireland Briefing for the Regional Development Committee on 8 October 2014

Annex A

A Strategic Drainage Infrastructure Plan for Northern Ireland

Introduction

1. The Minister for Regional Development sought approval from the NI Executive to establish an inter-departmental group to develop a strategic approach to drainage infrastructure across Northern Ireland (NI), in line with the requirements of the Water Framework Directive, the Urban Waste Water Treatment Directive and the European Floods Directive. The goal of the inter-departmental group will be to develop a Strategic Drainage Infrastructure Plan to:

- plan properly to enable future economic growth;
- address environmental risks including the risk of infraction proceedings in respect of water quality in Belfast Lough; and,
- reduce significantly the risk of future flooding particularly but not exclusively in the Belfast area.

2. Executive approval was given at the Executive meeting on 8 July and work is currently underway to set up the inter-departmental group, in the form of a Programme Board, to take forward the development of the Strategic Drainage Infrastructure Plan.

The Problem

3. Drainage infrastructure throughout Northern Ireland is not currently sufficient to meet the future requirements expected of it, with the consequences that are set out in this paper. The problems are most acute in the greater Belfast area.

Economic growth

4. Northern Ireland, and the greater Belfast area in particular, cannot continue to develop economically without growth in the capacity of its drainage infrastructure. The existing waste water infrastructure is not sufficient for a significant level of new development, whether commercial or housing, in the Belfast area and this situation will become worse if investment in infrastructure fails to keep pace with economic growth. Thirteen large waste water treatment works (WWTW) requiring upgrading can be included within NI Water s PC15 programme of work planned for the next six years on the basis of the ISNI projections. This will, however, leave 58 WWTWs requiring upgrading at the end of that period. This means that by 2021 there will be a significantly greater number of areas where growth will be constrained due to the lack of infrastructure capacity. The use of short-term treatment solutions, based on increased use of septic tanks etc for domestic properties, can only be a temporary measure and does not provide a long-term solution to this issue.

5. A more strategic approach is required to ensure that economic growth is not significantly constrained, particularly in the greater Belfast area where Duncrue WWTW is already operating at design capacity.

Environmental Risk- Belfast Lough

6. Under the Water Framework Directive, our target is to achieve a standard of “Good” water quality in the three areas of Belfast Lough (Harbour, Inner Lough and Outer Lough) by 2015. Only the Outer Lough is currently at “Good”. This is unlikely to have improved by 2015 when

the NIEA will next report formally to Brussels. Without a credible plan to address the problem, there is a risk that this could lead to infraction proceedings.

7. One of the causes of the poor water quality is that during periods of heavy rainfall the wastewater treatment works at Belfast (Duncrue Street) and Kinnegar cannot cope with the volume flowing into the works. Like all wastewater treatment works, Belfast and Kinnegar are designed to “spill” rather than have the excess pressure result in sewage backing up into homes and businesses. In the case of Belfast, the excess volume (which is a combination of sewage and storm water) spills into Belfast Lough, impacting on the water quality. There are no quick or easy solutions to this problem. Ideally, a large proportion of the surface water generated by heavy rainfall would be channelled separately to Belfast Lough via existing watercourses or through a separate drainage system created for this purpose. This would greatly reduce the pressure on Duncrue Street WWTW and Kinnegar WWTW, allowing them to operate more effectively. Such an approach would also reduce treatment costs, due to the lower volume handled by the treatment works. There would be no treatment cost for the separated surface water drainage system, as this would carry essentially “clean” rainfall and runoff water. This would significantly improve the quality of the discharges to the Inner Lough and Harbour and thereby make a significant contribution to an improvement in the water quality status of the Lough.

8. Infraction proceedings by the Commission might be avoided if there is evidence of a credible plan in place to resolve the problem and the European Commission can be satisfied that appropriate action is being taken. It is therefore essential that we develop a strategic plan expeditiously.

Flood risk

9. Instances of serious flooding have occurred across Northern Ireland on several occasions in recent years. The development of towns and cities in Northern Ireland has placed an excessive burden on drainage systems and climate change predictions suggest that flood risk is likely to increase.

10. The Department of Agriculture and Rural Development, through its role as a competent authority for the Floods Directive, has identified the main sources of flooding across Northern Ireland and is developing Flood Risk Management Plans reflecting how it is proposed to manage flood risk. DOE also plays an important role in flood risk through its scrutiny and consenting process on environmental matters, promoting sustainable drainage systems, climate change adaptation planning, providing direction to local government and overseeing the Executive s flood hardship payment schemes.

11. Each of the drainage agencies (DARD, Transport NI and NI Water) contributes to managing flood risk from drainage infrastructure within their respective remits. Action has been taken to address localised flooding issues more coherently through the establishment of an inter-agency Flood Investment and Planning Group led by DRD to coordinate work by DARD, Transport NI and NI Water. DRD is also developing a Long-Term Water Strategy to contribute to addressing flood risk through the alignment of policies across the water sector, which was issued for consultation in June 2014.

12. Where there is a clear statutory duty, flood risk is being managed with measures or programmes in place. However, there remains a gap between the work led by DARD identifying flooding risks and the work to address local flooding issues led by the Department. In particular, there is a gap when it comes to having properly “joined up” plans to address flooding caused by intense rainfall overwhelming our drainage systems.

13. This issue was considered in the PEDU „Review of Response to Flooding June 2012 which recommended that Rivers Agency, Transport NI and NI Water work with their parent departments to review current flood defence expenditure priorities and report to the Executive on their adequacy to meet the potential threats over the next 10 years. The Executive

considered the outcome of this review and noted the requirement for an additional targeted programme of £120m over the next 10 years and agreed that it should be prioritised in the next iteration of the Investment Strategy. It is now clear that this level of funding will be inadequate to deliver a programme of work which will properly meet the objectives of supporting economic growth, protecting the environment and addressing flood risk.

Belfast Flooding

14. Belfast has been identified by the Preliminary Flood Risk Assessment, required under the Floods Directive, as the largest of the 20 significant flood risk areas in Northern Ireland. The risk is real as demonstrated by the number of properties in the east and south of the city that have flooded in recent years. DARD is currently delivering a major flood alleviation scheme in East Belfast as part of the wider Belfast City Council led Connswater Community Greenway Project. This work will reduce the risk of flooding from rivers and the sea, but the risk from surface water following intense rainfall still needs to be addressed. NI Water has already concluded that large scale projects are necessary to improve the sewerage systems in these areas. Indicative funding in the Executive s Investment Strategy (and NI Water s proposed PC15 investment plans) for 2015-21 is inadequate to cover the costs of these projects.

A strategic approach to infrastructure planning

15. The scale of the challenges described above require a holistic and integrated approach to future drainage provision. There is already considerable joint working by DARD, DOE and DRD to address flooding problems and improve/protect water quality in the environment. However, **there is as yet no agreed cross-departmental infrastructure plan at strategic level to support economic growth, provide for the long term management of flood risk or improve water quality in the wider environment**. With the approval of the NI Executive, an inter-departmental group with the remit of developing an agreed Strategic Drainage Infrastructure Strategy to address this is in the process of being set up. This work would be taken forward in phases, initially focusing on South and East Belfast due to the particularly urgent need for an agreed plan for that area.

16. This approach will deliver the most sustainable and integrated outcome. There is precedent elsewhere for such an approach; for example; In Glasgow the authorities have moved towards establishing a Metropolitan Strategic Drainage Partnership to manage flood risk in the city. The European Floods and Water Framework Directives are also pushing Departments towards more coordinated working and Belfast City Council recently commissioned consultants to report on flooding in the City.

Funding

17. The PEDU report estimated that some £120m would be required to address flooding problems in high risk areas and the Executive identified this as a priority for the next Investment Period. However, this figure did not include any estimate for the strategic infrastructure to deliver longer term, more sustainable, solutions outlined in this paper. It is likely that additional funding (of at least £750m) will be needed to progress an integrated drainage infrastructure solution for the greater Belfast area alone. This investment is necessary to properly address the risk of infraction proceedings, reduce flooding risk and support future economic development in the greater Belfast area. This is entirely separate from the capital public expenditure that NI Water will need for the period ahead, which will be based on the Regulator s determination in PC15.

Moving Forward

18. DRD will take the lead in coordinating this work because, through Transport NI and NI Water, it is the main infrastructure provider. It is proposed that the work will be taken forward through a Programme Board group involving officials from DOE, DARD, DFP and DRD, together with NI Water, Belfast City Council and SIB.

19. The Programme Board will begin work in autumn 2014. The focus of the project over the first few years will be to develop a drainage infrastructure plan to enable a long-term work programme for South and East Belfast to be developed and costed. Subsequently, the Programme Board will develop similar plans for the rest of Belfast (Phase 2) and the remaining significant flood risk areas in NI (Phase 3).

Dr Leslie Budd Briefing Paper – The Consequences for the Northern Ireland Economy from a United Kingdom exit from the European Union

Briefing Note: CETI/OU, 2/15
March 2015

1. Background

The issue of the economic consequences of the United Kingdom (UK) leaving the European Union (EU), commonly known as a BREXIT, is a complex one to analyse. Proponents on both sides of the argument draw upon detailed evidence, much of which is not directly comparable. Examining evidence and arguments about the impact of a BREXIT at sub-national levels is more challenging. In the case of Northern Ireland, the consequences may be easier to delineate because it is the only part of the UK that has a contiguous border with another EU Member State. The crucial point in all these debates is that one is an attempting to analyse a future, and as yet uncertain, event the consequences of which may be profound. In this regard a series of counter-factuals are advanced based upon forecasts of future economic outturns.

For proponents of the UK's continuing membership of the EU[1] the following factors are key to their arguments:

- British trade and investment;
- Migration;
- The City of London;
- Regulation;
- The EU budget;

For the opponents of the UK's continuing membership of the EU, the issues are:

- The relative decline of the EU's share of global trade as emerging becomes become advanced ones;
- The costs of regulation of EU membership which is estimated at between 6% and 25% of UK GDP[2] or £24.7bn[3], for the top 100 EU regulations;
- Combating the "myth" that 3 – 4 million jobs in the UK are directly related to EU membership and would be lost in the event of a BREXIT;
- Entering a global free trade area will increase benefits from trade and Foreign Direct Investment (FDI);

The proponents of EU membership use an analysis based on current data to estimate the positive benefits of continuing membership of the EU. The opponents, on the other hand, use counter-factuals and scenario analysis to support their case. Consequently, there is uncertainty around the range of "what ifs" implicit in the latter's assessment. What both

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1 See Centre for European Reform (2014) The economic consequences of leaving the EU The final report of the CER commission on the UK and the EU single market, London: Centre for European Reform

2 Minford, P., Mahambare, V., and Nowell, E., Elgar, E. (2005): "Should Britain leave the EU? An economic analysis of a troubled relationship", in association with the Institute of Economic Affairs. London: Institute of Economic Affairs.

3 Open Europe Briefing Note (2013): Top 100 EU regulations cost the UK economy £27.4 billion a year – and costs outweigh benefits in a quarter of cases: http://www.openeurope.org.uk/Article?id=14167

sides share is trying to estimate transactions costs (administration costs) and opportunity costs (cost of alternatives/substitutes).

Hence, a number of the estimates of costs of staying or leaving are in this form of what can be termed 'funny money'. In regard to these types of costs, transactions costs are important for a territory like Northern Ireland in that these would rise significantly for cross-border trade and economic co-operation if a BREXIT occurred. Furthermore, the opportunity cost of improving cross-border infrastructure and thus connectivity could increase considerably.

Unravelling the economic impact upon Northern Ireland from the rest of the UK is challenging. The key factor is how smaller more devolved economies benefit from existing in a larger multilateral environment. Moreover, that these type of economies tend to create more sustainable growth and equity over the longer term[4] This conclusions underpinned by the Oates decentralisation theorem that states:

> *In multilevel governments, each level of government (including the central government) will maximise social and economic welfare within its own jurisdiction.*[5]

It is within the context of this evidence that the economic impact of a BREXIT on Northern Ireland can be examined.

2. Impact on UK Economy

The EU has a falling share of the world's population (7%): total GDP (25%); but, rising social costs (50%) due to ageing and demographics. In respect of the development of the European Single Market (ESM) and its components:

1. From 1995 to 2008, EU GDP was 5% higher because of the creation of the ESM[6].
2. Full implementation of the Service Directive would increase EU GDP by 2.3%[7].
3. Completing the Digital SM could raise EU GDP by 4%[8].

In respect of the UK, it accounts for 12% of its population and 15% of its GDP. Given the comparative demographics of the UK, its economic impact is likely to grow over time. Moreover, given the role of services and e-commerce in the composition of the British economy, the completion of the components of the SEM will also enhance its GDP. The following factors reflect the current importance of the EU to the UK economy.

- A BREXIT would lead to a 1 to 3% reduction in UK GDP with the ESM[9];
- The Eurosceptic Institute of Economic Affairs estimates that leaving the EU would lead to an impact on UK GDP of -2.6% and +1.1% of GDP, with a best estimate of +0.1%[10];

4 Centre for Cities(2014) Cities Outlook 2014 . London: Centre for Cities. Blöchliger H. and B.Égert (2013), Decentralisation and Economic Growth. Part 2: The Impact on Economic Activity, Productivity and Investment, OECD Working Papers on Fiscal Federalism, No.16, OECD Publishing.

5 Oates, W.E (2006) "On the Theory and Practice of Fiscal Decentralization" IFIR Working Paper No. 2006-05 Maryland: University of Maryland.

6 Boltho, A. and B. Eichengreen (2008). The Economic Impact of European Integration. CEPR Discussion Paper 6820

7 Open Europe (2013). How to reignite the EU's services market and boost growth by EUR 300 bn. London: Open Europe.

8 See H.M. Government (2013) UK Review of the Balance of Competences between the United Kingdom and the European Union. The Single Market, London: Cabinet Office.

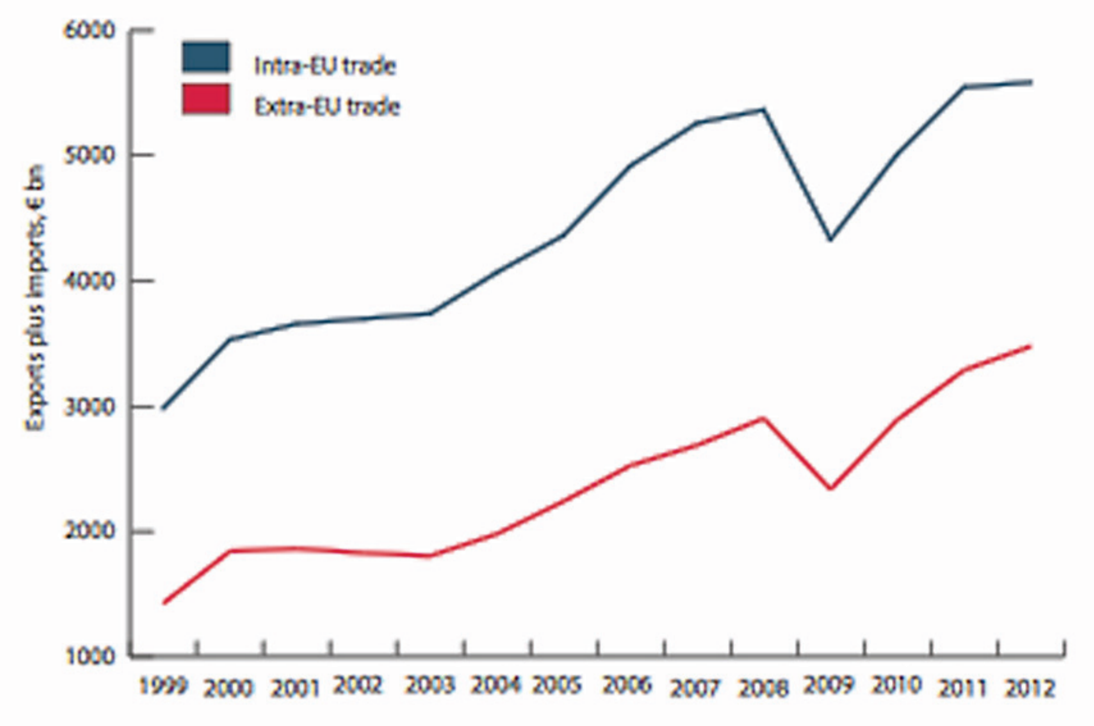
9 Deutsche Bank Research (2103) A future in the EU? Reconciling the 'Brexit' debate with a more modern EU, Frankfurt: Deutsche Bank.

10 Masefield, I. (2014) A Blueprint for Britain: Openness not Isolation IEA Brexit Prize, London: Institute of Economic Affairs.

- According to the National Institute of Economic and Social Research a BREXIT would result in a permanent reduction in UK GDP of 2¼%[11].

The scale of the UK's economy integration in the EU (and with possibly large direct costs of exiting) can be seen in the growth of trade and FDI. As shown in Figure 2.1 in the first instance

Figure 2.1: Trade between Member- States of the EU and between the EU and the Rest of the World

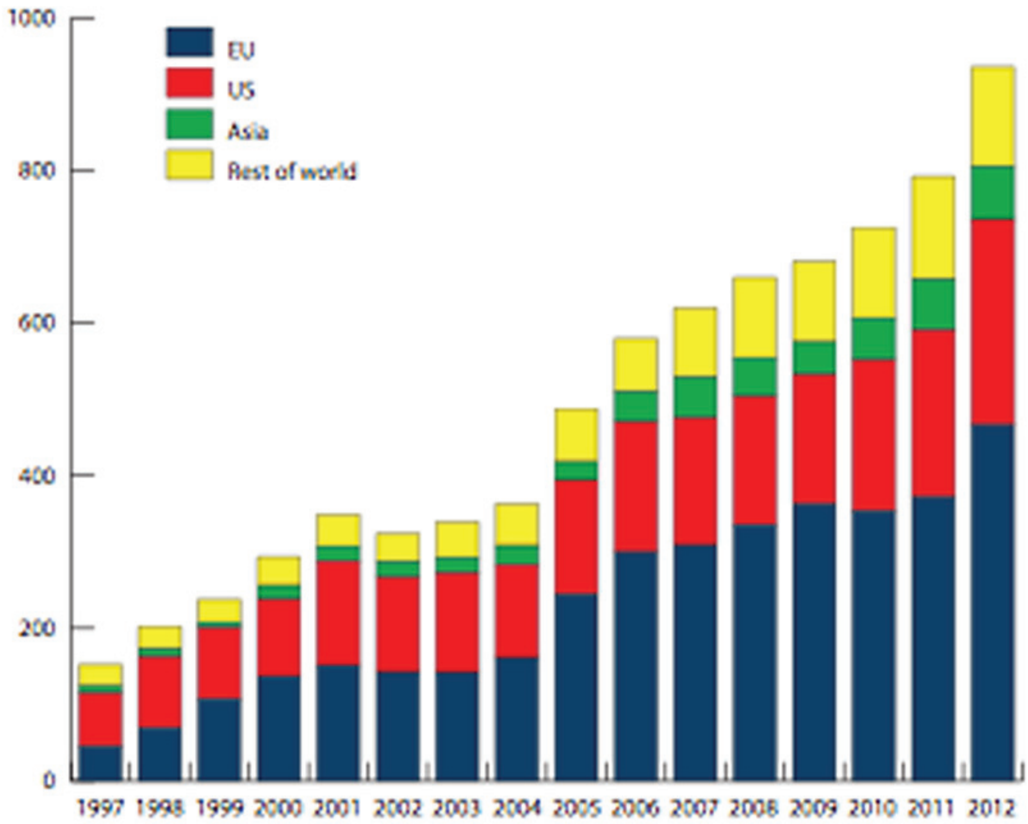


Source: EUROSTAT (2013)

This figure shows the growth of trade in the EU with intra-EU trade growth at 5.4% per annum. Intra-EU trade data should come with a caveat that much of it is intra-firm. That is, intra - firm trade corresponds to international flows of goods and services between parent companies and their affiliates or among these affiliates, as opposed to arm's length trade which is trade between unrelated parties (inter- firm trade). Intra-firm trade is the consequence of activities of multinational enterprises (MNEs) that move goods and services across borders during the production process and provide final products to customers through their foreign affiliates. For example, the same MNEs in the car industry in the EU transfer large amounts of intermediate and final goods across national border. Intra-firm trade in services accounts for 57% of EU trade. The important point is the link between intra-firm trade and FDI particularly in a globally open economy like the UK. The composition of inward FDI to the UK is given in Figure 2.2.

11 Pain, G. and Young, G. (2004) 'The macroeconomic impact of UK withdrawal from the EU', Economic Modelling, 21, pp. 387–408

Figure 2.2: The origin of foreign direct investment to the UK



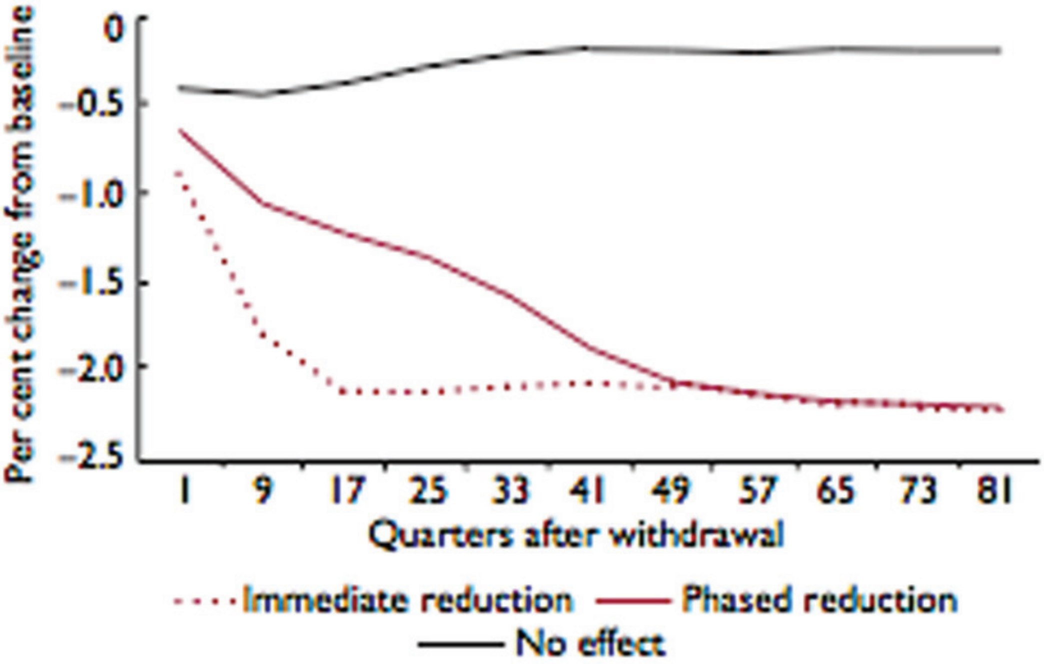
source: Centre for European Reform (2014)

The EU's share of world inward FDI declined from 45% in 2001 to 18% in 2012 rising again to 20% in 2013[12]. This decline has been accompanied by an increase in outward FDI to emerging economies as they have been the dominant source of global growth in the last decade. As both the EU has expanded and emerging economies, like China, develop into advanced ones, inward FDI to many regions of the EU is likely to rise. Furthermore, the role Global Value Chains (GVCs), in which the different stages of the production process are located across different countries, have grown in importance.International production, trade, services and investments are increasingly organised within GVCs. Globalisation motivates companies to restructure their operations internationally through outsourcing and offshoring of activities through FDI. But there is a countervailing tendency that may increase inward FDI to the EU in that the growth of GVCs encourage re-shoring back to a home base as the dynamics of the global economy evolve.

The impact on FDI is the weakest part of the arguments made by supporters of a BREXIT in that they admit that the greatest uncertainty surrounds this key factor. The impact is shown in Figure 2.3 that shows the percentage decline in FDI over time as a result of a BREXIT. The relationship between trade (particularly cross-border) and FDI is an important consideration for Northern Ireland, particularly in the light of proposed control over the rate of corporation tax in order to stimulate FDI. Being located as a potential site of increased FDI within the EU remains advantageous for economic territories like Northern Ireland. Withdrawal from the EU would thus affect devolved nations and regions that are sites of FDI.

12 Ernst and Young (2014) EY's attractiveness survey Europe 2014 Back in the game, London: Ernst and Young.

Figure 2.3: The impact on real GDP of different FDI assumptions (per cent)



source: Pain and Young (2004)[13]

3. Economic Consequences for Northern Ireland

Attempting to disaggregate the impact of a BREXIT to the level of the economy of Northern Ireland is challenging. An inference can be made about this impact from growth and unemployment rates. The trend rate of growth of the Northern Ireland economy is about a third lower compare to that of the UK[14]. The comparative unemployment rate of about is about twice that of the UK as a whole. Thus, if the median forecast for the impact on UK GDP from a BREXIT is around 2% lower then we could expect trend total GDP to be 3% lower in Northern Ireland. Similarly, we would expect trend total unemployment in to increase by a proportionate amount. The drivers for these changes would be primarily the impact of reduced cross-border trade and economic co-operation; FDI; and a loss of EU economic development funding programmes. In the case of less FDI, the spillovers effects of higher productivity, training and skills and more importantly derived demand for domestic production, tradable and non-tradable services would decrease.

3.1 Cross-Border Trade and Economic Co-operation

The UK is the largest trading partner of the Republic of Ireland (ROI) accounting for 17% of its exports. Given the contiguous land border and that since the Good Friday Agreement has led to more cross-border trade and economic co-operation, the relationship of Northern Ireland to the rest of the EU has been strengthened. This rising trend in trade is shown in Figure 3.1 below. One can see a rising trend in the North to South series (allowing for the global dip associated with the 2007 financial crisis), showing the increasing importance of the ROI as a market for output of the Northern Ireland economy. The relationship between trade flows and FDI is a well-established one[15]. In the case of cross-border economic co-operation the latter is

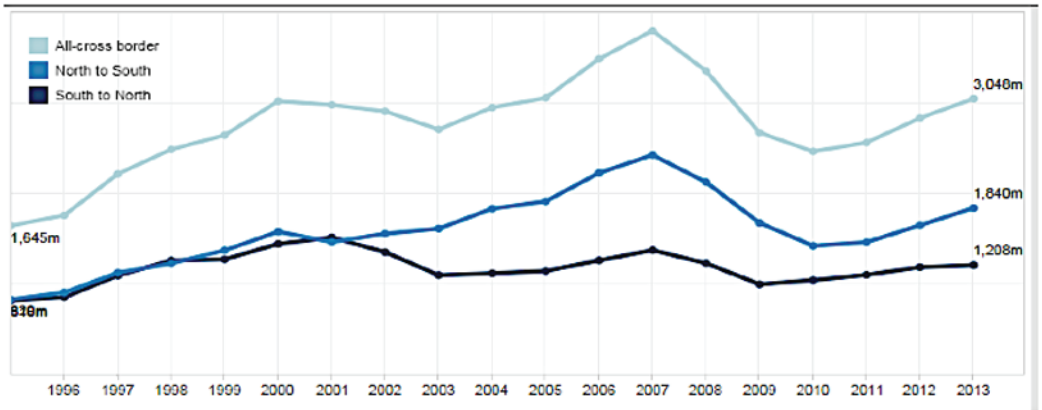
13 ibid

14 NICEP (2014) Outlook Autumn 2014 Northern Ireland Centre for Economic Policy, Coleraine: Ulster Business School

15 Fontagné, L. (1999), "Foreign Direct Investment and International Trade: Complements or Substitutes?", OECD Science, Technology and Industry Working Papers, 1999/03, OECD Publishing. http://dx.doi.org/10.1787/788565713012.

an important driver, with spillovers effects, in the form of service activities and employment. arising out of the from the growth of the key strategic sectors.

Figure 3.1: Cross-Border Trade (1995 – 2013 € m)



source: InterTrade Ireland (2014)

The ROI has also had a successful history in attracting FDI,. Overall FDI fell from 23.9% of Irish GDP in 2009 to 10.5% in 2011 but rebounded to 19.4% in 2012. The sectors most represented in inward FDI are life sciences, ICT, international financial services, content & engineering as well as mobile projects from Irish food multinationals. The demonstration effect of a successful record of inward FDI (70% of total employment in FDI related activities is accounted for by US firms) in sectors that correspond to those promoted in the Northern Ireland Economic Strategy can act as a stimulus to cross-border activities. These sectors that are being promoted in Northern Irelands are known as the MATRIX sectors are:

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

These sectors underpin the policy of developing cross-border innovation centres builds upon and reinforces the demonstration effect of FDI in the ROI. The current relative characteristics in respect of the cross-border regions are shown in Table 3.1 below

Table 3.1: Snapshot of the rationale and relevance for cross-border collaboration (Ireland and Northern Ireland in bold)

Driver	Explanation	Relevance for cross-border co-operation
Economies of scale	Combine resources for efficiency of investment, larger labour markets or access to wider business and knowledge networks to increase critical mass; often used to overcome peripherality	Strong **Moderate** Weak Not present
Political recognition	Increase the recognition and strengths of areas that are far from capitals to better negotiate and compete for resources from higher levels of government	Strong Moderate **Weak** Not present
Complementarities	Build on diversity of assets in terms of research, technology and economic base, as well as supply chain linkages	Strong **Moderate** Weak Not present
Branding	Increase internal recognition of the cross-border area as well as its external attractiveness to firms and skilled labour	Strong **Moderate** Weak Not present
Border challenges	Address the day-to-day challenges associated with flows of people, goods and services (including public services) across the border	Strong Moderate **Weak** Not present

Note: The assessment of relevance relates to the actual relevance in current cross-border collaboration, not necessarily to the potential relevance.

source: Nauwelaers, C. Maguire, K. and Marsan, G.A. (2013)[16]

The authors has also constructed a table of the relative strength of policy levers to promote cross-border co-operation. The crucial point they make, however, the level of transactions costs because of a lack of regulatory harmonisation. It follows that a BREXIT would significantly increase these costs and act as a disincentive to further economic co-operation and development. This point is returned to below.

3.2 Foreign Direct Investment in Northern Ireland

The Northern Ireland has had a sustained record of attracting FDI. The decision by policy makers to press for a reduction in the rate of corporation tax, allied to stimulating inward FDI for the MTRIX sectors should strengthen this position. Key sectors that are attractive to global FDI has been identified by FDI Intelligence who point out that Northern Ireland has some way to go to match the sectoral balance of the ROI to take advantage of this demand[17]. The overall relative position for Northern Ireland in respect of different levels of value-added is shown in Table 3.2.

Table 3.2: Comparison of value-added of FDI into Northern Ireland, UK and ROI

	% of FDI projects attracted (2006 -10)			% of new jobs attracted (2006 -10)		
Value added	**NI**	**UK**	**ROI**	**NI**	**UK**	**ROI**
Very High	44.3	39.4	46.7	37.3	20.4	41.6
High	12.1	15.8	16.1	16.5	16.8	11.2
Medium	14.1	18.0	15.8	10.5	13.4	18.9
Low	16.8	17.5	16.9	6.0	36.1	19.8

16 Nauwelaers, C., K. Maguire and Marsan, G.A. (2013), "The Case of Ireland-Northern Ireland (United Kingdom) – Regions and Innovation: Collaborating Across Borders", OECD Regional Development Working Papers, 2013/20, OECD Publishing. http://dx.doi.org/10.1787/5k3xv0llxhmr-en

17 FDI Intelligence (2012) Improving the Quality of Foreign Direct Investment to Northern Ireland, London: Global Insight Financial Times

Value added	% of FDI projects attracted (2006 -10)			% of new jobs attracted (2006 -10)		
	NI	UK	ROI	NI	UK	ROI
Very Low	12.8	9.2	4.5	29.7	13.4	8.5

source: FDI Intelligence (2012)

It is apparent that Northern Ireland comparatively holds its own in most categories, with the exception of very low-value-added jobs attracted. This may be because of it being a relatively late starter compared to the rest of the UK and the ROI. But, many of these types of jobs are in business and financial services that are an important part of the labour markets and income in most advanced economies.

The importance of widening and deepening the attractiveness of the MATRIX sectors to FDI is clearly crucial. Achieving this objective is also tied to the UK continuing membership of the EU, particularly because of the strategic importance of Northern Ireland's cross-border co-operation. The ROI economy has a demonstrably successful record in attracting FDI from companies seeking to access the rest of the EU's markets. The importance of Northern Ireland as a site for FDI within the EU, particularly for those companies from the emerging market is partially demonstrated in Table 3.3 that shows a sample of the performance of Northern Ireland's top 20 companies and their origin.

Table 3.3: Sample of Northern Irelands Top 20 Companies (2013)

Company	Employment	Turnover (£m)	Activity	Origin
1. Moy Park	10914	1089.6	Food Processing	Brazil
3 Bombardier	4990	492.8	Aerospace	Canada
5 Four Seasons Health	4710	97.1	Nursing & Care Homes	NI
8 Dunbia	3300	701.0	Food Processing	NI
10. Catepillar	2923	771.4	Capital equipment	US
11. Alma Group	2917	275.5	Pharmaceuticals	US
13 Resource (NI)	2538	35.3	Business support services	ROI
16. First Source Solutions	2293	55.9	Business support services	India
18. Ulster Bank	2185	n/a	Banking	UK
19 Teleperformance	2010	32.5	Business support services	France
20. Allstate (NI)			IT/Insurance	

source: Belfast Telegraph (2014)[18]

Outside of the targeted sectors there are number, however, of growing economic activities that also stimulate FDI. These include culture; sport; and, tourism all of which are underpinned by creative industries and are also important in cross-border economic co-operation. Evidence of the importance s identified in the Innovation Strategy for Northern Ireland 2014-2025[19]

18 Northern Ireland's top 100 companies 2013 - Moy Park rules the roost Belfast: Belfast Telegraph. 8/09/14 http://www.belfasttelegraph.co.uk/business/top-100-companies/

19 Northern Ireland Executive (2014) Innovate NI: Innovation Strategy for Northern Ireland 2014-2025 Belfast: Northern Ireland Executive.

and a number of EU-funded projects[20]. Moreover, the awarding of The European City of Culture to Derry/Londonderry in 2013 has stimulated these activities in respect of their impact in the city's cross-border hinterland, current budget challenges notwithstanding[21]. Connected to these apparently subsidiary activities is the question of infrastructure and connectivity, within Northern Ireland, with rest of the UK and the EU, as well as cross the border with the ROI. In this regard, air traffic, broadband and energy utilities are strategically crucial as the economy seeks to be a more globally attractive site for FDI and associated economic development. What is also apparent in respect of the argument set out in this section is the role of EU funding to support economic development in Northern Ireland.

3.3 EU economic development funding for Northern Ireland

It is apparent that the performance of the Northern Ireland economy has been underpinned by funding support from the EU. As shown in Table 3.4, under the last programming period, support accounted for about 8.4% of annual GDP across a range of activities of which nearly 2/3rds is accounted for by agriculture.

Table 3.4: EU Funding to Northern Ireland (2007-13) £m

Agriculture & Fisheries		**Other programmes & Initiatives**	
Single Farm Payment	1290	PEACE III	180
NI Rural Development Fund	330	Regional Competitiveness & Employment Objective (European Regional Development Fund element)	307
European Fisheries Fund	18	Regional Competitiveness & Employment Objective (European Social Fund element)	165
		INTERREG IV4	77
		International Fund for Ireland	60
Total	**1638**	**Total**	**789**
Grand Total (2007 -2103)			**2427**

source: European Commission (2014)

The programme for the 2014 – 2020 is central to the Northern Ireland Economic and Innovation Strategies and the achievement of the objectives within them. This funding stream also further integrates the Northern Ireland economy with others in the EU, that also allows a greater degree of discretion over its development, particularly in regard to underpinning cross-border economic co-operation and growth in FDI. In the event of a BREXIT, these funding streams would no longer be available. Furthermore, if the UK government chose to exit the EU but remain a member of the European Economic Area (like Norway for example) it would have access to EU markets but would continue to fund economic assistance without decision-making powers over its destination.

4. In the End it's the Politics

There is a banal cliché that states that "politics determines economics and economics determine politics". In the event of a BREXIT the two discourses merge. The alternatives open to a UK government in this event are:

20 See: The MIDAS project: Cross-border cluster of creative industries, Panteia and Partners (2008), Ex-Post Evaluation – INTERREG III 2000-2006 – PROGRAMME: INTERREG III A Ireland-Northern Ireland, report to the European Commission.

21 The Guardian (2013) How Derry's year as UK city of culture reawakened the voice of idealism. London: The Guardian 29/12/13 http://www.theguardian.com/uk-news/2013/dec/29/derry-city-ofculture-reawakened-idealism

- A revival of the European Free Trade Area (EFTA) with the UK as a member;
- European Economic Area (EEA) access to EU markets, contributing to EU budgets but no control over decisions-making;
- EEA membership but also signing up to Free Trade Agreements (FTAs) with other countries of groups of countries (for example Switzerland);
- A Customs Union with EU with a access to a range of EU tariff-free markets (for example, Turkey);
- "Anglosphere": the UK joins the North American Free Trade Area (NFATA) and negotiates FTAs with English-speaking former Commonwealth countries.

All have varying degrees of uncertainty attached to them but the crucial point is the very large transactions costs associated with a BREXIT. In the case of Northern Ireland these costs would be significant in respect of:

- The logic of harmonising corporation tax with that of the ROI is undermined with accompanying budgetary and transactions costs rising significantly;
- The cost of cross-border trade and economic co-operation would rise and would managing risk of any cross-border infrastructure projects;
- As a site for FDI to access EU markets, Northern Ireland could lose ground on its neighbour as the ROI becomes a more favourable location for emerging economies;
- The regulations concerning transatlantic air traffic are negotiated at the EU level that could be detrimental to growth of international connectivity with Northern Ireland;
- The ending of EU economic development funding could result in a reversal of economic decentralisation.

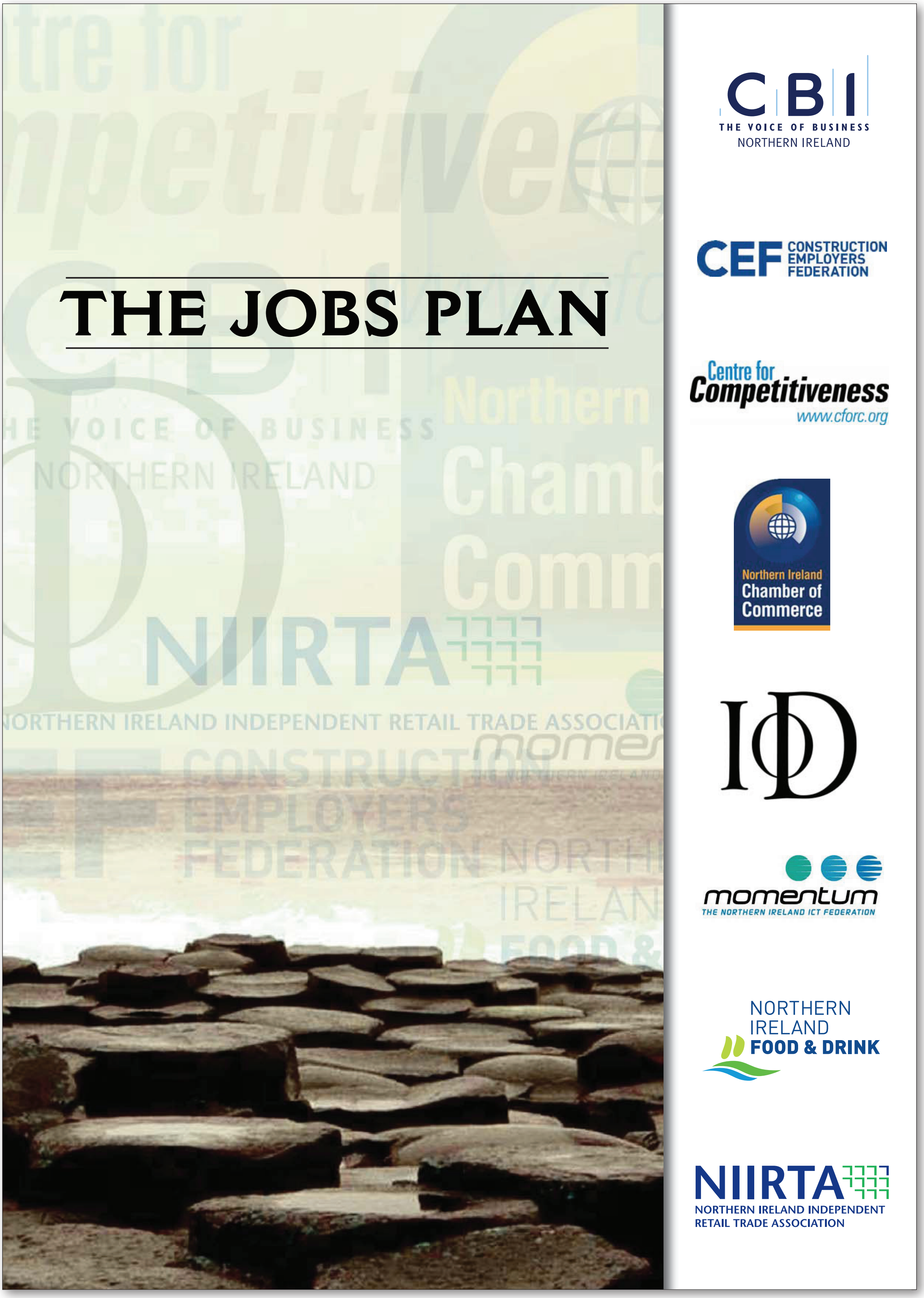
It is apparent that the crisis in the Eurozone has generated support for populist political demanding political reform across the EU. Geo-political uncertainty in the EU's Eastern borders reinforces this demand. The completing of the ESM and an institutional solution to the economic imbalances created within the Eurozone would go a long way to reviving the growth trajectory of the EU. The UK derives significant advantages from not being a member of the Eurozone, but is in step with many other EU Member States in seeking reform of the EUto the benefit of all citizens.

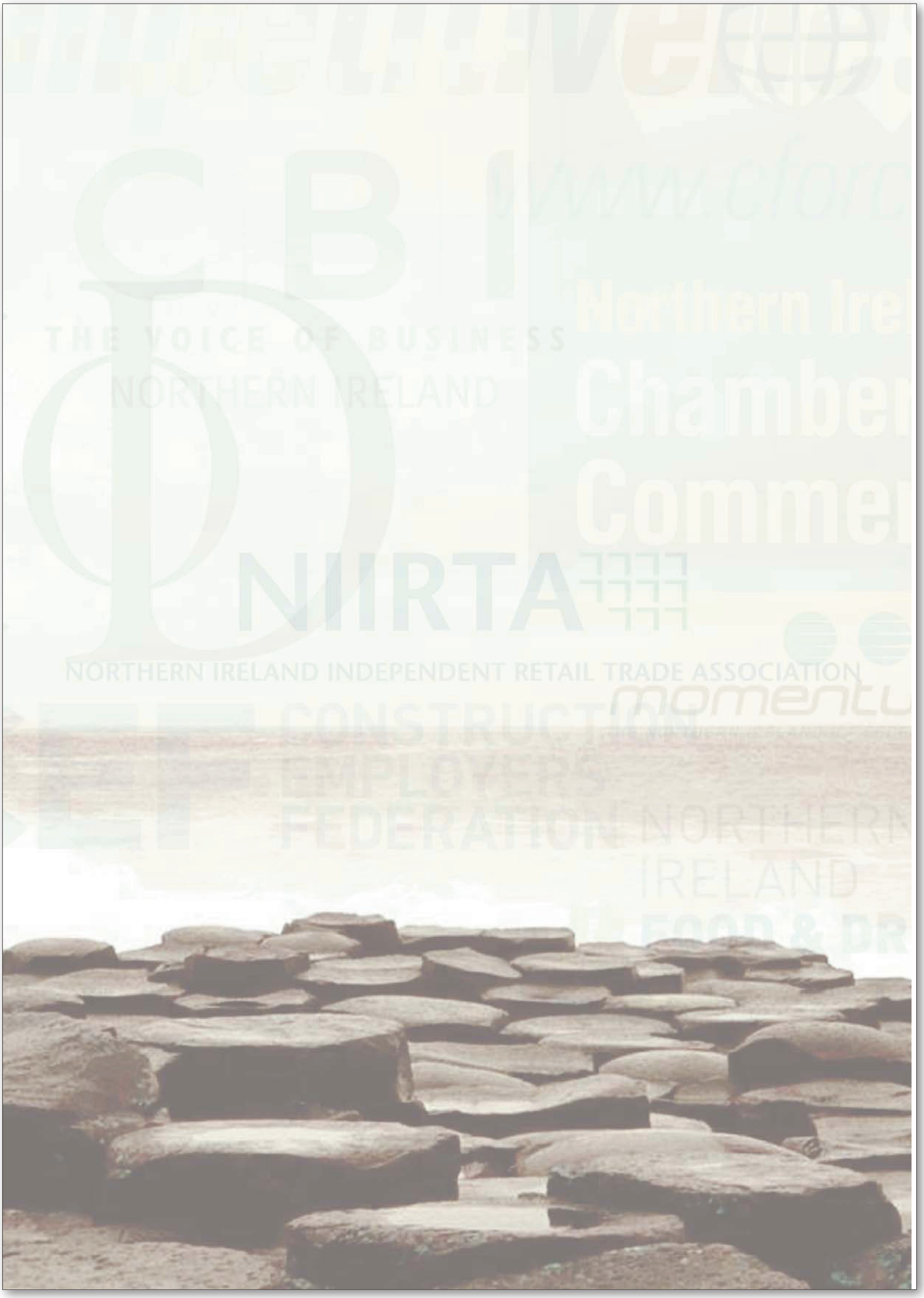
In this changing policy environment, the Northern Ireland economy may benefit in that after the next UK election there is likely to be some form of a new constitutional settlement in the form of greater devolution of economic powers. The harmonisation of corporation tax with that of that the ROI changes the relative costs of doing business in Northern Ireland, exchange rate differentials notwithstanding. It is also the starting point in having more discretion over its economic policy. Given its special position in regard to the ROI and the rest of the EU, the large transactions costs of uncertainty surrounding a BREXIT may be too large to bear.

Leslie Budd

March 2015

Institute of Directors - The Jobs Plan




CBI
THE VOICE OF BUSINESS
NORTHERN IRELAND
NIIRTA
NORTHERN IRELAND INDEPENDENT RETAIL TRADE ASSOCIATION
CONSTRUCTION
EMPLOYERS
FEDERATION
NORTHERN
IRELAND

Introduction

The Jobs Plan *is the first ever joint policy document by eight of Northern Ireland's leading business organisations, allowing the business community to speak with one voice on the big economic challenges we all face. Together we represent every sector of our economy, covering small and large businesses in every part of Northern Ireland.*

The Jobs Plan *sets out an economic framework and includes a comprehensive agenda for real change in the local economy, one in which the private sector will again take the lead in providing jobs and investment.*

We hope ***The Jobs Plan*** *stimulates debate and focuses policy on the future of our economy. We welcome your comments and feedback.*

CBI Northern Ireland
Centre for Competitiveness
Construction Employers Federation
Institute of Directors
Momentum
Northern Ireland Chamber of Commerce
Northern Ireland Food & Drink Association
Northern Ireland Independent Retail Trade Association

Facing up to reality

Northern Ireland faces stark challenges and choices. The decade of strong domestic demand fuelled by cheap credit and growing public expenditure is over and we need to recast our goals and policies. We now face a protracted reduction in domestic demand, tight credit conditions for businesses and householders, combined with a sharp reduction in public capital investment and public procurement. It is clear that many of the structural weaknesses and vulnerabilities in the economy have resurfaced.

Despite numerous economic strategies over the decades, there is little evidence that the underlying performance and income gap between Northern Ireland and the rest of the UK has changed. Our biggest challenge will be creating the jobs for the unemployed and for thousands of school, college and university leavers over the next few years. We need to grow the private sector and ensure it can compete successfully in a globalised economy.

This document highlights opportunities which our politicians and businesses must use to their advantage. We need to make the right choices to deliver jobs, tackle disadvantage and the disengaged. There are lots of successful businesses in Northern Ireland represented by our members and we are up for the challenge of playing our part in economic recovery and restoring much-needed confidence.

This manifesto sets out a clear way forward: we have come together to demonstrate the importance of a united voice, a clear vision, and a deliverable agenda.

What sort of economy are we trying to achieve?

Our vision is to create a balanced, competitive and sustainable economy with increasing job opportunities:

- It will include a mix of our traditional sectors, notably in food and drink, engineering, construction, retail and tourism together with new high tech, green tech and creative industries.
- It will include fast growing smaller companies and new enterprises, combined with high value Foreign Direct Investment.
- This will require dynamic cities, vibrant town centres and regeneration and diversification in our rural areas.
- The economy will be driven by a strong export performance, augmented by an effective marketing campaign to promote the attributes of Northern Ireland to potential investors and visitors.

> *'All stakeholders have a vital role to play by working together to achieve our vision of a competitive and sustainable Northern Ireland economy.'*
>
> Terence Brannigan, Chairman, CBI Northern Ireland

4

Achieving this vision will require action to address five key challenges:

- How do we build confidence to encourage investment?
- How do we deliver economic growth to help create 94,000 jobs?
- How do we secure finance to increase investment in our infrastructure?
- How do we make the most of our talent?
- How do we increase the productivity and outcomes from the public sector?

Building confidence to encourage investment

The Executive and Assembly must provide strong and decisive leadership delivering smart and strategic decisions. Recent evidence confirms that political and economic stability is essential to attracting investment, which in turn will lead to the creation of the jobs we need in our local communities. This requires:

- Maintaining the economy as the No 1 priority – without such a commitment addressing disadvantage and improving our environment will not be achieved.
- Demonstrating collective responsibility, a new united sense of purpose, and a commitment to a lean and streamlined government capable of responding with urgency and agility to economic conditions and opportunities.
- Securing widespread agreement on a programme for government and budget with clear priorities and ambitious and challenging goals, effectively communicated to the public.
- Being open, transparent and accountable on delivery and implementation.
- When devising new policy or making decisions, everyone in government should ask themselves – will this contribute to growing the Northern Ireland economy?

"There is much talk about tough decisions. Instead we need smart decisions; smart policy and investment decisions that will deliver both wealth creation and job creation, and that will deliver the physical and governance infrastructure to support sustainable economic growth for the region."
Francis Martin, President, Northern Ireland Chamber of Commerce

Delivering economic growth to help create 94,000 jobs

With domestic demand constrained most growth in the economy will come from increasing our market share in external markets – which will in turn stimulate local demand . This will require a focus on three key areas:

- An export-led growth strategy – harnessing the ambitions of local companies to increase exports to over £8.2bn by 2020 (currently £5.6bn) and doubling our tourism revenues to £1bn by 2020.
- The growth of key sectors which can demonstrate competitive advantage.
- Attract high quality jobs through foreign direct investment.

The potential job opportunities are set out in Exhibit 1.

Exhibit 1 – Potential job opportunities by 2020*

- **ICT sector** – potential to create 10,000 jobs.
- **Agri-food sector** – delivering a 40% growth in the food and drinks industry to £4.5bn could generate up to 7,500 direct jobs and another £600m of new external sales a year (with another 7,500 jobs within the overall supply chain).
- **Health tech** – small but fast growing sector could deliver 5,900 high value jobs.
- **High-value manufacturing** – over 1,700 new jobs.
- **Tradeable services** - 21,000 jobs.
- **Tourism sector** – the potential to double revenues by 2020 creating over 10,000 jobs (and possible as many as 15,500 jobs).
- **Creative industries** – over 11,700 jobs.
- **Green/clean tech** – over 1,600 jobs in clean tech. Delivering a comprehensive Green New Deal programme with £70m of public capex towards leveraging a £200m investment in retrofitting 100,000 houses over next three years would create 2,300-3,500 jobs by 2014/15.
- **Induced and indirect jobs** – as a result of achieving the above growth it is estimated that approximately 48,800 jobs will be created in a range of sectors, including 8,700 in retail, 5,600 in hotels and restaurants, 4,700 in business services and over 2,000 in the construction sector.

**Sources: Oxford Economics report, January 2011 (based on their 'aspirational' scenario), NIFDA and Momentum. Note there is some overlap between sectors and double counting – this has been removed in the total jobs figure.*

"Creating a better environment for our entrepreneurs will encourage growth and lead to more jobs being created."
Paddy Doody, Chairman, NIIRTA

Achieving these outcomes will require:

A low and competitive rate of corporation tax and consideration of other fiscal incentives to transform Northern Ireland's ability to secure investment, and create an entrepreneurial driven economy. This will require a new inward investment strategy focused at 'profit centres' rather than cost centres. This is essential as changes to EU rules will limit traditional financial assistance. The first step is to devolve tax powers to the Northern Ireland Assembly.

Maintaining an economic development support budget which can sustain high levels of job creation – typical costs per job support by Invest NI indicates an annual cost of c£40m per annum to achieve this jobs scenario.

Development of 100-200 'growth-led' companies through making available a package of intensive support measures, including mentoring support to build the necessary enterprise capabilities – in areas including leadership and management development, sales and marketing, technical and innovation skills, etc. Companies would self-select, with each committed to doubling its turnover by 2015.

Improving access to wider sources of finance other than debt finance – to include a more active role for private equity, venture capital and co-investment funding as well as increased use of business angel funding and encouraging investment by multinationals in smaller businesses. Micro-funding for new start-ups also needs to be improved.

Radically better performance within the planning system to improve certainty and speed up decision making – to include publication of Planning Policy Statement (PPS) 5 to support Town Centres and a new PPS 24 to give greater emphasis on economic considerations in planning determinations, combined with the development of 'planning zones'.

Minimising the costs of employment regulations which are an excessive burden on job creation – especially for smaller companies – with more effective impact assessments.

These measures can be supplemented by specific actions to strengthen aspects of the economy:

- Exploiting our science and technology capabilities by speeding up implementation of the MATRIX recommendations.
- Using tourism and regeneration to support our cities as key economic drivers together with the development of vibrant town centres.
- Keeping business costs competitive, including business rates, and using the rating system to help change behaviour and reward sustainable businesses. For example, introduce incentives for environmental improvement and investment in low carbon technologies.

7

> *"Substantially expanding the private sector in Northern Ireland requires a focus on both attracting foreign direct investment projects and encouraging the development of a thriving indigenous industry which can compete successfully in global markets."*
>
> Ed Brown, Chairman, Momentum.

Securing finance to increase investment in our infrastructure

Maximising investment in infrastructure is essential to improving our productivity and in helping reform public services. Capital investment is of fundamental importance in stimulating and supporting economic development, in improving the competitiveness of the business environment and reducing regional imbalances. We recognise the need to prioritise expenditure to support economic recovery and stimulate jobs in the construction/building sector.

We believe a sustainable investment strategy can be delivered by:

- Shifting £100m of revenue expenditure into the capital budget over each of the next four years.
- Considering the use of EIB loans and other instruments to leverage additional finance on the back of existing assets and revenue streams – e.g. the public sector housing stock. This also applies to the Green New Deal which envisages £72m of public sector capital leveraging through EIB and other loans – a total physical investment of over £200m in 100,000 households over the next three years.
- Using public-private partnerships to leverage investment and maximise value for money including the development of new funding models such as joint ventures.

Capital investment will need to be prioritised to support economic growth, encourage investment and improve our connectivity:

- Complete the planned improvements in the strategic road network, with a particular focus on addressing bottlenecks, and invest in public transport services to enhance connectivity and mobility.
- Facilitate investment in our ports and airports to improve our international connectivity.
- Build an infrastructure which can deliver more sustainable, competitive and secure energy supplies.
- Ensure the availability of affordable, reliable high speed broadband, both fixed line and mobile across Northern Ireland.
- Modernise and rationalise the education estate.
- Continue to invest in our water and sewerage assets to ensure customer needs and EU obligations are met – and help to improve our environmental resources.

> *"Investment in our infrastructure and buildings is a major stimulus for economic development."*
>
> Mark Lowry, President, Construction Employers Federation

Making the most use of our talent

We must ensure that education/training provision is aligned with the needs of an export-led, technology-driven economy. This will require focused investment in leadership and management skills, marketing and sales skills, and in vocational/technical and innovation skills. Above all, it means raising the ambitions and vision of our people.

To support the immediate economic recovery we need to:

- Deliver a transformational programme to support the leaders and managers in fast growth companies and deliver 'skills ready' individuals to new FDI.
- Improve careers advice and guidance to help align the choices which our young people make with the opportunities available in this export-led economy.
- Prioritise economically relevant skills, including STEM skills, and investment in vocational and technical skills (at levels 3 and 4) ensuring the outcomes meet business needs.
- Develop more effective linkages between businesses and our FE and HE sectors.

To tackle disadvantage we must provide all our young people with the employability skills required to succeed in the future economy.

This will mean dealing with the systemic failures in education, improving literacy and numeracy standards across our education system starting in the Primary sector. A key goal must be to increase the number of pupils achieving 5 A-C grades at GCSE level (including maths and English) to 70% by 2014 – this is critical to addressing the high levels of disadvantage in our society.

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> *"Developing more of the right skills, knowledge and attitudes for growth within both our business leadership and workforce will help Northern Ireland stand out from our competitors."*
>
> Joanne Stuart, Chairman, Institute of Directors

Increasing productivity and outcomes in the public sector

We must deliver a leaner and fitter public sector with an outcome-focused culture, prepared to manage risk and a determination to contribute to our economic prosperity. With high-quality public services a key part of Northern Ireland's competitiveness a successful economy must have access to high quality health and education outcomes, while the development of our cultural, arts and sports facilities are important assets which will help develop tourism.

There is considerable need to develop more 'joined-up' delivery of services, and address the high cost of servicing a 'divided community'.

With major constraints on public expenditure over the next four years the focus of action must be on:

- Controlling costs – including wage bill and pension costs.
- Improving value for money and enhancing productivity – including more extensive benchmarking and learning from best practice combined with improved performance management.
- Making better use of existing assets.

- Re-structuring and re-engineering core services to enhance outcomes – this should include outsourcing and more extensive use of 'shared services'.
- Transferring selected non-core services into the private sector.
- Smarter public procurement, with greater thought and consideration to ensuring that procurement helps drive local economic development.
- Reducing the number of government departments as well as reducing the duplication of services caused by our divided society.
- Seeking opportunities to deliver more efficient services through cross-border co-operation.

> *"There is considerable scope to radically change and improve the value for money of our public services – and a strong argument for a fundamental review of performance."*
>
> Stephen Kingon, Chairman, Centre for Competitiveness

The role of business

The business organisations recognise that all stakeholders have a role to play in growing the economy. Our members will be responsible for creating new jobs and wealth but it should be borne in mind that the business community and the representative bodies contribute, and will continue to contribute, much more:

- The business bodies support our members to grow their businesses.
- The business bodies provide professional development, mentoring and encourage innovation.
- The business community engages with schools, colleges and universities, contributes to careers education and promotes STEM, and provides role models and experience of the world of work.
- Businesses support the Graduate Acceleration Programme.
- Businesses help to sell Northern Ireland to international investors.
- Business shares best practice with the public sector.
- Business supports Business in the Community / Arts & Business / Social enterprises.

Summary: the top actions to create more jobs

- Decisive political leadership to create stability and confidence.
- Create a more competitive tax base to help support an ambitious export-led economic recovery, while reducing barriers to growth and job creation.
- Deliver a sustained investment strategy through the increased use of alternative sources of finance.
- Ensure skills provision is re-aligned to meets the future needs of the economy.
- Reform and re-engineer how public services are delivered to enhance productivity and outcomes.

> *"Together we must make the right choices to deliver jobs and tackle disadvantage."*
> Tony O'Neill, Chairman, NIFDA

CBI

The CBI is the UK's leading business organisation, speaking for some 240,000 businesses that together employ around a third of the private sector workforce. With offices across the UK as well as representation in Brussels, Washington, Beijing and Delhi, the CBI communicates the British business voice around the world.

Centre for Competitiveness

Established by the private sector, the Centre for Competitiveness (CforC) is an independent, not for profit, membership organisation, dedicated to actively supporting the development of an internationally competitive economy in Northern Ireland. Through our global partnerships and blue chip member networks, CforC provides organisations with the latest global best practices in Collaborative Working, Innovation, Productivity and Quality Excellence.

Construction Employers Federation

The Construction Employers Federation is the representative body for the construction contracting industry in Northern Ireland. It represents some 1,400 construction companies of all sizes and from all sectors of the construction industry including house building (social and private), civil engineering and general contracting. The combined turnover of CEF member companies equates to approximately 72% of the industry total.

Institute of Directors

The Institute of Directors supports its members in their role of leading their companies by providing business information and advice, professional development training and networking opportunities, and by lobbying to improve the environment in which their businesses operate. Members are individual business leaders, who represent the full spectrum of business sectors from agriculture to high tech and who run companies of all sizes. IoD Northern Ireland has almost 1,000 members from over 800 companies.

Momentum

Momentum is the trade association for the ICT industry in Northern Ireland and draws its membership from the majority of ICT businesses in the region. The organisation represents an industry comprising of more than 700 companies that employ 22,000 people and generate annual revenues of greater than £500 million.

Northern Ireland Chamber of Commerce

Northern Ireland Chamber of Commerce is the largest chamber in Northern Ireland and one of the fastest growing in the British Chambers of Commerce network. Formed in 1783, we have represented the interests of business and commerce across Northern Ireland for over 227 years. We now have a large and active membership of over 1,000 businesses, from the smallest SME and sole trader to the largest corporations, plcs and institutions. The Chamber supports local business by providing unrivalled networking opportunities, promoting members' commercial interests, and assisting member businesses to develop new and expanded export trade potential.

Northern Ireland Food and Drink Association

Northern Ireland Food and Drink Association is the trade body for food and drink manufacturers based in Northern Ireland. We represent over 80% of the sector by turnover. The industry as a whole employs 20,000 people directly, supporting another 72,000 more in farming and support services. In 2009 the industry achieved sales of £3,200m of which over 2/3 was sold outside Northern Ireland.

Northern Ireland Independent Retail Trade Association

The Northern Ireland Independent Retail Trade Association is the representative body for the independent retail sector in Northern Ireland.

Although the Association was only formed in Spring 2000 it already represents the interests of over 1,300 independent retail members throughout the Province. We have members in every village, town and city in Northern Ireland.

Our collective membership employs more than 30,000 staff and has an annual turnover of over £3 billion to the Northern Ireland economy. For further information visit www.niirta.com.

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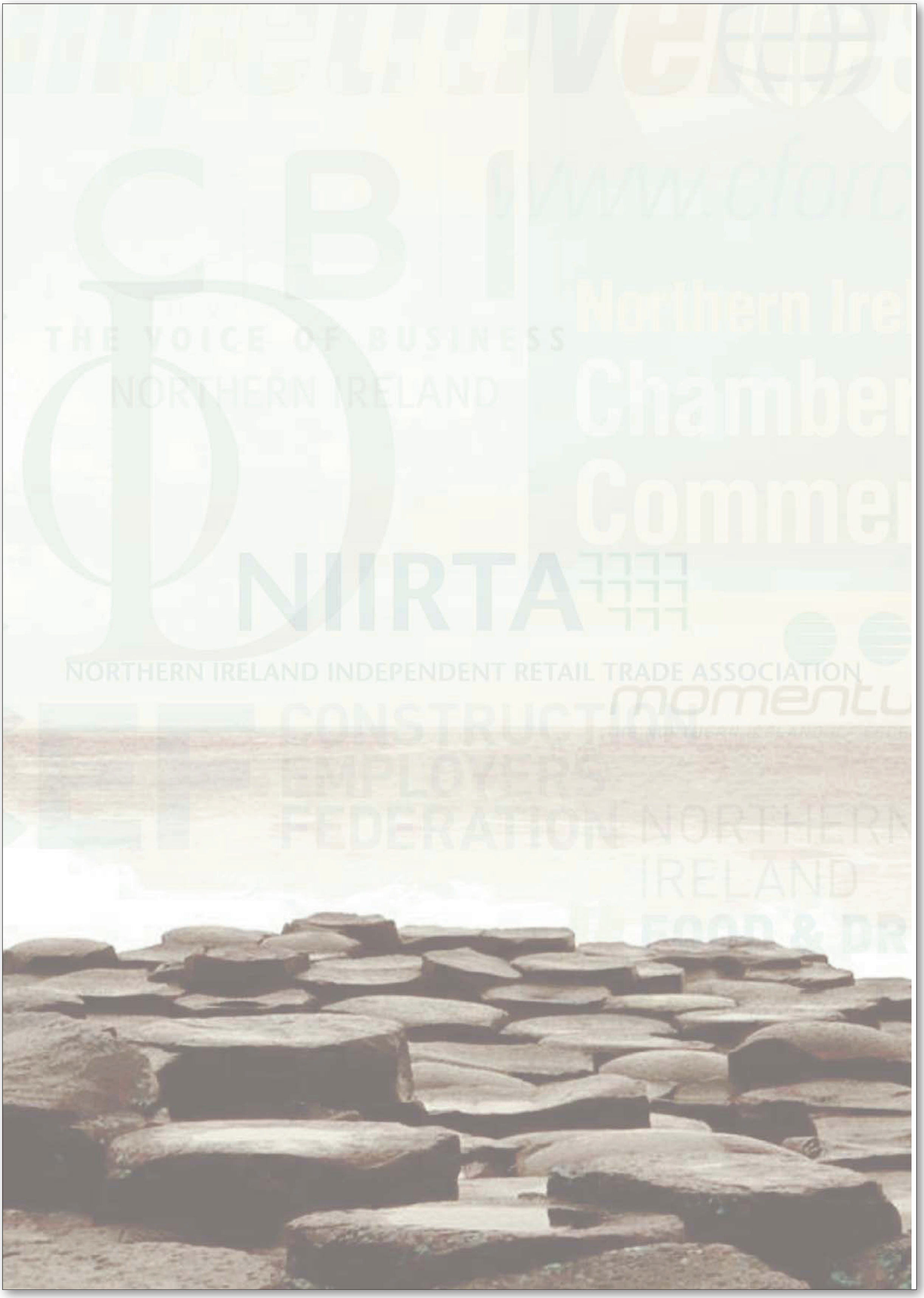
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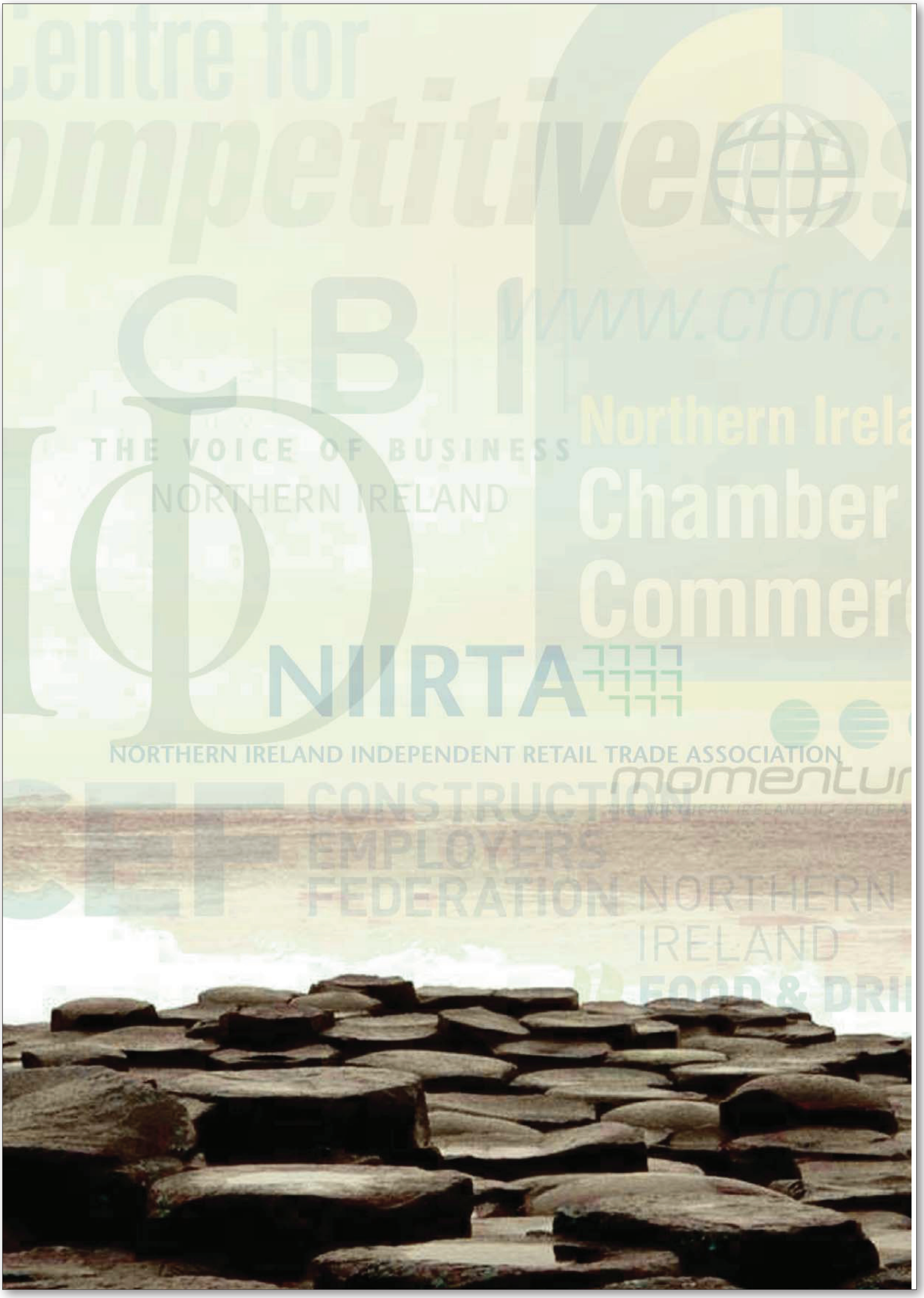
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Department of Enterprise, Trade and Investment Briefing Paper regarding Access to Finance

Department of Enterprise, Trade and Investment
www.detini.gov.uk

ACCESS TO FINANCE

BRIEFING PAPER FOR THE ENTERPRISE, TRADE AND INVESTMENT COMMITTEE – MARCH 2015

<u>Introduction</u>

1. The purpose of this paper is to update the ETI Committee on the current position regarding the issue of access to finance for businesses in Northern Ireland, including what steps DETI, alongside other key stakeholders, is taking to address the issue.

<u>Background/ Context</u>

2. In recent years, access to finance has been a critical issue for Northern Ireland businesses and especially for SMEs, as a result of the downturn in the global economy. The NI situation has been particularly challenging, given the legacy of property overhang, the structure of bank ownership in Northern Ireland, and the limited power that the Northern Ireland Executive has had to address bank lending given it is not a devolved power.

3. Access to finance has been recognised in the Executive's Programme for Government and Economic Strategy, which include targets to aid the liquidity of SMEs and ensure that businesses with high growth potential are not unduly constrained by lack of investment. It was also recognised within the UK Government's Economic Pact document "*Building a Prosperous and United Community*" published on 14 June 2013, where a number of measures were recommended in order to help improve the access to finance environment for businesses.

Economic Advisory Group Review of Access to Finance

4. Recognising the key issue of access to finance for NI SMEs, the DETI Minister asked her Economic Advisory Group (EAG) to undertake a review of Access to Finance for businesses within Northern Ireland as part of their 2013/14 work programme. The primary objective of the review was to consider the availability of finance, funds, programmes and support to Northern Ireland businesses, and in particular to SMEs, in order to identify any gaps in the current provision and to make recommendations on how the situation might be improved. This work involved extensive engagement with key stakeholders on both the supply and demand sides as well a survey of businesses to ensure that the EAG had the most up to date picture.

5. The EAG report, published in March 2013, set out 13 recommendations to be implemented by banks, business and government in order to improve the finance environment for SME businesses. These recommendations have set the context for much of the NI Executive's initiatives which have been taken forward to address the availability of finance.

6. In September/ October 2014, a follow-up Access to Finance survey of around 1,000 SMEs in Northern Ireland was undertaken by DETI Analytical Services Unit on behalf of the EAG, seeking information on various aspects of access to finance. The findings will be published on the DETI website today, 16 March 2015, followed by a report by EAG in the coming weeks, which should demonstrate how the access to finance landscape has changed since the original EAG review was produced in March 2013.

InterTradeIreland Report

7. InterTradeIreland also published a report entitled "Access to Finance for Growth for SMEs on the Island of Ireland" in December 2013. The report sets out 13 recommendations under the three key themes of (i) information; (ii) financial capability; and (iii) development of the venture capital and angel investor markets. The report is another useful source of evidence on the issue of access to finance in both Northern Ireland and the Republic of Ireland. The findings of the report were closely aligned with the Economic Advisory Group's report on Access to Finance published in March 2013.

National Initiatives

Joint Ministerial Taskforce on Access to Finance

8. The "*Building a Prosperous and United Community"* report published on 14 June 2013 included a number of key commitments in relation to access to finance. Central to this was the establishment of a Joint Ministerial Taskforce, chaired by NI Secretary of State Theresa Villiers, to examine whether tailored support is required for Northern Ireland's banks and how support for Northern Ireland businesses can be maximised to improve access to finance.

9. A key focus of the Joint Ministerial Taskforce on Banking, which includes representation from the DETI and DFP Ministers, as well as Ministers from the Department of Business Innovation and Skills (BIS) and HM Treasury, has been on increasing the effectiveness of national initiatives as well as how the bank lending environment could be improved in Northern Ireland.

10. In relation to bank lending, and in particular the difficulties in obtaining regional lending data to identify what the particular issues are for NI SMEs, as a result of the efforts of the JMT, bank lending data is now available for Northern Ireland. This provides a good barometer of business confidence by showing what sectors are borrowing and willing to take on new debt. Latest figures from the British Bankers Association (BBA) show new approved borrowing by SMEs of £387million in Q4 2014, some 8% higher than in the same period a year earlier and reflecting a loan approval rate of 9 in 10 applications.

British Business Bank

11. The British Business Bank was announced on 24 September 2012 by Vince Cable following recommendations in the Breedon review of 'alternative and

sustainable finance sources, particularly for small and medium-sized enterprises'. The objectives of the Business Bank are to:

- increase the supply of finance available to smaller businesses where markets don't work well;
- create a more diverse and vibrant finance market for smaller businesses, with a greater choice of options and providers;
- build confidence in the market by increasing smaller businesses' understanding of the options available to them; and
- manage taxpayer resources efficiently and within a robust risk management framework.

12. The British Business Bank's remit is to change the structure of finance markets for smaller businesses, so these markets work more effectively and dynamically, in order to help businesses prosper and build economic activity in the UK. The Bank delivers a set of programmes to address identified market gaps through over 80 different finance providers, ranging from smaller newer and larger banks to peer to peer lending platforms to asset finance providers.

13. In Northern Ireland, the Business Bank works through delivery partners to deliver a range of programmes, including the Enterprise Finance Guarantee, the ENABLE (Wholesale) Guarantee Programme, the Investment Programme (including its predecessor Business Finance Partnership), and the Start-up Loans Programme.

Enterprise Finance Guarantee Scheme

14. The EFG is a programme that helps viable businesses get access to finance where they have insufficient security or an inadequate track record. EFG continues to be available in appropriate circumstances from all EFG accredited lenders. It is not a replacement for commercial products and will account for 1-2% of total lending to SMEs in the UK. The Government provides the lender with a 75% guarantee for each individual facility, subject to a cap on total claims arising from a Lender's portfolio.

15. Within Northern Ireland, the following banks are EFG participating lenders:

- Bank of Ireland
- Barclays Bank Plc
- Danske
- First Trust Bank
- HSBC Bank Plc
- RBS
- Santander Corporate Banking
- Ulster Bank Limited

ENABLE (Wholesale) Guarantees Programme

16. The Enable (Wholesale) Guarantees Programme is designed to encourage participating banks to lend more to small and medium-sized enterprises. Participating banks will be incentivised by a government-backed portfolio guarantee on portions of newly originated portfolios of loans to smaller businesses in return for a fee. The first phase of the programme is due to start in mid-January. Several local banks have expressed an interest in the programme, following an assessment of the performance of its initial phase.

Investment Programme

17. The BBBs Investment Programme is designed to address the long standing gaps in the finance market for smaller business and promotes greater choice in their supply of lending. It makes commercial investments that stimulate at least the same amount of investment from the private sector, encouraging new lenders in to the market and the growth of smaller lenders. A formal Northern Ireland proposal was made to the BBB's Investment Programme at the end of June 2014 in relation to a potential fund to address property overhang. Discussions are ongoing with the Business Bank to progress this application further.

Start-up Loans Fund

18. The Start-up Loans (SUL) initiative was extended to Northern Ireland in September/ October 2013 as a result of a commitment in the UK Government's Economic Pact published in June 2013. SUL is a government funded initiative that provides start up support in the form of a repayable loan, typically around £6k (determined by the business plan), together with a business mentor for entrepreneurs across the UK. Anybody living in the UK, at least 18 years of age at the time of application can apply. Loans in NI are being made available through a number of delivery partners: The Prince's Trust (Northern Ireland), Enterprise Northern Ireland, School for Startups, GLE and X-Forces. As at the end of January 2015 there have been 280 loans drawn down in Northern Ireland at a value of some £1.4m.

19. A key part of ensuring that the impact of Business Bank initiatives is maximised in Northern Ireland is to ensure that they are visible. In that regard the British Business Bank in partnership with DETI, Invest NI and the Northern Ireland Office held a "The Future of Funding: Northern Ireland" roadshow event on 26 February 2015, in Riddell Hall, Queens University Belfast.

20. The event, which was well received and attended, provided an opportunity to showcase and create awareness of the funds that are available in Northern Ireland. It brought together business representatives, government and the alternative finance sector to highlight finance options for smaller businesses in Northern Ireland and the changes that are occurring. DETI, alongside Invest NI, will continue to work with BBB representatives to build on this engagement.

Northern Ireland Initiatives

Engagement with local banks

21. While DETI has no statutory control of the banking sector, the DETI Minister along with the DFP Minister continue to meet with representatives of the main banks in Northern Ireland to emphasise the importance of supporting business development and growth and to encourage banks to assist indigenous businesses in the current economic climate.

22. The most recent round of meetings with banks in January 2015 (with several more scheduled for end March) included discussions around bank lending data and performance, and participation in national initiatives.

Access to Finance Implementation Panel

23. A key recommendation from the EAG Access to Finance review was the establishment of an independent Access to Finance panel to oversee implementation of their recommendations. The Access to Finance Implementation Panel was appointed in October 2013 and has been working with government, banks and business bodies to progress issues associated with banking and access to finance, particularly business lending in Northern Ireland.

24. The Panel, chaired by Professor Russel Griggs, and including John Trethowan and Ann McGregor, has made positive progress. They highlighted a number of key issues in their interim report last summer that needed to be addressed to improve access to finance in Northern Ireland. Work is ongoing in these areas which include:

    (i) The effectiveness of national initiatives which is progressing through the Joint Ministerial Taskforce on Banking and Access to Finance;
    (ii) The property overhang issue where the British Business Bank are in the process of considering an application to establish a fund to help those businesses constrained by property debt;
    (iii) How the banks can better communicate as an industry with both government, and importantly, with consumers about what is required to secure lending in the post financial crisis environment. The Panel is working on this with the banks.

Invest NI's Access to Finance Initiative

25. Invest NI has created a suite of funds totalling more than £170 million to help SMEs with high growth potential to realise that potential. Through the suite of funds Invest NI is able to offer a continuum of funding for businesses seeking between £1k and £3m over a series of funding rounds.

26. The Access to Finance initiative has six separate funds. This suite of support will ensure that SMEs and all spectrums of the development cycle have access to financial support through a range of equity investment and debt financed models.

27. The funds are all active and £14.4m, including private leverage, was offered to 85 SMEs in the first half of 2014/15. Activity levels have ramped up significantly in recent years as the suite of funds has been brought to the market.

28. Halo is the Northern Ireland Business angel network, a joint initiative between Invest NI and InterTradeIreland, funded by Invest NI. It is delivered by Northern Ireland Science Park and provides a matching service between companies seeking investors and business angels. Investment levels have been very positive.

<u>Venture Capital research</u>

29. The EAG Access to Finance report also recommended that “DETI should commission further research on the future strategy for Venture Capital/ Equity Finance in Northern Ireland”. In response to this recommendation, DETI commissioned SQW Consulting to carry out research on the future of Venture Capital, Private Equity and Growth Finance in Northern Ireland. The research is looking at best practice in long term finance development in Finland, New Zealand, Nova Scotia, Estonia, Republic of Ireland and North East England. Based on the experience of these economies, the research will identify lessons that are applicable to the Northern Ireland context.

30. A steering group including DETI, Invest NI, MATRIX, the NI Science Park and InterTradeIreland was established to oversee the work. A draft final report was shared with the steering group in February 2015, and the project is expected to be completed in March.

Conclusion

31. While much progress has been made in recent years to address the issue of access to finance, DETI, working alongside DFP, Invest NI and other key stakeholders, will continue to progress initiatives where appropriate to ensure that SMEs in Northern Ireland have access to affordable finance to encourage business growth and sustain economic recovery. Progress against implementation of the EAG recommendations is also being monitored on a quarterly basis to ensure that progress is being made and to identify any further actions required.

DETI ECONOMIC POLICY DIVISION
16 March 2015

Department of Enterprise, Trade and Investment Briefing Paper regarding Air Passenger Duty

Department of
Enterprise, Trade and Investment
www.detini.gov.uk

Air Connectivity Study: Economic Assessment of the Impact of Air Passenger Duty

Purpose

1. The purpose of this paper is to provide briefing for the ETI Committee in respect of:

(i) Report on 'Air Connectivity in Northern Ireland: The economic impact of changes to air fares and short-haul Air Passenger Duty'; and

(ii) the roles of DETI, Invest NI and Tourism Ireland in air access.

Economic Impact Assessment of APD – summary of key findings

2. DETI, in conjunction with DFP, appointed the Northern Ireland Centre for Economic Policy (now known as the Ulster University Economic Policy Centre) to carry out an in-depth economic impact assessment of changes in airfare pricing, including short haul Air Passenger Duty (APD). The report[1], was published on 3 March 2015.

3. The main findings identified in the report are:

- the central conclusion from the report is that, when the cost to the public finances in Northern Ireland is taken into consideration, APD is not considered to be a strong economic development tool;
- the NICEP report identifies that full abolition of APD would be unlikely to deliver a positive net benefit to the local economy and, while there could potentially be a small positive economic impact resulting from a reduction in the rate of APD, this is likely to be small; and
- the report highlights a number of risks and uncertainties associated with the reduction or abolition of APD. These include:
  - the cost imposed by HM Treasury on the Northern Ireland Block would be subject to negotiation and therefore is an unknown. The research has shown that if the cost imposed was in line with HMRC estimates, then the economic benefit would be negative. It is only where the tax cost would be much lower that a positive economic benefit would be achieved;
  - reducing APD increases the number of passengers, however in order to achieve this increase in passenger numbers all passengers receive a tax reduction, not just the additional passengers. As a result there are high levels of deadweight; and
  - the rationale for reducing APD is to stimulate economic development, through either increased business traffic and/ or increased inbound tourism. However reducing APD is a very broad intervention and one of the biggest impacts is to increase outbound tourism.

1 Available to download from the DETI website at: http://www.detini.gov.uk/index/what-we-do/deti-statsindex/economic-research/air-passenger-duty.htm

4. In addition, business travellers are less price sensitive than leisure travellers and it is uncertain that a reduction in APD would lead to the establishment of new routes to business destinations. The report therefore highlights that using APD as an economic development tool may not be the most effective way to stimulate the desired response from the industry.

5. The report highlights that targeted interventions, such as that currently being offered through the UK Regional Air Connectivity Fund, have the potential to present more appropriate options for securing economic benefits.

DETI, Invest NI and Tourism Ireland

6. DETI, Invest NI and Tourism Ireland work together to engage with airlines and Northern Ireland's airports to help bring new air services to Northern Ireland and to promote demand for existing services.

7. A practical example of this engagement is the support provided for airports at the annual World Routes Conference (the premier global conference for airlines and airports). DETI has arranged for a Northern Ireland stand to be provided at the last two Routes conferences. Representatives from Tourism Ireland and Invest NI have attended these conferences and have supported the local airports at their meetings with airlines, as required.

8. The specific roles and responsibilities are:

   (i) DETI has lead responsibility for air access policy;

   (ii) Invest NI develops and maintains client management arrangements with airlines and airports; and

   (iii) Tourism Ireland seeks to exploit marketing opportunities presented by new and existing access from markets with inbound tourism potential.

DETI

9. The main focus for DETI at present is examining the potential (including costs) for a new Northern Ireland specific air route development fund which would commence operation in 2016/17. The purpose of this fund would be to develop connectivity to business destinations and those routes with inbound tourism potential.

10. A Northern Ireland Air Route Development Fund operated until 2007, at which time state aid rules were introduced which prohibited the use of route funds. Very strict EU state aid guidelines have until recently placed very severe limits upon what Government can to do incentivise new air routes. In effect anything considered to be operating aid has been prohibited.

11. However in April 2014 the EC relaxed its State Aid guidelines for airports and airlines to provide the opportunity to provide support to airlines via air route development funding, something which the Executive has been calling for some time.

12. This enabled the UK Government to announce a new Regional Air Connectivity Fund. The Chancellor announced in the March 2014 Budget March that the Government planned to extend the scope of the existing Regional Air Connectivity Fund to include start up aid for new routes from regional airports and increase funding to £20 million per annum.

13. DETI has been working with the local airports to encourage and support applications to the UK Fund. The Department for Transport (DfT) will announce successful bids to the UK Fund by the end of June 2015.

14. In examining the potential for a Northern Ireland specific Fund, DETI is working with DfT to ensure that any NI Fund is structured to support Northern Ireland's access requirements, for example in terms of the application process and identification of priority markets.

Invest NI

15. Each year, Invest NI organises and delivers a comprehensive Overseas Trade Events Programme across primary markets in the four territories of Europe and Russia, the Americas, Asia Pacific and India, the Middle East and Africa.

16. In order to deliver the goals outlined above, Invest NI actively encourages new direct air services to and from Northern Ireland. Previously Invest NI had managed an air access/route development fund to encourage new air routes to support the economy.

17. Invest NI seeks to target its resources in overseas markets where it believes its customers have the best prospect of achieving sustainable and profitable sales. A comprehensive range of programmes provide support and assistance to local businesses in the following areas:

- Invest NI Group Exhibition Stands.
- Invest NI Sectoral and Multi-Sectoral Missions.
- Follow-up to Market Visits.
- Export-focused Market Visits.
- Exhibitions outside NI where Invest NI is not exhibiting.

Tourism Ireland

18. Tourism Ireland's Corporate Plan 2014-2016 identifies intensifying promotional activity in markets with direct access to Northern Ireland as core to its strategy to grow tourism NI. The plan reiterates that Tourism Ireland will also identify and work with relevant carriers, airports, agencies and government to develop new inbound routes.

19. Tourism Ireland works with relevant partners – through co-funded cooperative marketing – to attract new and additional air access services, and continues to highlight ease of access from key markets on existing routes. Tourism Ireland leverages investment in the promotion of access services to Northern Ireland from the commercial aviation sector.

20. Tourism Ireland offers co-operative campaigns to all carriers on the basis of 50/50 match funding. If carriers are unable to match with cash, Tourism Ireland offers flexibility around benefit in kind where it adds value to the marketing campaign and increases the promotion of Northern Ireland.

21. For new routes or additional capacity, Tourism Ireland discriminates positively in favour of Northern Ireland in relation to the amounts it invests.

Prepared by: Economic Policy Division

16 March 2015

Institute of Directors Supplementary Information

From: Linda Brown [mailto:linda.brown@iod.com]
Sent: 18 March 2015 11:49
To: McVeigh, Nathan
Subject: IoD evidence follow up

Nathan

In our evidence to the ETI Committee, we said we would send a couple of items in follow up.

One relates to **public procurement policy**. It appears that in some instances, Public Procurement policy is applied in a more constraining way than is the case elsewhere in the UK and goes beyond what is required by the EU. We believe that Public Procurement policy should be applied at UK level rather than interpreted at NI level in such a way as to disadvantage local business.

An example of this is that Housing Associations in Great Britain have greater flexibility in their procurement methods than their counterparts in NI in particular regarding 'design and build' social housing schemes, which would allow private developers to provide housing schemes in partnership with Housing Associations. Up until 2009-10, a significant proportion of social housing was delivered in this way until 'design and build' was deemed to be out of sync with procurement guidance due to a lack of competition, even though they are widely in use elsewhere in GB. The option to purchase partially completed 'off the shelf' schemes was also deemed non-competitive. This situation impacts adversely on the ability to deliver social housing to the targets of the Department for Social Development.

The PEDU Report on the Delivery Review of the Social Housing Development Programme recommended exploring the scope to procure social housing schemes through competitive design & build procedures (para 3.52)

The other matter was about the potential for Northern Ireland to benefit more from accessing **EU funding** sources. The expert in this area is our economics consultant, Michael Smyth, formerly of the University of Ulster. Michael is a member of the EU's Economic and Social Committee. I have been trying to get hold of Michael to provide more information for the Chairman, Patsy McGlone, but I think he may be out of the country at the moment. It might be helpful if you could also contact Mr Smyth through his EU member page http://memberspage.eesc.europa.eu/Detail.aspx?id=2021175

Regards

Linda

Linda Brown
Director

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IoD Northern Ireland events - book online at www.iod.com/northernireland

- 17 Apr Leadership training – army style
- 20 Apr *New Member Lunch
- 23 Apr IoD CPD workshop – Leading strategic change
- 13 May IoD CPD workshop – How to be a digitally literate Director
- 14 May Annual Members Meeting and Leadership Lecture
- 21 May Young Directors Forum briefing
- 28 May Strategic Leadership Summit with the William J Clinton Leadership Institute

**free to IoD members
* excl. Student members

Email christy.orchin@iod.com if the event you are looking for is not on the website

Room Hire at Riddel Hall
Contact Amanda 028 9097 5664 or rhadmin@qub.ac.uk

Invest NI Press Release regarding Grade A Office Accommodation

Invest NI plans to develop a scheme to support Grade A office accommodation

Enterprise, Trade and Investment Minister Arlene Foster has today announced that InvestNI plans to develop a scheme to help ensure Northern Ireland has adequate Grade A office accommodation to meet business needs.

The announcement comes in the wake of a report commissioned by Invest Northern Ireland to establish the nature and extent of market failure in the commercial and industrial property market; and whether government intervention would be advantageous.

Arlene Foster said: "The availability of suitable office accommodation is an important part of Northern Ireland's investment proposition, as is the ability to offer variety and choice to potential investors, both local and international.

"The report has shown that demand for Grade A office accommodation has remained relatively steady over the past three years but, with limited new development taking place, the supply has fallen.

The lack of development may be due to constraints on bank lending to fund Grade A office space developments. Recent increases in office rents should improve the financial viability of projects and help encourage both developers and funders to re-enter the market.

"To address this, Invest NI will explore whether mezzanine or equity finance to developers on commercial terms would act as a short-term intervention which would stimulate the development of new Grade A office accommodation."

Invest NI will begin seeking Expressions of Interest from developers from 1 May 2015 to 31 August

2015.

Department of Enterprise, Trade and Investment Programme for Government Delivery Plans - Progress at 31 March 2015

Department of
Enterprise, Trade and Investment
www.detini.gov.uk

Mr Jim McManus
Clerk
Enterprise, Trade and Investment Committee
Room 375
Parliament Buildings
Stormont
BELFAST
BT4 3XX

1 May 2015

Dear Jim

Programme for Government 2011-15: Departmental Delivery Plans – Progress at 31 March 2015

A Progress Report on DETI's Programme for Government (PfG) 2011-2015 Commitments for Year 3, Quarter 4 (January to March 2015) is enclosed, for the ETI Committee's information.

Yours sincerely

David McCune
Departmental Assembly Liaison Office

DETI PfG COMMITMENTS – PROGRESS REPORT TO 31 March 2015

PFG COMMITMENT		MILESTONE TARGETS		PROGRESS UPDATE AT 31 March 2015 (Q4)
1	Contribute to rising levels of employment by supporting the promotion of over 25,000 new jobs *2012/13 milestone includes 2011/12 figures	14/15	Promote 37,000 jobs (cumulative, revised milestone)	Demand continued to be strong for Invest NI's support through Q3, building on the significant achievements from Q1,Q2 and Q3. As at 31st March 2015 Invest NI has now promoted **13,829 jobs** across the agency's four main job areas, with the individual job contributions shown below: • **4,386** jobs through Locally Owned Rebalancing; • **4,987** jobs through Externally Owned Rebalancing; • **2,700** jobs through Business Starts Rebuilding; and, • **1,756** jobs through Jobs Fund Rebuilding. On a cumulative basis, this means that between the 1st April 2011 and 31st March 2015 Invest NI has promoted **37,277** jobs against the original PfG target of 25,000 jobs and revised PfG Milestone of 37,000 jobs. This represents excellent progress, with both targets being exceeded.

PFG COMMITMENT		MILESTONE TARGETS		PROGRESS UPDATE AT 31 March 2015 (Q4)
3	Achieve £1billion of investment in the Northern Ireland economy *2012/13 milestone includes 2011/12 figures	14/15	£2.6billion (cumulative, revised milestone)	Invest NI continued to see high demand for its support through Q4, building on the significant achievements from Q1, Q2 and Q3. As at 31st March Invest NI has now secured total investment of **£1,155m** across the agency's three main investment areas, with the individual investment contributions shown below: • **£540m** through Locally Owned Rebalancing; • **£543m** through Externally Owned Rebalancing; and, • **£72m** through Jobs Fund Rebuilding. On a cumulative basis, this means that between the 1st April 2011 and 31st March 2015 Invest NI has secured total investment of **£2.672bn** against the original PfG target of £1bn and the revised PfG Milestone of £2.6bn. This represents excellent progress, with both targets being exceeded.

PFG COMMITMENT		MILESTONE TARGETS		PROGRESS UPDATE AT 31 March 2015 (Q4)
4	Increase the value of manufacturing exports by 20%	14/15	Increase the value of manufacturing exports by 7%	*Due to the time-lagged nature of HMRC data, manufacturing exports data for the quarter ending 31st March 2015 will not be available until Thursday 4th June 2015. The latest manufacturing export data from HMRC relates to the 12 month rolling period ending 31st December 2014.* For the 12 month period ending 31st December 2014, NI Manufacturing Exports totalled **£5.91bn**. This equates to **4.88%** growth on the baseline year (2010/11 financial year) when manufacturing exports totalled £5.63bn. Although this demonstrates good improvement on the baseline, after a decline in 2012/13, the 20% growth rate will not be achieved by 31st March 2015. Manufacturing exports had been approximately 12 months behind the initial anticipated PfG profile; however, this has been further hindered with exports having been flat over the latest four quarters. This has mainly been due to poor performance in some of our traditional markets, for example Canada and parts of the Eurozone. In addition, while NI export performance to emerging markets had initially been strong, performance has since deteriorated markedly. Exports to these markets have decreased from a peak growth of over 43% above the 2010/11 baseline for the 2013/14 financial year to **21.26%** growth for the latest 12 month period ending 31st December 2014. This has mainly been a result of a weakening across the majority of the emerging markets; however, the introduction of sanctions in Russia, a previously high performing target market, has particularly damaged performance accounting for 36% of the decrease from the peak outturn.

PFG COMMITMENT		MILESTONE TARGETS		PROGRESS UPDATE AT 31 March 2015 (Q4)
5	Support £300m investment by businesses in R&D, with at least 20% coming from SMEs	14/15	£510m (cumulative, revised milestone)	Steady progress continued in this area through Q4 2014/15. Between 1st April 2014 and 31st March 2015, Invest NI secured **£131m** of business investment in R&D. On a cumulative basis, between the 1st April 2011 and 31st March 2015 total business investment in R&D stands at **£520m** against the original four year PfG target of £300m and the revised PfG Milestone of £510m. Of the total **£520m** R&D investment secured, **£141m** (or just over 27%) has been secured from SMEs.
6	Increase visitor numbers to 4.2 million and tourist revenue to £676m by December 2014.	14/15	Increase visitor numbers to 4.2 million and tourist revenue to £676m by December 2014.	2013 milestones have been achieved and well exceeded in terms of tourism revenue. Based on comparisons with progress at the same stage in previous years and the NISRA rolling 12 month figures to Sept 2014 (which show a 2% increase in visitor numbers and a 3% increase in expenditure when compared to the year to Sept 2013), we are broadly on track to achieve targets for 2014
7	Aid liquidity of SMEs through a £50m loan fund.	14/15	Support 50 SMEs by providing loans valued at £10	Good progress has continued to be steady through 2014/15 with **£13.8m** of loans approved this year. This means that to date across the four year period Invest NI has provided **£31m** of loans, exceeding the PfG Target of **£28m.** With the local banking sector beginning to normalise and become more receptive to offering businesses favourable loan terms, some approved loans are not being taken up and there has been a small drop-off in demand through the Fund. Therefore, there has been a reduction in the number of loans made to SMEs; with only 96 loans approved with SMEs between 1st April 2011 and 30th June 2014 against the sub-target of 150 for the PfG period. Nevertheless, as the average loan approved is for a larger amount than initially anticipated, the impact on the value of loans approved has not been adversely impacted.

PFG COMMITMENT		MILESTONE TARGETS		PROGRESS UPDATE AT 31 March 2015 (Q4)
13	Encourage achievement of 20% of electricity consumption from renewable sources and 4% renewable heat by 2015	14/15	20% electricity consumption from renewable sources and 4% renewable heat	The figure for renewable generation for the year ending March 2015 is 20%. (Target achieved). Based on the current uptake of the Renewable Heat Incentive (RHI) Scheme, DETI estimates that 3.1% of total heat consumption in NI currently comes from renewable technologies. An assessment of the actual amount of renewable heat provision in NI will be completed as part of the planned review of the RHI in 2015/16. The Domestic RHI Scheme was introduced on 9 December 2014, to replace the RHPP scheme. In addition to an upfront payment towards the costs of installing a renewable heating system, households will also receive annual tariff payments for 7 years. Phase 2 of the Non-domestic RHI Scheme will also be taken forward in 2015. This will include extending the list of eligible renewable heating technologies. The Department expects to see an increase in renewable heat installations under the RHI through the introduction of the domestic scheme and extension of the non-domestic scheme. Through 'Energywise', the Department is also funding a marketing/advertising campaign to promote both RHI schemes.
18	Provide financial and other support across government to ensure the success of the Our Time Our Place Initiative in 2012 including marking the centenary of Titanic's Maiden Voyage.	14/15	Achieve the legacy benefits from Our Time Our Place	Commitment has been completed.

PFG COMMITMENT		MILESTONE TARGETS		PROGRESS UPDATE AT 31 March 2015 (Q4)
24	Develop a strategic plan for the Agri-food sector	14/15	Strategic Vision implemented via the Food Strategy Board and performance against targets reviewed.	The AFSB published its strategic plan for the agri-food sector, Going for Growth in 2013. The Executive has agreed a Response to Going for Growth which was published in October 2014. Progress continues to be made by Government and industry in implementing agreed actions.
48	Develop and implement a Financial Capability Strategy for consumers.	14/15	Further implementation of key actions. Assess and report on impacts of strategy implementation.	Achieved. An assessment of the impact of the Strategy was completed in-year, using evidence collated through the 2014 NISRA Omnibus Survey. A report on the impacts was finalised in February 2015. The report was sent to Executive Ministers by the DETI Minister on 13 April 2014. Work continues on the implementation of key actions to support the Strategy.
65	Support the successful hosting of the 2012 Irish Open and build on that success to secure a further international golf event.	14/15	Develop plans and project arrangements to host the Irish Open in 2015	Following the announcement that the Irish Open Championship will return in 2015, the Commitment has effectively been achieved.

Department of Enterprise, Trade and Investment Briefing Paper regarding ERDF Investment for Growth and Jobs Programme

European Support Unit

Department of Enterprise, Trade and Investment
www.detini.gov.uk

2014 – 2020 NI ERDF INVESTMENT FOR GROWTH AND JOBS PROGRAMME: ETI BRIEFING

Background

1. The Committee received an update on the development of the ERDF Investment for Growth & Jobs Programme in January 2015 following its approval by the European Commission in December 2014. The Committee requested a verbal briefing on implementation plans once these had been developed. Planning the roll-out of the programme has been progressed jointly by DETI and Invest NI. The officials involved in delivering and managing the programme are scheduled to update the Committee on 12th May.

Detail

2. Appendix 1 sets out in detail the programme implementation plans for Priority 1 and Priority 2 strands of the programme. These arrangements have been put in place by Invest NI, the Intermediate Body (IB) responsible. Priority 3 will be delivered by DETI Energy Division in conjunction with the System Operator for Northern Ireland (SONI). Plans for this are set out in Appendix II. The arrangements for the management and monitoring of the programme are the responsibility of the ERDF Managing Authority within DETI and these are set out in Appendix III.

3. Appendix IV, a timeline of programme development from 2011 to date, is provided by way of background.

Programme Launch

4. Plans are underway for the formal launch of the Programme on 29th June 2015, as part of a two day visit programme by Corina Cretu, the EU Commissioner with lead responsibility for Regional Policy. OFMdFM is in the lead in organising her schedule, with input from DFP, DETI, DEL and SEUPB.

INVESTORS IN PEOPLE | Bronze

5. Following the formal launch on 29th, an information event will be held on 30th June to provide SMEs and their advisors with an overview of the initiatives the Programme will support and guidance on how it can be accessed.

DETI European Support Unit
11 May 2015

Appendix I

PROGRAMME IMPLEMENTATION – PRIORITIES 1 & 2

As the sole Intermediate Body under the EU Investment for Growth and Jobs Programme 2014-2020, Invest NI will be responsible for administering ERDF funding to address Northern Ireland's key development needs. In the context of the ERDF Programme, these needs have been identified as follows:

- To increase Research and Development activity and business expenditure on Research and Development;
- To address low levels of business growth, and comparatively few high growth companies, and to increase employment levels;
- To address historic failures in the provision of risk capital and an over-reliance on bank financing for SMEs.

Invest NI will target EU resources through two priorities in order to address these development needs:

PRIORITY 1: Strengthening Research, Technical Development and Innovation

The ERDF support provided through the Investment for Growth and Jobs Programme will be used for business expenditure in the **Grant for R&D Programme** and the **Design Service.**

PRIORITY 2: Enhancing the Competitiveness of SMEs

The ERDF support under Priority 2 will go towards **Financial Instruments, Selective Financial Assistance** and **Local Economic Development.**
Invest NI will work with companies who:

- have a strategic focus on markets outside Northern Ireland
- increase innovation, advanced technologies or design capability
- develop new, value-added products or services
- are strategically important for their business sector

In line with Invest NI approval procedures, projects will be assessed on the following criteria:

- Strategic Fit with the ERDF Thematic Objective, the Programme for Government and Invest NIs Corporate Plan
- Proposed Assistance and Rationale for Format of Support
- Viability
- Additionality and Mobility
- Displacement
- Economic Efficiency
- Cost Effectiveness
- Affordability
- Risks and Mitigation
- Value for Money Conclusion and Recommendation

Brief Description of each scheme

Grant for R&D

R&D grants provide SMEs, large businesses and entrepreneurs with financial assistance that will give them the incentive to invest in research and development and innovation in their businesses / start-up operations. A direct outcome of this funding stream will be an increase in NI Business Expenditure on Research & Development (NI BERD), and an increase in the number of Northern Ireland businesses undertaking research and development including those doing so the first time.

The Grant for R&D Programme offers a broad spectrum of aid intensities through a single gateway and is open to existing and potential Invest NI supported businesses. Applicants need only submit one application that covers the R&D continuum from industrial research through to experimental development.

Design Service

This funding stream provides businesses with support that will give them the incentive to invest in design in their operations. The Design Service supports business growth by helping companies to build better design knowledge, skills and capability. Design is a key tool for business competitiveness and, as such, assists businesses to respond to new market opportunities and generate new product ideas, as well as create design management tools that are appropriate to their business.

Invest NI's Design Service aims to promote greater Design Awareness, provide detailed Design Advice, and develop the long-term Design Capability of businesses by integrating design and innovation into company management systems and strategies

SFA SME Capital

The main aim of SFA support to SMEs is to achieve higher levels of business growth leading to long-term high quality employment within locally based SME's. This funding stream will specifically support capital investments by SMEs that is targeted towards helping the SME business grow and compete in international markets.

Invest NI makes SFA capital grant support available for projects that will accelerate the growth of new and established small and medium sized enterprises through investment and innovation. This will lead to job creation, improvement of workforce skills, productivity improvements, an increase in the number of locally based businesses and the overall expansion of the private sector in Northern Ireland. Its implementation will directly result in strengthening and accelerating the growth of locally based SMEs.

Access to Finance (Financial Instruments)

Invest NI's Access to Finance funding supports business growth through venture capital and debt financing. Under the EU Investment for Growth and Jobs Programme assistance will be provided with ERDF funding via the following Funds (within Invest NI's over-arching Access to Finance strategy):

Co-Fund NI: A £28M fund that co-invests in SMEs based in Northern Ireland in co-operation with business angels and other private investors. The fund can provide co-investment in deals typically valued between £150k and £1M at a ratio of up to 45%. The fund is managed by Clarendon Investment Managers.

The Development Funds: two separate funds investing in growth SMEs and managed separately by Crescent Capital and Bank of Ireland Kernel Capital. £15m of funding has been committed to each fund, with the potential to invest over £48m in SMEs over the next five years. The investment range for each fund is typically between £450k and £1.2m in any one investment round, and can be up to £3m over a series of investment rounds.

Techstart NI: A collection of funds for start-up and early stage businesses based in Northern Ireland. Provides support to entrepreneurs, seed and early stage SMEs and university spin-outs. Includes a £13m SME equity fund investing in the range of £50k-£250k; two university funds of £1.5m each providing capital to university spin-outs with initial investments in the range of £50k-£250k

Local Economic Development

Northern Ireland Councils will undertake projects that will create and enhance the economic development of businesses within their respective Council area, for instance: providing business mentoring; providing best practice advice and guidance to existing small businesses leading to improved business efficiencies; encouraging entrepreneurs to start new businesses. From this, economic growth and job creation in these businesses will result.

Local Councils will be the direct beneficiaries of the support, which they will use for targeted assistance to address shortfalls they have identified as holding back economic development in their Council area. Anticipated beneficiaries are potential entrepreneurs and existing micro and small businesses.

PRIORITY 1	2018 Milestone	2023 Total Spend
Grant for R&D	**€**	**€**
ERDF	**€35.25M**	**€108.8M**
Private Match	**€23.5M**	**€72.53M**
Total	**€58.75M**	**€181.33M**
Design Service	**€**	**€**
ERDF	**€1.89M**	**€4.7M**
Public Match	**€1.26M**	**€3.13M**
Total	**€3.15M**	**€7.83M**
Priority 1 Total	**€61.9M**	**€189.16M**

Priority 2	2018 Milestone	2023 Total Spend
Financial Instruments	**€**	**€**
ERDF/Public	**€23.4M**	**€92.9M**
Private Match	**€15.6M**	**€59.0M**
Total	**€39.0M**	**€151.9M**
SME Support		
ERDF	**€11.7M**	**€26.5M**
Private Match	**€7.8M**	**€17.7M**
Total	**€19.5M**	**€44.2M**
LED		
ERDF	**€6.0M**	**€18.0M**
Public Match	**€4.0M**	**€12.0M**
Priority 2 Total	**€68.5M**	**€226.1M**

Communication Activities

Internal Workshops - To date, the EU Programmes Team in Invest NI has delivered three workshops outlining the details and requirements of the EUIGJ Programme. In the next two months there are plans to deliver workshops to Council Officials and Fund Managers responsible for loans and equity made available under Access to Finance. These workshops will provide participants with the information necessary to engage with businesses with regard to EU funding.

Customer Focused Workshops - Over the past 15 months more than 1,000 delegates have attended a range of seminars and workshops designed and arranged by Invest NI to showcase the support available through **Invest NI's Grant for R&D scheme and wider innovation support**.

Since the European Commission's approval of the Investment for Growth and Jobs Programme in December 2014, Invest NI has held 4 R&D & Innovation based events in Belfast, Omagh and Templepatrick with 232 participants.

Date	Event	Location	Attendees
19 February 2015	SBRI Masterclass	Belfast (Crumlin Road Gaol)	19
20 February 2015	Horizon 2020 Fast Track to Innovation Event	Belfast (Hilton Hotel)	109
25 February	SBRI Masterclass	Omagh (Silverbirch Hotel)	13

2015			
24 March 2015	Grow your business with R&D funding	Templepatrick (Hilton Hotel)	91

Invest NI is currently rolling out a series of **R&D Advice Clinics** in Belfast, Omagh, Newry, Derry-Londonderry and Ballymena. Advice provided at these clinics ranges from specific project related issues to high-level strategic assistance including:

- Potential funding streams;
- Grant/loan/equity options;
- Details of Grant for R&D scheme.

R&D Advice Clinics are one-hour appointments with Invest NI's Innovation experts. 22 delegates have to date attended the 1-2-1 appointments at 5 Clinics:

Date	Event	Location	Attendees
11 February 2015	R&D Advice Clinic	Derry~Londonderry (Invest NI Regional Office)	5
18 February 2015	R&D Advice Clinic	Omagh (Invest NI Regional Office)	5
25 February 2015	R&D Advice Clinic	Newry (Invest NI Regional Office)	5
03 March 2015	R&D Advice Clinic	Belfast (Invest NI HQ)	5
04 March 2015	R&D Advice Clinic	Ballymena (Invest NI Regional Office)	2

Design Advice Clinics - These will provide one-hour appointments with Invest NI's design experts with advice ranging from specific project-related issues to high-level strategic design assistance. The free of charge clinics are open to all businesses and are held monthly in Invest NI's five regional offices: Belfast, Ballymena, Londonderry, Newry and Omagh.

Advice ranges from specific project-related issues to high-level strategic assistance and can encompass many areas including:

- Design management;
- Material selection or testing;
- Branding and graphic design;
- Packaging and brand design;
- Textile and fashion design;
- Interior and furniture design;
- Engineering and product design.

The **Main Design Development Programme (Main DDP**) gives companies that met the criteria for support an insight into the importance of design in achieving commercial success for their business. It offers an opportunity to work with experienced mentors and design professionals on their own design project.

Just over 500 delegates attended the **Design Advice Clinics** and the **Design Development Programme Final Exhibitions** during FY 2014-15. Since the European Commission's approval of the Investment for Growth and Jobs Programme in December 2014, Invest NI has held 17 of the Design Advice Clinics and 2 Design Development Programme Final Exhibitions across N Ireland, with 158 participants.

Date	Name of Event	Attendees
13-Jan-15	Design Clinic- Derry~Londonderry	2
14-Jan-15	Design Clinic- Belfast	4
14-Jan-15	Design Clinic- Newry	3
15-Jan-15	Design Clinic- Ballymena	1
15-Jan-15	Design Clinic- Omagh	4
28-Jan-15	Design Clinic- Belfast	3
10-Feb-15	Design Advice Clinic - Derry~Londonderry	5
11-Feb-15	Design Advice Clinic- Belfast	5
11-Feb-15	Design Advice Clinic- Newry	7
12-Feb-15	Design Advice Clinic - Omagh	2
25-Feb-15	Design Advice Clinic - Belfast	6
04-Mar-15	Design Development Programme Final Exhibition	40
10-Mar-15	Design Advice Clinic- Derry~Londonderry	3
11-Mar-15	Design Advice Clinic - Newry	3
11-Mar-15	Design Advice Clinic- Belfast	6
12-Mar-15	Design Advice Clinic - Omagh	2
12-Mar-15	Design Advice Clinic - Ballymena	2
25-Mar-15	Design Advice Clinic - Belfast	6
25-Mar-15	Design Development Programme Final Exhibition	56

Press Releases – Invest NI issues a Press Release to acknowledge investments that businesses have made in supported projects. These Press Releases include a recognition of the European funding that has been made through ERDF and act both to provide recognition of the European Commission's support and to promote the Invest NI scheme so that others are aware that this type of assistance is available.

Access to Finance Marketing Officer – Invest NI will also be recruiting a Marketing Officer specifically for the Financial Instruments which form a significant element of the spend under the Investment for Growth and Jobs Programme. This post, which will be funded through Technical Assistance, will enable Invest NI to promote the use of equity and loans to SMEs throughout Northern Ireland.

General Publicity – As part of the ongoing publicity for each scheme Invest NI has designed and procured a suite of display stands promoting ERDF which will be used at events, workshops, seminars. In addition, a series of blogs and podcasts will highlight the support provided through the Investment for Growth and Jobs Programme.

Stakeholder Information Event – DETI and Invest NI will be holding an information seminar on Tuesday 30th June 2015. This event will be used to promote the EU Investment for Growth and Jobs Programme to stakeholders, businesses and other organisations, such as, banks and Accounting Practices, which will be dealing directly with businesses. The aim of the event is to provide information on the ERDF funding available under the EU Investment for Growth and Jobs Programme, targeting a broad range of potential applicants to the Programme and to business advice groups.

Appendix II

PROGRAMME IMPLEMENTATION – PRIORITY 3

Priority 3 - Supporting the Shift Towards a Low Carbon Economy

Energy Division has met on a number of occasions with NIE, SONI and the Utility Regulator to examine the potential to make a targeted intervention, aimed at grid strengthening to support renewables generation, in important corridors in the northwest and west of NI.

Background

Discussions have examined a range of investment options including:

- 110kV network reinforcements to increase capacity and remove "bottlenecks" in the transmission system.
- Establishment of voltage support at a number of sub-stations; andReplacement of conductors to improve circuit reliability, increase capacity and mitigate circuit outages

Discussions continue, but there are a number of issues to be managed before any definitive commitment can be given to use of ERDF. These include:

- Working within the Competition Commission (CC) NIE Price Determination (RP5) which provides the context for the investment that NIE can make;
- Regulatory consideration of the tariff impact of any investment (as the Regulator will be required to approve "match funding" of any ERDF element);
- State Aid considerations and the treatment of assets delivered using European funding (NIE is a natural monopoly and consideration of treatment of the investment within its Regulatory Asset Base will be required);
- Need to demonstrate "incentive effect" through use of ERDF monies – the NIE investment programme is largely agreed within RP5 (that is, until September 2017) and match funding of any investment after this point will fall within the RP6 Price Control period – work involving the Regulator and NIE to consider NIE funding priorities and requirements under RP6 is just starting;

- The European Commission's position in relation to level of eligible project spend to maximise the impact of ERDF (and lessen the match funding element and associated impact on customer bills); and
- Future direction of travel of energy policy as informed by the review of the 2010 Strategic Energy Framework, cost of renewables study and the Department's Strategic Issues Discussion paper on implementation of Contracts for Difference in Northern Ireland.

Appendix III

Programme Management, Implementation and Monitoring

Programme Management

Distinct Units/Divisions within DETI will fulfil the roles of Managing, Certifying and Audit Authorities for Programme management purposes. These mirror the arrangements already established for the current EU Sustainable Competitiveness Programme (EUSCP) which is now in the final year of operation (expenditure to be fully complete by 31 December 2015). The management and control systems established for the EUSCP are considered to be efficient and robust and as such, it is envisaged that they will largely continue to operate in the same manner for the 2014-2020 period.

DETI as Managing Authority can delegate some of the operational functions associated with Programme delivery to a formally appointed Intermediate Body (IB). For the IGJ Programme, Invest NI will be the sole IB. As such, they will be responsible for a number of key functions, including the selection and management of projects/operations, processing of payment claims, publicity, verification, project performance monitoring and progress reporting. These duties will be formally assigned to Invest NI through a formal Memorandum of Understanding.

For the IGJ Programme there is greater focus on performance and outputs. The EC has set aside 6% of the overall budget provision and this will be paid to Programmes which can demonstrate that they have achieved a pre-agreed level of progress by December 2018.

A new requirement in terms of Programme Management will be the production of annual accounts by the Certifying Authority and the submission of a Management Declaration by the Managing Authority. Both are aimed at providing the EC will annual assurances regarding Programme spend and delivery. The benefit to this annual process will be a significant reduction in onerous document retention requirements which placed significant administrative burden both on Programme beneficiaries and administrators.

The agenda of simplification is one which has been embraced for the IGJ Programme both in terms of design and implementation. The Managing Authority is working with Invest NI to develop a unit cost for companies in receipt of RD&I grant support. This unit cost will be paid for every hour delivered and will replace large elements of low value high volume transactions which significantly and disproportionally added to the audit burden.

As with the current Programme, a key and difficult aspect of management is the impact of exchange rates. The Programme is allocated in Euros and payments are made by the EC in Euros. This has a direct impact on the overall Sterling value of the Programme. Additionally, the time lag between the submission of a claim to the EC and receipt of the payment can result in a substantial fx-rate loss or gain, depending on the direction of the fluctuation.

Implementation

Progress has been made in a number of key areas. The Financial Instruments previously described are already operational and have made significant investments in the period from the 1 January 2014 (the start of the eligible period). Invest NI also has a number of R&D projects which are well developed and will receive financial support in the coming months. In terms of the Local Economic Development element, DETI and Invest NI have hosted a number of workshops with the 11 councils. Indicative financial allocations have been communicated to the new Chief Executives and the project pipeline is reasonably well progressed.

Further work is ongoing in a number of areas, most notably in terms of Programme Guidance documentation and development (by DFP) of a NI Structural Funds database.

Monitoring

A Programme Monitoring Committee (PMC) has been established in accordance with the EC Regulatory requirements. The membership is set out at Annex A. PMC is responsible for scrutinising the management, delivery and most importantly, the performance and achievements of the Programme as approved by the EC.

In addition to PMC monitoring, there are a number of aspects of Programme delivery which are directly monitoring by the EC. These include:

a) **Annual expenditure target (N+3)**. In order that the EC can manage the overall EU budget at macro level it mandates that Programme expenditure profile will be spread evenly across the period. For the 2014-2020 period, the first annual targets applies in 2017 with the final in 2023 at which time full drawdown is anticipated.

b) **Annual Implementation Report**. In May of each year from 2016 onwards, the Managing Authority must submit a detailed report in the prescribed format. The report covers all issues of implementation including as assessment of the macro-economic climate in Northern Ireland and the impact (if any) on Programme deliver; physical and financial progress; communication activity; and audit and compliance matters;

c) **Annual Control Report.** Each year, the Audit Authority will conduct an audit of a sample of the projects which have claimed Programme funding during the prevailing year. From the sample findings a Programme level error rate is calculated. The EC requires that this error rate is less than 2%; otherwise it expects financial penalties, commensurate with the error rate to be applied to the Programme generally.

Annex A

EU STRUCTURAL AND INVESTMENT FUNDS

MEMBERSHIP OF THE INVESTMENT FOR GROWTH AND JOBS PROGRAMMES MONITORING COMMITTEE

SECTOR	MEMBER	ALTERNATE
Chair	Frank Duffy DFP	
Member State	Maura Young DFP	
ERDF Programme Managing Authority	Paul Brush DETI	
ERDF Programme Managing Authority	Maeve Hamilton DETI	
ESF Programme, Managing Authority	Colin Jack DEL	
ESF Programme, Managing Authority	John Noble DEL	
Equality	Evelyn Collins Equality Commission NI	Eileen Lavery Equality Commission NI
Sustainable Development	*TBC* *Council for Nature Conservation & the Countryside*	*TBC* *Council for Nature Conservation & the Countryside*
Voluntary and Community	Lisa McElherron NI Council for Voluntary Action	Genna Maghie NI Council for Voluntary Action
	David Babington Action Mental Health	Ingrid Gallen Action Mental Health
Business and Research	Craig Holmes HNH Group	Nigel Smyth Confederation of British Industry NI
	Miceal McCoy Federation of Small Businesses	Wilfred Mitchell Federation of Small Businesses
	Nial Douglas Ulster Bank Ltd	Caroline Keenan ASM Horwath
	Sandra Scannell NI Chamber of Commerce & Industry	Christopher Morrow NI Chamber of Commerce & Industry
Agri-Rural	Wesley Aston Ulster Farmers Union	Aileen Lawson Ulster Farmers Union
Trade Unions	John O'Farrell Irish Congress of Trade Unions NI	Kevin Doherty Irish Congress of Trade Unions NI
Higher Education	Richard Millar University of Ulster	Tim Brundle University of Ulster
	Tom Edgar Queens University	Margaret Connolly Queens University
Further Education	Terri Scott Northern Regional College	Leo Murphy North West Regional College
Skills	*TBC* *NI Commissioner to the UK Commission on Employment and Skills*	
NEETs	Jo Marley	Susan Russam

SECTOR	MEMBER	ALTERNATE
	Bryson Charitable Group	GEMS NI Limited
Energy	John Kennedy Moy Park	*TBC*
Local Government Councillors	Mark Cosgrove UUP	Arnold Hatch UUP
	Dermot Curran SDLP	*TBC*
	Brendan Curran SF	Deirdre Hargey SF
	Alan McDowell Alliance	*TBC*
	Alistair Cathcart DUP	*TBC*
Local Government Practitioners	Jacqui Dixon Antrim & Newtownabbey District Council	*TBC*
	John McGrillen Belfast City Council	*TBC*
	Advisors	
European Commission	Stephen Langley, DG Regio	
European Commission	Marc Vermyle, DG Employ	
BIS	Nick French	Andy Stewart
DARD (Rural Development Programme Managing Authority)	Lorraine Lynas	
OFMDFM	Grainne Killen	John Bradley
NISRA	Michelle Furphy	Carmel Colohan
DOE/NIEA	Brendan Forde	Tim Irwin
Invest NI	Charles Hamilton	
SEUPB (PEACE IV / INTERREGVA Managing Authority)	Shaun Henry	John Thompson
ERDF Programme Certifying Authority	Kathy Needham DETI	Louise Long DETI
ESF Programme, Certifying Authority	Rosemary Mulholland DEL	
ERDF/ESF Audit Authority	Jackie Connolly DETI	Frances MacBride DETI
	Observers	
MEP/ MEP representatives		

Appendix IV

Programme Development & Implementation - Key Programme Dates and Development Activities

Period	Activity	Commentary
October 2011	Draft Regulations governing ESI Funds published by EU Commission	The draft Regulations set out initial plans for the inclusion of a suite of Thematic Objectives and Investment Priorities on which to focus ERDF monies to maximise impact. The drafts also introduced the concept of Thematic Concentration. As a 'transition region' Northern Ireland is required to ensure that 60% of ERDF resources is targeted towards Thematic Objective 1 (Strengthening Research, Technical Development and Innovation) and 3 (Enhancing the Competitiveness of SMEs), and 15% targeted towards Thematic Objective 4 (Supporting the Shift towards a Low Carbon Economy).
March 2012	Minister agreed 26 outline proposals as potential content for the ERDF Programme.	
2012-2014	NISRA Ex Ante Evaluation process	As Ex Ante Evaluators for the Programme, NISRA regularly engaged with DETI officials during the Programme development process, providing an objective challenge function to help guide the process. NISRA completed an Ex Ante Evaluator Report to accompany the ERDF Programme on its submission.
May 2012-August 2014	Core Programming Group	Comprised of officials representing Northern Ireland central government Departments and SEUPB (As Managing Authority for the PEACE and INTERREG Programmes), the Group was constituted to oversee the development of the ESIF Programmes in Northern Ireland, to ensure complementarity between Programmes and to prevent duplication. The group met fourteen times during the Programme development phase. DETI attended and provided briefings for these meetings.
November/ December 2012, 2013,2014	Country-Specific Recommendations	The European Commission, in the context of the European Semester, produces country specific recommendations on an annual basis. The first CSRs directly impacting upon the 2014-20 Programme were formally presented to the UK by the Commission in December 2012. The recommendations highlighted areas on which the Commission believed the UK should concentrate new Programme resources. DETI ESU worked to ensure that the 2012 CSR, and those subsequently issued in

		2013 and 2014 steered the development of the Programme, particularly as regards addressing issues around access to non-bank financing for SMEs.
September 2012 – October 2014	Consultative Partnership Group constituted	Established by DFP to monitor the development of the ERDF and ESF Investment for Growth and Jobs Programmes, membership of the group included representatives from business, higher and further education, trade unions, local government, equality and environmental sectors. The group convened 12 times during the Programme development phase, providing advice on the development of the ERDF and ESF Programmes, and also considering a number of papers brought forward by Managing Authorities and DFP, including a paper on the Northern Ireland chapter of the UK Partnership Agreement. DETI ESU attended the meetings and provided those present with timely and informative updates on the development of the ERDF Programme as it progressed. DARD provided updates on the EAFRD Programme, DEL provided updates on the ESF Programme, and the Special EU Programmes Body (SEUPB) provided updates on the development of the PEACE IV and INTERREG V Programmes. The Consultative Partnership Group has now been dissolved, to be replaced by the Programme Monitoring Committee.
November 2012	Outline proposal for draft ERDF Programme issued to Minister and ETI Committee for consideration and approval. The submission outlined agreement on a number of guiding principles to inform the development of the Programme (see Appendix II)	
November / December 2012 & January 2013	Preparation of Northern Ireland Socio Economic Analysis, and addendum	In parallel with the development of draft proposals for the Programme, DFP economists were tasked with undertaking a Socio-Economic Analysis for Northern Ireland to inform the development of the Programme. An update to the document was prepared in January 2013 under the advice of the Northern Ireland Statistics and Research Agency (NISRA), in their capacity as Ex Ante Evaluator for the Programme.
End 2012-April 2014	Preparation of Northern Ireland input to the UK Partnership Agreement (UKPA)	Under the EU Regulations for 2014-20 each EU Member State is required to enter into a Partnership Agreement with the EU. The Partnership Agreement sets the direction of EU funding in each Member State through a coherent strategy to meet EU growth targets. Nationally the development of the UKPA was led by the Department for Business

		Innovation and Skills (BIS). BIS was responsible for submitting the Partnership Agreement to the EU Commission on behalf of the UK. Locally, DFP coordinated the Northern Ireland input. DETI provided regular ERDF contributions to the Northern Ireland input.
Early 2013	Draft Programme submitted to DFP and NI Executive for initial consideration as part of the suite of proposed NI 2014-20 EU Programmes.	
Early 2013 and 2014	Development of Programme Intervention Logic	The Programme has been underpinned by a strong intervention logic which sets out Northern Ireland’s development needs, why we have chosen to fund specific activities to address these needs, and the specific outcomes and results the Programme seeks to achieve. DETI officials liaised frequently with the EU Commission (in particular representatives from DG Region and DG Evaluation) during the development of the Programme’s intervention logic.
August 2013 - September 2014	Development of Smart Specialisation Framework for Northern Ireland	Co-ordinated by DETI Innovation Policy Unit, the process of Smart Specialisation involved identifying Northern Ireland’s unique regional characteristics, highlighting its key competitive advantages and identifying a key set of regional priorities for research, development and innovation support. The development of a Smart Specialisation Framework was an ex ante conditionality for the Programme, and underpinned the concentration of resources on 5 key sectors under the Priority 1, RD&I elements of the Programme that offer Northern Ireland enhanced growth potential: Computer Software and Services, Electrical and Electronic, Advanced Engineering, Agri-Food Technology, and Stratified Medicine and Connected Health. At least 75% of Programme supports under Priority Axis 1 of the Programme will be focused on those companies that fall within these five key sectors.
November 2013	Draft Northern Ireland chapter the UK Partnership Agreement issued to the NI Executive for consideration.	
July 2013 – October 2013	Public Consultation Process	A 16-week period of consultation Public consultation on the proposed draft ERDF Programme for 2014-20 ran from 1st July – 21st October 2013. The consultation was based on a detailed Programme Consultation Document which presented the Department’s outline proposals for the Programme. The document set out the rationale for the proposals and gave some detail on the types of activity to be

		supported. It also set the Northern Ireland economic context and provided an explanation of the Regulations imposed by the EU Commission which largely determine what we can/cannot support, and indentified a series of proposed activities to be taken forward through the ERDF Programme. A total of 33 responses to the consultation were received, with respondents in general endorsing the proposals. DETI European Support Unit prepared a Consultation Summary document which was published on the DETI website to inform key stakeholders of the findings of the consultation.
	Inter-Departmental Consultation	Running in tandem with the statutory public consultation, the Inter-Departmental Consultation sought the views of all NI Central Government Departments on the draft Programme as presented. Responses to Inter-Departmental consultation helped to refine the ultimate design of the NI ERDF Programme.
September 2013	Strategic Environmental Assessment	Co-ordinated by DFP as Member State, and carried out by an independent consultant, the Strategic Environmental Assessment assessed the potential environmental impacts of the activities proposed under the ERDF Programme, and provided a mitigating actions and Action Plan to be taken forward during Programme implementation. The Strategic Environmental Assessment was put out to statutory public consultation and finally agreed in September 2013.
September 2013 - March 2014	Procurement and execution of an Ex Ante Assessment of Financial Instruments	The European Commission recognises that the use of Financial Instruments offers an alternative to the traditional grant funding associated with EU Programmes. The Common Provisions Regulation governing the development and implementation of the ESIF Programmes (including the ERDF Programme) stipulates that an Ex Ante Assessment of Financial Instruments, assessing whether and in what form Financial Instruments could be usefully employed, must be undertaken by Member States considering supporting Financial Instruments under their Programmes before any funding commitment to such instruments is given. DETI officials procured an independent consultant to undertake an Ex Ante Assessment of the specific needs of Northern Ireland SMEs as regards access to

		finance. The assessment provided the Department with the opportunity to consider the Financial Instruments that have previously been employed in Northern Ireland, to assess their continued appropriateness and relevance in the current economic context and new Programming period, and to assess additional/alternative initiatives that could usefully be considered for inclusion in the Programme. The findings of the assessment steered the inclusion of a suite of Financial Instruments in the Programme designed to meet the specific needs of SMEs in Northern Ireland.
December 2013	The Common Provisions Regulation and the ERDF Regulation, both of which govern the development, structure and management/implementation of the ERDF Programme, entered into force.	
April 2014	UK Partnership Agreement submitted to the European Commission, including Northern Ireland chapter.	
July 2014	Draft Programme approved by the Minister and Northern Ireland Executive	
Summer 2014	Multiannual Financial Framework agreed and Programme budget confirmed	
22 July 2014	Formal draft of NI ERDF Operational Programme submitted to the European Commission and subsequent Programme amendment/negotiation with the Commission.	Following a series of informal engagements with the European Commission on the development of the 2014-20 NI ERDF Programme, the first formal draft of the NI Operational Programme was submitted to the European Commission for consideration, marking the start of the formal Inter-Service consultation process undertaken by the European Commission to obtain their approval for the Operational Programme. The Commission's response was received by European Support Unit at the start of October 2014, marking the start of further amendments to the Operational Programme document and frequent communications with Commission officials.
30 October 2014	UK Partnership Agreement adopted by the European Commission.	
31 October 2014	2nd formal draft of NI ERDF Operational Programme submitted to	Following receipt of the European Commission's observations on the first formal draft of the Operational Programme, DETI European Support Unit reviewed and addressed each of the Commission's concerns in turn and provided its formal

	the European Commission.	response on 31 October 2014. The Commission's response was received by DETI European Support Unit at the start of December 2014, marking the start of final amendments to the Operational Programme document and further communications with Commission officials.
8 December 2014	3rd and final formal draft of NI ERDF Operational Programme submitted to the European Commission.	
12 December 2014	2014-20 ERDF Investment for Growth and Jobs Programme adopted by European Commission	
June 2015	The official launch of the ERDF Programme is anticipated to take place at the end of June 2015 to coincide with Commissioner Corina Cretu's visit to Northern Ireland.	

Department of Enterprise, Trade and Invesment response to Committee queries - 11 May 2015

Department of Enterprise, Trade and Investment
www.detini.gov.uk

REQUEST TO DETI FROM THE ETI COMMITTEE

At its meeting on 21 April the ETI Committee were briefed by the Department, Invest NI and InterTradeIreland in relation to the Committee's inquiry into economic growth and job creation in a reduced tax environment.

Members asked the Department for a response to the following questions:

Skills

i. It is stated in the submission to the Committee that the Executive should encourage greater collaboration between departments and other key stakeholders to put in place a range of policies to attract and retain talent. What is being done on this or what is planned? What representations has the Minister made to the Executive on the matter?

Competing Globally

ii. What is the Department doing to retain Northern Ireland's ability to use Selective Financial Assistance as it becomes constrained by EU State Aid limits?

iii. Can the Department provide a list of the range of other financial incentives that can be offered to businesses which are not subject to EU limits. What is being done to increase support in these areas as the opportunities for SFA decrease?

Innovation and R&D

iv. The paper highlights the importance of innovation and R&D as an economic driver. What are the Department and its agencies doing to support companies with Research & Development? What is being done to encourage companies who have potential but are not involved in R&D to start?

v. The Innovation Strategy was launched in September 2014. What progress has been made with this strategy?

Business Growth

vi. The paper refers to NISPO, Co-Fund NI and the new Accelerator programme in relation to access to finance. Can the Department provide an update on the uptake and progress of both these funds?

vii. What potential exists for Northern Ireland businesses to avail of crowd funding? Is this something that Invest NI considers appropriate for some businesses and is it encouraged? To what extent have Northern Ireland companies availed of crowd funding?

viii. How can the regulatory burden on business emanating from the EU be lessened- as is happening in other Member States at present- and which would still be compliant with EU legislation once transposed (in other words, how can we avoid 'gold-plating)?

ix. Can the Department provide a summary of the sorts of simplifications in business regulation that can be expected as a result of the regulatory reform agenda which will result in a report for consultation later this year?

DEPARTMENTAL RESPONSE

Skills

(i). *It is stated in the submission to the Committee that the Executive should encourage greater collaboration between departments and other key stakeholders to put in place a range of policies to attract and retain talent. What is being done on this or what is planned? What representations has the Minister made to the Executive on the matter?*

DETI and Invest NI work in conjunction with the Department of Employment and Learning (DEL) to focus on local skills availability in line with the Northern Ireland Skills Strategy, 'Success Through Skills – Transforming Futures', published by DEL in 2011. The two organisations meet on a regular basis to discuss progress against policy priorities.

While Invest NI does not offer support specifically tailored to attract and retain talent, a number of the Programmes offered are flexible enough to allow companies to focus on these areas, should the need arise. These include:

- the **Assured Skills Programme** – the primary vehicle by which Invest NI addresses the skills needs of potential investors and indigenous companies. The Programme is delivered in conjunction with DEL who work closely with Further and Higher Education institutions (and other training providers) in Northern Ireland to ensure that skills training provided matches individual company requirements. Pre and post employment options are available;
- the **Skills Growth Programme**, whereby companies can avail of support to develop the strategic needs of their business via delivery mechanism including in-house programmes delivered by company experts couple with private sector provision;
- the **Collaborative Network Programme**, which offers support for industry-led networks to collaborate on projects with shared outcomes. The Align IT Network, the Energy Skills Training Network and the Capital Markets Network feature industry and academic representation and are focused on ensuring alignment between the curriculum (in formal and informal education settings) and the skills requirements of each individual sector with the overall aim of closing any current or future skills gaps , while enhancing the overall skills profile of the Northern Ireland workforce.

The **Align IT network** has a specific workstream focused on 'attracting back/attracting in' experienced IT professionals who wish to work in Northern Ireland. The network has recently launched an international online portal (IT3Sixty) which has been developed to underpin the sector's European recruitment strategy. The portal will be targeted at experienced IT professionals from outside the region in order to meet the growing demand to fill current and imminent job vacancies;

It is anticipated that future collaborative working between Invest NI and DEL will focus on deployment of the Common Skills Support Framework; an extension to other sectors of the

ICT sectoral approach to skills; further promotion of Apprenticeships and consideration of Invest NI/DEL joint bids for skills funding.

To address the longstanding high levels of economic inactivity in the Northern Ireland economy, DETI and DEL worked in conjunction with DSD, DHSSPS and Invest NI to develop 'Enabling Success – A Strategy to tackle Economic Inactivity in Northern Ireland'. 'Enabling Success', which the DEL and DETI Ministers jointly published on 20th April, sets out plans to support the economically inactive in the transition from economic inactivity to employment.

Competing Globally

(ii). *What is the Department doing to retain Northern Ireland's ability to use Selective Financial Assistance as it becomes constrained by EU State Aid limits?*

During the negotiations of the revised Regional Aid Guidelines (RAG) for 2014-2020, of primary importance for Northern Ireland was the ability to retain Regional Aid support for large companies given the Commission's earlier proposal for a complete ban. It was welcome therefore that the finalised RAG, which came into effect on 1 July 2014, still permits support for large companies for 'initial investment in favour of new economic activity'.

This means that Invest NI is now limited in its ability to assist large companies to expand at their existing Northern Ireland operations. Selective Financial Assistance (SFA) remains available to attract first time inward investments, to assist SMEs and to support large companies should they diversify into new products or services.

DETI and Invest NI officials will continue will continue to work together to maintain this position, and to seek further clarification from the European Commission in relation to permissible support for large company expansion projects where necessary.

(iii). *Can the Department provide a list of the range of other financial incentives that can be offered to businesses which are not subject to EU limits. What is being done to increase support in these areas as the opportunities for SFA decrease?*

By their nature, the majority of Invest NI's financial incentives are subject to State aid limits as determined by the European Commission. Although the Commission has placed increased restrictions on Regional aid schemes such as SFA, other types of support are subject to fewer limitations. These include financial assistance towards:

- training and skills
- research and development
- equity support for SMEs
- innovation and collaboration
- advisory and consultancy services

Innovation and R&D

(iv). *The paper highlights the importance of innovation and R&D as an economic driver. What are the Department and its agencies doing to support companies with Research & Development? What is being done to encourage companies who have potential but are not involved in R&D to start?*

The Department, through InvestNI and InterTradeIreland, is committed to not just supporting more companies to engage in Research & Development and innovation but also encourage existing R&D performers to engage in deeper, more extensive R&D.

Invest NI offers a wide range of R&D support to incentivise businesses in Northern Ireland to undertake more and better R&D. Invest NI provides significant support to a wide range of companies undertaking R&D including small start ups, SMEs new to R&D, indigenous companies, and FDI. The principal support, (Grant for R&D), is assisting over 250 projects in 2014/15 with total project costs potentially exceeding £120 million. Invest NI not only supports Northern Ireland companies with its own programmes but actively encourages participation in national and European programmes including;

- Knowledge Transfer Partnerships which enhance competitiveness through businesses working with research organisation experts;

- The Small Business Research Initiative is a well established national programme connecting public sector challenges with innovative ideas from industry;
- Collaborative R&D through the EU Horizon 2020 or Innovate UK opportunities.

Invest NI has sought to encourage companies with the potential to benefit from R&D which have not yet risen to the challenge. Innovation advisors actively target prospective companies through promotional events, clinics and themed events such as sectoral workshops highlighting a range of R&D funding opportunities. For further details on how Invest NI can support companies engage in R&D visit;

http://www.investni.com/support-for-business/products-and-services/first-time-research-and-development.html

Similarly, IntertradeIreland has a number of programmes which are designed primarily for smaller, indigenous SMEs and are based on connecting firms with the resources required for successful innovation, on a cross border basis. The programmes include:

- Challenge;
- Fusion;
- Innova; and
- Funding Advisory Services.

In addition InterTradeIreland, through its support programmes for Horizon 2020 and the US-Ireland R & D Partnership, provides support to academics and companies to avail of international research and development opportunities. For further details on how InteradeIreland can support companies;

http://www.intertradeireland.com/businessfundingservices/fundingandprogrammeinformation/

(v). *The Innovation Strategy was launched in September 2014. What progress has been made with this strategy?*

A six month update report on the delivery of Innovation Strategy actions is currently being prepared. DETI is engaging with NICS Departments and other delivery organisations seeking update on progress against their specific actions during the period October 2014 to 31 March 2015. The update report on the Innovation Strategy has been included in the Committee Forward Work Programme and will be available for the Committee's meeting on 9 June 2015.

Business Growth

(vi). *The paper refers to NISPO, Co-Fund NI and the new Accelerator programme in relation to access to finance. Can the Department provide an update on the uptake and progress of both these funds?*

Co-Fund NI has been operational since 2011 and to September 2014 has invested £6.2m alongside £13.3m of private investment in 23 companies. The deals are led by the private investors and Co-Fund NI invests on the same terms as negotiated by the private investors. Three of the companies were attracted to Northern Ireland from elsewhere in the British Isles by the availability of funding through the fund.

NISPO commenced investing in seed/start up companies in 2009 and reached the end of its active investment period in 2014. The Invest Growth Fund has made investments in 35 SMEs, 7 of which were attracted to Northern Ireland as a result of the NISPO funding. The total amount invested through the Invest Growth Fund, including private sector leverage amounts to c£10m. It should be noted that investments made by both Co-Fund NI and NISPO are high risk in nature and that the return on investment is likely to take a number of years to be realised.

The NI Seed Accelerator will improve the start-up ecosystem in Northern Ireland through development of a better flow through of high potential start-up businesses (HPSU). The accelerator will be delivered in partnership with SOS Ventures, a venture capital company based in Cork and San Francisco that invests in technology start-ups globally.

Bill Liao will be the lead for SOS Ventures supported by Wayne Murphy. Bill is renowned as an entrepreneur and comes with a wealth of experience, both in the public and private sectors. A co-founder of CoderDojo, a free global network formed to assist young people with learning computer programming, Bill also co-founded XING, a pioneering enterprise social networking platform. Prior to these endeavours', Bill served as COO of Davnet, a telecommunications carrier.

The accelerator will support technology based, high potential start-ups to access early stage venture capital/angel investment and establish in Northern Ireland. It is anticipated that the NI Seed Accelerator will invest in up to 50 HPSU's over the five year programme with c50% of these enterprises establishing in Northern Ireland from global markets. It is expected that the first cohort of 10 HPSUs will embark on the programme starting in September 2015.

Funding for start-ups is primarily provided by **Techstart NI** and The **Small Business Loan Fund**. The **NI Seed Accelerator** will add to this by filling a gap in the market to provide intensive support for the rapid commercialisation of products/services being developed by HPSU's based in Northern Ireland. The accelerator will offer participant enterprises the opportunity to join a global brand with sister SOS Venture accelerators in Cork, San Francisco and Shenzen.

It will be affiliated with the 'Global Accelerator Network' which includes Techstars, Microsoft Ventures and Startupbootcamp and allows HPSU's to benefit from access to its global application deal flow.

(vii). *What potential exists for Northern Ireland businesses to avail of crowd funding? Is this something that Invest NI considers appropriate for some businesses and is it encouraged? To what extent have Northern Ireland companies availed of crowd funding?*

Crowd-funding has grown quickly in recent years, in response to the emergence of online platforms, which connect investors with entrepreneurs. Although online platforms are unlikely to replace traditional methods, they provide alternative methods for sourcing venture capital, thereby widening the pool of investment that firms in Northern Ireland can access.

The Department appointed SQW Ltd in April 2014 to undertake research into early stage and growth finance in Northern Ireland. The "Future of Early Stage and Growth Finance in Northern Ireland" Final Report was produced at end March 2015 and its findings are currently being considered by the Department.

While crowd-funding was not within the scope of the research, the report highlighted that alternative finance, such as crowd-funding, has become an increasingly important funding mechanism and source of capital in the UK. It suggests that equity crowd-funding raised some £84m in equity investment the UK in 2014 (with 4% of fundraisers in Northern Ireland), with the average amount of equity raised around £200k.

There are many types of crowd-funding available, but the most relevant for businesses are peer to business lending, invoice trading and equity crowd-funding. This growth in the market therefore provides a very significant opportunity for Northern Ireland businesses to avail of this type of funding.

Invest NI recognises that crowd-funding is appropriate for some businesses, but it should be seen as a complementary source of funding alongside VC funding, bank finance, asset finance and the funding streams provided by Invest NI through its Access to Finance initiatives.

(viii). *How can the regulatory burden on business emanating from the EU be lessened- as is happening in other Member States at present- and which would still be compliant with EU legislation once transposed (in other words, how can we avoid 'gold-plating)?*

The EU currently operates a Regulatory Fitness policy (REFIT) and maintains Better Regulation as a priority within the EU Commission. First Vice President Timmermans of the EU Commission is to shortly publish a better regulation review which will include an overarching communication on the intended policy direction for the Commission.

At a national level The UK Government undertook an exercise to identify areas of gold plating in regulation. The exercise found that this is not a systemic issue for UK Government made regulation. DETI is not aware of any evidence to suggest that NI legislation is gold plating EU Directives through the transposition process. As part of the Executive's Review of Business Red Tape, the extent to which NI can influence the EU during its policy development process was examined. It was found that there are already appropriate structures in place to enable this to happen.

The Review contains a recommendation that existing structures are mapped out, more effectively highlighted, and utilised so that Northern Ireland can maximise its ability to influence the development of EU Directives and legalisation. It is intended to ensure transposition of EU legislation is be done in a manner which keeps additional regulatory burden to a minimum. This recommendation is currently being considered by an Inter Departmental Group, tasked with preparing an Executive response to the Review of Business Red Tape.

(ix). *Can the Department provide a summary of the sorts of simplifications in business regulation that can be expected as a result of the regulatory reform agenda which will result in a report for consultation later this year?*

A senior level inter departmental group is currently considering and assessing the potential implications of the recommendations from the Review of Business Red Tape. This will help inform a draft response and way forward for regulatory reform in NI for the Executive to consider. More detail on this will be provided to the Committee at a later date.

Prepared by: Economic Policy Division

11 May 2015

Department of Enterprise, Trade and Investment Press Release regarding Agri Food Competence Centre

Jeffrey, Christopher

Subject: FW: DETI News Release - Bell Announces New Agri-Food Competence Centre

From: Sames, David [mailto:David.Sames@detini.gov.uk]

Sent: 14 May 2015 13:49

Subject: DETI News Release - BELL ANNOUNCES NEW AGRI-FOOD COMPETENCE CENTRE

Please see attached photographs, captions and press release.

Agri-Food Quest Competence Centre 1 & 2: Enterprise, Trade and Investment Minister Jonathan Bell has announced the establishment of a £6.7million Northern Ireland Agri-Food Quest Competence Centre (AFQCC). Jonathan Bell made the announcement at Balmoral Show, where he is pictured with Prof. Chris Elliot, Queen's University Belfast and Michael Bell, NIFDA.

Agri-Food Quest Competence Centre 3: Enterprise, Trade and Investment Minister Jonathan Bell has announced the establishment of a £6.7million Northern Ireland Agri-Food Quest Competence Centre (AFQCC). Jonathan Bell made the announcement at Balmoral Show, where he is pictured with Prof. Chris Elliot, Queen's University Belfast, Michael Bell, NIFDA and Alastair Hamilton, CEO Invest NI.

DEPARTMENT OF ENTERPRISE, TRADE AND INVESTMENT

14 May 2015

Bell announces new Agri-Food Competence Centre

Enterprise, Trade and Investment Minister Jonathan Bell has announced the establishment of a £6.7million Northern Ireland Agri-Food Quest Competence Centre (AFQCC).

Hosted at Queen's University, Belfast, the new Competence Centre will draw upon the research capabilities of Ulster University (UU), Queen's University, Belfast and the Agri-food and Biosciences Institute (AFBI). The centre's primary focus will be on improving the international competitive position of the Northern Ireland Agri-food sector through innovation and co-operative research.

Financing for the centre is made up of £5million of research and development assistance from Invest NI and a £1.7million investment from industry partners.

Making the announcement at Balmoral Show, Jonathan Bell said: "The Northern Ireland Agri-Food Quest Competence Centre is the fourth in an initial series of Competence Centres being funded by Invest NI and industry partners, which are designed to rapidly transform great research into commercial success.

"The Agri-food Sector 'Going for Growth' strategy sets out a vision for the Agri-food Industry and recognises that investment in research and development is a crucial component in the development of innovative products and in targeting export markets. This Competence Centre is vital to the success of that strategy.

"The Centre will provide a platform for companies which want to pursue research projects in areas such as packaging, shelf-life, waste minimisation and food security. Not only will it support the development of our local food industry to compete strongly in export markets, it will also build on the Agri-food knowledge and skills that already exist in Northern Ireland.

"I would encourage companies operating in the Agri-food sector to explore how this centre could benefit their business."

Dr. David Dobbin, CBE, Chairman of the Northern Ireland Food & Drink Association said: "NIFDA has been working for four years with Invest NI, and our partners to bring this centre to fruition. Minister Bell's department is to be congratulated for their support which has been crucial in helping to provide companies with exciting opportunities to collaborate with expert researchers from the Agri-Food and Biosciences Institute, Ulster University and Queen's University Belfast to help them develop high-quality products.

"This development will improve the competitiveness of Northern Ireland's biggest Industry."

Prof Elliott QUB said: "The establishment of this industry-academia research partnership is essential to help local companies keep up with the fierce competition they face on the world's global markets. The Institute for Global Food Security at Queen's University is very proud to host this centre and will work alongside our industry partners to drive innovation across the Agri-food sectors.'

Notes to editors:

1. The Invest NI Competence Centre programme was developed in response to the Centres of Excellence Evaluation (2007) which highlighted the need for a new programme that would facilitate and encourage knowledge transfer mechanisms and provide for greater involvement of industry in industry-academia collaborative projects.

2. Total project costs are estimated at £6.7million over five years with Invest NI making a £4,983,726 contribution and industry contributing £1.7million.

3. The other competence centres are: CHIC – Connected Health Innovation Centre hosted at Ulster University, Jordanstown;.CASE – Centre for Advanced Sustainable Energy hosted at QUB; NIAECC Ltd – NI Advanced Engineering Competence Centre Limited hosted at NIACE (The Northern Ireland Advanced Composites and Engineering Centre) Belfast.

4. For press enquiries please contact DETI Press Office on tel: 028 9052 9604. Out of office hours please contact the Duty Press Officer via pager number 07699 715 440 and your call will be returned.

Department of Enterprise, Trade and Investment Press Release regarding Accelerator Support for High Potential Start-ups

Jeffrey, Christopher

From: McManus, John (DETI) <John.McManus@detini.gov.uk>

Sent: 15 May 2015 10:10

Subject: DETI News Release - BELL LAUNCHES ACCELERATOR SUPPORT FOR HIGH POTENTIAL START-UPS

DEPARTMENT OF ENTERPRISE, TRADE AND INVESTMENT

15 May 2015

Bell launches accelerator support for high potential start-ups

Enterprise, Trade and Investment Minister Jonathan Bell today launched an initiative designed to help high potential start-ups access early stage support and investment in Northern Ireland.

Invest Northern Ireland has contributed £2.6million to establish a seed accelerator - http://www.startplanetni.com which will focus on attracting both international and indigenous businesses with technology based ideas in the Knowledge Economy sectors.

Jonathan Bell said: **"Supporting ambitious entrepreneurs to develop innovative start-ups is critical to building Northern Ireland's next generation of world class businesses.**

"The Start Planet accelerator will help to build the community for high potential start-ups in Northern Ireland and enhance both our entrepreneurship culture and also our finance market.

"Each team will get access to intensive mentoring, a co-working space and seed capital funding to help them develop the capability and knowledge to succeed internationally."

The Start Planet NI accelerator will be delivered by SOSventures in a purpose designed facility, which will from part of the Revolution brand of co-working spaces being developed by the company. SOSventures is a venture capital company based in Cork and San Francisco that invests in technology start-ups globally.

Wayne Murphy, Start Planet NI Programme Director, said: "The accelerator is focused on entrepreneurs looking to transform their start-ups into high-value businesses. Applications will be invited from 14 May 2015 – 16 July 2015 and the teams will be put through a rigorous selection procedure to test their business vision and fundability.

"We know how important partnerships can be and our pool of mentors will provide the participants with valuable coaching and connections to customers, partners and investors. The Revolution co-working space will be a vital component in creating the supportive environment for start-ups to have the best possible chance of success in addition to providing a truly global network of connections in terms of mentors, investors and partners from similar spaces in Shenzhen, Cork, New York and San Francisco.

"Up to £2million of equity funding will also be made available to the accelerator start-ups over the five year programme. Support will also be offered to gain follow-on funding to help develop their business both during and post the completion of the three month Accelerator period."

Each accelerator cohort will consist of a group of 8-10 small teams made up of 2-4 individuals. They will participant in an intensive three month programme. Participants for this accelerator will be recruited every year for a period up to five years. Around 50% of the recruits will be local teams and the remainder will be teams from outside Northern Ireland.

For more information or to apply for the Start Planet NI Accelerator go to http://www.StartPlanetNI.com

Notes to editors:

1. StartPlanet is affiliated with the 'Global Accelerator Network' covering 6 continents, 59 cities and 50 accelerators and includes Techstars, Startupbootcamp and Microsoft Ventures and aims to set one standard for entrepreneurial excellence. The "Revolution" co-working space is an SOSventures branded initiative aimed at connecting its global network of accelerator spaces and co-working environments to leverage every possible network and support advantage the global stage can bring.

2. Bill Liao is an Investment Partner at SOS Ventures and will be convening mentor for Start Planet NI, supported by Wayne Murphy as Programme Director. Bill is renowned as an entrepreneur and comes with a wealth of experience, both in the public and private sectors. A co-founder of CoderDojo, a free global network formed to assist young people with learning computer programming, Bill also co-founded XING, a pioneering enterprise social networking platform. Prior to these endeavours', Bill served as COO of Davnet, a telecommunications carrier.

3. For press enquiries please contact DETI Press Office on tel: 028 9052 9604. Out of office hours please contact the Duty Press Officer via pager number 07699 715 440 and your call will be returned.

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NILGA Response to Northern Ireland Draft Budget 2015-16

NILGA Response to NI Draft Budget 2015-16

This response is submitted further to approval in principle by the NILGA Executive and following circulation to the 11 new Councils.

For further information or to discuss any of the issues highlighted, please contact Derek McCallan at the NILGA Offices: Email: d.mccallan@nilga.org Tel: 028 9079 8972.

Derek McCallan
Chief Executive
23 December 2014

Introduction

NILGA, the Northern Ireland Local Government Association, is the representative body for district councils in Northern Ireland. NILGA represents and promotes the interests of local authorities and is supported by all the main political parties in Northern Ireland. Local government, through the Political Partnership Panel, will engage fully and frankly in regard to this and other strategic issues affecting the future delivery of public services in Northern Ireland. The Draft Budget 2015-16 whilst in itself requiring response and development, provides a catalyst to rewire how public services are delivered. NILGA asserts that proposed sweeping cuts are symptoms of a problem rather than a cure. The Association seeks to develop clinical and innovative discussion around redeployment of services, new means to finance public services and Devolution to Assemblies, Cities and Sub Regions. Therefore, NILGA's Draft Budget "response" should be seen, also, as being a governance and resource opportunity enabling strategic growth and the rationalisation of government, including that which has taken place and which continues, at Council level.

It should be noted that this response is designed to be cross-cutting, and proposes cross-departmental working in a number of instances. In analysing this response, all Departments are therefore encouraged to read the entire piece.

The economic pressures we face are no different than those across Europe – the only difference is how we choose to respond collectively to turn these challenges into regional opportunities.

Growing a Sustainable Economy

The Draft Budget 2015-16 reflects the harsh reality that Northern Ireland will face a wide range of increasing demands placed upon our public services while we have fewer resources with which to meet that growing demand at the central level.

It also offers material opportunities for the Northern Ireland Executive and the new emerging 11 councils to work more closely together – as per all other parts of the UK and Ireland - to help our region and its people meet their potential. We have a critical need, and urgency, for the two tiers of Northern Ireland government to work together in a practical way. Like the Executive, NILGA and councils have made the economy, investment and growth our top priority. The Draft Budget 2015-16 offers cautious optimism amidst sobering austerity; while Northern Ireland's recovery is at a much slower rate than the UK average, the region has at least entered into recovery. We note that Northern Ireland's economic activity increased by 1.2 % in real terms year on year, but that relative living standards still remain well below the UK average. Consumer and public sector debt remains a problem as does the high level of those of working age who are economically inactive, low regional levels of self-employment, R&D and entrepreneurialism. It is encouraging to see that the Northern Ireland economy has started to return to growth – but more can be done jointly between the Executive and local authorities to gain momentum over the coming months through, for example, the platform provided by the European Entrepreneurial Region Award 2015 and the transfer of new local economic development roles and powers to councils.

NI Councils and the Executive share the same key challenges ahead in increasing employment and productivity, growing our private sector, addressing high levels of economic inactivity and intergenerational poverty with social exclusion levels well above other parts of the UK. It makes sense for the two tiers of Northern Ireland government (NI Assembly and NI Councils) to jointly design and provide solutions, with evidence and analysis drawn from the private and voluntary sector, which should become increasingly seen as alternatives to public sector employment and delivery of services.

Rebalancing Our Economy

The Draft Budget 2015-16 is a blunt reminder of the structural constraints that Northern Ireland now faces. The reality is that our economy, and therefore our tax base, isn't strong enough to stand on its own. We need to create growth through investment and mutual support. Northern Ireland faces fiscal realities that make rebalancing our economy challenging but not insurmountable.

It is critical to the balancing of Northern Ireland's economy that the Executive works in partnership with local authorities. Northern Ireland councils have a key enabling role through local knowledge and connections to grow our economy (with partners) into the vibrant, dynamic, outward looking region we all aspire to.

Local authorities have the knowledge, tools and increasing capacity to support local enterprise development, including local manufacturing, creative media, tourism and our growing agri-food sector. . It is paramount that the Executive and local authorities develop co-designed polices and activities that aid entrepreneurialism, skills development, small and medium enterprises and social inclusion. Our collective challenge presented by the Draft Budget 2015-16 on rebalancing our economy is how we plan and invest as much of our limited joint resources as possible in areas that will yield economic benefit.

Reforming Government

If the Draft Budget 2015-16 has one key message, it is that things are no longer tenable. We need to change materially how we distribute our money and how we utilise our resources as a small economy. We need to reform our public sector – 'recast' how we do business - and that means starting a mature conversation on redrawing the size, function, organisational design and distinctive, new, contemporary, citizen mandated, future NI Assembly, Executive and Programme for Government.

The forecast of a UK public sector spending squeeze goes beyond the start of the next decade. We need to move beyond merely making adjustments so that we stay within our budget, to a new reality of creating a reformed government that delivers real savings and improved public services. NILGA has repeatedly asserted that we have to develop a root and branch review of the number of Executive Departments; to have 11 councils and 12 Government Departments is disproportionate, operationally top down in governance and policy terms and unwieldy. The Draft Budget sets both the Executive and local authorities a challenge to be truly innovative and reform their architecture, including creating world class joint service opportunities, digital transformation and asset management strategies. This has to be a transformation delivered by the Executive and NI local authorities in partnership, whilst remaining accountable to the electorate. This is a challenge that NILGA and local authorities have already accepted with the reform of local councils and the relationship we now seek to strengthen with the Executive. As such, we further request local government's inclusion in the Public Services Improvement Board, which continues to identify opportunities but which must be given greater authority in terms of delivering radical transformation. NILGA supports this vision, having worked with the outgoing 26 and emerging 11 councils on improvement, collaboration and efficiency work and created an innovative platform for further outcomes supported by knowledge and need, not institutions.

Budget Allocation

Central Items

Regional Rates

NILGA notes in the Draft Budget that both domestic and non-domestic Regional Rates are uplifted in line with inflation. NILGA supports this proposal, mindful of not imposing undue additional district rate burdens on households in these difficult times. All councils are similarly committed to ensuring value for money, productivity and protecting the ratepayer against unnecessary costs, whilst working assiduously on keeping costs low.

NILGA welcomes the Draft Budget's commitment to continue the Small Business Rate Relief Scheme for an additional year.

Together: Building a United Community

We welcome the additional £28m Capital allocation to DE, DEL and DSD in respect of Together: Building a United Community and note that the Executive has negotiated £100m of additional borrowing power that can be utilised for shared housing or educational schemes. TBUC offers a joint platform between the Executive and local authorities and this will be aided by the new Community Planning function to help deliver targeted good relations projects. NILGA supports the need for clear, simply understood, reports on how successful in terms of results the additional allocations have been, presented to Assembly Committees and circulated to Councils and their elected members.

Delivering Social Change

NILGA welcomes the Draft Budget's commitment to maintain the Social Investment Fund and the Childcare Strategy funding at 2014-15 levels. NILGA believes that Northern Ireland local authorities can support the Executive in the delivery of the Social Investment Fund at the local level; in doing so, creating project administrative savings and therefore directing a greater percentage of the Fund to local communities and groups that need the investment most.

Northern Ireland Investment Fund

Investment in our infrastructure is a key driver of economic growth. We welcome the Draft Budget plans for a feasibility study for a £1bn Northern Ireland Investment Fund in order to help meet the Executive's regional growth objectives. Likewise, we are supportive of the proposed approach that this Fund may utilise some of the Finance Transaction Capital funding and large international investors, including the European Investment Bank (as well as other investment streams).

The Association believes that local authorities have an important contribution to make in supporting the Executive's infrastructure investment objectives, particularly in the areas of urban / rural regeneration, energy and transport. NILGA asserts that the NI Executive works with the Association and Councils within the Fund's terms in order to look at augmentation tools, such as local council borrowing powers, investment potential, identifying savings to the NI Exchequer in the delivery of joint regional / sub-regional infrastructure projects. Task and Finish project teams can be developed if the political and strategic will exists, as is the case in neighbouring jurisdictions.

Asset Management Unit Receipts

NILGA notes that the Executive has anticipated £50m of capital receipts in 2015-16. NILGA believes there may be opportunities for regional savings through the Executive and local authorities looking at how we best manage our assets on behalf of the public, including sharing resources (e.g. buildings) as a source of community revenue or a lever for local investment.

EU Funding

In order to maximise the allocation, effectiveness and impact of the EU Structural Funds for the 2014-20 period, NILGA seeks closer partnership with the Executive and Departments. We welcome the provision under the Draft Budget for £10m Resources (DEL) and £8m Capital (DEL) being held in relation to EU Match Funding. The Association believes that a closer working relationship with the Executive and local authorities on regional matters of EU investment would deliver increased return for the Northern Ireland economy (through growth and jobs) and for the European Commission. Similarly, support by the NI Assembly for the European Entrepreneurial Region of the Year (EER) Award for NI, offered by the EU's Committee of the Regions (CoR), warrants a two tier political delegation to visit Brussels, by way of a negotiation with CoR, as part of redeploying additional non Structural Funds budget from the EU into NI between 2015 and 2020. NILGA, having secured the EER Award, can enable this to happen in 2015/16.

Departmental Budgets

In relation to the draft budgets of departments whose responsibilities directly affect the function of Northern Ireland local authorities, the comments of NILGA are as follows:

Agriculture and Rural Development (DARD)

The Association will seek to support councils to build a stronger material partnership through the new Community Planning role and local engagement with the Department; to help support the agri-food sector, improve the lives of farmers, to enhance ecological welfare and assist in improving environmental sustainability. We believe that further savings can be made by integrating EU Rural Development Programme delivery by LAGs and local rural tourism elements within new council groupings. The Association welcomes the additional allocation of £15 million in respect of TB Compensation, CAP disallowance and reform. NILGA seeks direct discussions with the Department to provide solutions based on resource redeployment which would yield more savings and offer greater front line impact, such as giving local authorities a greater co-ordination role for the disbursement of the Food Processor Investment Fund.

NILGA is, however, concerned at the potential impact of a reduction in rural development programme funding, with resource commitments delayed until 2016/17; this phased approach will reduce opportunities to avail of the monies appropriately, meaning local economic drivers are stunted, resulting in less GVA and less receipts.

NILGA would urge the Department to work collectively with DRD and DoE in relation to severe weather and civil contingencies. This joined-up approach could produce greater efficiency and financial savings. The Department should also be mindful of the proposed DoJ / PSNI initiative which has one outcome centred on rationalising responses made by Emergency Service providers to calls for assistance from the public.

NILGA welcomes the proposed rebalancing and protection of funding in respect of social isolation.

Culture, Arts and Leisure (DCAL)

We note the reduction of arts, museums, and libraries grant allocations and would welcome continued dialogue with the Department on how councils can best contribute to the maximisation and retention of these local services. Likewise, the Association believes that councils have an important partnership role with the Department in supporting the sustainability of local sports support and development through the development of joint initiatives which seek increase greater participation in sport and skills development within areas of greatest social need.

NILGA notes that there will be a cross-departmental and cumulative impact on arts and other organisations as a result of the proposed budget (for example, reduced NITB events funding). This impact would be most keenly felt by smaller organisations which have fewer resources to manage any reduction. It would be helpful if DCAL and DETI could work collectively to minimise the impact of cuts to these highly vulnerable organisations, ensuring the local economic benefit of their work is not lost, and report to Committees and wider stakeholders on what such discussions have actually achieved.

Local place shaping, civic stewardship and the opening up of public spaces by councils (and partners) are examples of areas where a joined-up delivery approach with the Department would help to address detrimental impacts on front line services. NILGA would seek a meeting with the Department in order to discuss the impact of proposed cuts on the local community and on the future provision of regional culture, arts and leisure, following requests to the Association by member Councils.

Justice (DoJ)

In keeping with any withdrawal of funding to support frontline services, councils are deeply concerned about the social and economic impact on the local community. With increased cuts to the general policing budget comes a heightened and unrealistic pressure on local authorities to fill the same social and economic gaps. There will be an impact on council PCSP administration budgets, and councils / members will note the recent independent Report seeking that PCSPs cut back on the 43% + administrative costs they, on average, are alleged to cost. The Department, too, must take action on its own overheads in respect of PCSPs. NILGA is keen to meet with the Department and the PSNI to discuss the impact of budget cuts on the delivery of frontline council support services. NILGA urges that the Community Policing function be protected.

Enterprise, Trade and Investment (DETI)

We note that Department's support for smaller local firms may be withdrawn and that it may wish to concentrate exclusively on larger companies. This is likely to increase demand for local SME council support services, although councils have bespoke initiatives and are compiling their new local economic development strategies which in themselves have the flexibility to be market / demand led. There is concern that the current allocation associated with the transfer of the 'Go for It' programme will not be adequate to deal with increased local SME support requests. NILGA is particularly concerned at the proposed 15% reduction in business start-up funding. Once again, smaller companies would be most affected. This will also have a direct impact on councils' ability to assist start-ups as funding is due to transfer in April 2015.

As such, NILGA seeks that DETI / Invest NI meets specifically with Councils to bottom out delivery which is customer led, looking innovatively as to how such initiatives may be funded without raising rates or doling out mechanical delivery contracts, tenders and grants.

NILGA is equally concerned about the impact of NITB's cessation of some Cross Border / National and global marketing / advertising and the scaling back of digital and social media plans. The Tourism Development Scheme (TDS) has already been frozen, which materially affects local providers within councils. NILGA is open to creating direct dialogue with the Department to ensure that local tourism continues to its full economic potential.

The cut in the NITB events fund will disproportionately affect smaller events and groups, again leading to calls on scarce council funding to replace such monies. As highlighted above, cross-departmental working with DCAL is strongly encouraged to minimise any cumulative impact on these organisations. NILGA would also advocate that critical Health & Safety Executive activities should be protected – for instance, related to farm safety. Again, this example illustrates the need to reduce overheads and administration rather than cut front line, acutely needed, life saving services.

Environment (DoE)

In addition to the comments below, NILGA is responding separately to the DOE Budget consultation because of the substantial potential impact on local government. The response to the DOE Budget can be located at the following link:

http://www.nilga.org/getattachment/75ae9202-d00d-485b-a199-20915f7c6109/DRAFT—NILGA-Response-to-DoE-Budget-Consultation.aspx

Prior to the Draft Budget being announced, the Environment Minister had written to councils advising of potential reductions to De-rating Grant (15% cut amounting to £3.9m) and Rate Support Grant (15% cut of £2.8m). He also expressed uncertainty regarding the initial and future quantum of the grant to cover the cost of functions transferring to councils in April 2015.

In his budget statement, the Minister of Finance & Personnel stated that he was providing £2m to offset reductions to grants to local government, which NILGA welcomes.

NILGA has written to both Ministers expressing strong concern regarding these potential cuts, and seeking meetings to discuss their impact and to seek clarity. Going into the new 11 council era, Councils have limited reserves and will not have the financial resilience to absorb cuts of this magnitude. Cuts to the rate support grant would also impact most on those districts having weaker rate bases and a lower ability to raise revenue. NILGA also points out that other groups and organisations whose funding from central government will be cut may seek councils to make up the gap.

NILGA also continues to seek clarity from the Department of the Environment regarding the legislative basis for any possible cut to the De-rating grant, given that the wording in the Finance Act 2011 is clear as regards how this grant must be calculated. NILGA is deeply concerned that this cut is being rolled out without proper consultation, nor clarity, at the worst possible time and will make untenable some of the workings of the new councils.

The proposals suggest a "larder raid" rather than rationalisation, dealing with symptoms rather than permanent solutions, and certainly do not fulfil the targets in the Programme for Government that RPA would be enabled by fit for purpose, adequately resourced, rates neutral transfers to councils.

Social Development (DSD)

Councils and the Department jointly fund advice giving services. The central government budget for these services should be protected from cuts as the services are vital, particularly in the current economic climate, and councils will not have funds to make up any shortfall.

The Executive has already delayed by a full year the transfer of urban regeneration, powers and budgets to local government. New councils, already constrained by not being able to fully plan and invest for their new regeneration powers, would be seriously adversely affected if budgets for urban regeneration and neighbourhood renewal are subject to cuts at this time, immediately prior to transfer to councils.

Education & Learning (DEL)

NILGA believes that any budget reductions which affect further and higher education colleges would represent a false economy. Such cuts would leave Northern Ireland in a weaker position to attract future external investment at a time when the Executive is keen to encourage such investment and is seeking to have Corporation Tax powers devolved to that end. This measure would also affect directly the ability of the new councils to create jobs – which is a target upon which their performance will be measured in the near future.

The potential reduction or removal of ESF funding would impact most on those most vulnerable in society – such as NEETs and the disabled.

Regional Development (DRD)

NILGA is not supportive of any measures to reduce winter services or street lighting. Such measures would prove to be a false economy and are likely to lead to increases in accidents and claims. As outlined above, the Department should work more closely with DARD and DoE to achieve efficiencies whilst protecting services.

NILGA believes that the proposed budget cut affecting Translink is not acceptable if it leads to the scale of withdrawal and reduction of services subsequently announced, along with proposed above inflation increases in fares. This is inconsistent with the Executive's stated desire to optimise the use of public transport, and will also hinder the development of related aspects of Community Planning in the new councils.

Conclusion

NILGA makes the following suggestions to open dialogue as early as possible, in conjunction with and in support of NI's councils:

Positive Solutions

- New partnerships – Councils are strengthening their strategic and local partnerships with the public, private and community sectors to deliver for the people and businesses of Northern Ireland. However, councils will develop solutions using new legal enablers like the General Power of Competence and by bringing local partners together to be more resilient through collective, co-operative working. We have an increasing gap between our regional finances and local need – this can only be addressed through developing new strategic delivery / commissioning partnerships. No one public or private entity has the financial or skills to deliver alone.
- New shared opportunities – Councils will regionally and / or sub-regionally enter into voluntary cooperation with partners in order to make savings without compromising services. A regional improvement and development initiative to embed improvement, collaboration and efficiency has been agreed – it now needs designing and implementing.
- Growth investment – Councils can unlock new fiscal tools to get things done without raising rates or getting grants. NILGA's collaboration with Pinsent Masons identified 22 "money tools" for Councils. This investment environment, if unlocked, can be simply, accountably and innovatively linked to the Shared Opportunities and Partnerships above mentioned. Together, these will create new opportunities to lead the whole system review above mentioned.

In conclusion, The Executive is to be supported for putting forward a sober Draft Budget which nonetheless warrants significant high level additional elements to be considered and the avoidance of “larder raid” cuts without first engaging in a whole system review. NILGA believes that management and administration costs should be prioritised for reduction rather than front line services. NILGA welcomes the opportunity, beyond 29th December 2014, to provide further evidence, with Councils and itself considered partners in transformation rather than simply consultees.

Disclaimer

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We do not, however, make any representation that the information will be accurate, current, complete, uninterrupted or error free or that any information or other material accessible from or related to NILGA is free of viruses or other harmful components.

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GrowNI response to Committee queries

Subsequent to providing oral evidence on Tuesday 28th April 2015 to the Committee for Enterprise, Trade and Investment in relation to their inquiry into “Economic growth and job creation in a reduced tax environment,” the Committee raised certain follow-up questions. This document is a response to these queries.

1. Grow NI recommends a one-stop shop for business registration/regulation. How would this work in practice?Would it be more appropriate to develop a one-stop shop covering all aspects of business support by Government at both regional and local levels? How does Grow NI see processes being consolidated?

The essence of the proposal made in the Grow NI written submission was to facilitate the most efficient and comprehensive means of interaction between the Northern Ireland Government departments and prospective foreign direct investment [FDI]. Whilst it is clear that some Government departments are focused on FDI, it is also clear that this may not be a primary focus of other departments. The proposal in the Grow NI submission was designed to challenge the current thinking in this area with the objective of streamlining both the number of interactions that FDI need to have with Government departments and creating a clear pathway implementing requirements and resolving problems.

At the very least, we would envisage that Government set up a committee made up of all relevant Government departments who would then look at prospective FDI projects with the objective of facilitating all interaction with Government bodies. Where possible, this assistance could be codified so that the relevant FDI entity would have clear expectations of the assistance each Government department could provide

Your question raises an interesting concept of interaction between Government at regional and local level. It would certainly be of great assistance to FDI if the aforementioned committee had contact points with the relevant local Government Councils who in turn would appoint a liaison officer to facilitate the necessary registration/regulation requirement of businesses coming to that local Council. Again a codification of such interactions would provide a clear understanding of what FDI investors could expect from local Government.

Taking this one step further, the setting up of an ‘Investment Shop’ which brought together all relevant government agencies and departments in a one stop client-facing unit which met all requirements would undoubtedly increase our attractiveness as an investment location for FDI and improve ease of interruption for both international, national and local enterprises wishing to expand.

To re-emphasise, the objective is to create a business friendly, effective and efficient communication channel to FDI that will facilitate and simplify their investment into Northern Ireland.

2. Grow NI suggests a single point of contact to facilitate employers skills needs with education. Would Grow NI support a similar approach to that being implemented in Stuttgart where dual learning programmes are offered which provide young people integrated work based and school based learning (See Assembly Research Paper attached). You may also wish to comment on this Research Paper in more general terms if you wish

Grow NI welcomes any steps which increase the level of interaction between those in education and employers. Skills are one of five main drivers of productivity identified by HM Treasury (along with competition, enterprise, investment and innovation) and it is vital that we have the correct skills base to match requirements by employers. This could include the proposal outlined above, but it is also important to consider how people who find themselves unemployed at an older age can find training for skills which allow re-entry to the job market. We have also noted a number of proposals below and above which will considerably improve the match between skills in training and the skills provided by employers.

We note a number of favourable aspects in the Stuttgart which include the high levels of exports in the region, high R&D expenditure, low unemployment and the fact that businesses have a direct input into educational syllabus. We also note that the region suffers from some similar constraints to our own including traffic congestion and limited on office space.

An interesting concept, and one which we are aware exists in other countries is the 'Stuttgart Regional Welcome Service'. It may be worth exploring the operation of a similar unit in Northern Ireland, perhaps to work alongside an 'Investment Shop' to ensure that those working here are fully aware of rights, responsibilities and requirements.

3. In what ways do Grow NI believe could the proposed new Department of the Economy facilitate a more direct, strategic and operational links with the universities and education

While universities and colleges in Northern Ireland will operate entirely separate from the Department of the Economy (previously the Department of Education and Learning) it should be recognised that as a major provider of public funding to the universities, the Department of the Economy should have a clear and distinct say in the strategic direction of Further & Higher Education, specifically how it addresses skills and productivity shortages in Northern Ireland. Whilst there is undoubtedly a significant amount of interaction between the universities and the Department of the Economy, there is a strong argument that this should be formalised. Grow NI is aware that universities in the Republic of Ireland have members of the IDA sitting on their Boards and that this is done so as to create a clear line of communication between the Government and the university. Whilst the autonomy of universities is important, there is a clear correlation between the success of FDI and the ability to deliver appropriately educated graduates.

On a similar vein, the involvement of the Department of the Economy in the joint committee suggested at answer 1 above should further enhance the links between employment needs of FDI and the education providers. The earlier the interaction between the employment needs of FDI and the educational establishments should facilitate the provision of the necessary skills to students in a more targeted and timely fashion. The ability to seek input from prospective FDI and to then subsequently minimise the timeframe to the delivery of the relevant educational programmes will greatly enhance the attractiveness of Northern Ireland as a destination for FDI.

Linking universities and colleges directly with the 'Investment Shop' could also ensure strong and effective relationships between employers and those involved in education, and ensuring that courses which will directly meet employment needs emerge.

Department of Enterprise, Trade and Investment Briefing Paper regarding Energy Demand

Department of
Enterprise, Trade and Investment
www.detini.gov.uk

Request to DETI from the ETI Committee

At its meeting on 30 April the ETI Committee were briefed by the Utility Regulator and the Department in relation to a range of energy issues.

Members asked the Department for a written briefing on the impact of devolved corporation tax powers including scenarios considering how demand would be met.

Departmental Response

The devolution, to Northern Ireland, of Corporation Tax powers would give the NI Executive the opportunity to use such powers to effect economic change. The Corporation Tax (Northern Ireland) Act 2015, subject to the commencement of the powers, paves the way for the NI Executive to change the Rate of Corporation Tax applicable in Northern Ireland for any financial year commencing on or after April 2017.

At this stage the NI Executive has not set out its intentions around changing the Rate of Corporation Tax in Northern Ireland. However, a range of economic modelling and research has been undertaken around the economic impacts of reductions in the Rate of Corporation Tax in Northern Ireland. While this research and modelling is economic in nature it does remain available for other purposes such as modelling or scenario planning in other fields of public life, including electricity demand planning or forecasting.

However, evidence of significant reductions in corporation tax having a direct and significant impact on energy consumption is lacking. This is not surprising given that there are many variables in terms of what impact on energy corporation tax might have and in terms of the balance of wider impacts such as energy efficiency measures or the take up of distributed generation.

DETI will share with the System Operator any information that SONI feel is required for them in relation to its assessment of demand.

Reply prepared by: Energy Division
Date: 21 May 2015

Confederation of British Industry response to Committee queries

CBI
THE VOICE OF BUSINESS
NORTHERN IRELAND

CBI NORTHERN IRELAND RESPONSE TO ETI COMMITTEE, May 2015

Re – Inquiry into Growing the Economy and Creating Jobs in a Reduced Tax Environment

Question: *The Committee has heard some evidence that the cost and associated bureaucracy of complying with regulation has increased. This is despite moves by DETI to improve regulation. What are the CBI's views on this and do you have any suggestions for taking forward further improvements?*

Fundamentally, the CBI believes that regulation should, where possible be simplified to reduce the burden of compliance on businesses of all shapes and sizes. We believe that government should 'think small first' when developing new regulation and that the Executive should follow the UK Government's principle of 'one in, two out'. Of course, regulation has an essential role to play in a thriving market economy, promoting competition and protecting consumers, but we know it can be a major barrier to growth.

We're calling on the Executive to back up its words with action – we cannot afford to fall further behind the reforms already taking place in Great Britain. We want to toughen up the law so there is a presumption that every piece of regulation has a sunset clause, so it expires after a set date unless it is actively renewed. We want a culture shift in regulation making, with greater transparency and accountability in how regulation is created, and more detailed analysis of what it will mean for businesses, with civil servants bringing in external expertise to fully inform thorough impact assessments. Regulation must in our view always look to sow the seeds of economic growth.

One of the biggest areas of regulation that impacts on competiveness, as we detailed in our submission and discussed during the oral evidence session, is that of our employment law framework. It is vital that, through it, we look to create the right environment to support ever greater job creation. As highlighted in our submission: *Labour market flexibility is a strength rather than a weakness benefitting employees as well as business. It has brought investment and jobs to Northern Ireland, ensured workers benefit when firms grow and raised living standards for employees in the good times. As we seek to maximise the number of jobs which will be created by a lower CT rate it is important that the employment law framework provides the right incentives and avoids undue burdens on the business community. According to research from the Northern Ireland Economic Advisory Group, out of 144 countries, Northern Ireland ranks 45th for labour market efficiency. And when all the performance indicators are further examined, restrictive labour regulations is in the top*

INVESTORS IN PEOPLE

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four in terms of the most problematic factors in doing business here. Addressing this situation will benefit employers and those seeking work.

While we have welcomed the progress that will soon result in the presentation of an Employment Law Bill to the Assembly, we believe there remains a strong need to address several key regulatory areas as we look towards the next Assembly mandate – thus we have made the call for a further employment law review process early in the next Assembly mandate. That review should focus on several key areas that we expect will either not be addressed, or not be sufficiently addressed, by the imminent Bill:

- **Reform of industrial tribunals** - employment tribunals are the most critical issue when it comes to employment law for big and small businesses alike. High costs for big firms and a threat to the existence of small ones; it is the risk of a claim taking months in tribunal - not workers' rights themselves - that really frighten businesses, chilling hiring intensions and making them the highest priority for regulatory reform.
- **The introduction of a broad protected conversations policy -** this would be an opportunity for Northern Ireland to create a clear competitive advantage by leveraging our devolved powers, enabling us to lead the way in the UK. This would allow employers to engage with employees on succession planning for non-dispute areas such as retirement.
- **Reform of the collective redundancy period** - at ninety days, Northern Ireland is currently three times higher than the Republic and twice as high as Great Britain as a result of their respective recent reforms. The upcoming Bill will reduce this to 45 days in Northern Ireland which still puts us at a competitive disadvantage vis-à-vis our neighbours in the Republic. This should be addressed
- **Qualifying period for unfair dismissal and its proposed increase to two years' service** - this would have an impact on our ability to attract foreign direct investment when put in direct competition with other regions in Great Britain.

In terms of broader regulatory issues we have argued that the most effective approach to addressing this issue is through a sectoral approach, where specific regulations impact on key sections of the Northern Ireland economy. Engagement with sectoral/trade bodies is likely to make the most progress, as it is quite often technical issues which create the most significant burden on businesses.

A current example of this, which is very relevant to the Committee, is with respect to **telecommunications policy in Northern Ireland**, where we have currently a more onerous and less flexible environment than in other parts of the UK, which ultimately impacts on investment and our overall connectivity. As we detailed in our submission, it is critical that we, as a means to enhance our competitiveness, are able to take timely advantage of the new technologies available which can enable businesses (and individuals) to both speed up their communications and meet their connectivity needs. With this in mind, it is critical that we update the existing planning and regulatory regime for telecommunications development as soon as possible.

Within the business community there is a genuine and unprecedented demand for connectivity. That requires investment by operators in new technologies such as 4G and 5G, as well as, with the assistance of DETI and the UK Government, filling in so called 'not sports' in primarily rural and border areas. While all of this investment is extremely timely and welcome, issues around the outdated nature of PPS10 as well as current permitted development rules make investment more difficult than it needs to be – and put Northern Ireland at direct competitive disadvantage vis-à-vis Great Britain. As they stand the current regulations provide uncertainty, lead to unnecessary delays and put additional workload on an already resource-constrained planning services – this is not in the interests of consumers be they individuals or businesses.

In the first instance we would therefore propose that, at minimum, the regulations governing telecommunications are brought into line with Great Britain in four specific areas:

- Clarity of permitted development regulations to provide certainty of what is permitted
- Regulations which make clear that outside of designated areas any number of antennas are permitted within a specified number of antenna "systems" – on both upgrades and new builds
- Acceptance that antennas may be hosted at a height up to 6m as permitted development
- Dish antenna parameters set according to height of the host building.

These should be key changes made under the new planning regulatory arrangements – particularly in advance of each of the new 11 councils developing their own Development Plans – and, therefore, as part of the Strategic Planning Policy Statement that will take over from the existing PPS suite.

CBI Northern Ireland
26 May 2015

Department for Enterprise, Trade and Investment Briefing Paper regarding Northern Ireland Broadband Improvement Project

Request to DETI from the ETI Committee

At its meeting on 12 May the ETI Committee discussed the Broadband Improvement Project.

Members asked the Department for an update on the project.

Departmental Response

The Northern Ireland Broadband Improvement Project – Update – May 2015

The Northern Ireland Broadband Improvement project is a £23.6 million project which will bring more choice and improved broadband speeds to over 45,000 premises across Northern Ireland by the end of 2015. The project is jointly funded by BDUK, DETI, DARD and the EU. Following procurement BT was appointed to undertake improvements to broadband infrastructure. Work began in February 2014 and should finish by December 2015.

The broadband scheme will lay new fibre optic telephone lines from existing exchanges to new small broadband exchanges in remote areas. This will improve telecommunications infrastructure provided through telephone lines.

Depending on where premises are located in Northern Ireland, the project should allow at least one of the improvements below:

- access to basic broadband in areas which have no service
- access to superfast broadband in areas which have some service
- choose a supplier from several competing broadband companies in areas which have superfast broadband and other services such as video on demand or subscription television

For some areas, even when improvement work is complete, there is no guarantee that everyone will access basic or faster broadband services. Basic broadband speed is two megabits per second. Superfast broadband speed is more than 24 megabits per second.

Timetable for improvements

The improvement scheme works in phases. There is a timetable of work according to postcodes which gives estimated end dates. These are published on the NIDirect website. If the start of improvement work is delayed, the end date could be later than estimated. All improvement work should be completed by December 2015.

A postcode checker has also been developed to allow users to use a postcode to find broadband improvements planned in an area. This is available at NIDirect website.

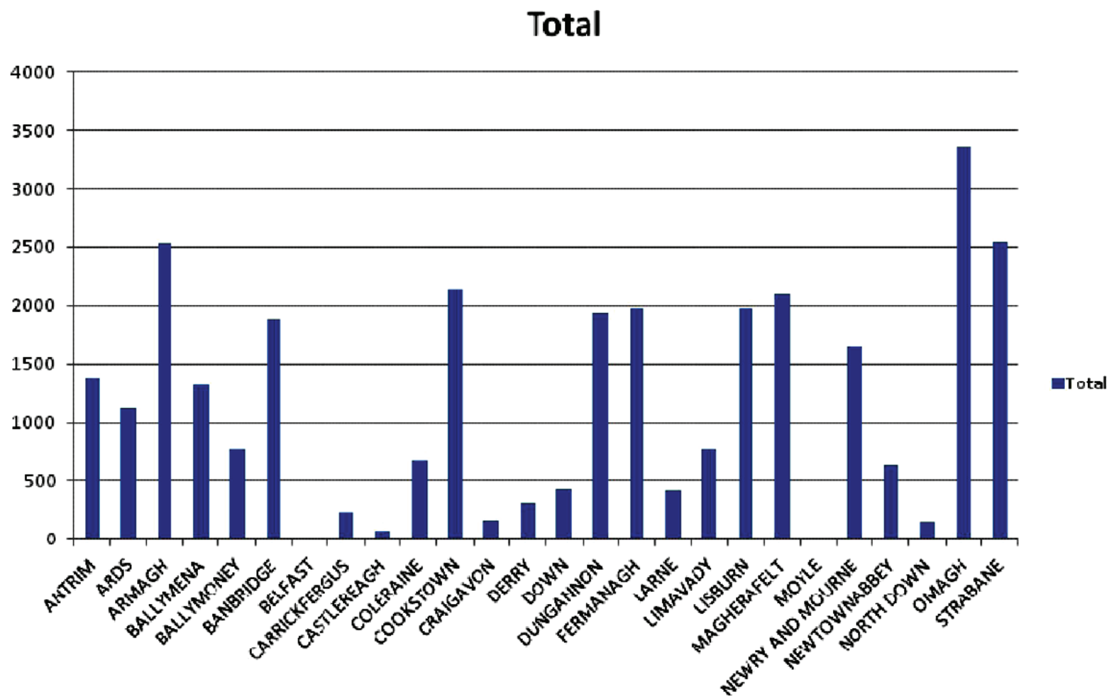
By the end of March 2015 broadband improvement work has taken place in the following exchange areas:

- Aghadowey
- Annaghmore
- Antrim
- Armagh
- Aughnacloy
- Baillies Mills
- Ballinamallard
- Ballyclare
- Ballygally
- Ballygawley
- Ballygowan
- Ballymena
- Ballymoney
- Ballynahinch
- Ballyronan

- Ballywalter
- Ballyward
- Banbridge
- Bangor
- Bellaghy
- Benburb
- Beragh
- Bessbrook
- Bready
- Brookeborough
- Broughshane
- Bushmills
- Caledon
- Carrick
- Carrickmore
- Castledawson
- Castlederg
- Castlereagh
- Claudy
- Coagh
- Coalisland
- Coleraine
- Comber
- Cookstown
- Crossmaglen
- Crumlin
- Derrygonnelly
- Derrylin
- Dervock
- Donaghadee
- Donaghmore
- Draperstown
- Dromara
- Dromore
- Dromore (co tyrone)
- Drumquin
- Dunamanagh
- Dundrod
- Dungannon
- Dungiven
- Eglinton
- Feeny
- Fintona
- Fivemiletown
- Florencecourt
- Forkhill
- Garvagh
- Gilford
- Glenanne
- Glenarm
- Glengormley
- Glenwherry
- Gortin
- Helens bay
- Hillsborough
- Jerrettspass
- Katesbridge
- Keady
- Kells
- Kesh
- Kilkeel
- Killeavy
- Killinchy
- Kilrea
- Kircubbin
- Larne
- Limavady
- Lisbellaw
- Lisburn
- Londonderry
- Loughall
- Maghera
- Magherafelt
- Markethill
- Martinstown
- Mayobridge
- Maze
- Millisle
- Moneymore
- Mountfield
- Newry
- Newtownhamilton
- Newtownstewart
- Omagh
- Portavogie
- Portglenone
- Poyntzpass
- Rasharkin
- Rathfriland
- Rostrevor
- Saintfield
- Sion mills
- Springfield
- Stoneyford
- Tandragee
- Templepatrick
- Toomebridge
- Tulnacross
- Whitehead

Improvements have been made passing over 30,000 premises. Where these have taken place is shown in the diagram below (Figure 1). [It should be noted that location information based on new council areas is not currently available.]

Figure 1 - Broadband Improvements by Council Area



Some 2,500 subscriptions have been already been taken out. Nearly 50 internet service providers offer services on the infrastructure making use of Super Fast Fibre Access wholesale products provided by BT Openreach. It is anticipated that a further 11,000 premises will see improvement by 30 June 2015. BT report that they are moving into the most complex and difficult part of the project and have raised concerns that they are not getting planning permissions through for certain parts of the project especially those in Areas of Outstanding Natural Beauty. This could impact the delivery of service to these areas and contingency plans are being considered.

Prepared by: Telecoms Branch
21 May 2015

NILGA Northern Ireland Fiscal Powers Note

Northern Ireland Fiscal Powers Note

Why should the Northern Ireland Assembly's Corporation Tax and other fiscal powers be enhanced?

The Northern Ireland economy is characterised by chronic underperformance compared to its potential. There is huge public sector consumption and insufficient private sector production, proportionately, within the NI economy.

Recognition of economic underperformance has helped to create the debate around devolving the power to reduce Corporation Tax. Corporation Tax doesn't offer a panacea to NI budgetary deficit - rather it has to be along with other financial mechanisms such as enterprise zones as a basis to build and rebalance our regional economy with Councils and other stakeholders playing their part.

Northern Ireland has limited powers to borrow (e.g. through the Reinvestment and Reform Initiative (RRI), the EU, charging, and PFI alternative finance), in practice the Assembly is predominantly dependent on the block grant from Treasury via the Barnett Formula £9.38bn (2014).

A number of high level options face the Northern Ireland Assembly regarding the approach to funding. Previously conducted research for Scotland and Wales implies – in principle – support for an option that combines some dependence on the block grant with some further fiscal devolution.

Devolved taxes which are likely to be most suitable are Income Tax (£2.98bn / 20.3% NI revenues), Stamp Duties (£135m / 1.1% NI revenues), Landfill Tax (£46m / 0.4% NI revenues) and Air Passenger Duty (£63m / 0.5 NI revenues). Only Income Tax is a major tax in terms of the scale of revenues raised. The NI Finance Minister has dismissed the transfer of Income Tax – for the moment. Any attempt by NI Assembly to increase the regional rate above inflation would be unpopular, and therefore not on the short term fiscal agenda.

The NI Assembly has to deal with the more immediate issues of current regional budget deficit for 2014/15 (£200m), department budget cuts, and difficult fiscal policy decisions (e.g. welfare reform, free prescriptions, free transport for the elderly and water rates).

More powers (and responsibilities) are on the table – are the NI Assembly ready or willing? At the moment the answer is "no" or "maybe" due to the political tumult and the impending national elections.

What would increased fiscal powers mean for Northern Ireland local government?

NI councils are funded differently from the rest of the UK. NI councils will have an annual expenditure budget of £1bn and are funded largely from the District Rate receipts (68% district rates, 10% government grants inc. Specific Grants, and charges 22%).

Other UK local authorities generate their own funding locally through Council Tax and charging for services, and receive needs-based grants from Central Government (2014 grant settlements – England £42.5bn, Scotland £24bn and Wales £12bn).

The range of services offered by NI Councils is small. Therefore any transfer of additional fiscal powers from the NI Assembly will be limited because we do not have direct legislative responsibility for delivery (e.g. Health, education or welfare). Councils have to ensure that they are ready to receive additional powers through the Augmentation Review of 2016, where the Assembly will be looking to NILGA to give a “readiness report” for further (modest) devolution – like libraries and on street parking.

However, District Rates may be impacted by any increased of the Landfill Tax levy set by the NI Assembly (NI councils currently pay £80 per tonne).

Any reduction of the current Barnett Formula or ‘block grant’ from the Treasury (England £7,121; Scotland £8,623; Wales £8,139; Northern Ireland £9,385 per head of population) – as part of any wider UK fiscal devolution package - would result in increased financial pressures on NI councils The continued withdrawal of NI Departmental project grants and the increased threat of DOE core council grant budget cuts will NOT help Councils to invest in SMEs or local economies, just when the responsibility is being transferred to them. A whole system approach to enterprise enhancement is required.

There is some indication that NI Rates Support Grant (£18.3m) will be targeted for cuts by during and beyond 2015/16 as the NI Executive aligns wider departmental spending for the next financial years. NI Council’s Derating Grant (£27m) remains protected by statutory regulations for the moment.

NI austerity is only just beginning – are we ready?

The debate around the devolution of additional fiscal powers to the NI Assembly offers NI councils through NILGA (with Councils) the opportunity to start meaningful decisions with NI Assembly and UK Government (NI Secretaries of State, Treasury) on local authorities future funding and spending powers post 2015. Simply, not doing this, in accordance with the post-Election (May 2015) flow in England, Scotland and Wales, would be bad for local SME growth, and would ignore the strategic emphases placed by Councils on the local economy, together with outcomes developing as a result of the Smith and Hague Commissions. In short, prevarication on Corporation Tax is bad enough. Not having transferred and redeployed funds for SME development by Councils, from DETI, as part of a customer driven, local economy centred, whole system and customer focussed approach, would be short sighted, in the extreme.

University of Ulster Research Report on Air Passenger Duty

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University of ULSTER

Air Connectivity in Northern Ireland: The economic impact of changes to air fares and short-haul Air Passenger Duty

Department of Enterprise, Trade and Investment
www.detini.gov.uk

A Research Paper

Final Report

December 2014

Northern Ireland Centre for Economic Policy

Air Connectivity in NI

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Air Connectivity in NI

1. Introduction

Background

1. DETI, in partnership with DFP, has requested that the Northern Ireland Centre for Economic Policy (NICEP) work with York Aviation to undertake research on air connectivity to identify the impact on passenger numbers from changes in airfare pricing and the associated economic impact (specialist consultants, York Aviation, were procured by DETI to provide aviation expertise on the passenger forecasts).
2. A detailed literature review was completed as a primary stage in undertaking this research study and is available separately. This has been used to inform some of the assumptions in this economic impact assessment.

Structure of Report

3. This report is structured as follows:

- Section 2 – The importance of air connectivity;
- Section 3 – Impact of pricing on passenger numbers;
- Section 4 – Economic impact of a change in prices;
- Section 5 – Impact on the level of Air Passenger Duty raised;
- Section 6 – Summary of costs and benefits.

Air Connectivity in NI

2. The importance of air connectivity

Introduction

4. Air connectivity brings significant economic benefits to a region or country. This was the conclusion of the literature review completed separately but the key points, summarised in this report, include:

   - Understanding the importance of a hub airport;
   - Increased trade (goods and services);
   - Increased Foreign Direct Investment (FDI); and
   - Increased innovation and productivity.

5. This section also includes a comparison of NI's air connectivity with both Dublin and Edinburgh and the link between economic growth and air connectivity.

Economic benefits of air connectivity

Understanding the importance of a hub airport

6. A hub airport typically has the following characteristics1:

   - a network carrier or airline alliance which bases sufficient numbers of aircraft there to operate a 'hub and spoke' strategy;
   - a large route network;
   - is suitably located to allow airlines to cost effectively serve passengers transferring through the hub to other destinations; and
   - appropriate facilities to handle efficient connections for passengers.

7. The 'hub and spoke' business model of network carriers has developed as the most efficient way for airlines to transport passengers on a long haul basis. Consolidating passenger traffic onto fewer, higher volume routes reduces the average fixed cost per

[1] Frontier Economics (2011): '*Connecting for Growth: The role of Britain's hub airport in economic recovery*'. A report prepared for Heathrow.

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passenger carried, thus making long haul route networks through the hub, both viable and more affordable. The network effect of a hub brings the following benefits:

- Improved connectivity – it is only as a result of transferring (spoke) passengers that many routes (through the hub) are viable, therefore a wider choice of routes are available;
- Increased frequency – the number of flights at the hub can be increased;
- Lower fares – economies of scale from greater numbers of passengers reduces the average cost per passenger allowing for lower fares; and
- Increased competition – with increased demand, a number of carriers may be sustained on key routes which can introduce competition resulting in increased service choice and lower fares including on direct services.

8. From a Northern Ireland perspective therefore, the local demand for many long haul destinations would not be sufficient to make a direct route viable. As a result, an indirect connection through a hub can be served more frequently and at a lower ticket price.

9. The UK's connectivity is significantly enhanced by **Heathrow's status as an international hub airport**, which serves 75 destinations world-wide that are not serviced by any other UK airport[2]. It is this international connectivity which is central to the Northern Ireland Executive's desire to ensure that the Belfast – Heathrow service is maintained.

10. However, Heathrow is currently operating at 98%[3] capacity and this raises a number of significant issues for Northern Ireland:

    - short haul routes are being squeezed out – Heathrow serves only 46 short-haul routes, behind Paris Charles de Gaulle serving 78 and then Frankfurt (74), Amsterdam (67) and Madrid (63);
    - access for UK regional airports is heavily constrained – only 6 UK regional airports have a service to Heathrow compared with 22 to Amsterdam[4]. Air France and

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[2] Heathrow (2013): '*Heathrow: best placed for Britain*'
[3] Source: Heathrow
[4] House of Commons All Party Parliamentary Group for Aviation (2012): '*Inquiry into Aviation Policy and Air Passenger Duty*'

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Lufthansa have also been increasing their services to UK regional airports to encourage UK traffic to connect over their hubs in Paris and Frankfurt[5]; and

- Heathrow is unable to develop new international connections – Frontier Economics estimates that the Heathrow "connectivity gap" includes 45 long haul destinations, including 15 destinations in emerging markets.

11. As a consequence the Heathrow capacity constraint impacts Northern Ireland (and the other UK regions), firstly in terms of frequency of access to Heathrow and secondly in terms of onward connectivity to international destinations.

12. In addition, maintaining and growing passenger traffic to London Heathrow from Northern Ireland is important to maintaining this route. There is a risk in the medium to longer term that the Northern Ireland service would be squeezed out by other more profitable regional or international routes.

Increased trade (goods and services)

13. Air freight is a key element of the supply chain in the advanced manufacturing sector (an area in which the UK is seeking build a competitive strength) and typically these goods are high value, light, compact and perishable (e.g. medicines). Air freight carries only a very small proportion of UK exports by weight (approx 1%) but 22% when measured by value. In 2010 the total value of UK goods exported by air was £60 billion. To put this in context, the Airports Commission identified that: "*On average, each flight from Heathrow to the BRIC countries contains £400k in exports and each flight to China specifically is worth over £1 million.*"

14. It is important to recognise that passenger connectivity and air freight connectivity are interlinked. Belly-hold freight (i.e. freight shipped in the belly-hold of passenger aircrafts) makes up the majority of all air freight out of the UK. As a result, if aviation connectivity for passengers consolidates or declines, this will have a knock-on impact in the freight market in terms of costs and frequency. This in turn impacts the UK's competitive position in manufacturing.

[5] Northern Ireland travellers have the potential to access other hub airports such as Amsterdam in addition to Dublin to enhance our connectivity, but as Heathrow is the primary European international hub, connectivity to Heathrow is seen as vital.

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Northern Ireland statistics (Goods):

- Value of total goods exported is £3.2 billion (excluding to Republic of Ireland) and 20% to emerging/ growth markets;
- Exports via air freight £1 billion (31% by value);
- 60% of exports by air go via a hub airport to their final destination, including growth/ emerging markets.

Source: Oxford Economics (February 2012)

15. The UK has run a significant trade surplus in services for many years and particularly strong sectors include: financial services; insurance; and creative industries. These sectors operate in a global market place and are reliant on aviation to serve their international client base and develop client relationships with new customers.

16. Evidence also supports a correlation between connectivity and levels of trade. Frontier Economics[6] identified that in the eight fastest growing emerging markets, "*UK businesses trade 20 times as much with countries where there are daily flights, than with those of less frequent or no service.*"

17. There is, of course, a causal relationship between connectivity and trade, but it is likely to work in two ways – the strong trade links encourage greater provision of air services on that route, but also connectivity is an important determinant in establishing and developing those trade links in the first instance. The British Chambers of Commerce[7] completed a survey of business leaders in the high growth emerging markets of Brazil, China, India, South Korea and Mexico. In this survey 92% responded that direct links were important to inward investment decisions.

Tourism

18. Aviation plays a critical role in supporting in-bound and out-bound tourism in the UK. In 2011, nearly three quarters of the 31 million visits to the UK arrived through airports. Total earnings from overseas visitors in that year were £18 billion and 84% of this was spent by people travelling by air[8].

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[6] Frontier Economics (2011): '*Connecting for Growth: The role of Britain's hub airport in economic recovery*'. A report prepared for Heathrow.
[7] British Chambers of Commerce (26 January 2012) 'Press Release: *UK will miss out on investment because of poor air connections*'
[8] Airports Commission (2013): '*Discussion Paper 02: Air Connectivity and the Economy*'.

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19. It is important also to reference the 'tourism deficit' (i.e. where the number of outbound visitors and spend exceeds inbound visitors and spend, thereby increasing the trade deficit). In 2011 the Airports Commission, estimated UK residents spent £32 billion on visits abroad (compared to £18 billion spent by inbound tourists).

20. Whilst this has been cited by some policy makers as a rationale not to improve connectivity, there is significant domestic economic activity associated with outbound tourism. The Association of British Travel Agents (ABTA)[9] estimate that domestic spend on outbound travel products and services are broadly equivalent to spend by UK tourists abroad, touching many parts of the economy including retail, transport, tour operators and travel agents. Furthermore, qualitative factors for domestic citizens should also be considered, such as quality of life, developing new experiences and maintaining family and cultural links.

Increased Foreign Direct Investment

21. There is significant evidence to support the notion that connectivity is a critical factor in the investment decisions of companies. For example, the European Cities Monitor 2010[10] survey indicated that 51% of companies consider it is an essential factor when deciding where to locate a business. One of the other essential factors identified in the research was "easy access to markets, customers or clients", which is also very closely linked to connectivity.

Northern Ireland statistics:

- There are a total of 79,050 jobs in foreign owned companies in Northern Ireland (9.4% of the total private sector workforce)
- 54% of those jobs (42,250) are connected to their international headquarters via an international hub airport;
- The remaining 46% are connected via a direct flight.

Source: Oxford Economics and ONS

[9] ABTA (2012): '*Driving Growth – The Economic Value of Outbound Travel'*
[10] Cushman and Wakefield (2010): 'European Cities Monitor 2010'

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Increased innovation and productivity

22. Finally, the literature review identified research suggesting that international connectivity may also facilitate innovation and productivity:

- the effect on domestic firms from access to foreign markets – the increased competition and choice in foreign markets encourages firms to specialise in areas where they have a comparative advantage;
- increasing competition and choice in the domestic market – this requires domestic firms to reduce their costs and adopt international best practice encouraging innovation and productivity improvements; and
- greater movement of investment capital and workers between countries – access to foreign markets provides domestic firms with access to new technologies, capital and an international labour pool. This encourages employers and policy makers to create an environment where all people can live and work and reach their potential.

Northern Ireland's air connectivity

23. The following tables set out Northern Ireland's connectivity within the UK, across Europe and internationally and to provide perspective, a comparison is given with Dublin. Connectivity is shown in both winter and summer as scheduling can vary significantly across seasons. In addition, a short comparative analysis is also undertaken between Northern Ireland (NI) and Edinburgh airport. This analysis is based on information provided by the Department of Finance and Personnel (DFP) in a report completed in August 2013.

Connectivity with Great Britain (GB)

24. Table 2.1 below shows NI to be as well connected to GB as Dublin, with broadly similar numbers of weekly departures. However, as highlighted further below, NI is much more reliant on GB (and Heathrow in particular) for onward international connectivity.

Table 2.1: Connectivity with GB (Departures per week)

	Northern Ireland		**Dublin**	
	Winter 12/13	Summer 2013	Winter 12/13	Summer 2013
Heathrow	57	62	123	136
Other London	143	132	179	197
Other GB Provincial	419	416	307	393
Total	**619**	**610**	**609**	**726**

Source: TTC, DFP

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Connectivity with mainland Europe

25. Table 2.2 below shows a very significant gap between NI's and Dublin's direct connectivity with mainland Europe. Dublin serves approximately five times more cities than Belfast and in the summer provides 10 times more seating capacity despite only having 2.5 times the population.

Table 2.2: Connectivity with mainland Europe

	Northern Ireland		Dublin	
	Winter 12/13	Summer 2013	Winter 12/13	Summer 2013
Weekly departures	34	104	528	822
Seat capacity	5,264	16,452	101,813	171,664
Cities served	11	17	58	96

Source: TTC, DFP

26. Northern Ireland obviously has significant indirect connectivity with mainland Europe through access to hub airports, most notably Heathrow.

Connectivity with the US and Middle East

27. Table 2.3 below shows there is also a huge gap between NI's direct international connectivity and that of Dublin as measured by weekly scheduled services. This is the most striking of the connectivity analysis conducted and emphasises NI's reliance on London (and Dublin) for international connectivity.

Table 2.3: International connectivity (Weekly scheduled services)

	Northern Ireland		Dublin	
	Winter 12/13	Summer 2013	Winter 12/13	Summer 2013
United States	5	7	62	100
Middle East	-	-	17	17

Source: TTC, DFP

28. Northern Ireland obviously has significant indirect international connectivity through access to hub airports, most notably Heathrow.

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Connectivity comparison between NI and Edinburgh

29. Table 2.4 provides a comparator between NI and Edinburgh, both in terms of the number of UK airports serviced (domestic connectivity) and also the number of international scheduled routes. The analysis shows that in terms of domestic air connectivity NI is as well served as Edinburgh, however for geographic reasons, NI is significantly more reliant on air travel for connectivity with GB than any other part of the UK. Furthermore, in terms of international connectivity, NI is also significantly behind Edinburgh[11].

Table 2.4: Connectivity comparison with Edinburgh

	NI	Edinburgh
No. of UK airports serviced	27	26
No. of international scheduled routes[(1)]	19	83

Source: CAA, DFP
Note 1: This refers to the number of routes in place, not the frequency operating on those routes.

[11] This analysis in some respects reflects demand in the local market and the fact that NI travellers also have access to Dublin for international connectivity. However, it is also recognised that travellers from Edinburgh also have access to a range of GB airports. Edinburgh (and Dublin) are economically successful cities and an important element of that success is ready access to a well-connected airport. If NI has similar economic ambitions, then enhanced local connectivity should be the aim.

3. Impact of pricing on passenger numbers

Introduction

30. This section of the report sets out the impact of a change in prices on passenger numbers. A reduction in prices can arise in a number of ways, and the purpose of this study is to look at the wider economic impact from a reduction in air fares. However, it is recognised that Government’s most obvious policy lever to reduce passenger ticket prices is through a change in Air Passenger Duty (APD). But it is also acknowledged that only a proportion of any reduction in a consumer tax is passed on in the form of reduced prices to consumers, at least in the short term.

31. As a result, if a price reduction is to be secured through a reduction in APD, this analysis must consider both the impact of the price reduction enjoyed by passengers and also the impact of the revenue retained by the airlines.

32. A detailed modelling exercise was undertaken by York Aviation to estimate the forecast changes in passenger numbers resultant from a change in pricing. This section of the report summarises the impact on passenger numbers.

33. At the outset it worth highlighting a number of issues raised by York Aviation in respect of data availability.

- Currency of data – the Civil Aviation Authority (CAA) conducts large scale passenger surveys across the UK airports on an annual basis. However, Northern Ireland airports have not taken part in this survey since 2006 and therefore information on: purpose of travel; country of residence of passengers; origin and destination within Northern Ireland; patterns of travel via hub airports; and use of premium class travel is substantially out of date.
- Insufficient air fare information – there is also limited data on air fares from Northern Ireland. Some information is available from the 2006 CAA survey but this is significantly dated and does not provide a time series. In addition, the International Passenger Survey (IPS) which does collect some information on fares is only undertaken at Belfast International and has only been collected since 2009. This limits it's usefulness in examining the past impact of changes in APD the series will not include the most substantive change in 2007. MIDT data would provide information on fares but is both expensive and flawed in terms of its coverage of key parts of the market;
- Lack of Dublin data – Dublin Airport Authority (DAA) produces yearly estimates of the numbers of NI residents using Dublin airport. In 2013 they estimated a

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total of 570,000 NI residents travelled to/from Dublin airport. Whilst the number of NI residents using the airport is known, there are several other factors which remain unknown, including; routes used, final destination, surface origins of passengers and purpose of travel.

34. Clearly, these issues have impacted on the approach taken to traffic forecasting and on the level of confidence that can be applied to the forecasts and economic impact calculations that flow from them. However, it is York Aviation's opinion that the forecasts provide a sensible assessment of the market moving forward, particularly in terms of the potential difference between scenarios.

35. A further assumption has been made at the outset that over time capacity will be developed at the Northern Ireland airports to support the levels of demand seen in the passenger forecasts.

Methodological approach used by York Aviation

Price Sensitivity/ Elasticity

36. Air fare elasticities show a negative response, meaning that an increase in price results in a decrease in demand. For this exercise York Aviation has applied the air fare elasticities used by the Department for Transport (DfT) for their 2013 UK Aviation Forecasts. The DfT forecasting model considers growth in air transport demand to be a function of changes in income and changes in fares. It uses a long time series in order to determine both price and income elasticities for a range of passenger groups. As a result it is York Aviation's view that the DfT analysis represents the most detailed and robust analysis of price sensitivity for the UK air transport market.

37. It is, however, important to note that the DfT research is based on a UK wide level. Therefore the model makes the important assumption that passengers in the UK do not have alternative flying options from a national perspective (in contrast to continental Europe where citizens can fly from airports in other national jurisdictions). Clearly, Northern Ireland does not fit with this assumption, as Dublin offers a relatively easily accessible alternative option. Hence, in addition to considering the 'own' price sensitivity of demand, York Aviation has also considered how demand will be allocated across the Northern Ireland airports and Dublin and how this might change in reaction to changes in air fares in Northern Ireland using a statistically derived passenger choice model.

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38. For the purposes of the econometric modelling in this study, the elasticities applied have been compared with those found in the literature. In selecting elasticities for comparison, it is essential to focus on studies which are relevant to the UK national passenger demand. For example, it would not be accurate to compare a national level price elasticity to that of a sub-national market, or an individual airline. As shown by CAA (2005), price effects at the sub-national level could be stronger, reflecting greater substitution possibilities, but substitution between routes or airlines would not affect the total market size. Also, comparisons with markets in other countries or regions of the world are complicated by their different population distribution, geography and transport systems, and market structures.

39. A literature review completed by York Aviation revealed that while there are a large number of studies of aviation price and income elasticities, relatively few are relevant to UK national demand. Key studies which are directly comparable are: Dargay & Hanley (2001)[12]; CAA (2005)[13]; and Dargay, Menaz & Cairns (2006)[14].

40. These studies do NOT cover all the market sectors modelled and used for forecasting, but where they coincide the price elasticities are broadly comparable to those used in this analysis. Table 3.1 below summarises the elasticities applied.

Table 3.1: Comparison of elasticities from literature review

		D&H (2001)	CAA (2005)	DM&C (2006)	Elasticity applied
UK Leisure	Short-haul	-0.6	-0.7 to -0.8	-1.0	-0.7 to -0.8
	Long haul			-0.4	-0.3
UK Business	Short-haul	-0.3		Minimal	-0.2 to -0.3
	Long haul				0 to -0.2
Non-UK/ RoI travellers		-0.3			-0.2

[12] Dargay & Hanley (2001) The Determinants of demand for international air travel to and from the UK
[13] CAA (2005) Demand for outbound leisure air travel and its key drivers
[14] Dargay, Menaz and Cairns (2006) Public attitudes towards aviation and climate change.

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41. Table 3.2 below sets out the elasticities applied in this analysis across all types of travel and residence of traveller.

Table 3.2: Price elasticities applied in passenger modelling

Market	Residence	Purpose	Price Elasticity
Domestic	NI	Business	-0.3
Domestic	NI	VFR	-0.7
Domestic	NI	Holiday	-0.7
Domestic	GB	Business	-0.3
Domestic	GB	VFR	-0.7
Domestic	GB	Holiday	-0.7
Domestic	ROI	Business	-0.2
Domestic	ROI	VFR	-0.8
Domestic	ROI	Holiday	-0.8
Domestic	Other	Business	-0.2
Domestic	Other	VFR	-0.8
Domestic	Other	Holiday	-0.8
Short Haul	NI	Business	-0.3
Short Haul	NI	VFR	-0.7
Short Haul	NI	Holiday	-0.7
Short Haul	GB	Business	-0.3
Short Haul	GB	VFR	-0.7
Short Haul	GB	Holiday	-0.7
Short Haul	ROI	Business	-0.2
Short Haul	ROI	VFR	-0.8
Short Haul	ROI	Holiday	-0.8
Short Haul	Other	Business	-0.2
Short Haul	Other	VFR	-0.8
Short Haul	Other	Holiday	-0.8
Long Haul	NI	Business	0
Long Haul	NI	VFR	-0.3
Long Haul	NI	Holiday	-0.3
Long Haul	GB	Business	0
Long Haul	GB	VFR	-0.3
Long Haul	GB	Holiday	-0.3
Long Haul	ROI	Business	-0.2
Long Haul	ROI	VFR	-0.3
Long Haul	ROI	Holiday	-0.3
Long Haul	Other	Business	-0.2
Long Haul	Other	VFR	-0.3
Long Haul	Other	Holiday	-0.3

Source: York Aviation allocation of Department for Transport Elasticities.

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42. The following comments are made to assist the understanding of the table above:

- Domestic – flights within the UK
- Short-haul – flights outside the UK but within Band A APD rating (typically Europe);
- Long-haul – flights beyond Band A
- Based on the research undertaken in this area, elasticities for Holiday and VFR (visiting friends and relatives) travellers are similar but the elasticity for business travellers is much lower (i.e. they are less price sensitive);
- The evidence also shows that short haul flights are more elastic than long haul flights.

43. The resulting forecasting process is described below.

Passenger forecasting

44. York Aviation developed a three stage approach:

a) *Estimate the size and growth of the underlying market* – this is based on CAA Passenger Survey from 2006. It provides a basis for estimating the number of passengers travelling to/ from each district in NI and is sub-divided into those travelling to domestic, international short haul and long haul destinations. The 2006 data is then adjusted to reflect 2013 demand levels using CAA statistics.

The 'Dublin effect' is then estimated as these numbers are excluded from the CAA surveys using information published by the Dublin Airport Authority. Further information is taken from the 2013 CAA Passenger Survey to identify GB passengers accessing NI through Dublin.

Underlying market growth is assumed to be in line with the DfT UK Aviation Forecast 2013 growth rates.

b) *Allocate passengers to NI or Dublin* – passenger demand at each airport is estimated based on surface access time and frequency of flights at each airport using the allocation model described above.

c) *Estimate the impact of changes in APD* – changes in APD are entered in to the model as equivalent changes in access time. A reduction in APD reduces the effective access time to Northern Ireland's airports making them more attractive choices. This will attract passengers who would otherwise have travelled via Dublin and will also stimulate new passengers to fly because of the overall reduction in price.

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Impact on passenger numbers

45. Passenger forecasts have been identified and split across the following:

- Purpose of travel – tourism; visiting friends and family; and business;
- Origin of passenger – Northern Ireland; Republic of Ireland; Great Britain; and Other;
- Distance of journey – short-haul and long-haul.

46. In addition the forecasts have been identified for the baseline/ status quo scenario and three alternative scenarios based on potential changes to the rate of APD:

I. Scenario 1 – 50% reduction in APD

II. Scenario 2 – 100% reduction (abolition) of APD

III. Scenario 3 – 10% increase in APD

47. The economic impact model has used these detailed passenger forecasts and whilst this report only sets out a high level summary of the forecasts out to 2018, the more detailed passenger forecasts are available separately.

48. In terms of identifying the additional passenger numbers, two specific calculations have been made:

- **Gross additional departing passenger numbers** – this represents the increase in passengers going through Northern Ireland airports (i.e. those making the journey because the fare is lower plus those who are travelling through a NI airport rather than Dublin); and
- **Net additional departing passenger numbers** – this represents only the passengers who are making the journey because of the reduced fare (i.e. those who are 'truly' additional).

49. One further assumption relates to the extent to which a reduction in APD is passed through to customers in the form of lower prices. York Aviation has assumed that there would be some 'stickiness' in the market in the short term but given the competitive pressures, **the change in APD would be passed on in full after two years**. Specifically, it has assumed that 50% of any reduction would be passed on in Year 1, 75% passed on in year 2 and 100% passed on in year 3 moving forward.

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50. The following tables **set out the forecast for departing passengers only**. Typically on a return journey, one individual will be counted as two passengers (i.e. once when arriving at the airport and once when leaving). However APD is payable by departing passengers only and therefore this report presents departing numbers only.

51. This analysis **excludes passengers flying on the Newark service** as direct long haul APD is set at 0% in Northern Ireland. APD is still payable on other indirect long haul services.

Baseline/ Status Quo Position (APD unchanged)

52. Table 3.3 below sets out the forecast number of passengers by origin on the basis that APD remains unchanged. Passengers from NI and RoI are considered to be outbound passengers (i.e. the purpose of their journey is to visit a country outside NI) and passengers from 'GB' and 'Other' are inbound passengers (i.e. the purpose of their journey is to visit NI).

Table 3.3: Forecast departing passenger numbers by origin (Baseline)

Passenger Origin	2014 '000s	2015 '000s	2016 '000s	2017 '000s	2018 '000s	2026 '000s
NI (Outbound)	1,993	2,041	2,085	2,131	2,178	2,620
RoI (Outbound)	69	70	72	73	74	88
GB (Inbound)	1,245	1,268	1,291	1,315	1,339	1,601
Other (Inbound)	198	205	208	212	216	251
Total	**3,505**	**3,583**	**3,656**	**3,731**	**3,807**	**4,560**

53. The following comments are made on these baseline forecasts:

- All passengers are assumed to make a two-way flight and therefore will be in a NI airport on two occasions, when leaving and arriving. These forecast numbers only count the individuals once so double counting of visitors has not occurred;
- Annual projected growth in passenger numbers is approximately 2.2%; and
- The percentage of passengers visiting Northern Ireland (i.e. inbound) as a proportion of the total number of passengers is 41% (i.e [GB + Other]/ Total), this remains constant throughout the 20 year forecast period.

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Gross additional departing passenger numbers

Change in departing passenger numbers in Scenario 1 (50% reduction in APD)

54. Table 3.4 below sets out the increase in forecast passenger numbers by origin on the basis that APD is reduced by 50%.

Table 3.4: Forecast increase in departing passenger numbers by origin (Scenario 1)

Passenger Origin	2015 '000s	2016 '000s	2017 '000s	2018 '000s	2026 '000s
NI (Outbound)	114	170	219	220	229
RoI (Outbound)	8	11	15	15	15
GB (Inbound)	13	18	24	24	24
Other (Inbound)	20	30	37	38	39
Total	**154**	**229**	**295**	**297**	**307**
% inc over baseline	**4.3%**	**6.3%**	**7.9%**	**7.8%**	**6.7%**
% inc who are visitors	**21.0%**	**21.0%**	**20.9%**	**20.8%**	**20.6%**

55. The following comments are made on the 50% APD reduction forecasts:

- The reduction brings about a staged increase in passenger numbers over a 3 year period as the APD reduction is passed on to customers. If rates were to be reduced in 2015, we would see an increase in passenger traffic of approximately 4% in that year, 6% in 2016 and 8% in 2017;
- In the longer term, year-on-year the level of increase over the baseline falls from 7.9% in 2017 to 6.7% in 2026. This arises because year-on-year people put an increasing value on their travel time. As a consequence the reduction in the cost of air travel has less of an influence on the passengers choice of airport; and
- Only approximately 21% of the additional passenger traffic are visitors. Therefore a reduction in APD is forecast to encourage a greater uptake in outbound travel than inbound travel. This remains broadly static throughout the forecast period.

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Change in departing passenger numbers in Scenario 2 (Abolition of APD)

56. Table 3.5 below sets out the increase in forecast passenger numbers by origin on the basis that APD is abolished.

Table 3.5: Forecast increase in departing passenger numbers by origin (Scenario 2)

Passenger Origin	2015 \`000s	2016 \`000s	2017 \`000s	2018 \`000s	2026 \`000s
NI (Outbound)	212	283	336	341	376
RoI (Outbound)	15	21	26	26	27
GB (Inbound)	24	35	45	45	46
Other (Inbound)	36	46	52	53	59
Total	287	384	460	466	**507**
% inc over baseline	**8.1%**	**10.5%**	**12.3%**	**12.2%**	**11.1%**
% inc who are visitors	**21.0%**	**21.0%**	**21.3%**	**21.1%**	**20.6%**

57. The following comments are made on the APD abolition forecasts:

- The reduction brings about a staged increase in passenger numbers over a 3 year period as the APD reduction is passed on to customers. If rates were to be reduced in 2015, we would see an increase in passenger traffic of approximately 8% in that year, 10% in 2016 and 12% in 2017;
- In the longer term, year-on-year the level of increase over the baseline falls from 12.3% in 2017 to 11.1% in 2026. As outlined above, year-on-year people put an increasing value on their travel time. As a consequence the reduction in the cost of air travel has less of an influence on the passengers choice of travel or airport;
- Only approximately 21% of the additional passenger traffic are visitors. This remains broadly static throughout the forecast period and is the same proportion as under scenario 1.

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Change in departing passenger numbers in Scenario 3 (Increase APD by 10%)

58. Table 3.6 below sets out the decrease in forecast passenger numbers by origin on the basis that APD is increased by 10%.

Table 3.6: Forecast change in departing passenger numbers by origin (Scenario 3)

Passenger Origin	2015 '000s	2016 '000s	2017 '000s	2018 '000s	2026 '000s
NI (Outbound)	(34)	(50)	(66)	(66)	(66)
RoI (Outbound)	(2)	(3)	(5)	(5)	(5)
GB (Inbound)	(5)	(8)	(11)	(11)	(11)
Other (Inbound)	(6)	(8)	(9)	(9)	(9)
Total	**(48)**	**(69)**	**(91)**	**(91)**	**(89)**
% change over baseline	**(1.3%)**	**(1.9%)**	**(2.4%)**	**(2.4%)**	**(2.0%)**
% dec who are visitors	**23.9%**	**22.8%**	**22.1%**	**22.0%**	**21.5%**

59. The following comments are made on the 10% increase in APD rates:

- The increase brings about a staged decrease in passenger numbers over a 3 year period as the APD increase is passed on to customers. If rates were to be raised in 2015, we would see an decrease in passenger traffic of approximately 1.3% in that year, 1.9% in 2016 and 2.4% in 2017;
- In the longer term, year-on-year the level of decrease over the baseline falls from 2.4% in 2017 to 2.0% in 2026 for the reasons given above (year-on-year people put an increasing value on their travel time. As a consequence the increase in the cost of air travel has less of an influence on the passengers choice of travel or airport);
- Approximately 22% of the reduction in passenger traffic would be visitors to Northern Ireland. This proportion remains broadly static throughout the forecast period and is a similar proportion to scenarios 1 and 2.

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Summary of changes to departing passenger numbers

60. Table 3.7 below sets out the percentage change in passenger numbers over the baseline position for each of the three scenarios. As explained above, the impact of the change in APD is reduced over time and therefore the percentage change in passenger numbers reduces. The table below shows the forecast change at selected years over the 20 year assessment period.

Table 3.7: Percentage change in forecast departing passenger numbers over baseline

Scenario	2017	2022	2027	2032	2034
1 – 50% reduction					
Outbound	10.6%	9.8%	8.8%	7.9%	7.6%
Inbound	4.0%	3.7%	3.3%	3.0%	2.8%
Scenario 1 - Total	**7.9%**	**7.3%**	**6.6%**	**5.9%**	**5.6%**
2 – Abolition					
Outbound	16.4%	15.6%	14.7%	13.8%	13.4%
Inbound	6.4%	6.0%	5.6%	5.1%	5.0%
Scenario 2 - Total	**12.3%**	**11.7%**	**11.0%**	**10.3%**	**10.0%**
3 – 10% increase					
Outbound	(3.2%)	(2.9%)	(2.5%)	(2.3%)	(2.2%)
Inbound	(1.3%)	(1.1%)	(1.0%)	(0.9%)	(0.8%)
Scenario 3 - Total	**(2.4%)**	**(2.2%)**	**(1.9%)**	**(1.7%)**	**(1.6%)**

61. The following comments are made in respect of these forecasts:

- The impact on outbound travel is more significant than inbound travel indicating local travellers are much more price sensitive than foreign travellers;
- The impact of a 50% reduction in APD (scenario 1) is proportionally greater than a full abolition, particularly in the early years. A reduction of 50% will increase passenger numbers by approximately 8%, but a reduction of 100% ‘only’ increases passenger numbers by approx. 12%. The primary reason for this, is that the initial 50% reduction has quite a significant impact in reducing the leakage to Dublin, but if the rate were to be abolished, the ‘second’ 50% reduction would have less of an impact (consistent with the principle of falling marginal benefits);
- An increase in APD, which at 10% is small in relative terms to the decreases of 50% and 100% also analysed, is forecast to have quite a significant impact on passenger

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numbers. This would continue to drive potential passengers away from Northern Ireland airports;

- The falling impact over time of a change to APD, has the impact of reducing any economic benefits to be derived from a change in APD in the longer term. This is discussed in more detail in the next section of the report.

Net additional departing passenger numbers

Change in departing passenger numbers in Scenario 1 (50% reduction in APD)

62. Table 3.8 below sets out the net increase in forecast passenger numbers by origin on the basis that APD is reduced by 50%.

Table 3.8: Forecast net increase in departing passenger numbers by origin (Scenario 1)

Passenger Origin	2015	2016	2017	2018	2026
NI (Outbound)	18,617	28,044	37,545	37,511	37,382
RoI (Outbound)	1,231	1,849	2,469	2,456	2,388
GB (Inbound)	8,946	13,433	17,924	17,836	17,675
Other (Inbound)	1,695	2,542	3,388	3,371	3,264
Total	**30,490**	**45,867**	**61,326**	**61,174**	**60,709**
% inc over baseline	0.9%	1.3%	1.6%	1.6%	1.3%

63. The following comments are made on the 50% APD reduction forecasts:

- The reduction brings about a staged increase in passenger numbers over a 3 year period as the APD reduction is passed on to customers. If rates were to be reduced in 2015, we would see an increase in passenger traffic of approximately 0.9% in that year, 1.3% in 2016 and 1.6% in 2017;

- In the longer term, year-on-year the level of increase over the baseline falls from 1.6% in 2017 to 1.3% in 2026. This arises because year-on-year people put an increasing value on their travel time. As a consequence the reduction in the cost of air travel has less of an influence on the passengers choice of travel or airport.

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Change in departing passenger numbers in Scenario 2 (Abolition of APD)

64. Table 3.9 below sets out the increase in forecast passenger numbers by origin on the basis that APD is abolished.

Table 3.9: Forecast net increase in departing passenger numbers by origin (Scenario 2)

Passenger Origin	2015	2016	2017	2018	2026
NI (Outbound)	37,607	56,933	76,591	76,488	75,971
RoI (Outbound)	2,496	3,776	5,075	5,044	4,883
GB (Inbound)	18,100	27,327	36,657	36,460	35,998
Other (Inbound)	3,420	5,152	6,897	6,860	6,622
Total	**61,624**	**93,189**	**125,220**	**124,852**	**123,474**
% inc over baseline	1.7%	2.5%	3.4%	3.3%	2.7%

65. The following comments are made on the APD abolition forecasts:

- The reduction brings about a staged increase in passenger numbers over a 3 year period as the APD reduction is passed on to customers. If rates were to be reduced in 2015, we would see an increase in passenger traffic of approximately 1.7% in that year, 2.5% in 2016 and 3.4% in 2017;

- In the longer term, year-on-year the level of increase over the baseline falls from 3.4% in 2017 to 2.7% in 2026. As outlined above, year-on-year people put an increasing value on their travel time. As a consequence the reduction in the cost of air travel has less of an influence on the passengers choice of travel or airport.

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Change in departing passenger numbers in Scenario 3 (Increase APD by 10%)

66. Table 3.10 below sets out the decrease in forecast passenger numbers by origin on the basis that APD is increased by 10%.

Table 3.10: Forecast net change in departing passenger numbers by origin (Scenario 3)

Passenger Origin	2015 '000s	2016 '000s	2017 '000s	2018 '000s	2026 '000s
NI (Outbound)	-6,669	-9,977	-13,269	-13,260	-13,265
RoI (Outbound)	-451	-671	-889	-885	-867
GB (Inbound)	-3,507	-5,226	-6,924	-6,895	-6,866
Other (Inbound)	-578	-861	-1,142	-1,137	-1,108
Total	**-11,205**	**-16,737**	**-22,224**	**-22,176**	**-22,106**
% change over baseline	-0.3%	-0.5%	-0.6%	-0.6%	-0.5%

67. The following comments are made on the 10% increase in APD rates:

- The increase brings about a staged decrease in passenger numbers over a 3 year period as the APD increase is passed on to customers. If rates were to be raised in 2015, we would see an decrease in net passenger traffic of approximately 0.3% in that year, 0.5% in 2016 and 0.6% in 2017;
- In the longer term, year-on-year the level of decrease over the baseline falls from 0.6% in 2017 to 0.5% in 2026 for the reasons given above (year-on-year people put an increasing value on their travel time. As a consequence the increase in the cost of air travel has less of an influence on the passengers choice of travel or airport);

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Comparison of net and gross additional departing passengers

68. Table 3.11 below sets out the proportion of net additional passengers as a percentage of gross additional passengers for each of the three scenarios. Typically only 20% to 25% of the gross additional passengers are making the journey because of the reduced fare. The significant majority would make the journey in any case but would use Dublin.

69. Given the different elasticities that proportion varies significantly between business and leisure passengers.

Table 3.11: Comparison of net and gross additional departing passengers

Scenario	2015	2016	2017	2018	2026
1 – 50% reduction					
% Business Net over Gross	8.0%	8.2%	8.4%	8.3%	7.8%
% Leisure Net over Gross	20.7%	20.9%	21.8%	21.6%	20.8%
% Total Net over Gross	**19.8%**	**20.0%**	**20.8%**	**20.6%**	**19.8%**
2 – Abolition					
% Business Net over Gross	8.8%	9.7%	10.7%	10.5%	9.3%
% Leisure Net over Gross	22.5%	25.4%	28.6%	28.2%	25.6%
% Total Net over Gross	**21.5%**	**24.2%**	**27.2%**	**26.8%**	**24.3%**
3 – 10% increase					
% Business Net over Gross	8.7%	8.8%	8.7%	8.7%	8.6%
% Leisure Net over Gross	24.8%	25.7%	26.0%	26.0%	26.3%
% Total Net over Gross	**23.4%**	**24.2%**	**24.5%**	**24.5%**	**24.7%**

70. The following comments are made in respect of these forecasts:

- The proportion of business travellers who only make the journey because of the reduced fare is significantly lower than leisure travellers. This is consistent with the research undertaken and discussed in the literature review which indicated that business travellers are much less price sensitive than leisure travellers;
- The proportion of net additional business travellers is broadly consistent across all scenarios;
- Net additional business travellers make up such a small percentage of the total net additional passengers that the overall '% Total Net over Gross' is only marginally lower than '% Leisure Net over Gross'.

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4. Economic impact of a change in prices

Introduction

71. This section of the report assesses the economic benefits associated with the change in passenger numbers as a result of a change in price and is structured as follows:

- Methodological approach;
- Direct impact;
- Indirect and induced impacts;
- Catalytic impacts;
- Non-quantified economic benefit.

Methodological approach

Economic impacts

72. The methodological approach adopted identifies the full range of benefits which are likely to be accrued from lower air fares through a reduction in APD. In addition, **the exchequer cost in terms of reduced taxation revenue is also identified** (see Section 5) to determine an overall cost benefit conclusion.

Table 4.1: Economic impacts estimated

Impact	Description	Comment
Direct impact – additional passengers	Employment and investment in the aviation industry itself including both on-site and off-site (such as: airlines, airport operators, car parking, security, flight caterers, aircraft servicing).	Calculation based on the increased employment by the aviation sector.
Direct impact – retained revenues	It is recognised that some of a proposed reduction in APD may be retained by the airlines at least in the short term.	Estimate based on discussions with airlines and examples from elsewhere.
Indirect impact	Employment and investment supported through the supply chain expenditure resulting from direct expenditure.	Calculation based on the Type I multipliers sourced from the Scottish Input – Output tables.
Induced impact	Employment and investment supported by the spending of those directly and indirectly employed by the sector.	Calculation based on the Type II multipliers sourced from the Scottish Input – Output tables.
Catalytic impact	Employment and investment supported by increased passenger numbers in the wider economy such as increased inbound and outbound tourism and business.	Calculation based on increased passenger numbers identified by York Aviation and associated additional expenditure.

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73. **The direct, indirect and induced impacts are calculated based on the gross additional passengers** as this represents the benefits associated with greater passenger numbers through the airport. **The catalytic benefits are based on the net additional passengers** as this represents the 'real' change in those visiting and leaving Northern Ireland.

Principles

74. The following principles were applied when estimating the economic impact:

- A sensitivity analysis has been undertaken where there was a greater level of uncertainty and the materiality of assumptions made has been determined;
- All assumptions taken are based on evidence identified from detailed research and/ or backed up by consultation with sectoral experts;
- **All costs and benefits are estimated in 2014 prices**. It has been assumed that unless otherwise stated all costs, benefits and tax rates will rise in line with inflation.

75. An overview schematic of the economic impact model and calculation approach is included in Annex A.

Scenarios assessed

76. The economic impact of the following two scenarios are assessed against the counterfactual/ status quo position (i.e. unchanged APD rates) over a 20 year period:

- Scenario 1: APD reduction – a reduction in APD rates of 50% across the reduced, standard and higher rates;
- Scenario 2: APD abolition – an abolition of APD; and
- Scenario 3: APD increase – an increase in APD rates of 10% across the reduced, standard and higher rates.

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Direct impact – additional passengers

77. The direct economic impact on the aviation industry from higher passenger numbers would result in increased employment at NI airports and airlines to service greater passenger numbers. This includes employees of the airport operators, airline staff based in NI and also sub-contracted staff. A review of available research was completed and a detailed consultation exercise was undertaken with the airport operators and main airlines with a NI presence to identify the employment impact of additional passenger volumes.

78. The most recent research identified was commissioned by ACI Europe[15] in 2004 which estimated that European airports current support on average approximately 950 on-site jobs per million passengers per annum. This report also referenced a previous 1998 study which estimated 1,000 jobs per million passengers, indicating efficiency improvements in the industry. Consultation with York Aviation indicated that efficiency improvements would have significantly reduced that number. Comparisons with the overall on-site employment at the three NI airports may be misleading because of significant levels of freight traffic contributing to on-site employment at Belfast International, which would not be directly impacted by a reduction in APD. Therefore the Belfast City Airport total employment (including airport, airline and sub-contracted staff) and passenger data may give a more accurate reflection of the additional employment which would be created. Employment is approximately 1,000 handling 2.5 million passengers or 400 jobs per million passengers.

79. Therefore we have also assumed 400 jobs created per million additional passengers per annum. In addition we are assuming that the efficiency per passenger improvements will continue and on the basis of industry consultations this is estimated at 2% per annum.

80. Taking these factors together, the total additional employment levels were identified and applied to the average salary for the airline/ airport sector. This has been identified at £28,750 (in 2014 prices) based on the weighted average salaries of jobs in the aviation sector including support services and revised down to reflect the Northern Ireland salary differential[16]. Given the on-going efficiency improvements, it is assumed

[15] ACI Europe (2004): '*The social and economic impact of airports in Europe*'
[16] The salaries used in the analysis ranged from £78k for pilots and engineers to £22k for junior staff. The greater number of more junior staff resulted in a weighted average of £35k. the downward revision to £28,750 reflects lower salaries in NI based on ASHE estimates.

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that half of this benefit would be shared with staff in the form of higher salaries and these are assumed to increase at a rate of 1% per annum.

81. Lastly, in order to understand the full economic impact or increase in Gross Value Added (GVA), a GVA factor should also be applied to salaries. This GVA factor includes the profit and investment components of economic activity and based on ONS data of the Air Transport sector a ratio of 1.985 should be applied[17].

82. This GVA factor approach is also preferable given the difficulties in forecasting specific investment expenditure over a long term period and the revenue derived by airports from additional passenger volumes. From an investment perspective it is assumed capacity will be developed to meet demand and this investment expenditure is incorporated in the GVA uplift.

83. Table 4.2 below sets out the additional employment created and the associated economic impact on GVA over the first five years of the change in price (the model includes an analysis over a 20 year period).

Table 4.2a: Direct Impact – Employment Benefits (Scenario 1)

	2015	2016	2017	2018	2026
Add. employment	121	176	222	219	192
Ave salary in sector	£29,038	£29,328	£29,622	£29,918	£32,397
Total salaries	£3,5m	£5.2m	£6.6m	£6.6m	£6.2m
GVA Factor	1.985	1.985	1.985	1.985	1.985
Direct Impact on GVA	**£7.0m**	**£10.3m**	**£13.1m**	**£13.0m**	**£12.4m**

Note: Numbers may not calculate due to rounding

[17] Although some businesses, including the airport itself, are foreign owned, many of the on-site businesses are locally owned and therefore much of the profit will be retained locally. Furthermore, all businesses (including the foreign owned) make significant investments locally. In order to be balanced, the analysis assumes that APD revenue retained by airlines will not stay within NI.

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Table 4.2b: Direct Impact – Employment Benefits (Scenario 2)

	2015	2016	2017	2018	2026
Add. employment	225	295	347	344	318
Ave salary in sector	£29,038	£29,328	£29,622	£29,918	£32,397
Total salaries	£6.5m	£8.7m	£10.3m	£10.3m	£10.3m
GVA Factor	1.985	1.985	1.985	1.985	1.985
Direct Impact on GVA	**£13.0m**	**£17.2m**	**£20.4m**	**£20.4m**	**£20.5m**

Note: Numbers may not calculate due to rounding

Table 4.2c: Direct Impact – Employment Benefits (Scenario 3)

	2015	2016	2017	2018	2026
Add. employment	-37	-53	-68	-67	-56
Ave salary in sector	£29,038	£29,328	£29,622	£29,918	£32,397
Total salaries	(£1.09m)	(£1.56m)	(£2.03m)	(£2.00m)	(£1.82m)
GVA Factor	1.985	1.985	1.985	1.985	1.985
Direct Impact on GVA	**(£2.16m)**	**(£3.09m)**	**(£4.02m)**	**(£3.97m)**	**(£3.61m)**

Note: Numbers may not calculate due to rounding

84. The following comments are made in respect of the Employment benefits:

- From 2017 onwards (at which time the full change in APD is assumed to have been passed on to passengers) the annual economic benefit from a 50% reduction in APD is approximately £13 million, and from a 100% reduction the economic benefit is £20 million. Therefore the benefit from the additional reduction (i.e. from 50% to full abolition) is not as significant as the initial 50% reduction. As explained in Section 3 of this report, significant additional passengers are attracted by the initial 50% reduction, in particular those who are currently using Dublin. However a further 50% reduction cannot continue to generate additional passengers at the same rate.

- It is estimated that if APD was raised by 10% (scenario 3) there would be approximately 60-70 fewer jobs compared to the status quo position which has a negative GVA impact of approximately £4 million per annum.

- It is important to note that these benefits fall over time because of the increased efficiency on a per passenger basis which creates fewer additional jobs. This is shown in the benefits when assessed out to 2026.

Direct impact – revenues retained by airlines

85. Where a price reduction is to be achieved through a reduction in APD, research undertaken as part of this study highlighted that airlines will, to differing degrees, retain a portion of any reduction in APD at least in the short term. Whilst the consumer will not benefit from this retained revenue element, some significant economic benefits could still arise. However, this would be dependent on how the airlines decided to allocate this additional revenue retained. In effect they have a number of options:

- Invest the revenue to develop new routes from NI – we understand that Ryanair and Aer Lingus elected to take this approach in the Republic of Ireland, following the abolition of the Air Travel Tax in the 2013 Irish Budget. Obviously, as NI has no indigenous (national) carrier, it is less clear that a similar approach would be adopted here;

- Invest the revenue to develop routes elsewhere – this would clearly not deliver additional economic benefits to Northern Ireland. If the investment was made in additional routes from other parts of the UK then a national benefit could be claimed but the NI block grant would be paying for economic development in other regions of the UK; and

- Airline retains the revenue for profit (and distribution to shareholders) – whilst this would generally be seen as not economically beneficial to NI, an indirect benefit could be derived. For example, when Bands B, C and D were abolished Continental retained the tax reduction and did not reduce fares. Their justification was that they had been subsidising the route to keep it competitive with the Dublin route and if APD was not abolished the route would have been discontinued. Therefore the economic benefit in that instance was maintaining the status quo.

86. In consultation with the airlines, York Aviation have assumed that only 50% of any proposed change in APD would be passed on to passengers in Year 1, 75% in Year 2 and then 100% of the change would be passed on in Year 3. This assumption is based on the competitive nature of the local air travel market.

87. Table 4.3 below sets out the forecast revenue retained by the airlines in 2015 and 2016, the two years in which it is anticipated that revenue would be retained. In the case of Scenario 3 (APD increased by 10%), it is assumed that airlines would absorb the rise in the same proportions over the first two years.

Table 4.3: Forecast revenues retained by airlines

	2015 (50% retained)	2016 (25% retained)	Total
Scenario 1 – 50% reduction	£14.96m	£7.91m	£22.87m
Scenario 2 – Abolition	£31.67m	£16.67m	£48.36m
Scenario 3 – 10% increase	(£2.75m)	(£1.40m)	(£4.16m)

88. It was concluded that there would be no significant investment activity generated as a result of retained revenues. Therefore the revenue retained is assumed to be lost to the local economy.

Indirect and induced impact

89. The indirect impact refers specifically to the output and employment supported through the supply chain expenditure resulting from direct expenditure. This would include companies who provide goods and services to the local airports and the airlines. For example, companies providing catering goods and services and maintenance goods and services. This has been calculated through the Type I multiplier, sourced from the 2009 Scottish Air Transport Input – Output tables (NI does not yet produce its own Input – Output tables and the Scottish tables are generally used as the most applicable in NI. The 2009 figures are the latest available).

90. The induced impact refers specifically to the output and employment supported through the spending of those directly and indirectly employed in the sector. This is typically spending by those employed directly and indirectly by the airports or airlines which supports the local economy for example in local shops. This is also typically calculated through the Type II multiplier sourced from the 2009 Scottish Air Transport Input – Output tables.

91. Table 4.4 below sets out the indirect and induced impact on GVA resultant from increased passenger numbers over the first five years of the change in price (the model includes an analysis over a 20 year period).

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Table 4.4a: Indirect and induced GVA impact (Scenario 1)

	2015	2016	2017	2018	2026
Total Direct Benefits	£7.0m	£10.3m	£13.1m	£13.0m	£12.3m
Type I multiplier	0.6	0.6	0.6	0.6	0.6
Total Indirect benefits	**£4.2m**	**£6.2m**	**£7.8m**	**£7.8m**	**£7.4m**
Type II multiplier	0.3/ 0.9	0.3/ 0.9	0.3/ 0.9	0.3/ 0.9	0.3/ 0.9
Total Induced benefits	**£2.1m**	**£3.1m**	**£3.9m**	**£3.9m**	**£3.7m**

Note: Numbers may not calculate due to rounding

Table 4.4b: Indirect and induced GVA impact (Scenario 2)

	2015	2016	2017	2018	2026
Total Direct Benefits	£13.0m	£17.2m	£20.4m	£20.4m	£20.5m
Type I multiplier	0.6	0.6	0.6	0.6	0.6
Total Indirect benefits	**£7.8m**	**£10.3m**	**£12.2m**	**£12.2m**	**£12.3m**
Type II multiplier	0.3/ 0.9	0.3/ 0.9	0.3/ 0.9	0.3/ 0.9	0.3/ 0.9
Total Induced benefits	**£3.9m**	**£5.2m**	**£6.1m**	**£6.1m**	**£6.1m**

Note: Numbers may not calculate due to rounding

Table 4.4c: Indirect and induced GVA impact (Scenario 3)

	2015	2016	2017	2018	2026
Total Direct Benefits	(£2.16m)	(£3.09m)	(£4.02m)	(£3.97m)	(£3.61m)
Type I multiplier	0.6	0.6	0.6	0.6	0.6
Total Indirect benefits	**(£1.30m)**	**(£1.85m)**	**(£2.41m)**	**(£2.38m)**	**(£2.17m)**
Type II multiplier	0.3/ 0.9	0.3/ 0.9	0.3/ 0.9	0.3/ 0.9	0.3/ 0.9
Total Induced benefits	**(£0.65m)**	**(£0.93m)**	**(£1.21m)**	**(£1.19m)**	**(£1.08m)**

Note: Numbers may not calculate due to rounding

92. In employment terms, based on an average NI productivity of £35k, the indirect and induced benefits would equate to approximately 330 additional jobs in scenario 1, 520 additional jobs in scenario 2 and a loss of approximately 100 jobs in scenario 3 by 2017.

Catalytic impacts

93. A further impact on the NI economy from a change in passenger numbers is felt in the wider economy, known as the catalytic impact. This impact falls into two broad areas: tourism; and business and these are discussed in turn below.

Tourism – additional inbound visitors to NI (exports)

94. One of the key benefits of making air travel more affordable is that it will attract greater numbers of visitors to NI from overseas. The Office of National Statistics (ONS) typically categorises visitors into three groups: tourists; those visiting friends and family (VFF); and business travellers. These three groups on average spend varying amounts when they visit NI. In addition, the origin of the visitor also impacts the level of spending in the local economy and this has been categorised into those travelling from GB and ‘Other’ destinations. Numbers from RoI using NI airports have also been identified but they are assumed to be using local airports to reach their destination and NI is not their final destination.

95. Table 4.5 below shows the average expenditure per overnight visitor by visitor type and origin.

Table 4.5: Estimated overnight spend by visitor type and origin of traveller

	GB	Other
Tourist	£242	£228
VFF	£189	£315
Business	£333	£580

Source: DETI analysis, NI Passenger Survey (NISRA)

96. The passenger forecasts have also been identified by passenger type and origin of traveller and these are presented in Table 4.6 below.

Table 4.6a: Additional inbound tourism passengers (Scenario 1)

	2015	2016	2017	2018	2026
Tourist	1,926	2,892	3,860	3,843	3,788
VFF	8,208	12,321	16,438	16,355	16,146
Business	472	707	942	938	932
Total additional inbound tourists	**10,606**	**15,921**	**21,240**	**21,135**	**20,866**

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Table 4.6b: Additional inbound tourism passengers (Scenario 2)

	2015	2016	2017	2018	2026
Tourist	3,894	5,879	7,885	7,846	7,709
VFF	16,604	25,065	33,616	33,429	32,882
Business	950	1,428	1,907	1,898	1,882
Total additional inbound tourists	**21,449**	**32,371**	**43,408**	**43,173**	**42,473**

Table 4.6c: Additional inbound tourism passengers (Scenario 3)

	2015	2016	2017	2018	2026
Tourist	-726	-1,083	-1,435	-1,430	-1,418
VFF	-3,164	-4,715	-6,246	-6,218	-6,174
Business	-185	-276	-366	-364	-363
Total reduction inbound tourists	**-4,075**	**-6,074**	**-8,047**	**-8,012**	**-7,955**

97. Table 4.7 below summarises total in-bound tourism spend by visitor type.

Table 4.7a: Additional inbound tourism spend – exports (Scenario 1)

	2015	2016	2017	2018	2026
Tourist	£459,443	£689,901	£920,696	£916,568	£903,877
VFF	£1,700,066	£2,551,826	£3,404,115	£3,386,907	£3,337,801
Business	£165,919	£248,567	£330,976	£329,506	£327,253
Tourism spend (exports)	**£2,325,427**	**£3,490,294**	**£4,655,787**	**£4,632,981**	**£4,568,930**

Table 4.7b: Additional inbound tourism spend – exports (Scenario 2)

	2015	2016	2017	2018	2026
Tourist	£928,923	£1,402,307	£1,880,957	£1,871,634	£1,839,291
VFF	£3,438,483	£5,189,472	£6,958,891	£6,920,333	£6,795,578
Business	£333,905	£501,745	£669,985	£666,835	£660,988
Tourism spend (exports)	**£4,701,311**	**£7,093,524**	**£9,509,834**	**£9,458,802**	**£9,295,857**

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Table 4.7c: Additional inbound tourism spend – exports (Scenario 3)

	2015	2016	2017	2018	2026
Tourist	-£173,467	-£258,632	-£342,804	-£341,464	-£338,631
VFF	-£648,641	-£966,561	-£1,280,417	-£1,274,801	-£1,263,846
Business	-£64,522	-£96,270	-£127,690	-£127,169	-£126,680
Tourism spend (exports)	**-£886,630**	**-£1,321,463**	**-£1,750,911**	**-£1,743,434**	**-£1,729,157**

Tourism – additional outbound travellers (imports)

98. The analysis also showed that lower prices will result in increased numbers of outbound travellers as a greater number of local residents choose to holiday abroad. **This has a negative impact on the NI economy as it represents a tourism import and therefore is also included in the overall impact calculation.**

99. However, as highlighted in the literature review, there is a significant level of economic activity in the local economy associated with outbound tourism. The ABTA commissioned research estimated that domestic spend on outbound travel products and services was broadly equivalent to the spend by UK tourists abroad. This domestic spend touched many parts of the economy including retail, transport, tour operators and travel agents.

100. In consultation with the broader research team (including DETI and York Aviation), it was agreed that the local benefit of expenditure associated with outbound travel would be equivalent to 25% of overseas spend. (This is significantly lower than the 'almost equal' spend found in the ABTA research and includes additional spending in airports by outbound tourists).

101. Table 4.8 below sets out the net impact from outbound tourism across the three scenarios.

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Table 4.8a: Outbound tourism passengers and spend (Scenario 1)

	2015	2016	2017	2018	2026
Tourist	11,599	17,498	23,462	23,480	23,434
VFF	6,584	9,893	13,212	13,163	13,081
Total Outbound tourists	**18,182**	**27,391**	**36,674**	**36,643**	**36,514**
Average per capita spend [1]	£399	£399	£399	£399	£399
Total tourism spend (import)	**£7,254,808**	**£10,929,063**	**£14,633,083**	**£14,620,714**	**£14,569,224**
Local spend factor	£1,813,702	£2,732,266	£3,658,271	£3,655,179	£3,642,306
Net tourism spend (import)	**£5,441,106**	**£8,196,797**	**£10,974,812**	**£10,965,536**	**£10,926,918**

Note 1: ABTA estimate that the average UK tourist spends £532 per head. As NI GVA per head has averaged 75% of UK GVA per head in the last three years, average NI tourism has been estimated at £399.

Note 2: Business travellers abroad is not considered to be an import as it is an important aspect of driving exports, therefore only tourist and VFF travellers are considered (additional NI business passenger traffic is discussed further below).

Table 4.8b: Outbound tourism passengers and spend (Scenario 2)

	2015	2016	2017	2018	2026
Tourist	23,423	35,512	47,846	47,861	47,609
VFF	13,310	20,105	26,984	26,871	26,610
Total Outbound tourists	**36,732**	**55,616**	**74,830**	**74,732**	**74,219**
Average per capita spend	£399	£399	£399	£399	£399
Total tourism spend (import)	£14,656,213	£22,190,922	£29,856,982	£29,817,974	£29,613,329
Local spend factor	£3,664,053	£5,547,731	£7,464,245	£7,454,493	£7,403,332
Net tourism spend (import)	**£10,992,160**	**£16,643,192**	**£22,392,736**	**£22,363,480**	**£22,209,997**

Table 4.8c: Outbound tourism passengers and spend (Scenario 3)

	2015	2016	2017	2018	2026
Tourist	-3,990	-5,979	-7,967	-7,975	-7,989
VFF	-2,511	-3,746	-4,968	-4,951	-4,941
Total Outbound tourists	**-6,500**	**-9,725**	**-12,934**	**-12,926**	**-12,930**
Average per capita spend	£399	£399	£399	£399	£399
Total tourism spend (imports)	**-£2,593,597**	**-£3,880,217**	**-£5,160,705**	**-£5,157,419**	**-£5,159,204**
Local spend factor	-£648,399	-£970,054	-£1,290,176	-£1,289,355	-£1,289,801
Net tourism spend (import)	**-£1,945,198**	**-£2,910,163**	**-£3,870,528**	**-£3,868,064**	**-£3,869,403**

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Net economic value of tourism

102. Having identified both import and export tourism spend, the relevant GVA factor is to be applied. This is based on NITB/ Visit Britain data which estimates the GVA multiplier of the tourism industry at 0.417 (i.e. for every £100 spent in the tourism sector, £41.70 is added to GVA). Table 4.9 below sets out the net economic impact of tourism from changes to the APD rate.

Table 4.9a: Net Economic Value of Tourism Expenditure (Scenario 1)

	2015	2016	2017	2018	2026
Tourism spend (exports)	£2,325,427	£3,490,294	£4,655,787	£4,632,981	£4,568,930
Net tourism spend (import)	£5,441,106	£8,196,797	£10,974,812	£10,965,536	£10,926,918
Tourism Deficit	**-£3,115,679**	**-£4,706,504**	**-£6,319,025**	**-£6,332,555**	**-£6,357,988**
GVA Factor	0.417	0.417	0.417	0.417	0.417
Economic value of tourism	**-£1,298,199**	**-£1,961,043**	**-£2,632,927**	**-£2,638,564**	**-£2,649,162**

Table 4.9b: Net Economic Value of Tourism Expenditure (Scenario 2)

	2015	2016	2017	2018	2026
Tourism spend (exports)	£4,701,311	£7,093,524	£9,509,834	£9,458,802	£9,295,857
Net tourism spend (import)	£10,992,160	£16,643,192	£22,392,736	£22,363,480	£22,209,997
Tourism Deficit	**-£6,290,849**	**-£9,549,667**	**-£12,882,902**	**-£12,904,679**	**-£12,914,140**
GVA Factor	0.417	0.417	0.417	0.417	0.417
Economic value of tourism	**-£2,621,187**	**-£3,979,028**	**-£5,367,876**	**-£5,376,949**	**-£5,380,892**

Table 4.9c: Net Economic Value of Tourism Expenditure (Scenario 3)

	2015	2016	2017	2018	2026
Tourism spend (exports)	-£886,630	-£1,321,463	-£1,750,911	-£1,743,434	-£1,729,157
Net tourism spend (import)	-£1,945,198	-£2,910,163	-£3,870,528	-£3,868,064	-£3,869,403
Tourism Deficit	**£1,058,568**	**£1,588,700**	**£2,119,617**	**£2,124,630**	**£2,140,246**
GVA Factor	0.417	0.417	0.417	0.417	0.417
Economic value of tourism	**£441,070**	**£661,958**	**£883,174**	**£885,263**	**£891,769**

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103. In conclusion, **the net economic value of tourism from a reduction in APD is negative because the assumption is that the lower prices will encourage more local residents to take their holidays outside NI than encourage foreigners to travel to NI.**

Business

104. As discussed throughout the research, air connectivity is closely linked with economic growth and facilitates an increase in business activity, in the following ways:

- Increased access to markets to sell goods and services;
- Increased business investment (including FDI) as businesses have easier access to markets, customers and qualified staff; and
- Increased productivity – as NI firms become more exposed to international markets and competition, and productivity increases through improved working practices.

105. Whilst these occurrences have been observed as markets and economies have improved their access, the impact can be very difficult to quantify. In terms of this economic impact assessment we have adopted two approaches to provide a quantifiable context to the analysis.

a. Estimate the value of the additional outbound business trips; and

b. Complete a 'what if …' analysis on increases in levels of FDI (given uncertainty over the additional FDI attracted, this will NOT be included in the cost benefit analysis but is used for illustrative purposes).

Value of outbound business trips

106. Business travel generates an economic impact through direct expenditure in the aviation and hospitality sectors and this has been incorporated above. However, this element of the assessment focuses specifically on the impact or value business travel has on company performance and by extension, the wider economy. Research undertaken by Oxford Economics USA[18], showed very significant returns from 'investment' in business travel with the following key findings based on surveys and econometric analysis:

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[18] Oxford Economics USA (2009): '*The Return on Investment of US Business Travel*'.

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- For every dollar invested in business travel, companies realised between $2.50 and $5.10 in incremental profits;
- The conversion rate of prospective customers to new customers is 40% with an in-person meeting compared to 16% without such a meeting;
- The average business in the US would forfeit 17% of profit in the first year of eliminating business travel; and
- 28% of current business would be lost without in-person meetings.

107. For the purposes of this impact assessment we have **assumed a 2.5-to-1 return** (at the bottom end of the scale found in the Oxford Economics research) on business travel. There is limited research on the levels of expenditure (or investment) business travellers incur when overseas, however for the purposes of this assessment, we have assumed an amount equivalent to GB business travellers when visiting NI (i.e. £333). Finally we must also include an uplift factor to identify the full GVA impact because in addition to the profit generated, there will also be a positive salary impact. As this is an overall business impact the GVA/ profits ratio for the overall economy was used. The ratio applied is 1.584.

108. Table 4.10 below shows the potential economic impact from the additional air travel.

Table 4.10a: Economic Value of Business Air Travel (Scenario 1)

	2015	2016	2017	2018	2026
Additional NI business passengers	435	652	870	868	866
Average spend	£333	£333	£333	£333	£333
Profit ratio	2.5:1	2.5:1	2.5:1	2.5:1	2.5:1
GVA Factor	1.584	1.584	1.584	1.584	1.584
Total value of business travel	**£573,270**	**£860,264**	**£1,147,412**	**£1,144,315**	**£1,143,807**

Table 4.10b: Economic Value of Business Air Travel (Scenario 2)

	2015	2016	2017	2018	2026
Additional NI business passengers	875	1,317	1,761	1,756	1,751
Average spend	£333	£333	£333	£333	£333
Profit ratio	2.5:1	2.5:1	2.5:1	2.5:1	2.5:1
GVA Factor	1.584	1.584	1.584	1.584	1.584
Total value of business travel	**£1,153,593**	**£1,736,292**	**£2,322,337**	**£2,315,464**	**£2,309,967**

Table 4.10c: Economic Value of Business Air Travel (Scenario 3)

	2015	2016	2017	2018	2026
Additional NI business passengers	-169	-252	-335	-334	-334
Average spend	£333	£333	£333	£333	£333
Profit ratio	2.5:1	2.5:1	2.5:1	2.5:1	2.5:1
GVA Factor	1.584	1.584	1.584	1.584	1.584
Total value of business travel	**-£222,760**	**-£332,859**	**-£442,150**	**-£440,998**	**-£441,675**

Inbound business trips

109. Given we have assumed that increased outbound business travel delivers an economic benefit through increased exports, then logic may suggest that increased inbound business travel would have an economic cost through increased imports. However, there are a number of factors which would run counter to this logic:

- It is reasonable to assume that local businesses would only enter into new contracts with external suppliers if it were financially advantageous to them. Therefore local business would render a benefit from these new arrangements;
- Given the structure of the Northern Ireland supply chain, it is possible/ probable that contracts with external suppliers would be displacing other external suppliers rather than an NI indigenous supplier, potentially reducing imports;
- It is generally accepted that open trade between nations or regions is economically beneficial to all;
- Inbound business travellers in many cases are undertaking activities which benefit the local economy including making investments (discussed further below) and visiting suppliers;
- No research was identified which assessed the wider economic impact of inbound business travellers (in addition to their spending as outlined above) to Northern Ireland therefore making it very difficult to provide an evidence based quantification of their impact.

110. Overall increased air connectivity for business travellers, both inbound and outbound, is considered to be positive for a local economy. Therefore, it is considered inappropriate to make an arbitrary estimate of a potential economic 'cost' associated with greater inbound business traffic.

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Non-quantified Economic Benefit

Value of increased Foreign Direct Investment (FDI)

111. The Northern Ireland economy has benefited significantly from increased levels of inward investment in recent years and attracting investment from overseas remains a key element of the NI Executive's overall economic strategy. To that end, consultees have suggested that lower air fares (through a reduction in APD) could help increase the attractiveness of Northern Ireland as a FDI location.

112. In terms of evidence to support this notion, the European Cities Monitor survey[19] asked companies to identify the factors they consider when deciding where to locate their businesses. Overall, four factors are consistently cited as the most important with over half of businesses identifying these as absolutely essential.

Table 4.11: Essential factors when making FDI decisions

Factor	%
Easy access to markets, customers or clients	61
Availability of qualified staff	58
Quality of telecommunication	55
Transport links with other cities and internationally	51

Source: Cushman and Wakeman (2010): 'European Cities Monitor 2010'

113. Two of these top four factors are directly linked to air connectivity, underlining the importance of creating an environment which encourages improved air access to national and international destinations.

114. Findings from the literature review suggest strongly that business travellers tend to be less price sensitive than other travellers. **Therefore FDI would only be likely to increase if the number of air connections to business destinations increased rather than simply a reduction of fares on existing routes**. As a consequence, only if a reduction in APD resulted in airlines increasing their investment on their route network from Belfast, would FDI levels increase.

[19] Cushman and Wakeman (2010): 'European Cities Monitor 2010'

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115. Although not included in the overall cost benefit analysis, a simple 'what if …?' analysis was undertaken to provide an economic perspective on the potential benefit.

Northern Ireland statistics (Foreign Direct Investment):

- In the last five years (2008-09 to 2012-13), Northern Ireland has received an average of £430 million[20] per annum in FDI.
- If a reduction in airfares improved connectivity, 'what if FDI were to increase by only 1%?'. On this basis, **the NI economy would receive an additional £4.3 million per annum in FDI**.

[20] Source: Invest NI, fDi Intelligence

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Summary of Economic Benefits

116. Table 4.12 below sets out a summary of the benefits for each scenario for the period 2015 to 2018 and 2026. A more detailed discounted net present value analysis including tax revenues lost and a sensitivity analysis over the entire assessment period is set out in section 6 of this report.

Table 4.12a: Summary Economic Benefits (Scenario 1 – 50% reduction)

	2015	2016	2017	2018	2026
Direct Impact	£6,963,961	£10,263,661	£13,056,629	£13,010,687	£12,378,893
Indirect and Induced	£6,267,565	£9,237,295	£11,750,966	£11,709,619	£11,141,004
Tourism	-£1,298,199	-£1,961,043	-£2,632,927	-£2,638,564	-£2,649,162
Business	£573,270	£860,264	£1,147,412	£1,144,315	£1,143,807
Total Economic Benefit	**£12,506,597**	**£18,400,177**	**£23,322,080**	**£23,226,057**	**£22,014,542**

Economic benefits have been calculated in 2014 prices

Table 4.12b: Summary Economic Benefits (Scenario 2 – abolition)

	2015	2016	2017	2018	2026
Direct Impact	£12,975,692	£17,195,907	£20,375,064	£20,400,892	£20,475,966
Indirect and Induced	£11,678,123	£15,476,316	£18,337,558	£18,360,802	£18,428,369
Tourism	-£2,621,187	-£3,979,028	-£5,367,876	-£5,376,949	-£5,380,892
Business	£1,153,593	£1,736,292	£2,322,337	£2,315,464	£2,309,967
Total Economic Benefit	**£23,186,221**	**£30,429,487**	**£35,667,084**	**£35,700,209**	**£35,833,410**

Economic benefits have been calculated in 2014 prices

Table 4.12c: Summary Economic Benefits (Scenario 3 – 10% increase)

	2015	2016	2017	2018	2026
Direct Impact	-£2,159,877	-£3,089,867	-£4,022,753	-£3,970,741	-£3,612,905
Indirect and Induced	-£1,943,890	-£2,780,880	-£3,620,478	-£3,573,667	-£3,251,615
Tourism	£441,070	£661,958	£883,174	£885,263	£891,769
Business	-£222,760	-£332,859	-£442,150	-£440,998	-£441,675
Total Economic Benefit	**-£3,885,457**	**-£5,541,648**	**-£7,202,207**	**-£7,100,144**	**-£6,414,425**

Economic benefits have been calculated in 2014 prices

117. This section of the report has focused on the economic benefits, however the economic cost, in terms of lost revenue from taxes through the NI Block Grant is also considered. These are set out in section 5 of this report.

5. Impact on the level of Air Passenger Duty raised

Introduction

118. The single most significant policy lever Government can use to change the direct cost of air travel to passengers is to alter Air Passenger Duty (APD). Therefore this section of the report sets out the estimated impact of a reduction in APD rates on the level of revenue raised by HM Treasury. This section is set out as follows:

- Counterfactual/ status quo scenario – this sets out the level of APD raised based on current rates (2014 prices);
- Scenario 1 – APD reduction (50%);
- Scenario 2 – APD abolition;
- Scenario 3 – APD increase (10%).

119. This lost revenue to HM Treasury also has an economic impact in terms of an equivalent reduction to the NI Block Grant.

120. Two approaches have been identified to calculate the tax revenue lost. The first approach is based on the passenger forecasts produced by York Aviation applied to the APD rates. The second approach is to use the estimate calculated by HMRC and uplift this on annual basis in line with OBR projected uplift for UK APD revenues.

121. **This section sets out in detail the first approach, based on the York Aviation passenger forecasts, and for comparison purposes provides a summary of the impact HMRC/ OBR taxation assumption at the end of the chapter**.

122. **The impact on the level of APD raised has been calculated in 2014 prices**.

123. This analysis excludes the passengers travelling on the Newark service as direct long-haul APD has already been devolved to Northern Ireland and set at zero. Indirect long-haul APD is still payable at the normal rate and this analysis treats indirect long haul in the same way as short-haul APD across each scenario considered (e.g. 50% reduction, full abolition and 10% increase).

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Counterfactual/ Status Quo

124. Table 5.1 below sets out the forecast passenger numbers in each of the scenarios being assessed. Each alternative scenario is then assessed in more detail further below.

Table 5.1: Summary gross passenger forecasts (000s)

Scenario	2014	2015	2016	2017	2018	2026
Baseline scenario	3,505	3,583	3,656	3,731	3,807	4,560
1: 50% APD reduction	3,505	3,737	3,886	4,026	4,104	4,866
2: 100% APD reduction	3,505	3,870	4,041	4,191	4,272	5,067
3: 10% APD increase	3,505	3,535	3,587	3,640	3,716	4,470

125. This scenario calculates the level of APD raised based on current APD rates and passenger growth forecasts. Table 5.2 below sets out the APD rates for 2014 and 2015. From April 2015, Bands B, C and D will be merged

Table 5.2: Air Passenger Duty rates (£ per passenger)

Band	Reduced Rate		Standard Rate	
	April 2014	April 2015	April 2014	April 2015
A (0 – 2000 miles)	£13	£13	£26	£26
B (2001 – 4000 miles)	£69(1)	£71(1)	£138(1)	£142(1)
C (4001 – 6000 miles)	£85(1)	Merged(2)	£170(1)	Merged(2)
D (over 6000 miles)	£97(1)	Merged(2)	£194(1)	Merged(2)

Source: HM Treasury, 'Briefing note for new Air Passenger Duty operators'.
Note 1: From 1 January 2013 the rates for direct long-haul flights to Bands B, C and D from Northern Ireland were devolved, and set at £0.
Note 2: From April 2015, Bands B, C and D will merged
Note 3: A higher rate also applies to all chargeable passengers on flights aboard aircraft of 20 tonnes and above with fewer than 19 seats and is double the standard rate.

126. APD is paid by all travellers when departing from a UK airport.

127. Under the status quo scenario it is assumed that APD rates will remain unchanged in real terms and therefore all costs and benefits calculated in this assessment are in 2014 prices. On that basis, the anticipated revenue to be raised on an annual basis is set out in table 5.3 below, with increases driven by higher levels of passenger volumes.

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Table 5.3: Air Passenger Duty forecast revenue

2014	2015	2016	2017	2018	2026
£55.3m	£56.3m	£57.5m	£58.8m	£60.1m	£72.3m

Scenario 1: APD reduction (APD rates reduced by 50%)

128. The reduction scenario calculates the level of APD raised based on APD rates reduced by 50% from the baseline scenario. Table 5.4 below sets out the assumed reduced APD rates.

Table 5.4: Air Passenger Duty reduced rates

Bands	Reduced Rate	Standard Rate
A (0 – 2000 miles)	£6.50	£13
B (2001 – 4000 miles)	£0	£0
C (4001 – 6000 miles)	£0	£0
D (over 6000 miles)	£0	£0

129. With the assumed reduction in APD and the associated lower travel costs, it is forecast that passenger numbers will increase. Table 5.5 below shows the anticipated increase in passenger numbers over the first five years of a fares reduction.

Table 5.5: Change in gross passenger numbers (000s)

	2014	2015	2016	2017	2018	2026
Baseline scenario	3,505	3,583	3,656	3,731	3,807	4,560
Scenario 1: 50% reduction	3,505	3,737	3,886	4,026	4,104	4,866
Difference in passenger numbers	**0**	**154**	**229**	**295**	**297**	**306**

Note: Numbers may not calculate due to rounding

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130. On that basis, the anticipated revenue to be raised over the next 5 years is set out in table 5.6 below.

Table 5.6: Scenario 1 – 50% reduction in APD revenue

	2014	2015	2016	2017	2018	2026
Baseline scenario	£55.3m	£56.3m	£57.5m	£58.8m	£60.1m	£72.3m
Scenario 1: 50% reduction	£55.3m	£29.9m	£31.6m	£33.1m	£33.8m	£40.0m
Difference in revenue	**£0**	**(£26.3m)**	**(£25.9m)**	**(£25.6m)**	**(£26.2m)**	**(£32.3m)**

Note: Numbers may not calculate due to rounding

Scenario 2: APD abolition

131. With the assumed abolition of APD and the associated lower travel costs, it is forecast that passenger numbers will increase further. Table 5.7 below shows the anticipated increase in passenger numbers over the first five years of a fares reduction.

Table 5.7: Change in gross passenger numbers (000s)

	2014	2015	2016	2017	2018	2026
Baseline scenario	3,505	3,583	3,656	3,731	3,807	4,560
Scenario 2: 100% reduction	3,505	3,870	4,041	4,191	4,272	5,067
Change in passenger numbers	**0**	**287**	**384**	**460**	**466**	**507**

Note: Numbers may not calculate due to rounding

132. The cost of reduction is equivalent to the APD revenue raised in the counterfactual scenario and repeated in table 5.8 below.

Table 5.8: Scenario 2 – Reduction in APD revenue

2014	2015	2016	2017	2018	2026
£0m	(£56.3m)	(£57.5m)	(£58.8m)	(£60.1m)	(£72.3m)

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Scenario 3: APD increase (APD rates increased by 10%)

133. The increased APD scenario calculates the level of APD raised based on APD rates being increased by 10% from the baseline scenario. Table 5.9 below sets out the assumed higher APD rates.

Table 5.9: Air Passenger Duty reduced rates

Bands	Reduced Rate	Standard Rate
Band A (0 – 2000 miles)	£14.30	£28.60
Band B (2001 – 4000 miles)	£0	£0
Band C (4001 – 6000 miles)	£0	£0
Band D (over 6000 miles)	£0	£0

134. With the assumed increase in APD and the associated higher travel costs, it is forecast that passenger numbers will fall. Table 5.10 below shows the anticipated increase in passenger numbers over the first five years of a fares reduction.

Table 5.10: Change in gross passenger numbers (000s)

	2014	2015	2016	2017	2018	2026
Baseline scenario	3,505	3,583	3,656	3,731	3,807	4,560
Scenario 3: 10% increase	3,505	3,535	3,587	3,640	3,716	4,470
Change in passenger numbers	**0**	**-48**	**-69**	**-91**	**-91**	**-90**

Note: Numbers may not calculate due to rounding

135. On that basis, the anticipated revenue to be raised over the next 5 years is set out in table 5.11 below.

Table 5.11: Scenario 3 – 10% increase in APD revenue

	2014	2015	2016	2017	2018	2026
Baseline scenario	£55.3m	£56.3m	£57.5m	£58.8m	£60.1m	£72.3m
Scenario 3: 10% increase	£55.3m	£60.1m	£61.7m	£62.8m	£64.2m	£77.7m
Increase in revenue	**£0**	**£4.4m**	**£4.2m**	**£4.0m**	**£4.1m**	**£5.5m**

Note: Numbers may not calculate due to rounding

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Economic impact of tax reduction

136. The tax revenue lost to the UK Exchequer would be 'paid for' by an equivalent reduction to the NI Block Grant. Therefore the reduction in APD would have two economic impacts (one negative and one positive). These are discussed in turn.

Reduced Government spending (negative)

137. A reduction in tax revenues in one area would typically lead to a reduction in Government spending or an increase in other taxes (or combination of both). It is assumed that the most likely outcome would be that the Executive would choose to reduce spending in other areas of Government. To identify the full impact this could have on the economy, a number of steps are taken:

- Step 1: Applying a GVA factor – as with expenditure in other areas of the economy, a GVA factor is applied to determine the impact on GVA. Using the Scottish Input-Output tables, the average GVA effect factor for 'Public Administration and Defence', 'Health' and 'Education' is 0.75;
- Step 2: Consider the knock-on impact – a reduction in Government spending would also have a knock-on effect in the economy similar to the indirect impacts assessed previously in section 4. Therefore a multiplier should also be applied. Using the Scottish Input-Output tables, the average GVA multiplier across the three sub-sectors of Government is 1.3.

138. Table 5.12 below sets out the impact reduced government expenditure would have on GVA.

Table 5.12: Reduced Government spending impact

	2015	2016	2017	2018	2026
Scenario 1 – 50% reduction					
Tax impact	(£26.3m)	(£25.9m)	(£25.6m)	(£26.2m)	(£32.3m)
GVA Effect	0.75	0.75	0.75	0.75	0.75
Multiplier	1.3	1.3	1.3	1.3	1.3
Government Spend Impact	**(£26.1m)**	**(£25.7m)**	**(£25.4m)**	**(£26.0m)**	**(£32.0m)**
Scenario 2 – Abolition					
Tax impact	(£56.3m)	(£57.5m)	(£58.8m)	(£60.1m)	(£72.3m)
GVA Effect	0.75	0.75	0.75	0.75	0.75
Multiplier	1.3	1.3	1.3	1.3	1.3
Government Spend Impact	**(£55.8m)**	**(£57.1m)**	**(£58.3m)**	**(£59.6m)**	**(£71.8m)**

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Scenario 3 – 10% increase					
Tax impact	£4.4m	£4.2m	£4.0m	£4.1m	£5.5m
GVA Effect	0.75	0.75	0.75	0.75	0.75
Multiplier	1.3	1.3	1.3	1.3	1.3
Government Spend Impact	**£4.4m**	**£4.2m**	**£4.0m**	**£4.1m**	**£5.4m**

Note: Numbers may not calculate due to rounding

Income effect (Positive)

139. Whilst a reduction in taxes leaves Government with less money, consumers and businesses experience a positive income effect. In the case of a reduction in APD, that is shared between airlines (at least in the short term) and passengers.

140. The revenue retained by the airlines has already been identified in section 4 and it is assumed that this will not benefit the Northern Ireland economy. In addition revenue retained by non-NI residents is unlikely to benefit the local economy, therefore only revenue retained by NI residents is considered to have a positive economic benefit locally. Finally, a GVA effect factor is also applied to the revenue retained by NI residents (the average GVA effect factor based on Scottish Input-Output tables is 0.67) to identify the income effect. This is set out in Table 5.13 below.

Table 5.13: Income effect

	2015	**2016**	**2017**	**2018**	**2026**
Scenario 1 – 50% reduction					
Tax impact	(£26.3m)	(£25.9m)	(£25.6m)	(£26.2m)	(£32.3m)
Retained by airlines	£15.0m	£7.9m	£0	£0	£0
Retained by passengers	£11.4m	£17.9m	£25.6m	£26.2m	£32,3m
Proportion NI residents	58%	58%	58%	58%	59%
GVA Factor	0.67	0.67	0.67	0.67	0.67
Income Effect	**£4.4m**	**£7.0m**	**£10.1m**	**£10.3m**	**£12.7m**
Scenario 2 – Abolition					
Tax impact	(£56.3m)	(£57.5m)	(£58.7m)	(£60.1m)	(£72.3m)
Retained by airlines	£31.7m	£16.7m	£0	£0	£0
Retained by passengers	£24.6m	£40.8m	£58.8m	£60.1m	£72.2m
Proportion NI residents	58%	59%	59%	59%	59%
GVA Factor	0.67	0.67	0.67	0.67	0.67
Income Effect	**£9.6m**	**£16.1m**	**£23.3m**	**£23.9m**	**£28.8m**

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Scenario 3 – 10% increase					
Tax impact	£4.4m	£4.2m	£4.0m	£4.1m	£5.5m
Retained by airlines	(£2.8m)	(£1.4m)	£0	£0	£0
Retained by passengers	(£1.7m)	(£2.8m)	(£4.0m)	(£4.1m)	(£5.5m)
Proportion NI residents	57%	57%	57%	57%	57%
GVA Factor	0.67	0.67	0.67	0.67	0.67
Income Effect	**(£0.6m)**	**(£1.1m)**	**(£1.5m)**	**(£1.6m)**	**(£2.1m)**

Note: Numbers may not calculate due to rounding

HMRC/ OBR Tax estimate

141. HMRC have estimated the levels of tax revenues received from each of the three devolved administrations in the UK (and separately England). They have estimated that in 2012/13 (the latest year for which figures were available at time of producing the report), Northern Ireland contributed £78 million in APD revenue to the total UK APD tax take of £2.79 billion. This estimate is significantly greater than the estimate of approximately £55 million in 2014 based on the York Aviation passenger forecasts and therefore has a very significant impact on the economic cost-benefit outcome.

142. In consultation with DETI and DFP it is recognised that if APD were to be devolved, then the initial HM Treasury cost estimate would most likely align with the HMRC estimate. Clearly a detailed negotiation would then be undertaken between DFP and HMT on the most appropriate 'cost' to be applied to the NI Block Grant. This study does not seek to anticipate the outcome of that negotiation, however, this research has also quantified the net economic impact if the higher, HMRC estimated cost, was to be applied.

A note on the HMRC Methodology

143. A detailed analysis of the HMRC estimation methodology has not been undertaken but following consultations with York Aviation a number of **potential** reasons have been identified to explain the significant difference between the York Aviation and HMRC estimates:

- Direct flights from NI are already exempt from band B, C and D and it is not clear that the HMRC estimates reflect the fact that passengers travelling from NI to direct long haul destinations do not pay APD;
- It is unclear if HMRC has adjusted for the different levels of premium class travel from airports across the UK. Premium class travel is heavily concentrated on London and if no adjustment is made to reflect this, APD in regional markets is likely to be

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overstated. Premium class travel from Northern Ireland particularly is believed to be limited.

144. It must also be acknowledged that York Aviation raised a number of risks around the currency of data they used to make their estimates of passenger numbers for 2014, particularly in terms of end destinations of passengers and classes of travel. Therefore whilst the York Aviation estimate may be more accurate, it is recognised that that neither estimation methodology can be described as perfect. As a consequence the summary below sets out the economic impact using both calculation approaches.

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Summary

145. Table 5.14 below sets out a summary of the 'Reduced Government spending' impact and the 'Income Effect'.

Table 5.14: Summary economic impact on tax revenue (Based on York Aviation passenger forecasts)

	2015	2016	2017	2018	2026
Scenario 1 – 50% reduction					
Government Spend Impact	(£26.1m)	(£25.7m)	(£25.4m)	(£26.0m)	(£32.0m)
Income Effect	£4.4m	£7.0m	£10.1m	£10.3m	£12.7m
Net Impact	**(£21.7m)**	**(£18.6m)**	**(£15.3m)**	**(£15.7m)**	**(£19.3m)**
Scenario 2 – Abolition					
Government Spend Impact	(£55.8m)	(£57.1m)	(£58.3m)	(£59.6m)	(£71.8m)
Income Effect	£9.6m	£16.1m	£23.3m	£23.9m	£28.8m
Net Impact	**(£46.2m)**	**(£40.9m)**	**(£35.0m)**	**(£35.8m)**	**(£42.9m)**
Scenario 3 – 10% increase					
Government Spend Impact	£4.4m	£4.2m	£4.0m	£4.1m	£5.4m
Income Effect	(£0.6m)	(£1.1m)	(£1.5m)	(£1.6m)	(£2.1m)
Net Impact	**£3.8m**	**£3.1m**	**£2.4m**	**£2.5m**	**£3.3m**

Note: Numbers may not calculate due to rounding

146. The HMRC estimates of APD raised from NI is higher than those based on the York Aviation passenger forecasts and therefore the tax impact is greater. HMRC estimated NI's contribution to total UK APD was £78 million in 2012/13 and for this analysis, the HMRC estimate is increased annually in line with the assumed Compound Annual Growth Rate (CAGR) identified for UK APD by the OBR. The OBR projections are in nominal terms therefore have been discounted back to 2014 prices. In 2015 it is estimated that the taxation (or Government Spend Impact) will be £79.3 million rising to £89 million by 2026.

147. Table 5.15 overleaf provides a summary of the impact.

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Table 5.15: Summary economic impact on tax revenue (Based on HMRC/ OBR passenger forecasts)

	2015	2016	2017	2018	2026
Scenario 1 – 50% reduction					
Government Spend Impact	(£39.6m)	(£40.0m)	(£40.5m)	(£40.9m)	(£44.5m)
Income Effect	£7.8m	£11.8m	£16.0m	£16.2m	£17.7m
Net Impact	**(£31.9m)**	**(£28.2m)**	**(£24.4m)**	**(£24.7m)**	**(£26.8m)**
Scenario 2 – Abolition					
Government Spend Impact	(£79.3m)	(£80.1m)	(£80.9m)	(£81.8m)	(£89.0m)
Income Effect	£15.5m	£23.7m	£32.1m	£32.5m	£35.4m
Net Impact	**(£63.7m)**	**(£56.4m)**	**(£48.9m)**	**(£49.3m)**	**(£53.6m)**
Scenario 3 – 10% increase					
Government Spend Impact	£7.9m	£8.0m	£8.1m	£8.2m	£8.9m
Income Effect	(£1.6m)	(£2.4m)	(£3.2m)	(£3.2m)	(£3.5m)
Net Impact	**£6.4m**	**£5.6m**	**£4.9m**	**£4.9m**	**£5.4m**

Note: Numbers may not calculate due to rounding

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6. Summary of Findings

Introduction and caveat

148. This section of the report sets out a summary of the total costs and benefits of a change in APD. The costs and benefits have been identified on an annual basis from 2014 to 2026 and the tables below provide a summary across a number of years within that time period.

149. The results are based on the assumptions set out in section 4 of this report. In many cases these are based on information taken from ONS databases (such as average salaries, GVA factors and multipliers to be applied) and also from local research conducted in order to facilitate this type of economic impact assessment (such as visitor expenditure). In these cases the assumptions can be considered reasonable. However in a small number of instances, the research conducted has highlighted the potential for significant variability (in particular in respect of the impact on the Block Grant and elasticities applied). In this instance, there is greater uncertainty around these assumptions and therefore a sensitivity analysis is undertaken to determine their significance.

Summary of findings

150. Table 6.1 below sets out a summary of the costs and benefits:

Table 6.1 – Summary of Costs and Benefits (Lower Tax scenario)

Scenario	2015	2016	2017	2018	2026
1 – 50% APD reduction					
Economic Benefit	£12,506,597	£18,400,177	£23,322,080	£23,226,057	£22,014,542
Tax Impact	(£21,719,833)	(£18,646,957)	(£15,349,970)	(£15,703,498)	(£19,292,220)
Net Benefit	**(£9,213,236)**	**(£246,780)**	**£7,972,110**	**£7,522,559**	**£2,722,322**
2 – APD Abolition					
Economic Benefit	£23,186,221	£30,429,487	£35,667,084	£35,700,209	£35,833,410
Tax Impact	(£46,210,303)	(£40,946,618)	(£35,014,821)	(£35,754,486)	(£42,948,495)
Net Benefit	**(£23,024,082)**	**(£10,517,131)**	**£652,263**	**(£54,277)**	**(£7,115,084)**
3 – 10% APD increase					
Economic Benefit	(£3,885,457)	(£5,541,648)	(£7,202,207)	(£7,100,144)	(£6,414,425)
Tax Impact	£6,374,509	£5,642,037	£4,885,987	£4,933,230	£5,359,961
Net Benefit	**£2,489,051**	**£100,389**	**(£2,316,220)**	**(£2,166,915)**	**(£1,054,464)**

Note: Numbers may not calculate due to rounding

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Table 6.2 – Summary of Costs and Benefits (Higher Tax scenario)

Scenario	2015	2016	2017	2018	2026
1 – 50% APD reduction					
Economic Benefit	£12,506,597	£18,400,177	£23,322,080	£23,226,057	£22,014,542
Tax Impact	(£31,872,544)	(£28,210,184)	(£24,429,937)	(£24,666,148)	(£26,799,807)
Net Benefit	**(£19,365,947)**	**(£9,810,007)**	**(£1,107,857)**	**(£1,440,091)**	**(£4,785,264)**
2 – APD Abolition					
Economic Benefit	£23,186,221	£30,429,487	£35,667,084	£35,700,209	£35,833,410
Tax Impact	(£63,745,087)	(£56,420,368)	(£48,859,874)	(£49,332,295)	(£53,599,614)
Net Benefit	**(£40,558,866)**	**(£25,990,881)**	**(£13,192,790)**	**(£13,632,086)**	**(£17,766,203)**
3 – 10% APD increase					
Economic Benefit	(£3,885,457)	(£5,541,648)	(£7,202,207)	(£7,100,144)	(£6,414,425)
Tax Impact	£6,374,509	£5,642,037	£4,885,987	£4,933,230	£5,359,961
Net Benefit	**£2,489,051**	**£100,389**	**(£2,316,220)**	**(£2,166,915)**	**(£1,054,464)**

Note: Numbers may not calculate due to rounding

Overview of Results

151. The following high level overview of the results is provided:

- The net benefit position is higher in the lower tax scenario, as expected. But if the NI Block had to incur the higher tax cost then the overall cumulative position would be a negative economic benefit, across all three scenarios;
- The optimum solution appears to be a partial reduction in APD, rather than a complete abolition because the first 50% of a reduction achieves a greater number of additional passengers than the second 50% reduction;
- Even in the lower taxation scenario, the net economic benefits are estimated to be relatively small;
- The economic benefits tend to be much lower in 2015 and 2016 because not all of the tax reduction is passed on to passengers in the form of lower prices during the first two years and the tax revenue assumed to be retained by the airlines is 'lost' to the Northern Ireland economy;
- The peak year for benefits appears to be 2017 as over time benefits reduce in value; and
- The analysis also suggests that increasing APD would have a negative economic impact.

Air Connectivity in NI

Understanding the Results

152. The following points should provide a greater understanding of the results and the impact a change in APD has on passenger forecasts and the difference between the benefits (economic impact) calculation and the cost (tax impact) calculation:

- Profile of passenger growth across scenarios – a 50% reduction in APD creates a relatively significant uplift in passenger numbers (approximately 8%), however a total abolition of APD, in effect doubling the reduction, does not double the uplift in passenger numbers but increases by 'only' approximately 12%. The primary reason is that the first 50% reduction has a much greater impact in reducing the leakage to Dublin than the 'second' 50% reduction. As a consequence the benefits associated with a 100% reduction are not equivalent to double the benefits associated with a 50% reduction.

- Benefits reduce at a faster rate than costs over time – all benefits and costs are driven off the forecast additional passenger numbers. As detailed previously, the number of additional passengers starts to decrease as the value of travel time starts to exceed the reduction in price as a result of a reduction in APD. Therefore other things being equal, one would expect both costs and benefits to reduce at the same rate. However, direct benefits reduce at a greater rate because of assumed efficiencies on a per passenger basis resulting in the need for fewer additional staff in the longer term. In contrast the tax rate differential holds steady and therefore benefits reduce at a faster rate than costs.

- Tax revenue differentials – if the APD tax rate was reduced by 50%, the revenue take would fall by less than 50% because of the increase in passenger numbers generated. However, if the APD tax rate was reduced by 100% then the revenue take would fall by 100%. As a consequence, the cost associated with a 100% reduction is more than double the cost of a 50% reduction.

- Increasing taxation – a relatively small increase in APD (10%) has a relatively large negative impact on passenger numbers (down by approximately 2.4%), this is proportionally much greater impact than either of the two tax reduction scenarios. The primary reason for this is that further increases make Dublin more attractive and leakage would increase further. The economic benefits therefore are negative as it impacts both inbound tourists and outbound business travellers and the tax revenue take does not increase proportionally with the increase in tax rate.

Air Connectivity in NI

Sensitivity analysis – Direct and Indirect Long-haul flights

Change in APD for short haul flights only

153. NI is currently exempt from APD on direct long-haul flights. This currently only impacts one route, the Newark service, and therefore passengers flying on this service have been excluded from this study. However, passengers flying from NI on an indirect long-haul flight, through for example London Heathrow, are required to pay long-haul APD. The scenarios assessed in this study have assumed that any changes to APD would be applied equally to both short-haul and indirect long-haul APD.

154. However, from a sensitivity perspective the impact of changing only short-haul APD has also been assessed. Table 6.4 below sets out the difference in the impact for each of the three scenarios for 2017 (this is the first year when the full impact of tax changes is felt by travellers).

Table 6.4a – Difference in economic impact 2017 (Scenario 1 – 50% reduction)

	Baseline	Shorthaul APD only
Direct Benefit	£13.1m	£10.3m
Indirect and Induced	£11.8m	£9.3m
Catalytic	(£1.5m)	(£1.4m)
Total Economic Impact	**£23.3m**	**£18.2m**
Govt spend impact	(£25.4m)	(£21.6m)
Income effect	£10.1m	£8.5m
Net tax implication	**(£15.3m)**	**(£13.0)**
Total Net Impact	**£8.0m**	**£5.2m**

Note: Numbers may not calculate due to rounding

Table 6.4b – Difference in economic impact 2017 (Scenario 2 – Abolition)

	Baseline	Shorthaul APD only
Direct Benefit	£20.4m	£17.1m
Indirect and Induced	£18.3m	£15.4m
Catalytic	(£3.0m)	(£2.8m)
Total Economic Impact	**£35.7m**	**£29.6m**
Govt spend impact	(£58.3m)	(£46.2m)
Income effect	£23.3m	£18.4m
Net tax implication	**(£35.0m)**	**(£27.8m)**
Total Net Impact	**£0.7m**	**£1.8m**

Note: Numbers may not calculate due to rounding

Table 6.4c – Difference in economic impact 2017 (Scenario 3 – 10% increase)

	Baseline	Shorthaul APD only
Direct Benefit	(£4.0m)	(£3.6m)
Indirect and Induced	(£3.6m)	(£3.3m)
Catalytic	£0.4m	£0.4m
Total Economic Impact	**(£7.2m)**	**(£6.5m)**
Govt spend impact	£4.0m	£3.4m
Income effect	(£1.5m)	(£1.3m)
Net tax implication	**£2.4m**	**£2.1m**
Total Net Impact	**(£4.8m)**	**(£4.4m)**

Note: Numbers may not calculate due to rounding

155. This would have the following implications:

- Long-haul traffic would be unchanged relative to the baseline and therefore the only change in traffic would be short-haul;
- In scenarios 1 and 2 the direct and indirect benefits in terms of additional employment and supply chain spending would be lower as there would be no additional indirect long-haul passengers;
- The net tourism position would be marginally improved as fewer outbound tourist trips would occur (but this impact is minimal);
- The Government spend impact would be lower (similar to the 'tax cost') – as those travelling indirect long-haul would now be paying full APD rates. The associated income effect (where local NI residents enjoy a financial benefit from the lower tax rate) would also be lower.

156. Therefore reducing short-haul APD only and maintaining indirect long-haul APD would not materially change the conclusions of this report.

Air Connectivity in NI

Sensitivity analysis – Elasticities

Change in demand elasticities

157. The literature review highlighted a wide range of elasticities which could be applied. The baseline elasticities used in this study are based on central DfT assumptions but the data for NI is not current and therefore uncertainty exists around the appropriate levels which should be applied. As a result, York Aviation provided passenger forecasts based on the following changes to elasticities:

- Elasticity 1: Less elastic – elasticity is assumed at half the level applied in the central/ baseline scenario. This means that demand for air travel will be less sensitive to changes in the price (both increase and decrease). Therefore a relatively large change in price will result in a relatively small change in the number of air passengers.

- Elasticity 2: More elastic – elasticity is assumed at twice the level applied in the central/ baseline scenario. This means that the demand for air travel will be much more sensitive to changes in price. Therefore a relatively small change in price will result in a relatively large change in the number of air passengers.

Table 6.5 – Sensitivity analysis (Elasticities)

Scenario	2015	2016	2017	2018	2026
1 – 50% APD reduction					
Net Benefit (Baseline)	(£9,213,236)	(£246,780)	£7,972,110	£7,522,559	£2,722,322
Net Benefit (Elasticity 1)	(£10,447,584)	(£2,138,810)	£5,401,224	£4,986,953	£421,984
Net Benefit (Elasticity 2)	(£6,729,740)	£3,570,648	£13,173,240	£12,651,011	£7,366,407
2 – APD Abolition					
Net Benefit (Baseline)	(£23,024,082)	(£10,517,131)	£652,263	(£54,277)	(£7,115,084)
Net Benefit (Elasticity 1)	(£25,447,283)	(£14,298,198)	(£4,544,327)	(£5,177,549)	(£11,745,068)
Net Benefit (Elasticity 2)	(£18,118,598)	(£2,818,378)	£11,292,584	£10,430,387	£2,323,856
3 – 10% APD increase					
Net Benefit (Baseline)	£2,489,051	£100,389	(£2,316,220)	(£2,166,915)	(£1,054,464)
Net Benefit (Elasticity 1)	£61,972	(£2,160,367)	(£4,415,013)	(£4,236,241)	(£2,813,557)
Net Benefit (Elasticity 2)	(£1,326,629)	(£4,195,944)	(£7,067,651)	(£6,859,890)	(£5,257,057)

Note: Numbers may not calculate due to rounding

BELFAST ■ COLERAINE ■ JORDANSTOWN ■ MAGEE

Elasticities discussed

158. The following conclusions are made from the sensitivity analysis:

- If elasticities are lower than those assumed in the central/ baseline scenario then the economic benefits will be lower. This is intuitively correct because the rationale for reducing APD is to stimulate significant additional passenger numbers. Therefore, if the elasticity is lower, the level of additional passengers will be lower.
- Although a more elastic scenario delivers greater benefits, they reduce quite significantly year on year and soon return to small (or even negative) net benefit positions.
- In all scenarios an increase in the rate of APD will deliver negative economic benefits.

Risks and uncertainties

159. There are a number of significant risks and uncertainties associated with the reduction of APD. These are discussed in turn below.

Cost to NI Block

160. The cost HM Treasury will impose on the NI Block would be subject to negotiation and therefore is an unknown. The research has shown that if the cost imposed was in line with HMRC estimates, then the economic benefit would be negative. It is only where the tax cost would be much lower that a positive economic benefit would be achieved.

Future cost risk

161. If APD were devolved to NI, there is a significant risk around the open ended nature of the cost. If the UK Government increased APD rates from their current levels, then the 'cost' to NI in terms of a reduction to the 'Block Grant' would increase if NI did not increase APD by the same amount. Therefore the cost of NI APD policy would still be linked to GB APD policy even if the power was devolved.

Impact risk

162. There are significant uncertainties identified around the data used on which the forecasts were developed, in terms of both the availability of up to date passenger data for NI and the potential range of elasticities which could be applied. As a consequence it is more difficult to be highly confident about the level of benefits which could be achieved.

Air Connectivity in NI

Deadweight risk

163. Reducing APD increases the number of passengers, however in order to achieve this increase in passenger numbers all passengers receive a tax reduction, not just the additional passengers. As a result there are high levels of deadweight.

164. In scenario 1 (a 50% reduction in APD), the number of additional passengers is approximately 8% (which falls over time) and the abolition of APD is estimated to increase passenger numbers by approximately 12% (which also falls over time). Therefore deadweight is in the range of 88% to 92%.

Effectiveness risk

165. The rationale for reducing APD is to stimulate economic development, through either increased business traffic and/ or increased inbound tourism. However reducing APD is a very broad intervention and one of the biggest impacts is to increase outbound tourism (effectively a NI import). Business travellers are less price sensitive and it is uncertain that a reduction in APD would lead to the establishment of new routes to business destinations. therefore it may not be the most effective way to stimulate the desired response from the industry.

Increased business investment (upside risk)

166. A reduction in APD also has the potential to make NI a more attractive destination for Foreign Direct Investment. This economic benefit is very difficult to accurately quantify and therefore has not been included in this analysis. Whilst this may be small in absolute terms it is important to recognise in making an overall assessment.

Conclusion

167. The analysis shows the most likely outcome from a reduction in APD would deliver a small positive net economic benefit (and that is based on a lower tax cost), however given that benefits reduce year on year and the risks and uncertainties identified above, **a strong case for change has NOT been made**.

168. Given the scale of cost of reducing or abolishing APD and the levels of deadweight identified, DETI may wish to consider a more direct targeted intervention. One example could be a programme to stimulate route development to primarily business destinations (rather than holiday destinations).

Impact of December 2014 Autumn Statement

169. The Chancellor of the Exchequer announced in the December 2014 Autumn Statement that APD would be abolished for children under 12 from May 2015 and then extended to those under the age of 16 by 2016. As the announcement was made after the completion of this report, its impact has not been quantified in this analysis. However it is likely that the abolition for children would have the following implications:

- The cost to the NI block grant would be reduced – it is likely that the level of APD raised in NI (and across the rest of the UK) will be lower. Therefore the cost imposed by Treasury associated with abolition or a further reduction in APD in NI would be lower than quantified in this assessment;

- Greater levels of tourism traffic rather than business traffic – the abolition for children will most likely increase the level of tourism traffic through NI airports as the lower price makes it more attractive relative to Dublin and for a small number of families the reduction in cost may make the flight affordable. The analysis undertaken as part of this study showed that a reduction in APD would have a greater impact on outbound tourism than inbound tourism.

170. In terms of the scale of the impact, HM Treasury estimate that the abolition of APD for those under 16 will cost £80 million in 2016/17 against a total APD tax take of £3.3 billion in that year. Therefore the impact is likely to be less than 2.5%. As a result, the Autumn Statement announcement is unlikely to have a material impact on the conclusions reached in this report.

Annex A – Economic Impact of Air Passenger Duty

Economic Impact Model

Economic Impact of Price Change

Impact of Outflow:

- Tourist Passengers
- Business Passengers

Impact of Inflow:

- Tourist Passengers
- Business Passengers

Direct Impact:

- Local aviation industry
- Employment at airports and airlines
- Capital investment
- Airline profitability

+

Indirect Impact:

- Supply chain benefits

+

Induced Impact:

- Wider spend from those directly and indirectly employed in the sector

+

Catalytic Impact:

Tourism:
Additional inbound passengers spend less additional outbound passengers spend
Value of outbound travel
Potential Multiplier (Indirect and Induced)

Business/Trade:
Additional business passengers
Outbound: Value at top less average expenditure
Inbound: Value of expenditure

Foreign Direct Investment:
Additional FDI generated.

=

Overall Economic Benefit

Calculation Approach

Initial assumptions
APD scenarios (to be agreed with DETI):

- Abolition of APD
- Increase in APD (X%)

Determine level of fare pass-through.

[*Completed by: Aviation Specialist*]

Impact on passenger flows
Apply elasticities to existing passenger numbers.

[*Completed by: Aviation Specialist*]

Direct Impact

- Est. increase in employment x value of aviation sector job
- Est. additional investment
- APD reduction not passed through x additional outbound passengers (likely wider UK benefit)

[*Completed by: NICEP*]
[*Reviewed by: Aviation Specialist*]

Indirect Impact
Apply Type 1 Aviation Sector multiplier: (Emp. + GVA)

[*Completed by: NICEP*]

Induced Impact
Apply Type 2 Aviation Sector multiplier: (Emp. + GVA)

[*Completed by NICEP*]

Catalytic Impact

Tourism:
Add. inbound passenger nos. x inbound spend
Add. outbound passenger nos. x outbound spend
Total outbound passenger spend x local spend factor

Business/Trade:
Add. outbound passengers x (value of trip *less* overseas spend)
Add. inbound passengers x value of spend

Foreign Direct Investment
Complete a "what if…" analysis e.g. 1% increase in FDI

[*Completed by NICEP*]

Dr Leslie Budd briefing paper – draft Committee report

Committee for Enterprise, Trade and Investment

Report on the Committee's Inquiry into Growing the Economy and Creating Jobs with Lower Corporation Tax

Comment

This is a thorough, comprehensive and coherent report that has been professionally compiled. By producing an overarching critical narrative in which all the key strategies are included and linked together, it makes a major and significant contribution to understanding the challenges facing the economy and society of Northern Ireland over the longer term. In taking evidence from a range of stakeholders and drawing upon knowledge gained from external visits, the Committee has been able to suggest policy instruments and mechanisms to achieve the key objectives of the Report. By reviewing these objectives and adjusting instruments and mechanisms on a rolling basis, the goals of the Report are more likely to be obtainable.

In a period of further devolution and decentralisation within the United Kingdom, particularly in England, the Report represents good practice from which other nations and regions can learn and apply its recommendations. Furthermore, when the European Commission is seeking to balance competitiveness and cohesion as it seeks to aid economic recovery in the European Union, policy transfer from other territories is an important contributor to innovative governance. The contents of the Report represent a very good example of this valuable process.

The Report also represents an important resource that should be disseminated widely among policy, practice and academic communities, media commentators and especially the wider public. In producing something that contributes to a clear and better understanding and greater insights into a devolved nation's socio-economic development and welfare, the Committee are to be congratulated.

Leslie Budd

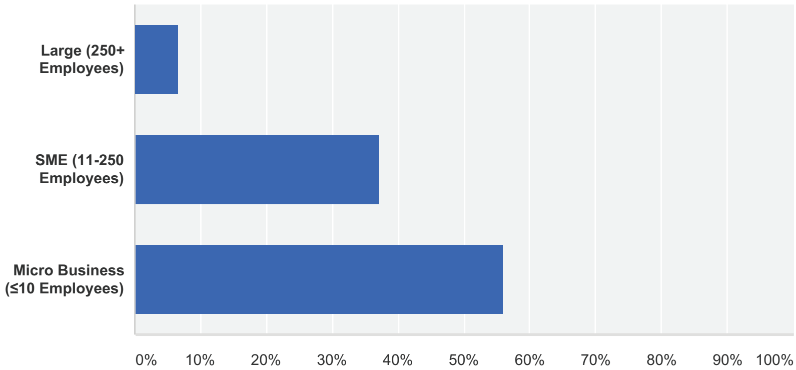
June 2015

Survey Responses Summary

Northern Ireland Assembly Committee for Enterprise, Trade & Investment: Survey of Northern Ireland Businesses for Inquiry into Growth and Jobs

Q1 What size is your business?

Answered: 223 Skipped: 0

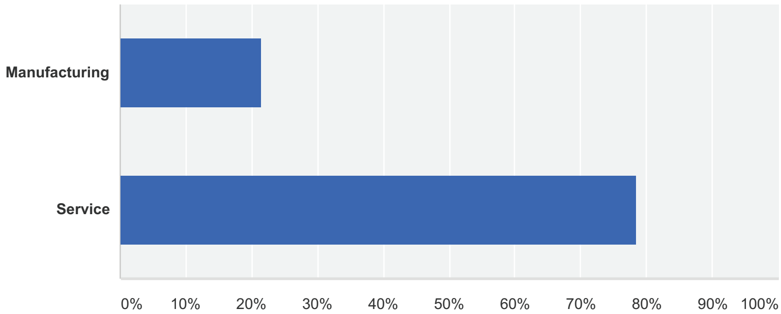


Answer Choices	Responses	
Large (250+ Employees)	**6.73%**	15
SME (11-250 Employees)	**37.22%**	83
Micro Business (≤10 Employees)	**56.05%**	125
Total		**223**

Northern Ireland Assembly Committee for Enterprise, Trade & Investment: Survey of Northern Ireland Businesses for Inquiry into Growth and Jobs

Q2 Do you operate mainly in the manufacturing or service sector?

Answered: 223 Skipped: 0

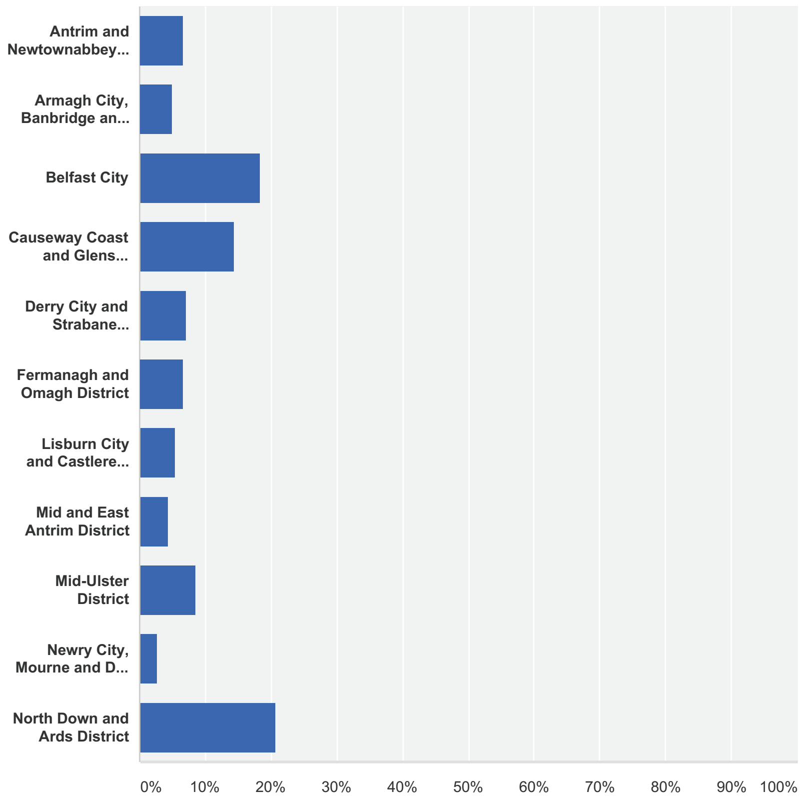


Answer Choices	Responses	
Manufacturing	**21.52%**	48
Service	**78.48%**	175
Total		**223**

Northern Ireland Assembly Committee for Enterprise, Trade & Investment: Survey of Northern Ireland Businesses for Inquiry into Growth and Jobs

Q3 In which new council area is your main Northern Ireland business located?

Answered: 223 Skipped: 0



Answer Choices	Responses	
Antrim and Newtownabbey District	**6.73%**	15
Armagh City, Banbridge and Craigavon District	**4.93%**	11
Belfast City	**18.39%**	41
Causeway Coast and Glens District	**14.35%**	32
Derry City and Strabane District	**7.17%**	16
Fermanagh and Omagh District	**6.73%**	15
Lisburn City and Castlereagh District	**5.38%**	12
Mid and East Antrim District	**4.48%**	10

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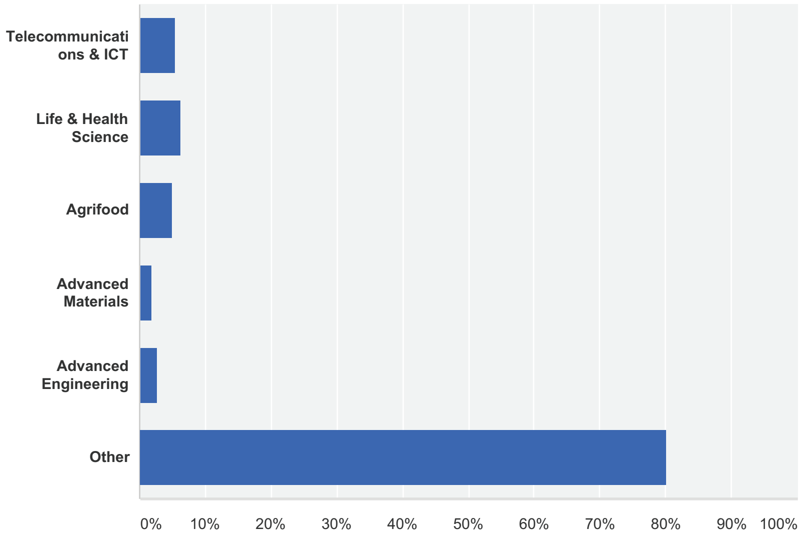
Northern Ireland Assembly Committee for Enterprise, Trade & Investment: Survey of Northern Ireland Businesses for Inquiry into Growth and Jobs

Mid-Ulster District	**8.52%**	19
Newry City, Mourne and Down District	**2.69%**	6
North Down and Ards District	**20.63%**	46
Total		**223**

Northern Ireland Assembly Committee for Enterprise, Trade & Investment: Survey of Northern Ireland Businesses for Inquiry into Growth and Jobs

Q4 Is your business in one of the Economic Strategy Sectors listed below (if not please select other)?

Answered: 223   Skipped: 0



Answer Choices	Responses	
Telecommunications & ICT	5.38%	12
Life & Health Science	6.28%	14
Agrifood	4.93%	11
Advanced Materials	1.79%	4
Advanced Engineering	2.69%	6
Other	80.27%	179
Total Respondents: 223		

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Northern Ireland Assembly Committee for Enterprise, Trade & Investment: Survey of Northern Ireland Businesses for Inquiry into Growth and Jobs

Q5 If 'Other', please state the sector in which your business operates.

Answered: 171 Skipped: 52

#	Responses	Date
1	Business services Website publishers	3/10/2015 4:11 PM
2	Business services enterprise centre	3/10/2015 2:40 PM
3	Business services Recruitment Business operating across a wide industry sector	3/10/2015 2:27 PM
4	Transport/Haulage Passenger Transport and Tours	3/10/2015 12:29 PM
5	Legal Service Legal services	3/10/2015 10:47 AM
6	Business services Training	3/10/2015 8:13 AM
7	Business services infrastructure support	3/9/2015 10:27 PM
8	Health Health & Social Care	3/9/2015 10:04 PM
9	Creative Industries Design & print	3/9/2015 8:28 PM
10	Business services Language services	3/9/2015 7:01 PM
11	Business services business services incorporating property and business consultancy	3/9/2015 6:22 PM
12	Legal Service Legal	3/9/2015 6:12 PM
13	Utilities Renewable Energy	3/9/2015 6:00 PM
14	Construction Builders Merchant	3/9/2015 5:08 PM
15	Creative Industries Arts	3/9/2015 5:00 PM
16	Fire and Security	3/9/2015 4:49 PM
17	Hospitality/Tourism Travel	3/9/2015 4:30 PM
18	Business services Fund Management of Companies in most of the above sectors	3/9/2015 3:08 PM
19	Retail Supply installation and maintenance of automatic doors, automatic gates and car parking control equipment.	3/9/2015 12:44 PM
20	Retail Retail	3/9/2015 12:41 PM
21	Business services Professional services	3/9/2015 12:32 PM
22	Creative Industries Communications	3/9/2015 12:28 PM
23	Business services Provision of workspace for SME's and provision of education, training and support services for new and developing businesses.	3/9/2015 12:25 PM
24	Business services Propert; business services and language services	3/9/2015 12:23 PM
25	Engineering Engineering Consultants	3/9/2015 10:58 AM
26	Utilities utility	3/6/2015 9:42 AM
27	Transport/Haulage Removals, storage, shipping	3/5/2015 3:13 PM
28	Financial Services Financial sector	3/4/2015 3:33 PM
29	Construction Construction	3/3/2015 5:09 PM
30	Transport/Haulage Automotive	3/3/2015 5:09 PM
31	Business services Enterprise facilitation	2/28/2015 2:04 PM

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32	Engineering Precision Subcontracting Engineering	2/24/2015 11:11 AM
33	Construction CONSTRUCTION	2/24/2015 9:49 AM
34	Engineering Precision Subcontracting Engineering	2/23/2015 2:29 PM
35	Engineering Precision Subcontracting Engineering	2/23/2015 2:17 PM
36	Hospitality/Tourism Hospitality & Tourism	2/23/2015 1:58 PM
37	Engineering Precision Engineering	2/23/2015 1:44 PM
38	Engineering Precision Subcontracting Engineering	2/23/2015 1:31 PM
39	Business services Professional Services	2/21/2015 6:04 PM
40	Hospitality/Tourism Bed and Breakfast	2/20/2015 10:51 AM
41	Financial Services service Insurance Intermediary	2/19/2015 12:31 PM
42	Transport/Haulage Trabsport	2/18/2015 2:02 PM
43	Creative Industries Arts and Culture	2/18/2015 10:52 AM
44	Manufacturing Manufacturing	2/18/2015 10:27 AM
45	Retail Retail	2/18/2015 9:44 AM
46	Creative Industries embroidery	2/18/2015 8:03 AM
47	Manufacturing Tobacco Manufacturing	2/17/2015 10:15 AM
48	Manufacturing hardware construction	2/16/2015 9:29 AM
49	Creative Industries Picture Frame maker	2/15/2015 5:59 PM
50	Retail kitchen and tiles sales	2/12/2015 10:08 AM
51	Retail ecommerce	2/11/2015 9:39 PM
52	Hospitality/Tourism Tourism	2/11/2015 2:32 PM
53	Construction construction	2/11/2015 1:46 PM
54	Financial Services Accountancy	2/11/2015 10:45 AM
55	Business services Professional association	2/10/2015 4:00 PM
56	Financial Services Finance	2/10/2015 2:55 PM
57	Retail Barber	2/10/2015 2:04 PM
58	Retail Hotels	2/10/2015 10:57 AM
59	Financial Services Finance	2/10/2015 9:14 AM
60	Retail RETAIL CLOTHING	2/10/2015 7:56 AM
61	Retail Retail	2/9/2015 11:18 PM
62	Retail interior design and coffee shop	2/9/2015 3:26 PM
63	Construction Construction - Electrical Contractors	2/9/2015 3:11 PM
64	Business services Resource Efficiency and Trining	2/9/2015 2:30 PM
65	Retail Retail	2/9/2015 1:45 PM
66	Transport/Haulage AUTO REPAIRS	2/9/2015 1:19 PM
67	Construction Construction	2/9/2015 12:29 PM
68	Construction Construction	2/9/2015 12:03 PM
69	Retail Retail	2/9/2015 11:29 AM

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Northern Ireland Assembly Committee for Enterprise, Trade & Investment: Survey of Northern Ireland Businesses for Inquiry into Growth and Jobs

70	Quarrying and Mining Quarrying and Mining	2/9/2015 11:03 AM
71	Hospitality/Tourism HOSPITALITY, THE RESTAURANT	2/9/2015 10:58 AM
72	Hospitality/Tourism TOURISM	2/9/2015 10:21 AM
73	Transport/Haulage Commercial vehicle sales, service, parts, repair; transport	2/9/2015 10:17 AM
74	Creative Industries Arts & Entertainment	2/9/2015 10:00 AM
75	Social Enterprise & Volun Social Enterprise providing employment to people with disability	2/9/2015 9:25 AM
76	Hospitality/Tourism self catering holiday accomodation	2/9/2015 8:48 AM
77	Financial Services Financial services (accountancy & audit)	2/9/2015 7:48 AM
78	Engineering fabrication/engineering	2/9/2015 7:27 AM
79	Construction Construction	2/8/2015 11:55 PM
80	Hospitality/Tourism Hospitality	2/7/2015 10:16 PM
81	Retail Retail	2/7/2015 9:59 PM
82	Health Nursing and recruitment agency	2/7/2015 1:58 PM
83	Transport/Haulage Taxi Service	2/7/2015 12:42 PM
84	Retail Florist, retail	2/7/2015 12:13 PM
85	Retail Retail	2/7/2015 11:17 AM
86	animal services	2/7/2015 8:42 AM
87	Business services Consultancy	2/7/2015 1:07 AM
88	Retail Retail and service of new and used car sales	2/6/2015 11:30 PM
89	Transport/Haulage Automotive. Service & repair.	2/6/2015 10:34 PM
90	Hospitality/Tourism Hospitality	2/6/2015 9:59 PM
91	Property Property enterprise	2/6/2015 9:55 PM
92	Transport/Haulage Commercial vehicles	2/6/2015 4:56 PM
93	Retail Retail	2/6/2015 4:45 PM
94	Manufacturing hardware	2/6/2015 4:42 PM
95	Property Property	2/6/2015 4:12 PM
96	Hospitality/Tourism Tourism attraction	2/6/2015 2:39 PM
97	Retail retail	2/6/2015 2:30 PM
98	Transport/Haulage haulage	2/6/2015 1:45 PM
99	Manufacturing Printing	2/6/2015 1:31 PM
100	Retail retail	2/6/2015 1:17 PM
101	Hospitality/Tourism Hospitality	2/6/2015 12:50 PM
102	Business services Business support,consulting and property management	2/6/2015 12:36 PM
103	Manufacturing Sawmill & timber	2/6/2015 12:21 PM
104	Financial Services financial services	2/6/2015 12:20 PM
105	Security	2/6/2015 12:18 PM
106	Activity	2/6/2015 11:08 AM
107	Manufacturing Printing	2/6/2015 10:18 AM

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Northern Ireland Assembly Committee for Enterprise, Trade & Investment: Survey of Northern Ireland Businesses for Inquiry into Growth and Jobs

108	Hospitality/Tourism tourism	2/6/2015 9:51 AM
109	Retail Import / Export / Distribution / Retail	2/6/2015 9:50 AM
110	Creative Industries Design and advertising	2/6/2015 9:34 AM
111	Financial Services Financial Services	2/6/2015 9:06 AM
112	Creative Industries Arts and heritage crafts	2/6/2015 8:41 AM
113	Creative Industries Creative Media	2/5/2015 11:01 PM
114	Construction Construction	2/5/2015 8:14 PM
115	Social Enterprise & Volun Voluntary	2/5/2015 8:11 PM
116	Retail Beauty	2/5/2015 7:30 PM
117	Construction Construction	2/5/2015 7:22 PM
118	Hospitality/Tourism tourism	2/5/2015 7:03 PM
119	Creative Industries Musical instruments	2/5/2015 6:35 PM
120	Creative Industries Retail creative crafts and retailing	2/5/2015 6:35 PM
121	Retail Retail	2/5/2015 5:54 PM
122	Hospitality/Tourism Hotel and Restaurant	2/5/2015 5:53 PM
123	Health Health provider	2/5/2015 5:48 PM
124	Creative Industries interior lanscaping	2/5/2015 5:48 PM
125	Retail Furniture wholesale	2/5/2015 5:12 PM
126	Construction Construction	2/5/2015 5:12 PM
127	Business services HR Services	2/5/2015 5:09 PM
128	Retail Garden machinery servicing, sales and repair	2/5/2015 5:09 PM
129	Hospitality/Tourism Hospitality	2/5/2015 5:04 PM
130	Creative Industries Architecture	2/5/2015 4:43 PM
131	Retail Retail	2/5/2015 4:41 PM
132	Creative Industries Book publishing	2/5/2015 4:39 PM
133	Creative Industries Architecture	2/5/2015 4:36 PM
134	Creative Industries Design	2/5/2015 4:21 PM
135	Business services Business Consultancy	2/5/2015 3:51 PM
136	Manufacturing Packaging	2/5/2015 12:24 PM
137	Construction Construction Industry	2/5/2015 12:09 PM
138	Tyre manufacturer	2/4/2015 4:47 PM
139	Business services Marketing Communications	2/4/2015 3:54 PM
140	Construction Construction & Minerals	2/3/2015 3:39 PM
141	Business services Consultancy	2/2/2015 4:08 PM
142	Utilities Energy	1/30/2015 7:16 PM
143	Quarrying and Mining Quarrying	1/30/2015 2:24 PM
144	Quarrying and Mining Quarry products	1/30/2015 12:18 PM
145	Business services consultancy	1/30/2015 11:53 AM

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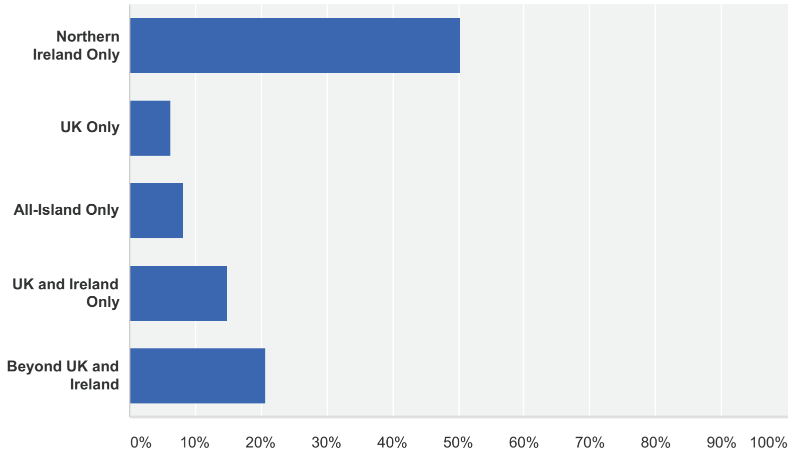
Northern Ireland Assembly Committee for Enterprise, Trade & Investment: Survey of Northern Ireland Businesses for Inquiry into Growth and Jobs

146	Hospitality/Tourism Hospitality	1/29/2015 10:03 PM
147	We are an Independent Ambulance Company and Medical personnel supplier	1/29/2015 9:34 PM
148	Hospitality/Tourism Hospitality	1/29/2015 4:05 PM
149	Retail retail	1/29/2015 4:00 PM
150	Business services Business Information & Support	1/29/2015 3:39 PM
151	Hospitality/Tourism Catering	1/29/2015 2:28 PM
152	Retail retail and online retail	1/29/2015 1:15 PM
153	Business services Marketing Communications	1/29/2015 12:39 PM
154	Retail Retail	1/29/2015 11:46 AM
155	Transport/Haulage Hire Company	1/29/2015 11:32 AM
156	Creative Industries Creative	1/29/2015 11:27 AM
157	Creative Industries Arts & culture	1/29/2015 11:17 AM
158	Business services Investment Fund Managment	1/29/2015 11:01 AM
159	Construction construction	1/29/2015 10:39 AM
160	Business services Urban regeneration consultancy	1/29/2015 10:33 AM
161	Manufacturing FURNITURE MANUFACTURE	1/29/2015 10:24 AM
162	Construction Construction	1/29/2015 10:19 AM
163	Business services Branding	1/29/2015 10:03 AM
164	Utilities Utility	1/29/2015 10:02 AM
165	Business services Consultancy	1/29/2015 10:01 AM
166	Business services Proffesional services	1/29/2015 9:58 AM
167	Property Commercial Real Estate	1/29/2015 9:54 AM
168	Business services Resource efficiency/ environment	1/28/2015 10:08 PM
169	Creative Industries Craft	1/28/2015 7:15 PM
170	Business services Consultancy	1/27/2015 11:37 PM
171	Business services Information handling	1/27/2015 6:04 PM

Northern Ireland Assembly Committee for Enterprise, Trade & Investment: Survey of Northern Ireland Businesses for Inquiry into Growth and Jobs

Q6 Do you have an international presence or NI presence only?

Answered: 223 Skipped: 0



Answer Choices	Responses	
Northern Ireland Only	**50.22%**	112
UK Only	**6.28%**	14
All-Island Only	**8.07%**	18
UK and Ireland Only	**14.80%**	33
Beyond UK and Ireland	**20.63%**	46
Total		**223**

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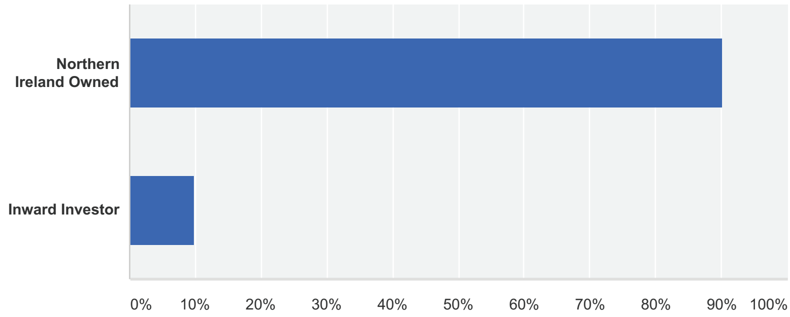
Northern Ireland Assembly Committee for Enterprise, Trade & Investment: Survey of Northern Ireland Businesses for Inquiry into Growth and Jobs

Q7 Is your business NI owned or an inward investor?

Answered: 223 Skipped: 0



Answer Choices	Responses	
Northern Ireland Owned	90.13%	201
Inward Investor	9.87%	22
Total		223

Northern Ireland Assembly Committee for Enterprise, Trade & Investment: Survey of Northern Ireland Businesses for Inquiry into Growth and Jobs

Q8 If you are an inward investor, in what country is your HQ located?

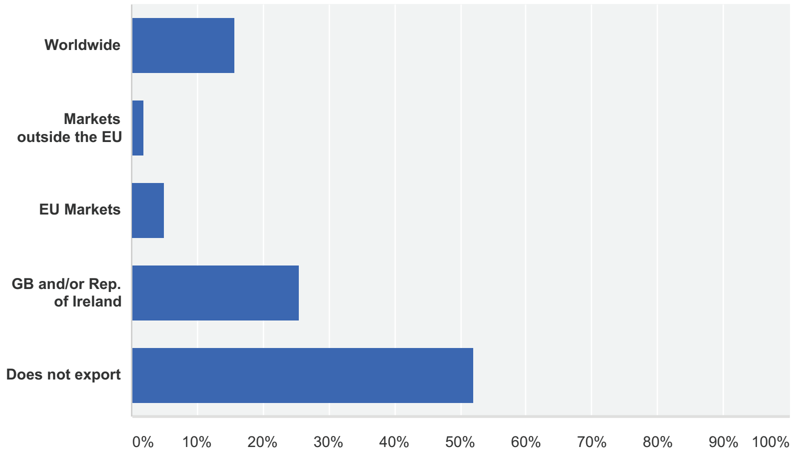
Answered: 22 Skipped: 201

#	Responses	Date
1	England	3/9/2015 6:00 PM
2	NA	3/9/2015 4:49 PM
3	US	3/9/2015 4:23 PM
4	Republic of Ireland	3/9/2015 12:44 PM
5	USA	3/9/2015 12:28 PM
6	Australia	3/6/2015 9:42 AM
7	Denmark	3/4/2015 3:33 PM
8	France	3/3/2015 5:09 PM
9	Switzerland	2/17/2015 10:15 AM
10	UK	2/10/2015 4:00 PM
11	London	2/10/2015 2:55 PM
12	England	2/9/2015 2:30 PM
13	Ireland	2/9/2015 12:29 PM
14	UK	2/6/2015 2:39 PM
15	Guernsey	2/5/2015 10:17 PM
16	n/a	2/5/2015 5:12 PM
17	France	2/4/2015 4:47 PM
18	Middle East	1/30/2015 7:16 PM
19	UK	1/29/2015 11:27 AM
20	Australia	1/29/2015 10:02 AM
21	USA	1/29/2015 9:54 AM
22	England	1/28/2015 10:08 PM

Northern Ireland Assembly Committee for Enterprise, Trade & Investment: Survey of Northern Ireland Businesses for Inquiry into Growth and Jobs

Q9 To which areas outside NI does your business currently export?

Answered: 223 Skipped: 0

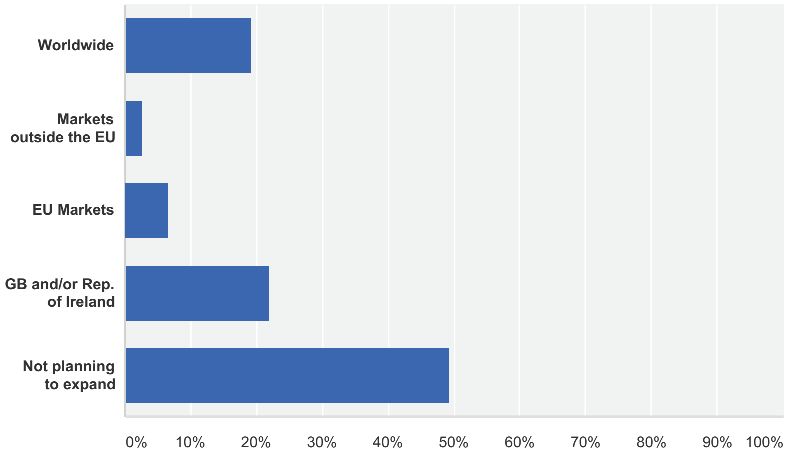


Answer Choices	Responses	
Worldwide	15.70%	35
Markets outside the EU	1.79%	4
EU Markets	4.93%	11
GB and/or Rep. of Ireland	25.56%	57
Does not export	52.02%	116
Total		223

Northern Ireland Assembly Committee for Enterprise, Trade & Investment: Survey of Northern Ireland Businesses for Inquiry into Growth and Jobs

Q10 Does your business wish to expand its export base in the future?

Answered: 223 Skipped: 0



Answer Choices	Responses	
Worldwide	19.28%	43
Markets outside the EU	2.69%	6
EU Markets	6.73%	15
GB and/or Rep. of Ireland	21.97%	49
Not planning to expand	49.33%	110
Total		223

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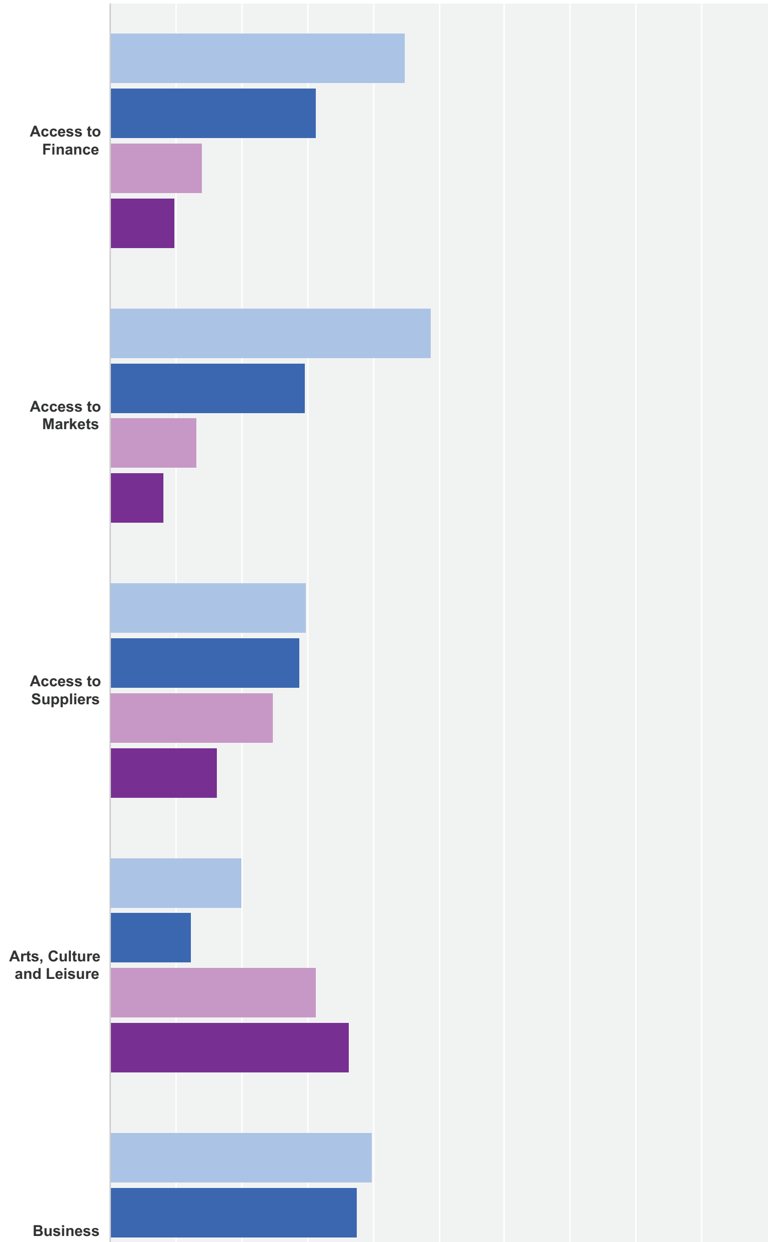
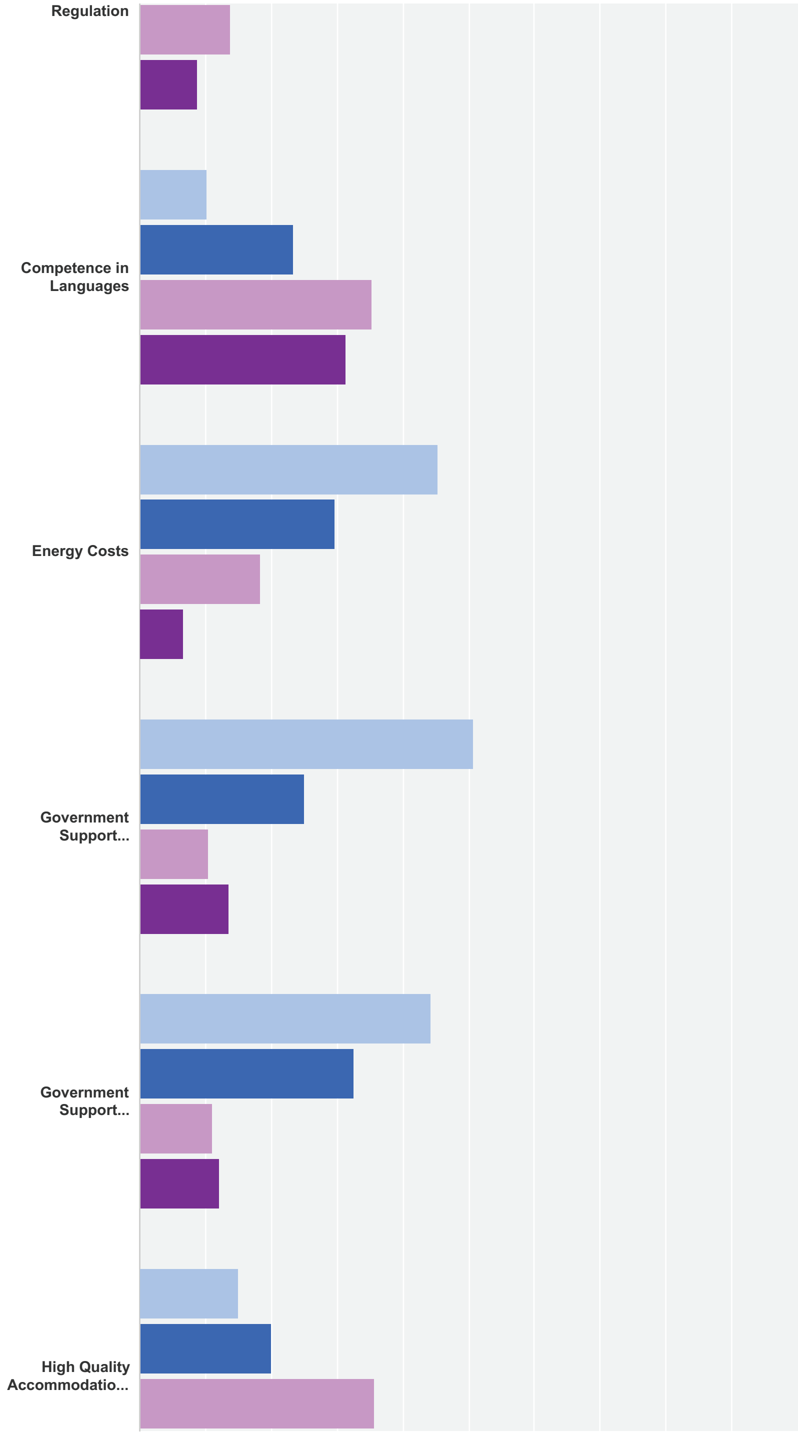
Northern Ireland Assembly Committee for Enterprise, Trade & Investment: Survey of Northern Ireland Businesses for Inquiry into Growth and Jobs

Q11 How would improvement in each of the following factors impact on your business growth?

Answered: 190 Skipped: 33



Northern Ireland Assembly Committee for Enterprise, Trade & Investment: Survey of Northern Ireland Businesses for Inquiry into Growth and Jobs



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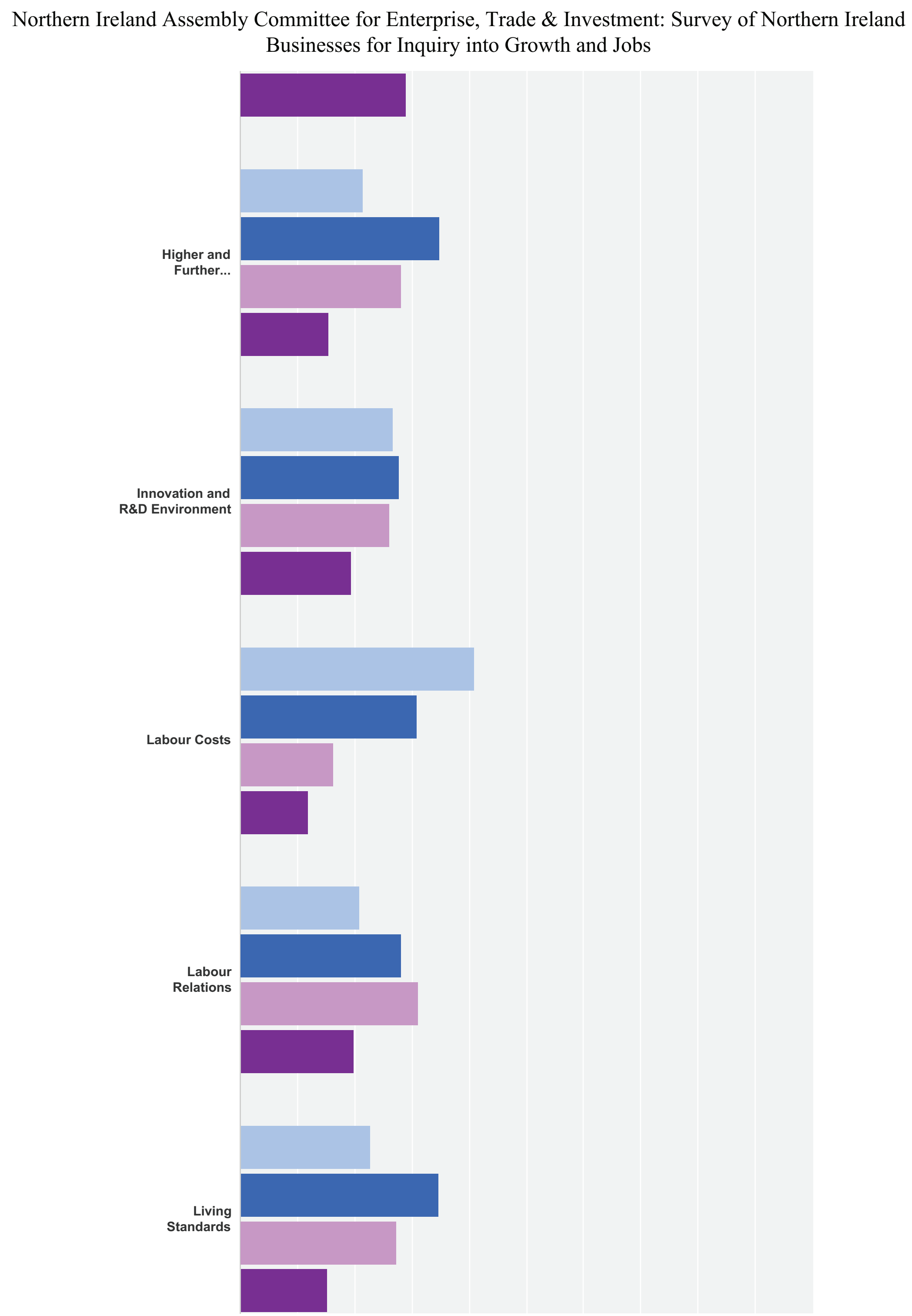
Northern Ireland Assembly Committee for Enterprise, Trade & Investment: Survey of Northern Ireland Businesses for Inquiry into Growth and Jobs
Higher and Further...
Innovation and R&D Environment
Labour Costs
Labour Relations
Living Standards

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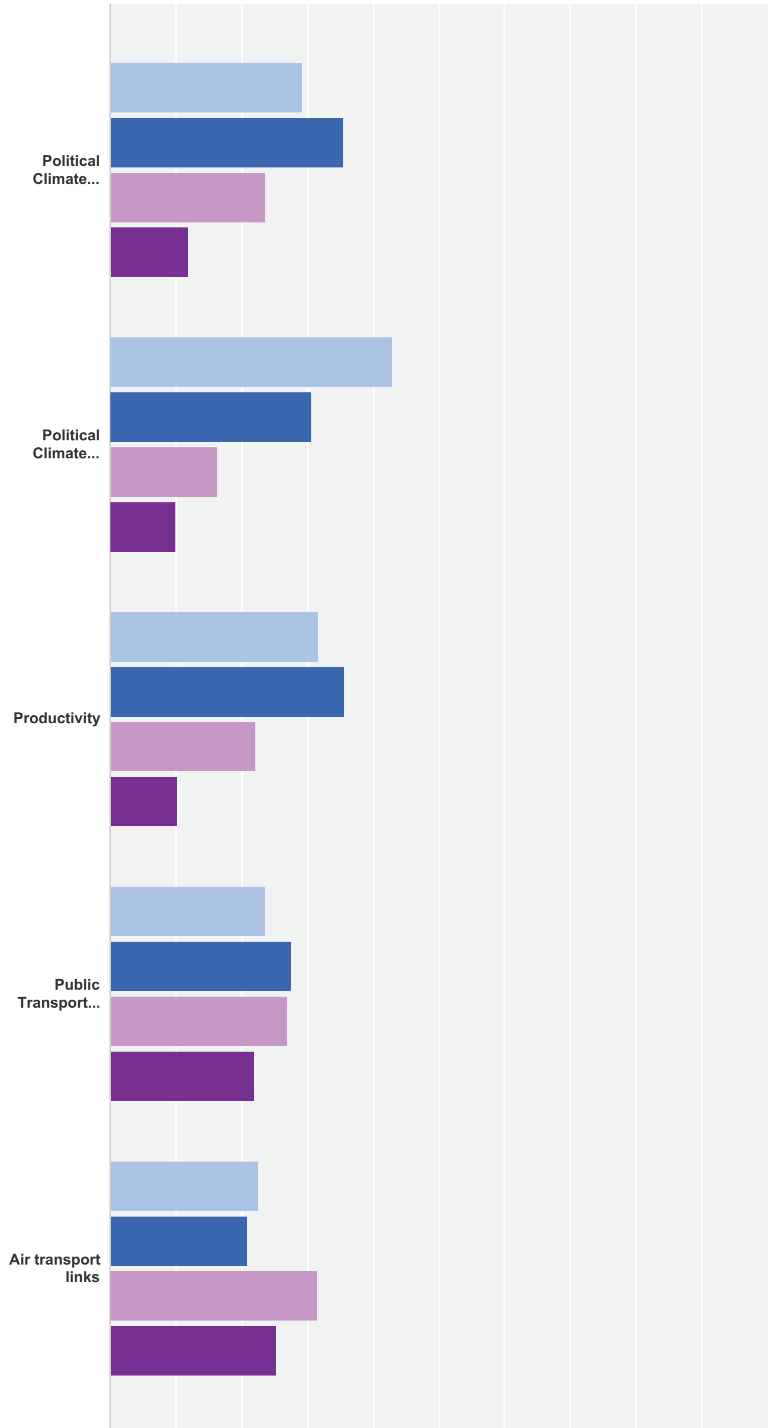
Northern Ireland Assembly Committee for Enterprise, Trade & Investment: Survey of Northern Ireland Businesses for Inquiry into Growth and Jobs



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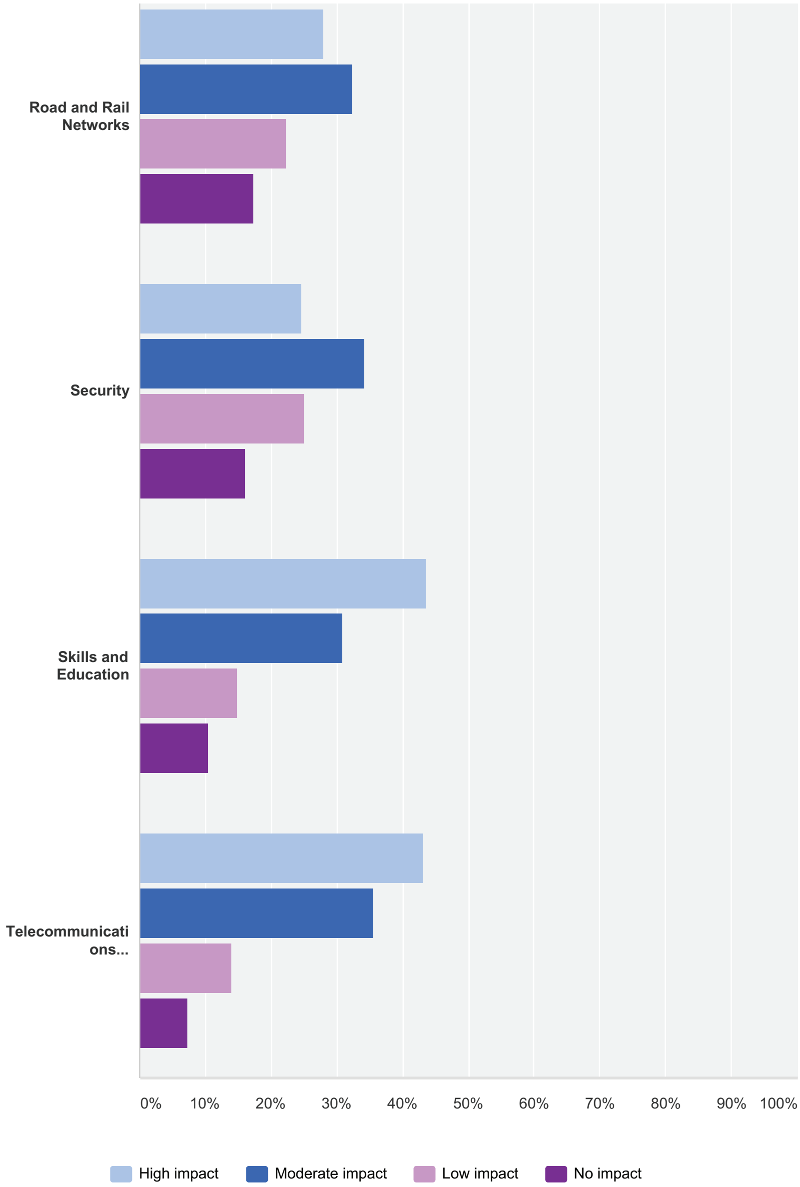
Northern Ireland Assembly Committee for Enterprise, Trade & Investment: Survey of Northern Ireland Businesses for Inquiry into Growth and Jobs



	High impact	Moderate impact	Low impact	No impact	Total
Access to Finance	44.86% 83	31.35% 58	14.05% 26	9.73% 18	185
Access to Markets	48.90% 89	29.67% 54	13.19% 24	8.24% 15	182

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Northern Ireland Assembly Committee for Enterprise, Trade & Investment: Survey of Northern Ireland Businesses for Inquiry into Growth and Jobs

Access to Suppliers	**29.94%** 53	**28.81%** 51	**24.86%** 44	**16.38%** 29	177
Arts, Culture and Leisure	**20.11%** 36	**12.29%** 22	**31.28%** 56	**36.31%** 65	179
Business Regulation	**39.78%** 72	**37.57%** 68	**13.81%** 25	**8.84%** 16	181
Competence in Languages	**10.23%** 18	**23.30%** 41	**35.23%** 62	**31.25%** 55	176
Energy Costs	**45.25%** 81	**29.61%** 53	**18.44%** 33	**6.70%** 12	179
Government Support (Financial)	**50.82%** 93	**25.14%** 46	**10.38%** 19	**13.66%** 25	183
Government Support (Practical)	**44.20%** 80	**32.60%** 59	**11.05%** 20	**12.15%** 22	181
High Quality Accommodation/Office Space	**15.08%** 27	**20.11%** 36	**35.75%** 64	**29.05%** 52	179
Higher and Further Education	**21.55%** 39	**34.81%** 63	**28.18%** 51	**15.47%** 28	181
Innovation and R&D Environment	**26.67%** 48	**27.78%** 50	**26.11%** 47	**19.44%** 35	180
Labour Costs	**41.01%** 73	**30.90%** 55	**16.29%** 29	**11.80%** 21	178
Labour Relations	**20.90%** 37	**28.25%** 50	**31.07%** 55	**19.77%** 35	177
Living Standards	**22.73%** 40	**34.66%** 61	**27.27%** 48	**15.34%** 27	176
Political Climate (national)	**29.21%** 52	**35.39%** 63	**23.60%** 42	**11.80%** 21	178
Political Climate (regional)	**43.02%** 77	**30.73%** 55	**16.20%** 29	**10.06%** 18	179
Productivity	**31.82%** 56	**35.80%** 63	**22.16%** 39	**10.23%** 18	176
Public Transport Infrastructure	**23.60%** 42	**27.53%** 49	**26.97%** 48	**21.91%** 39	178
Air transport links	**22.47%** 40	**20.79%** 37	**31.46%** 56	**25.28%** 45	178
Road and Rail Networks	**27.93%** 50	**32.40%** 58	**22.35%** 40	**17.32%** 31	179
Security	**24.57%** 43	**34.29%** 60	**25.14%** 44	**16.00%** 28	175
Skills and Education	**43.65%** 79	**30.94%** 56	**14.92%** 27	**10.50%** 19	181
Telecommunications Infrastructure	**43.26%** 77	**35.39%** 63	**14.04%** 25	**7.30%** 13	178

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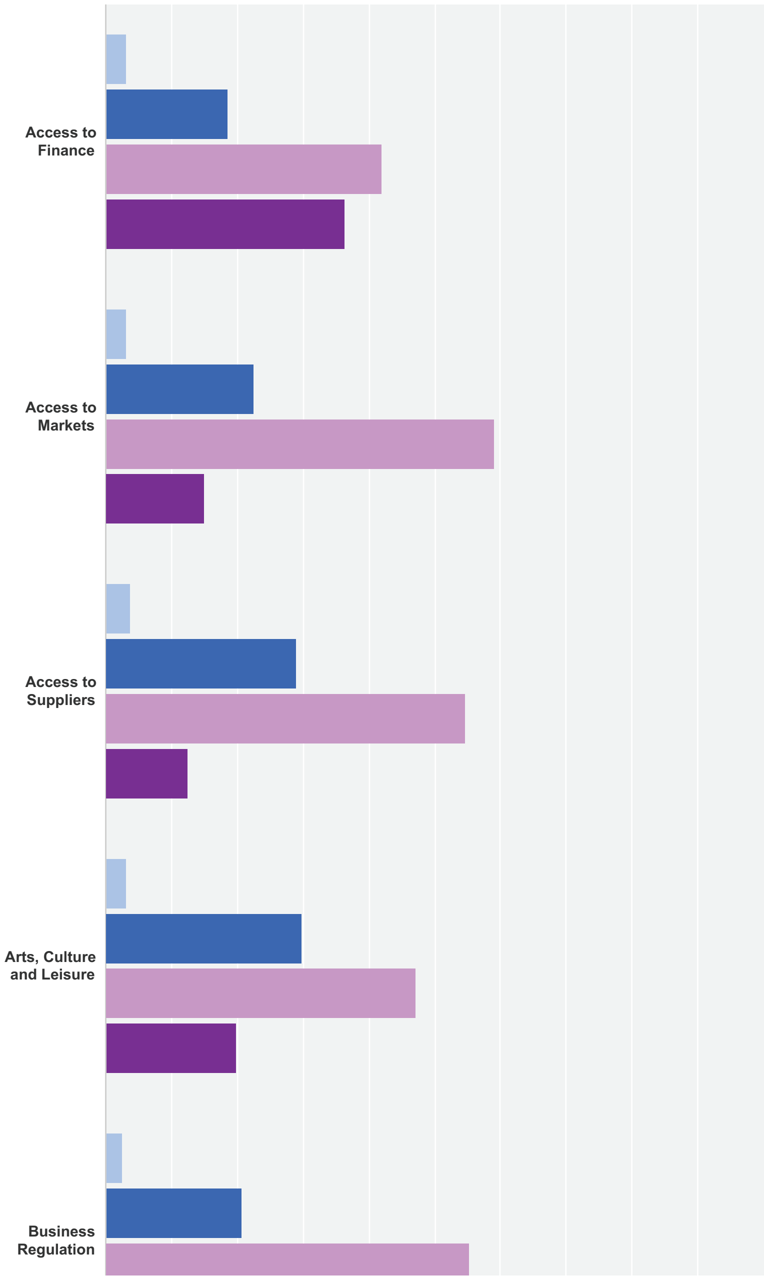
Northern Ireland Assembly Committee for Enterprise, Trade & Investment: Survey of Northern Ireland Businesses for Inquiry into Growth and Jobs

Q12 How do you view the quality of current provision in Northern Ireland?

Answered: 165 Skipped: 58



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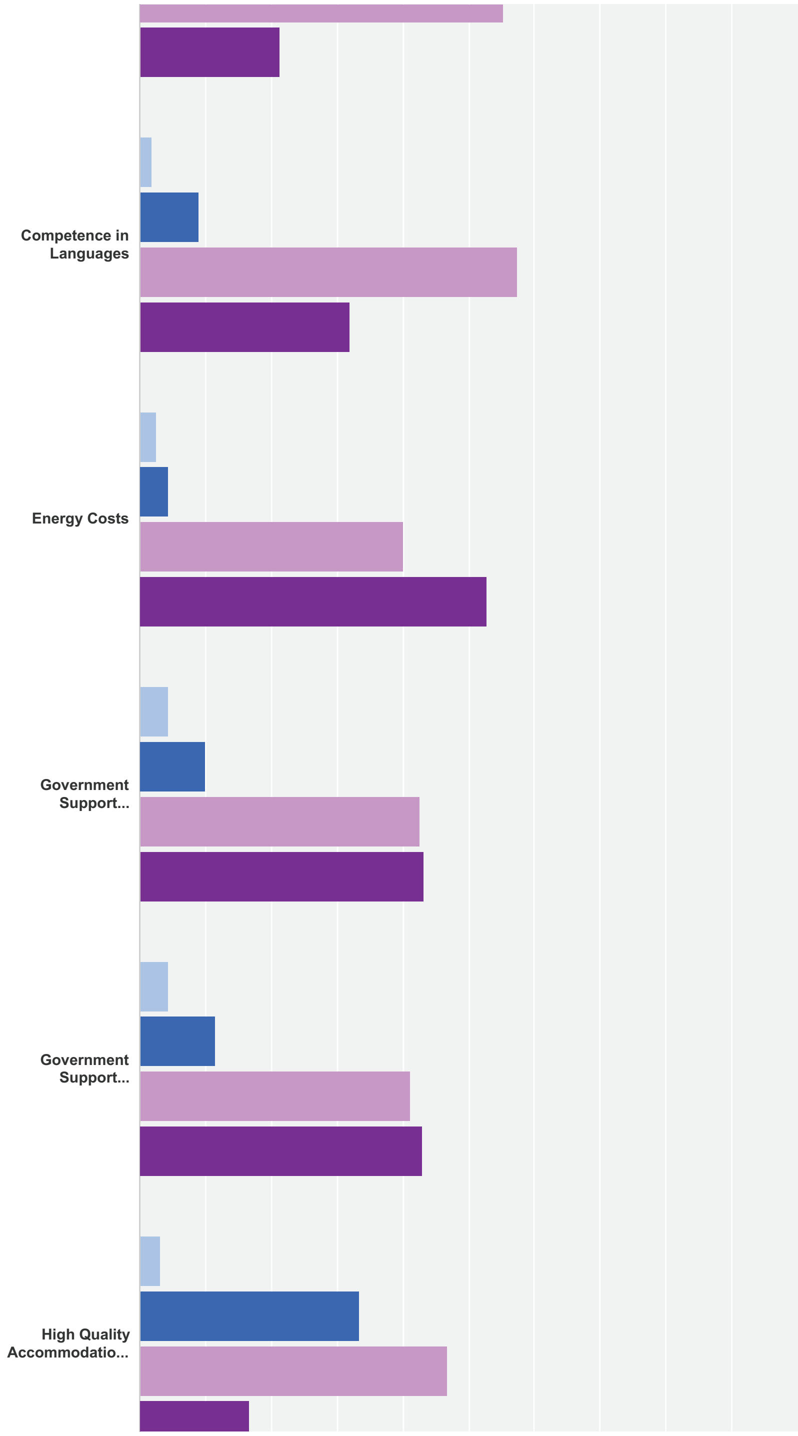

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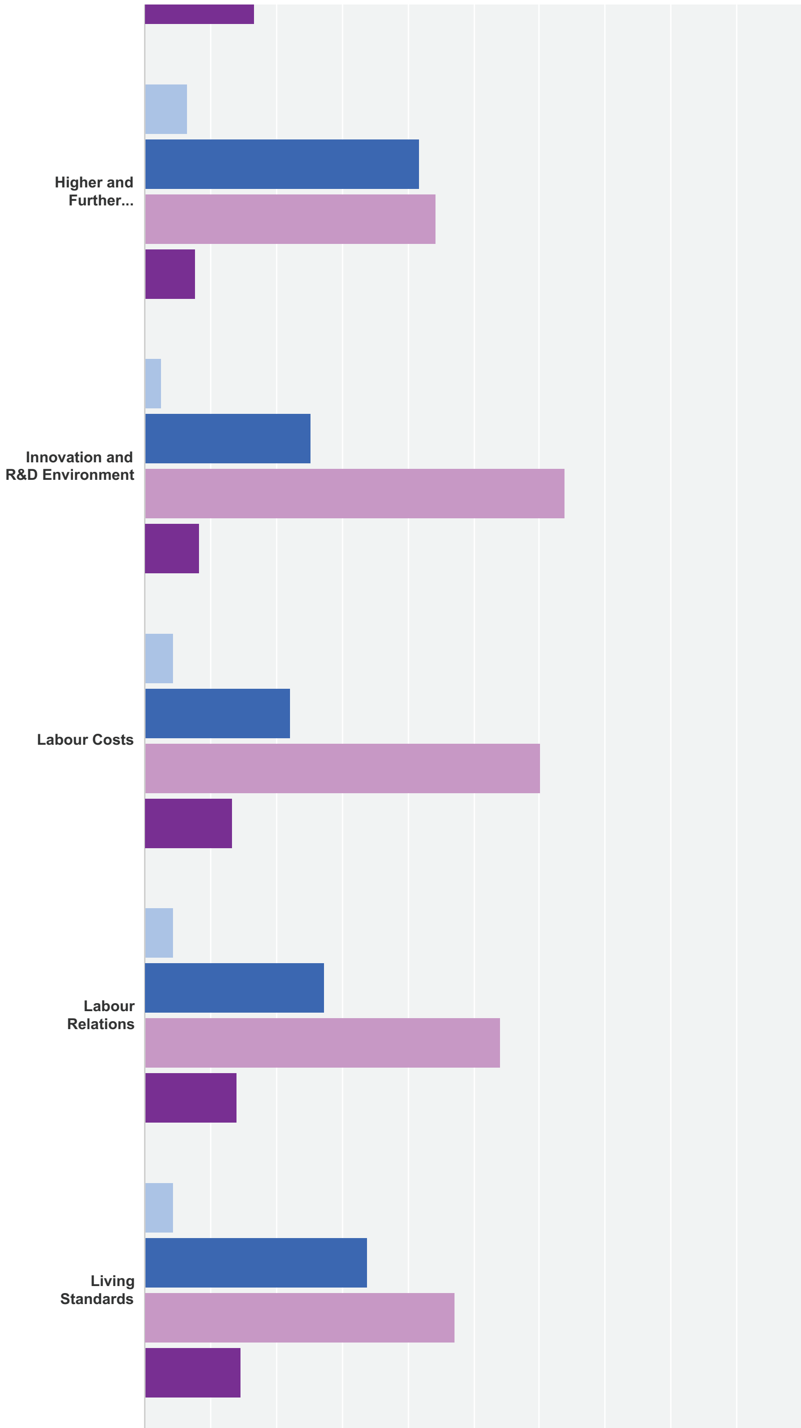

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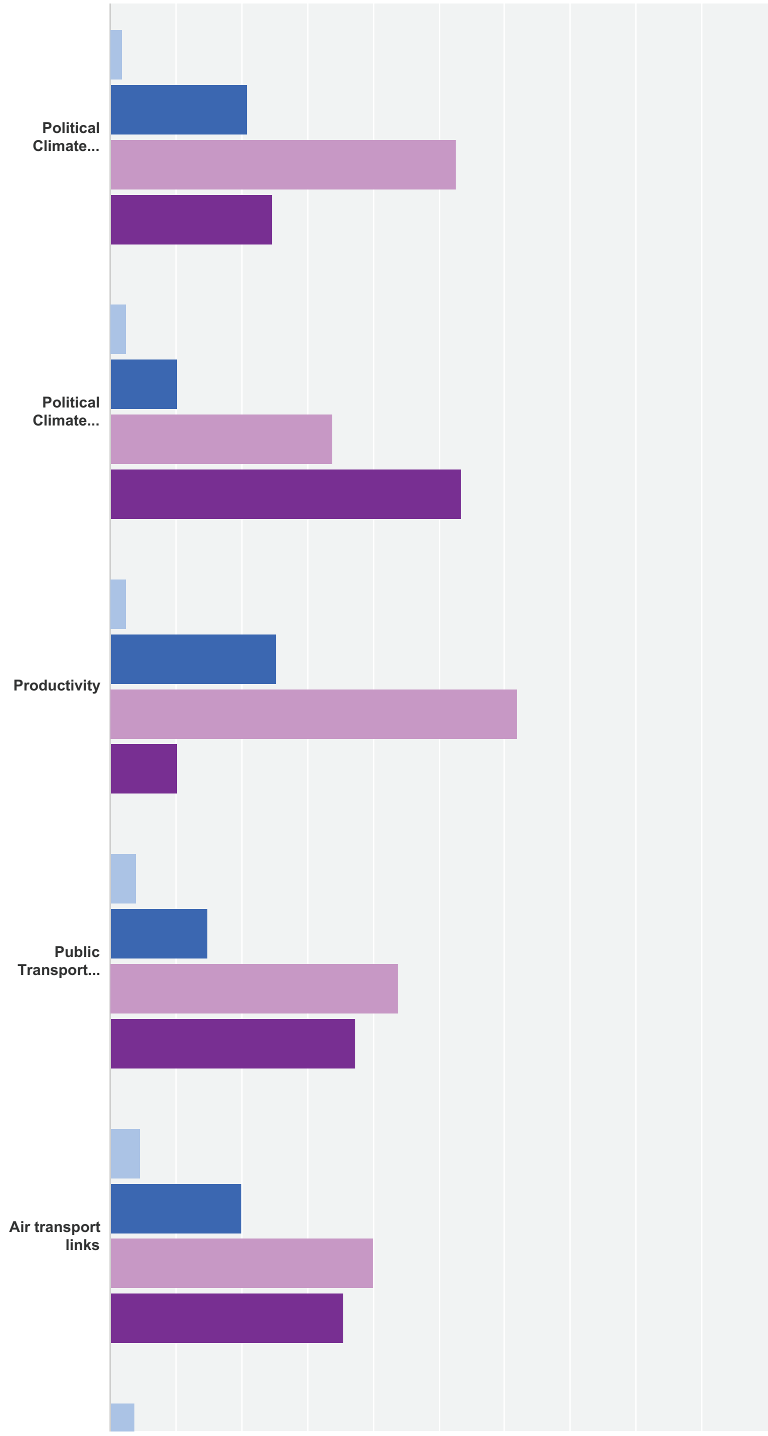

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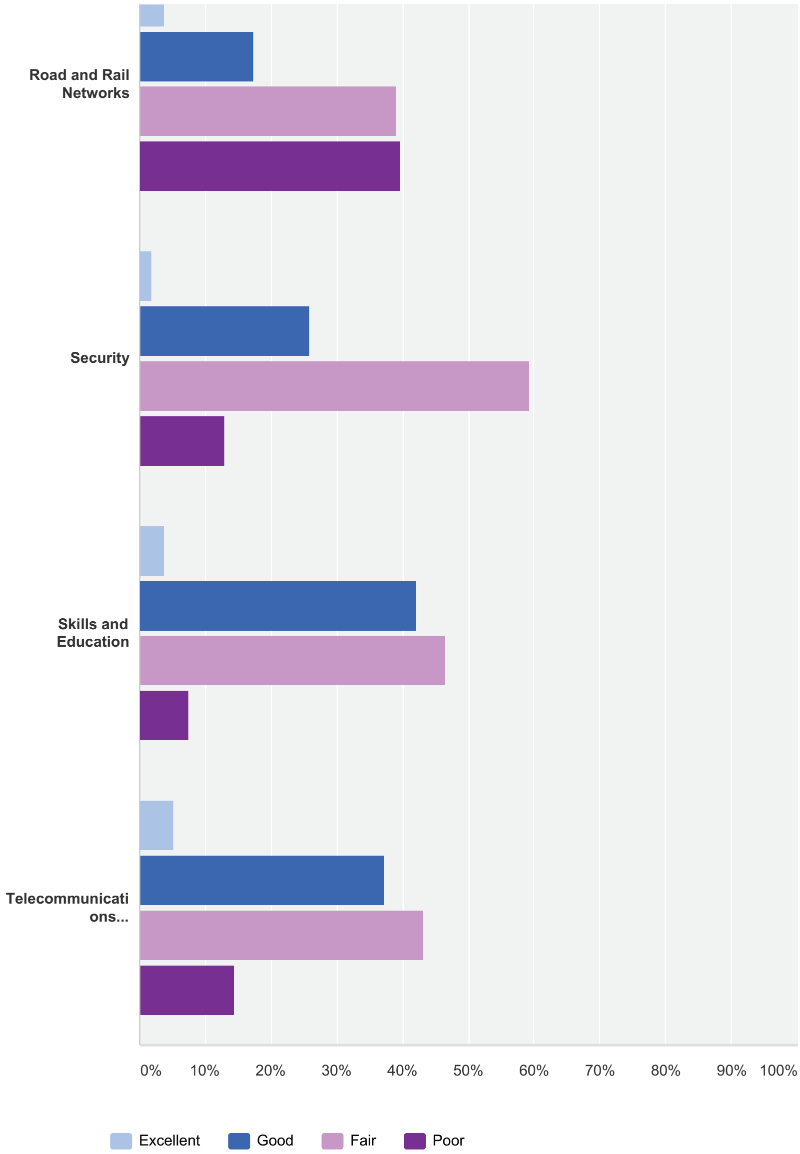

	Excellent	Good	Fair	Poor	Total
Access to Finance	3.09% 5	18.52% 30	41.98% 68	36.42% 59	162
Access to Markets	3.14% 5	22.64% 36	59.12% 94	15.09% 24	159
Access to Suppliers	3.77% 6	28.93% 46	54.72% 87	12.58% 20	159

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Northern Ireland Assembly Committee for Enterprise, Trade & Investment: Survey of Northern Ireland Businesses for Inquiry into Growth and Jobs

Arts, Culture and Leisure	**3.18%** 5	**29.94%** 47	**47.13%** 74	**19.75%** 31	157
Business Regulation	**2.52%** 4	**20.75%** 33	**55.35%** 88	**21.38%** 34	159
Competence in Languages	**1.91%** 3	**8.92%** 14	**57.32%** 90	**31.85%** 50	157
Energy Costs	**2.55%** 4	**4.46%** 7	**40.13%** 63	**52.87%** 83	157
Government Support (Financial)	**4.38%** 7	**10.00%** 16	**42.50%** 68	**43.13%** 69	160
Government Support (Practical)	**4.43%** 7	**11.39%** 18	**41.14%** 65	**43.04%** 68	158
High Quality Accommodation/Office Space	**3.21%** 5	**33.33%** 52	**46.79%** 73	**16.67%** 26	156
Higher and Further Education	**6.41%** 10	**41.67%** 65	**44.23%** 69	**7.69%** 12	156
Innovation and R&D Environment	**2.58%** 4	**25.16%** 39	**63.87%** 99	**8.39%** 13	155
Labour Costs	**4.43%** 7	**22.15%** 35	**60.13%** 95	**13.29%** 21	158
Labour Relations	**4.46%** 7	**27.39%** 43	**54.14%** 85	**14.01%** 22	157
Living Standards	**4.46%** 7	**33.76%** 53	**47.13%** 74	**14.65%** 23	157
Political Climate (national)	**1.90%** 3	**20.89%** 33	**52.53%** 83	**24.68%** 39	158
Political Climate (regional)	**2.55%** 4	**10.19%** 16	**33.76%** 53	**53.50%** 84	157
Productivity	**2.58%** 4	**25.16%** 39	**61.94%** 96	**10.32%** 16	155
Public Transport Infrastructure	**3.87%** 6	**14.84%** 23	**43.87%** 68	**37.42%** 58	155
Air transport links	**4.52%** 7	**20.00%** 31	**40.00%** 62	**35.48%** 55	155
Road and Rail Networks	**3.85%** 6	**17.31%** 27	**39.10%** 61	**39.74%** 62	156
Security	**1.94%** 3	**25.81%** 40	**59.35%** 92	**12.90%** 20	155
Skills and Education	**3.77%** 6	**42.14%** 67	**46.54%** 74	**7.55%** 12	159
Telecommunications Infrastructure	**5.23%** 8	**37.25%** 57	**43.14%** 66	**14.38%** 22	153

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Northern Ireland Assembly Committee for Enterprise, Trade & Investment: Survey of Northern Ireland Businesses for Inquiry into Growth and Jobs

Q13 Please make any additional comments which you believe will contribute to the Inquiry.

Answered: 50 Skipped: 173

#	Responses	Date
1	There is far more available to micro businesses if they are based in Belfast than in rural areas.	3/10/2015 4:14 PM
2	Reduction in corporation tax will definitely have a positive impact on business growth in the private sector - if politicians can ever agree!!	3/10/2015 10:50 AM
3	Far too little effort to help potential Social Enterprises who may not be "high flyers" but able to be innovate in deliver. UCIT not worth the effort of filling in the form.	3/10/2015 8:16 AM
4	Commissioning needs looking at, no space for innovation for fear of challenge Business support is driven by targets and not outcomes business education is too limiting in schools no tax incentives for small business and social enterprises at start up stage jobs created through social clauses are not monitored or sustained, its not working need to think about commissioning for outcomes and a co-design approach need more opportuities for cross sector collaboration to help deliver new jobs and ways of working	3/9/2015 10:33 PM
5	Better opportunities for micro companies to bid for public contracts	3/9/2015 7:07 PM
6	There should be greater emphasis place on supporting indigenous start-up businesses, particularly in their early years, to prevent business failure and provide better opportunity for business growth and hence job creation.	3/9/2015 6:26 PM
7	Greater air links to more European and North American destinations would be a great help rather than routing people through Dublin and London.	3/9/2015 4:34 PM
8	Promote access to database resources at INI	3/9/2015 4:28 PM
9	To achieve growth and increasing employment the emphasis should be on small enterprises of 10-30 people and turnover in the £1-10 million range. The risk profile against the potential for growth in much better here than it is in new/early stage companies. Government policy seems to be entirely focused on high tech start-ups and has been for many years but it has not delivered. More should be done to support medium enterprises and M&A activity to achieve critical mass. FDI will also deliver growth and employment. The most important factors for this are political stability and skills. We need to invest in developing skills locally and I would go as far as suggesting operating a pro-active immigration policy for the right skills and leadership.	3/9/2015 3:20 PM
10	Education standards are poor GCSE in programming please or we'll be left out	3/9/2015 2:57 PM
11	We all believe that Heath and Safety is important, but sometimes things are getting carried away. We invest considerable resources in becoming pre-qualified with companies such as ConstructionLine and Safe Contractor, but are still asked on a weekly basis to jump through other hoops set by some clients. One "standard" should be enough for all as a commonly accepted baseline. If additional items are required then these should also be met, but surely we don't have to replicate proof of our competency every time?	3/9/2015 12:52 PM
12	SME's require a wide range of support that is flexible to their needs, timely and devoid of unnecessary red tape. The agricultural sector has been supported for many years and yet the life blood of our NI economy is left to struggle on facing cyclical highs and lows. All of the areas mentioned in the survey are critical to the success of the small business economy -it is like a jigsaw puzzle and the business environment will never reach a fraction of its full potential without the pieces all fitting together e.g. energy costs, road and rail links, telecomms, access to finance etc - all of these need to be packaged to support the business sector and not treated as individual silos. Our business owners are the best in the UK and Ireland and they can become the back bone of our economy with a political focus that creates a holistic business environment.	3/9/2015 12:33 PM
13	A massive improvement is needed in the West to educate our young people and encourage them to stay local - once they leave school they go to Belfast or further afield and never come back - this is unacceptable. Need to convince young people that their home can compete with the other areas/urban centres of the uk and not just be a commuter belt for Belfast The infrastructure serving the west is long overdue - high quality road links are badly needed to give the west a chance to complete. Decentralisation of public services would go a long way to redressing the imbalance between east and west.	3/9/2015 11:04 AM

Northern Ireland Assembly Committee for Enterprise, Trade & Investment: Survey of Northern Ireland Businesses for Inquiry into Growth and Jobs

14	I feel we need the implementation of Lower corporation Tax combined with a substantial change in employment legislation which supports the company more	3/5/2015 3:16 PM
15	ACCESS AND OPPORTUNITIES FOR SMALL COMPANIES TO PRICE GOVERMENT WORK AND T0 MEET AND GREET THE LARGE COMPANIES IN N.I.	2/24/2015 10:00 AM
16	Less red tape.	2/20/2015 10:55 AM
17	Employment legislation is the biggest drain on resources in most SME's. The worldwide market is extremely competitive and companies need to be able to make quick decisions without having to adhere to draconian, employee-orientated employment legislation! This needs to change to compete in future world markets!	2/18/2015 2:06 PM
18	We are closing in Northern Ireland in 2016/2017 to move production to Eastern Europe.	2/17/2015 10:23 AM
19	Telephone network very poor with Broadband not great either. Government help for employment to help small businesses almost non-existent. Increase in rates will push a lot of small businesses out as already struggling to meet the overheads.	2/15/2015 6:06 PM
20	there is far too much legislation around certain areas which has a negative effect to growing a business to give you an example: if i was able to get planning permission i would be able to create another 20+ jobs i have created over 10 jobs this year but this has been a struggle as we are now having to rent another premise	2/11/2015 9:55 PM
21	NONE	2/11/2015 10:48 AM
22	traffic control more carparks less waste	2/10/2015 3:32 PM
23	Creating the right political climate to encourage new businesses and tourism to the province is critical. Also promotion of a business friendly environment in terms of labour relations, energy costs, business regulation, environmental regulation, taxation, etc. We need a clear vision that business development and economic growth are the most important issues on our agenda. Our politicians claim that these issues are priorities when in actual fact nearly all of their energy and focus continues to be on the party political issues. In addition when "push comes to shove" they nearly always tend to adopt an anti-business position - think fracking, additional cost of renewable energy, failure to adopt GB's relaxation on employment legislation, ever tightening environmental controls, prioritising wasteful government expenditure (NHS, Irish Language, Ulster Scots, etc) over growth strategies. Forget about flags, marching and endless need to dig into the past.	2/9/2015 12:32 PM
24	Access to finance is probably the biggest issue for our business at the moment, next to that would be the excessive regulation which impacts on our administration. Small business have the same regulations to adhere to as large organisations but do not have the level of admin staff to cope. If compliance to regulation continues to rise small business will suffer.	2/9/2015 12:25 PM
25	Hospitality, Catering and Tourism industry VAT reduction, which has been improving in Republic of Ireland to create growth in the hospitality and tourism industry, creating more jobs and tourism. As figures show NI is lagging behind in the tourism sector. Our business is planing to grow but locally, in same area, Armagh. This type of reduction will support and give more confidence to move forward in the future. Ramune & Sean Farnan The Moody Boar Restaurant, Armagh	2/9/2015 11:14 AM
26	Tourism which is an industry that is completely ignored could and should be our biggest growth industry. However it is stunted by APD plus the encroachment of Dublin airport which represents a city of just over 1m people and has air routes to just about everywhere. Belfast on the other hand is a joke. 2 airports for approx 350k people with routes to nowhere. Close and develop the City airport therefore creating lots of jobs. Have one large airport that will allow us to start to compete with Dublin and therefore create more jobs. We (Belfast) are an international laughing stock because of this 2 airport scenario. In fact it's worse. It's a tragedy. Problem is the city airport is way too close to Stormont which basically serves as the DUO's own private airport as well as it being just wonderful for the civil servants to access. We couldn't possibly have them driving more than 10 mins could we now??	2/9/2015 10:32 AM

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Northern Ireland Assembly Committee for Enterprise, Trade & Investment: Survey of Northern Ireland Businesses for Inquiry into Growth and Jobs

27	Social Enterprises like SME's & Micro Business need better access to public tendered opportunities. Firstly as they can bring value for money to the local economy but also these contracts would provide stability for the organisations allowing them to pursue expansion and growth locally and beyond our borders. One area that is lacking in the realm of public procurement is the access for small businesses such as SE to some form of arbitration when they are unsuccessful in going for publicly tendered opportunities. In NI those who pursue public contracts have only two courses of action, accept their lot or go legal. No small business or SE can afford that financial risk, even if they believe they have good grounds. Costs start racking up quickly as senior counsel is required to determine of they have a case before the issues a writ in the Alcatel period, £5k-£10k can be consumed in that alone. In the UK mainland under the Crown Commercial Services provisions there is an independent "mystery Shopper" process where dissatisfied tender respondents who have due reason can have a quick intervention that does not have to end up in legal action. Such as system would ease legal congestion and public costs in public contracts for Goods, Services and Construction.	2/9/2015 9:35 AM
28	Retail is not considered as part of DETI and yet is a big economy driver..... It should be to allow the protection of this huge economy!	2/7/2015 10:03 PM
29	Only when NI gets it act together politically and governement departments start to work together in a coherent way and set out a national strategy for tourism, will it be able to encourage inward investment to all areas and not just the few. Tourism is a large earner, it creates many jobs, not only seasonally, but the beauty of NI encourages visitors throughout the year, unfortunately NI small businesses do not appear to recognise this. NI is stuck in years old ideas, the few small businesses who do buck the trend do well. Large towns that close at 5pm throughout the year does nothing to encourage tourists, where are the chambers of commerce in all this. There are some worldwide exporting companies in NI who do very well, including some very small sole trader businesses who probably fall under the radar, these should be sought out and supported, The art and craft sector has the highest growth rate over the last 2 years, there is some very good support available to increase micro businesses, this not only helps financially but health and well being. Perhaps this support could be extended to other sectors too	2/7/2015 12:17 PM
30	Business struggles with vat levied at 20 per cent. Single biggest challenge.	2/6/2015 10:54 PM
31	Don't underestimate rural where enterprise still thrives. Look at Kildress area of Cookstown for example.	2/6/2015 10:03 PM
32	Too much time spent by Government in NI worrying about useless things like flags and who's done what in the past. Look to the future like the Scottish Government.	2/6/2015 4:16 PM
33	Energy is most expensive in Europe, "Red Tape" in all areas a serious issue especially in employment. The most expensive silly cost to our business is the fact that staff can go off on the sick for weeks, months, years and accumulate holiday pay. Instead of leaving the work place some people now decide to go on the sick for a career break and then demand their holiday pay which has built up. Their should be a nominal charge for "Absence from work" notes issued by the doctors for a start. Due to the current employment laws it can take months if not years to follow the correct procedures in dismissing people who go off on the sick in aid of benefits and accumulating holidays is another incentive.	2/6/2015 2:39 PM
34	Cut the bureaucracy, red tape, and needless local/gov admin.. Make decisions	2/6/2015 1:30 PM
35	Improvements in transport infrastructure e.g. rail links to the 2 main airports would be good.	2/6/2015 12:36 PM
36	1.Rates are too expensive for business premises. 2.Road network is severely lagging behind the rest of the UK and Southern Ireland. 3.Political direction and leadership is not adequate. There is no work being done on creating a positive political climate to work in and encourage inward investment. Too much petty arguing and party politics. Personal beliefs to the side for your own time, concentrate on the job at hand any what you are being overpaid for. 4. Too much money being wasted and squandered in health/local council/education, just to get rid of budgets.	2/6/2015 12:32 PM
37	I do not see how the majority of the questions asked has a significant relevance to SME growing within Northern Ireland. If SME are to be an important job growth area for Northern Ireland especially with the reduction in public sector employment then a SME focus needs to be adopted. Currently I do not believe Northern Ireland's focus is on this.	2/6/2015 10:57 AM
38	The government have no place in local business. They (and I include all departments) have no idea of what it takes to run a small business.	2/6/2015 10:25 AM
39	There is a lack of understanding within government public bodies in regard to how a real economy rooted in local SMEs functions and therein their practical and economic needs. The imbalance between public sector (including so called private enterprises funded by public money) and truly private sector business serves to smother the latter. Both of the above are rooted in an entitled and parochial attitude which infects local government and subsidised business. Unless these serious faultlines are addressed introducing a lower corporation tax will simply exacerbate them further.	2/5/2015 11:13 PM

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Northern Ireland Assembly Committee for Enterprise, Trade & Investment: Survey of Northern Ireland Businesses for Inquiry into Growth and Jobs

40	Regulation, taxes, rates, energy costs are killing our business.	2/5/2015 6:38 PM
41	Access to fast broadband limits our ability to compete. Jobs could be created if broadband was a lot quicker than BT's Infinity. Standard speed should be speed should be in excess of 100mb.	2/5/2015 4:27 PM
42	The energy costs in Northern Ireland are prohibitive and present a real risk of job loss.	2/4/2015 4:50 PM
43	We need proper politicians dealing with the economy, transport, employment, education, heath etc etc. Flags and the past are a waste of time and money. Tribal politics must be assigned to the past.	2/3/2015 3:46 PM
44	Local government should prioritise; 1. Improving road/rail infrastructure for exporters. 2. planning for rail link to HS2 (Tunnel!) 3. Improve broadband speeds in rural areas urgently 4. Reintroducing tax allowances on capital expenditure- reward companies for reinvesting profit back into the local business. (not reducing corporation tax!) 5.Introduce assistance to young drivers for Insurance premiums - helping innovative rural young workforce to become included in local industry, or continue at college for longer. 6.Planning service need to control/ringfence development adjacent to known mineral reserves to secure longevity of exports.	1/30/2015 12:38 PM
45	INFRASTRUCTURE: To be treated as URGENT: 1) Completion of the A5 and A6 Dual Carriageways (to replace the M1 & M2 motorway loop which was stopped 45 years ago). 2) Superfast Broadband & Mains Gas brought to the west. 3) Encourage/Entice businesses - either indigenous or foreign, to locate along the western corridor e.g., from Strabane to Aughnacloy.	1/29/2015 12:51 PM
46	my comment would be to look at the growth of jobs in the existing small companies in northern Ireland and see if taking moneys out of the block grant will benefit small company's already in N. I. or large company's taking profit out of N. I. , as at this time there are not to many N. I. owned company's will benefit from this	1/29/2015 11:43 AM
47	Why when construction makes up over 15% of GVA and has more economic impact than several of the sectors above put together is it forgotten? DETI policy of export led growth is misguided for 2 reasons: Firstly the exposure to FX fluctuations carries systemic risks, as witnessed by the 20% fall in the Euro. Secondly trying to grow the NI economy using tech start ups is in itself misguided. The established pattern of industry is to grow internally and when opportunities and scale allows, to expand overseas in markets and possibly products. To attempt to start this way smacks of seeking to "pick winners" and is doomed. The impact on jobs and GVA between STEM and construction is glaring; DETI's own statistical research into the relative contribution of each economic sector graphically shows this. Regarding construction, the skills honed in NI are seen at Aldergrove each Monday with skilled labour travelling to London. These firms did not commence with an export only business case, their GVA contribution is startling. Is it not embarrassing that the Committee have again ignored such a key driver of the economy?	1/29/2015 10:50 AM
48	Procurement difficult for SME companies	1/29/2015 10:23 AM
49	Companies that contribute to manufacturing supply chains where the final product or service is exported do not get the same level of encouragement/support as that available to direct exporters.	1/28/2015 10:17 PM
50	This should have been done a long time ago. The big decisions need to be taken which the current administration shirks responsibility. Whilst direct rule was not perfect at least we had decisions!!!	1/27/2015 11:41 PM

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Department of the Environment Written Submission

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Your reference:
Our reference: COR/1376/15

Date: 29 May 2015

Dear Jim

Inquiry into Growing the Economy and Creating Jobs in a Reduced Tax Environment

At its meeting of 12 May 2015, DETI Committee Members received a briefing from the Confederation of British Industry (Northern Ireland). The Committee has asked the Department of the Environment for a written submission to address the following two specific questions:

1- *How area planning can contribute towards economic development within Northern Ireland?*

2- *How planning policy has improved to support business development in Northern Ireland?*

The Department welcomes the opportunity to contribute to the Committee's Inquiry. A response to the above-mentioned questions is attached with this memo at Annex A.

I trust this information is of assistance, should you require anything further please contact me directly.

Yours sincerely,

Greg Cunningham
DALO
[by e-mail]

Annex A

1 How area planning can contribute towards economic development within Northern Ireland?

An existing suite of local area development plans prepared by the Department of the Environment has been supporting economic development across Northern Ireland. This support has been in the form of land zonings providing a supply of suitable development land to meet economic development needs in the main settlements and identifying major areas of existing economic development land within settlements. Planning applications for economic development have been considered having regard to area development plans and any other material considerations, including prevailing regional planning policy and principally PPS 4 Planning and Economic Development. In more recent area plans such measures have had to comply with the Regional Development Strategy 2035 (RDS), and its predecessor RDS 2025, that is, ensuring an adequate supply of land to facilitate sustainable economic growth (RG1) and protecting zoned land and promoting economic development opportunities (SFG11).

However, the Planning Act (Northern Ireland) 2011 (the 2011 Act) transferred responsibility for the preparation of Local Development Plans (LDPs) from the Department to new district councils on 1st April 2015, with the Department given a development plan oversight role. Consequently, district councils now have the responsibility to prepare LDPs and take forward economic development in planning terms for their given council areas.

The 2011 Act established a plan-led planning system, which gives primacy to the plan in the determination of planning applications unless other material considerations indicate otherwise. The local development plan (LDP) will comprise of two development plan documents; The Plan Strategy (PS) and The Local Policies Plan (LPP). The LDPs to be prepared by the district councils will guide the future use of land in their respective areas and inform developers, members of the general public, communities, government, public bodies, representative organisations, and other interests of the policy framework that is used to determine development proposals. Within the wider context of spatial planning, LDPs will allocate appropriate land for differing types of land use and set out the main planning requirements to be met in respect of particular zoned sites, including those for economic development.

In preparing LDPs district councils must take account of the RDS 2035, the Sustainable Development Strategy for Northern Ireland, the Strategic Planning Policy Statement (SPPS) when published in final form and any other guidance issued by the Department, the Department for Regional Development (DRD) and the Office of the First Minister and deputy First Minister (OFMdFM).

The LDP should fulfil the following functions:

- provide a 15-year plan framework to support the economic and social needs of a council's district in line with regional strategies and policies, while providing for the delivery of sustainable development;

- facilitate sustainable growth by co-ordinating public and private investment to encourage development where it can be of most benefit to the well-being of the community;
- allocate sufficient land to meet society's needs;
- provide an opportunity for all stakeholders, including the public, to have a say about where and how development within their local area should take place;
- provide a plan-led framework for rational and consistent decision-making by the public, private and community sectors and those affected by development proposals; and
- reflect the spatial aspects of a council's current community plan.

Councils will be the driving force for new local development plans coming forward in helping to deliver their local strategies and policies and subsequently contributing positively towards the economic development of their area

Until the new LDPs come forward, the existing suite of area development plans will continue to be material considerations in the determination of planning applications and appeals.

2 How planning policy has improved to support business development in Northern Ireland?

The existing planning policy framework already supports business development in Northern Ireland through robust and fit for purpose policies. Relevant policy publications that promote sustainable economic growth and prosperity include.

- **PPS4 'Planning and Economic Development'** - published in November 2010 PPS4 sets out operational planning policies for economic development uses and indicates how growth associated with such uses can be accommodated and promoted in development plans. It seeks to facilitate and accommodate economic growth in ways compatible with social and environmental objectives and sustainable development. Additionally, in October 2012 the Department published Supplementary Planning Guidance to Policy PED 8 of PPS4. Its purpose is to reinforce the protection of sensitive industrial enterprises from incompatible development proposals. These sectors are of considerable significance to our local economy. This guidance ensures that they are not unduly hampered through incompatible development
- **PPS16 on Tourism** was published in June 2013. Through managing the provision of sustainable tourism development, PPS16 seeks to deliver on economic targets for increasing visitor numbers and earnings from tourism.
- **PPS21 'Sustainable Development in the Countryside'** was published in June 2010. It sets out planning polices for the range of types of development which in principle are considered to be acceptable in the countryside, including appropriate

development necessary to achieve a sustainable rural economy such as appropriate farm diversification and other economic activity.

- **PPS23 – 'Enabling Development for the Conservation of Significant Places'** was published in April 2014. It seeks to allow for the setting aside of established planning policy in order to secure the long term future of a significant place (meaning any part of the historic environment that has heritage value). PPS23 supports business development by providing flexibility in the planning system which typically allows for the cost of development to be subsidised via 'enabling development' in order for an overriding public benefit to be derived.
- **PPS18 'Renewable Energy' –** published in August 2009 PPS18 supports the use of renewable energy technologies and the potential of the renewable energy industry to support the Northern Ireland economy. Its aim is to facilitate the siting of renewable energy generating facilities in appropriate locations within the built and natural environment in order to achieve Northern Ireland's renewable energy targets and to realise the benefits of renewable energy.
- **PPS15 (Revised) on 'Planning and Flood Risk'** was published in September 2014 – PPS 15 sets out the Department are planning policies to minimise and manage flood risk to people, property and the environment. Flood risk management is an important aspect of sustainable development as flooding has far reaching and long term implications for the economy along with society and the environment.

Furthermore, Members will be aware that the Department is bringing forward a new improved strategic planning policy framework to support the efficient and effective delivery of the reformed two-tier planning system (i.e. the SPPS). This document brings forward, in a strategic way, the supportive policy framework of the above-mentioned policy documents. It also brings forward new regional planning policy on Town Centres and Retailing the thrust of which is to secure a town centre first approach for retail and main town centre uses.

The SPPS is a more strategic, simpler and shorter statement of policy. It has a key role in explaining the purpose of planning and has at its heart the objective of furthering sustainable development. It sets out the core planning principles that give expression to it and underscores the wider context of the Executive's aims and objectives which includes a priority on growing the economy. The SPPS also sets out further detail on how economic considerations will be taken into account based upon a balanced and proportionate approach which works in the long term public interest.

The final draft of the SPPS was completed in March 2015 following a period of extensive engagement with key planning stakeholders. The Department considers that as a consequence of the policy development process and taking into account all representations received, the final SPPS has been significantly refined and strengthened. It furthers the aim of the Environment Minister to create an improved planning system and a more proportionate policy framework that delivers for business, councils, communities and all other stakeholders.

The Department aims to publish the SPPS in final form in the near future following Executive Committee consideration. When published in final form the provisions of the SPPS must be taken into account in the preparation of Local Development Plans, and are also material to all decisions on individual planning applications and appeals.

PLANNING REFORM

Finally, members will be aware that the planning system has very recently been reformed and remodeled with responsibility for the majority of planning decisions transferring to 11 new councils on 1 April 2015. Under the reformed legislative framework councils are now responsible for preparing local development plans for their own districts and determining the vast majority of planning applications as well as dealing with breaches of planning control. This new approach to planning significantly enhances local democratic accountability. The introduction of the new two-tier planning system provides a new approach to planning which is more responsive to the priorities and needs of local communities, including local business and industry. This is expected to greatly assist in contributing to growing a dynamic, innovative and sustainable economy across the Region.

The Department will continue to keep the planning system under review going forward. Where necessary proposals for further reforms will be brought forward to ensure that the new councils have sufficient powers to achieve their economic goals and that the planning system as a whole operates to support economic development.

Northern Ireland Assembly

Appendix 6

List of Witnesses

List of Witnesses

Confederation of British Industry

DETI

Dr Leslie Budd

Federation of Small Businesses

Grow NI

Institute of Directors

InterTradeIreland

Invest NI

Irish Congress of Trade Unions

Manufacturing Northern Ireland

NISRA

Northern Ireland Chamber of Commerce and Industry

Northern Ireland Electricity

Utility Regulator

information & publishing solutions

Published by Authority of the Northern Ireland Assembly,
Belfast: The Stationery Office

and available from:

Online
www.tsoshop.co.uk

Mail, Telephone, Fax & E-mail
TSO
PO Box 29, Norwich, NR3 1GN
Telephone orders/General enquiries: 0870 600 5522
Fax orders: 0870 600 5533
E-mail: customer.services@tso.co.uk
Textphone 0870 240 3701

TSO@Blackwell and other Accredited Agents

ISBN 978-0-339-60588-6

9 780339 605886

£26.63

Printed in Northern Ireland by The Stationery Office Limited