ECONOMIC DEVELOPMENT FORUM

Working Together for a Stronger Economy

1st Review - January 2004

ECONOMIC DEVELOPMENT FORUM

WORKING TOGETHER FOR A STRONGER ECONOMY

FIRST REVIEW – 26 JANUARY 2004

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INTRODUCTION

1. The Economic Development Forum is a partnership body. It was established in 1999 to provide a formal mechanism through which a wide range of key organisations could advise Ministers on issues relating to the development and future competitiveness of the Northern Ireland economy.

2. Membership includes representatives of Government; local Government; business representative organisations; trade unions; the further and higher education sectors; the voluntary and community sector; and the agriculture sector. The Forum meets formally on a quarterly basis each year. Key activities are progressed through a series of Sub-groups which meet regularly.

PURPOSE

3. In June 2002, the Economic Development Forum published *Working Together for a Stronger Economy*. This presented an agreed statement of the priorities to be addressed – by all sectors – if the Northern Ireland economy is to be significantly strengthened during the period to the year 2010. The purpose of this statement is to present the findings of the Forum's first review of Northern Ireland's economic performance and progress towards the agreed targets.

4. This statement highlights some of the key findings of the review process, and identifies a number of key weaknesses to be resolved, if the Forum's vision of significantly strengthening the Northern Ireland economy by the year 2010 is to become a reality.

5. The tables in Annex A set out the Forum's targets for the Northern Ireland economy for the year 2010 and show the actual current position against each of these targets. Annex B provides a review of the economic context on which the agreed targets were initially premised and describes Northern Ireland's performance during the interim.

APPROACH

6. Partnership is fundamental to economic growth. Members recognise and accept that a concerted effort by all parties, on a variety of fronts, is necessary if Northern Ireland is to realise its full economic potential.

7. *Working Together for a Stronger Economy*, identified seven key priority areas reflecting members' shared view that the economic success of Northern Ireland depends fundamentally on its ability:

   - to increase knowledge and productivity;
   - to innovate and be creative;
   - to support enterprise;
   - to be outward looking;
   - to promote equality of opportunity and social inclusion;
   - to enhance the capabilities and skills of all our people; and
   - to establish the physical infrastructure necessary to support current and future needs.

8. In support of these seven strategic priorities, the Forum developed an underlying framework of objectives, performance indicators, targets, supporting actions and key contributors and gave a commitment to monitor Northern Ireland's economic performance against the agreed targets on an annual basis. This regular review process is vital to:

   - consider whether or not the assumptions on which the priorities and targets were premised remain relevant;
   - consider the effectiveness of agreed actions; and
   - where necessary, identify additional actions needed to improve the likelihood of achieving the overall targets.

9. The Forum has been realistic in approaching this review. The targets set in June 2002 were for an 8-year period, so it is important that the findings of the first review are seen in this context. This first review is intended to take stock of

changes in the economic environment, both locally and globally, and to examine progress against the targets set. Future reviews may result in more fundamental changes to the performance indicators / targets should changing circumstances demand it.

GLOBAL CONTEXT

10. Any review of economic performance in Northern Ireland would be incomplete without acknowledging conditions in the global economy. Although global economic activity strengthened in the first half of 2002, helped by a rebound in trade volumes and an upturn in industrial production, by the end of 2002 the recovery in the global economy faltered and, after several false dawns, a sustained recovery has not yet emerged. In the medium term, prospects for the global economy appear mixed. The US economy remains the major driver in world growth, with over a third of world GDP, and is showing signs of a recovery as the triple boost of low interest rates, fiscal expansion and a lower dollar all begin to impact. The outlook for much of the Euro area is not as optimistic with many of the Euro zone economies showing signs of slipping into recession. The ROI economy is estimated to have grown by 6.1% in 2002 and is forecast to grow by 3.5% in 2003[1]. The Forum's views on global economic performance over the last year, and the way this has impacted on the NI economy, are expanded on in Annex B.

11. While it is important to keep watch on global economic performance it would, of course, be a mistake to think that a sustained global recovery will be a panacea for the regional economy. The primary goal must be to strengthen the Northern Ireland economy so as to be in the best possible position to fully exploit the opportunities that global economic expansion could bring.

[1] Source – First Trust Economic Outlook

KEY FINDINGS

12. In preparing this statement, the Forum has taken a critical view of performance to date against the agreed targets so as to identify areas where key weaknesses remain. Nevertheless, this first review has shown some positive results:

- employment levels continue to rise;

- the proportion of people earning more than £400 per week has increased from 33.6% in 2000 to nearly 40% in 2003. Also, the proportion of people earning less than £250 per week has decreased from 33% to 24%[2]. This represents significant progress and indeed exceeds the targets set by EDF for 2010. The Forum will, therefore, review the future targets; and

- the proportion of the working age population with NVQ Level 3 is now on a par with the UK but more progress is needed if Northern Ireland is to be in a position to compete internationally.

13. While these developments are encouraging, this review has highlighted a number of areas where much more clearly needs to be done if the Forum's vision of significantly strengthening the Northern Ireland economy by the year 2010 is to become a reality. For example:

- while employment continues to grow, and NI sees the beginnings of positive movement in earnings levels, increased productivity and more 'high value-added' jobs are needed to increase NI's GDP per head;

- manufacturing exports declined, in real terms, in 2002/03 by 0.4% from the previous year. This is the second year in a row that manufacturing exports have declined. A continued weak dollar and depressed demand in the Euro area may be impacting on performance in this area;

[2] The earnings targets have not been adjusted for wage inflation. This may explain some of the progress in this area and will be addressed by EDF when reviewing future targets.

- business expenditure on research and development (R&D) declined by 1.7%, in real terms, between 2001 and 2002, compared with a UK increase of 3.3%. In particular, the proportion of plants involved in product and process innovation declined from 58% to 54% and 50% respectively;

- while the number of business start-ups in comparison to the UK shows an improvement on the base year (2000), (i.e. up from 58% to 62% of the UK) business starts in NI declined during 2002 (by 4%) while the UK as a whole saw an increase (of 0.7%). The proportion of NI businesses that survive for at least three years exceeds the UK average but the low start-up rate demonstrates a reluctance to take risks which clearly restricts entrepreneurship; and

- electricity costs in NI are between 30% and 70% higher than in GB.

KEY WEAKNESSES

14. The primary focus of this review involved a close examination of the current position against the specific performance indicators and targets set in *Working Together for a Stronger Economy*. The detailed results of this exercise are provided in Annex A. The Forum would also stress the need for specific action to be taken to address existing weaknesses in the NI economy. The key weaknesses of major concern are as follows:

    - political stability is an essential prerequisite of economic stability and growth and there can be little doubt that decades of political instability in Northern Ireland has had, and continues to have, an extremely damaging impact on all aspects of the regional economy. It is vital that all Northern Ireland's politicians use their power and influence to create the stable environment necessary to enable indigenous business to grow, to encourage and support entrepreneurship and to attract high-quality inward investment and tourism;

– the Northern Ireland economy currently has an unhealthy, and ultimately unsustainable, reliance on the public sector. The balance needs to be shifted towards a significant increase in the size of the private sector but any such shift needs to be responsible and carefully managed with the private sector being built up in parallel with the safeguarding of effective and efficient public services. Equally unsustainable is the current high level of consumer debt, indeed consumer bankruptcies (where no business has been carried out) have been increasing, particularly in the last three years, both as an absolute number and as a percentage of the total bankruptcies, driven by the low interest rates and easy access to credit;

– the barriers which inhibit the growth and competitiveness of SMEs need to be removed. This includes seeking ways to reduce excessive costs in areas such as insurance and energy and reducing red tape and the complexity of compliance requirements;

– maximising the linkages between the business and education sectors in NI is key to ensuring better understanding and communication of the needs and demands each sector places on the other. A robust economy demands a skilled and flexible workforce that is responsive to the needs of business. This is becoming increasingly important if NI is to compete with the lower labour costs in other regions and to retain ‘home-grown’ talent and expertise;

– all employers have an obligation to do more to promote a healthy and safe working environment and to reduce the unnecessary, and avoidable, economic burden of work-related ill-health. It is estimated that work-related injuries and ill-health costs the NI economy a staggering £500m each year and that around 779,000 working days are lost each year as a result of work-related injuries and ill-health. A safe, healthy, productive, highly motivated workforce is one of the keys to overall socio-economic development;

- poverty levels in Northern Ireland are appalling and unacceptable. According to the recently published *Bare Necessities*[3] report, more than 500,000 people in Northern Ireland are currently living in poverty. In recent years there has been an important, and understandable, focus on resolving the inequalities between communities in Northern Ireland while the gap between the richest and poorest in our society has widened. Genuine joined-up approaches need to be found to redress this imbalance which is unacceptable from both a humanitarian and economic perspective;

- employers – in all sectors – must take the lead in investing in energy efficiency measures and in educating the workforce to reduce current wastage. Failure to embrace energy efficiency within the public and private sector in Northern Ireland is estimated to cost around £78m each year;

- effective implementation of the *Accelerating Entrepreneurship Strategy* will be vital to growing NI's private sector which currently accounts for a smaller proportion of total employment than in the UK as a whole. The drive towards a dynamic, knowledge-based economy requires an increased emphasis on creating jobs in high value-added sectors;

- robust research is necessary in order to truly understand current levels of economic performance. This needs to go beyond mere measurement and to provide as clear as possible a picture of why performance is at a particular level. It is important to know whether changes in performance have been brought about by specific interventions or are more by accident than design. There is a need to be better informed as to possible future trends and challenges facing the economy which will provide an early warning system and allow for early policy interventions;

[3] Bare Necessities Poverty and Social Exclusion in Northern Ireland: Key Findings, Democratic Dialogue, August 2003

- the opportunities presented by the Reinvestment and Reform Initiative (RRI), announced by the Prime Minister and Chancellor in May 2002, should be fully exploited to ensure maximum benefit in terms of developing the physical infrastructure needed to support economic growth;

- while EU enlargement is unlikely to have a major impact on the Northern Ireland economy in the short-term, the longer-term threat may well be considerable. Some aspects of the Northern Ireland economy, such as the agricultural sector and the textiles and clothing industry, may experience the impact of EU enlargement more immediately, while the medium to longer-term impact could be across the board. Central and Eastern regions of Europe are currently well-positioned as knowledge-based economies and Northern Ireland is already struggling to overcome the threat from low labour cost countries in Eastern Europe and the Far East. As the axis of the European marketplace moves further east and, as a result, Northern Ireland becomes more extreme on the periphery, the region may find it increasingly difficult to maximise the potential of the larger market. It is vital that Northern Ireland, as a region in its own right rather than simply a small part of the UK, fully embraces Europe and exploits the opportunities it offers. The existing, well-established regions of Europe present the best opportunities for Northern Ireland companies in terms of exports and developing effective partnerships and the close proximity and good relationships with ROI should be maximised; and

- the Forum welcomed the opportunity to comment on the consultation paper *A Modern Regional Policy for the UK* and is firmly of the view that flexibility will be of utmost importance in terms of State Aids. Competition policy should focus on interventions of international significance and be governed by a significant impact test. Given the existence of the land border with ROI and the likely different aid regime there, the Forum considers that Northern Ireland must continue to, at least, be in a position to offer regional aid at current levels.

15. Paragraph 14 above highlights areas where the Forum considers there are opportunities for significant improvements to be made which would support economic growth in NI. Paragraphs 16 – 33 below provide more detailed comment on specific aspects of performance to date, as evidenced in the review process, and which relate directly to the strategic priorities, performance indicators and targets set by the Forum in *Working Together for a Stronger Economy.*

Manufacturing

16. The manufacturing sector has suffered a decline in both output and employee levels. In the year to Q3 2003, manufacturing output has dropped by 3% and nearly 5,000 employees lost their jobs. In 2003 a further 4,500 redundancies were announced in manufacturing and just over half of these were in textiles as the pressure from low cost regions continues to bite. The human cost of the decline of one of Northern Ireland's traditional industries cannot be ignored and more needs to be done by Government to prevent further job losses or, where these become inevitable, to better prepare employees in such sectors to cope with the transition and to apply / update their existing skills in order to secure employment in growth areas. The Forum looks forward to seeing the results of DETI's research into the future of the manufacturing sector in NI and expects this to help inform policy decisions on the way forward for the sector. It may be that, with increased competition from China and India, Northern Ireland will no longer be able to compete for manufacturing jobs in terms of cost and needs to shift the focus to quality and attract higher value-added jobs.

Productivity

17. Northern Ireland has historically had low productivity by UK and EU standards. Recent research has attributed this, in part, to the slow changing mix of industries leaving a relatively high concentration of traditional, low-productivity sectors including agriculture, food production and textiles and clothing. Productivity across the NI economy needs to be increased if wages and living standards in NI are to improve further. If productivity is to be increased and the

NI manufacturing sector is to operate at world-class standard much greater emphasis is needed on product and process development and attracting high value added sectors.

Research & Development (R&D)

18. It is widely recognised that Northern Ireland has one of the lowest levels of R&D expenditure of the UK regions. This must be addressed, not least because of the fact that R&D provides benefits to society that go wider than those to the firm undertaking the R&D such as knowledge transfer. The Forum believes that a 'one size fits all' policy in terms of providing incentives to encourage greater investment by businesses in R&D will merely reinforce the existing distorted pattern of R&D spending between the UK regions and believes that there is a strong case for the introduction of NI-specific R&D tax incentives. The Forum has recently commissioned research aimed at securing the necessary evidence to support a case for enhanced R&D tax credits for NI.

19. A major concern for NI is the fact that just ten companies account for 60% of all business expenditure on R&D. A significant increase in R&D expenditure is needed – across the board – with the greatest challenges being faced by the traditional sectors of the economy and by SMEs.

20. The Regional Innovation Strategy for Northern Ireland rightly states that the most successful economic regions tend to have a systematic approach to innovation. The Forum supports the efforts being made to adopt such an approach to underpin Northern Ireland's ongoing transformation into a competitive knowledge-based and high value-added economy. If Northern Ireland is to compete in the global marketplace, local businesses, and SMEs in particular, need to be encouraged to develop knowledge, capture ideas, and then adapt and exploit them. The Business Alliance members of the Forum are working closely with the further and higher education sectors in order to communicate and promote the importance of innovation within the business sector and all members of the Forum will lend their full support to this promotional campaign. Key activities will include innovation roadshows; an

international innovation conference; establishing an innovation research group to capture and analyse innovation capability audits; establishing an innovation data management centre; and the wide promotion of innovation clusters and technology transfer.

Entrepreneurship

21. A high level of entrepreneurship is a vital component of a vibrant economy so it is essential to create in Northern Ireland a culture and environment which supports and encourages enterprise and entrepreneurial activity. Efforts to do this must begin in the education system so that all learners, from primary school pupils through to university students and life-long learners, are given the opportunity to develop the skills and attributes necessary to enable them to make a unique, innovative and creative contribution in the world of work, regardless of their career choice.

22. The low level of business start-ups is, without doubt, one of the key weaknesses of the NI economy. In 2002, NI's start-up rate per 10,000 of the business population was 62% of the UK figure, which was a considerable improvement over the 2000 figure of 58% and is a step in the right direction. Implementation of the Accelerating Entrepreneurship Strategy, launched by Invest NI in June 2003, will be key to addressing this concern and the Forum will watch developments with interest.

Tourism

23. The image of Northern Ireland abroad plays a key role in determining visitor numbers and revenue from tourism. The Forum's views on the economic importance of political stability have already been stressed in the key weaknesses section at Paragraph 14 above but it is worth emphasising again specifically in relation to the adverse impact political instability has on the region's tourism industry. Northern Ireland's political representatives, and society in general, ignore the importance of political stability at the economy's peril. Every effort must be made to resolve the current difficulties in the peace process and mitigate against the direct negative impact political instability has

on economic growth, and tourism in particular. It is important also to acknowledge that, even during periods of relative stability, it only takes a small number of incidents which attract adverse media coverage to seriously damage Northern Ireland's image as an attractive tourist destination.

24. With just over 1.7 million visitors to NI during 2002, which represents an increase of 3.8% on 2001, tourism numbers were disappointing. Early indications for visitor numbers in 2003 are more encouraging. From January to June 2003, visitor numbers were up by 15% on the same period in 2002. Furthermore, the NITB's 'Tourism Barometer' – a survey of around 200 establishments – has found that 4 out of every 5 hoteliers reported an improvement in business between June and September 2003 compared to the same period in 2002. These figures demonstrate the potential for the tourism industry if the difficulties of the 'parading season' can be permanently resolved.

25. Other regions have demonstrated how a well-developed tourist product can reap considerable economic benefits. The recent publication of *Tourism in Northern Ireland – a strategic framework for action 2004-2007* is, therefore, seen as an important step in the right direction. The strategy aims to grow tourism revenue by 9% per year and visitor numbers by 7% per year. If the full potential of the tourism market is to be realised, NI needs to develop a world-class product. That means, high-quality attractions; premium business facilitates and an ability to respond to increased expectations such as handling transactions in Euro and other currencies and providing information in a range of languages. The Forum welcomes the recently formed Air Route Development (ARD) body which has been tasked with attracting new international air routes from Northern Ireland.

Education / Skills Levels

26. A prosperous economy depends fundamentally upon access to an appropriately skilled and qualified workforce. A particular focus must be on addressing poor levels of essential skills within the existing workforce. It is estimated that the UK economy loses around £10 billion a year because of poor literacy and numeracy skills and that individual SMEs could lose, on average, as much as £80k a year.

The 1996 International Adult Literacy survey showed that 24% of the adult population in NI performed at the lowest levels of literacy competence and 19% of those in employment are at Level 1, which means they would have a high margin of error in reading a poster. Improving essential skills will reap benefits to the individual in terms of increased quality of life and also to the employer in terms of fewer mistakes, improved quality, less wastage of materials, fewer customer complaints and better understanding of safety procedures resulting in fewer accidents. A key challenge for all employers will be to recognise essential skills difficulties within their workforce and take the necessary steps to resolve these.

27. While addressing poor levels of essential skills within the workforce is clearly of paramount importance to employers in all sectors, many other aspects of the education system are crucial to the region's economy. Paragraph 21 above highlighted the importance of the education system supporting the development of key skills and attributes essential to creating a culture of entrepreneurship. Skills performance, at all levels, also needs to be improved and there is a need for greater emphasis on workplace training. The new £1m training and development programme for the voluntary and community sector announced by NICVA is a positive example of specific action being taken to enhance management skills in a sector which employs nearly 5% of the total NI workforce. The Forum looks forward to the outcome of the ongoing review of the Further Education sector and anticipates a clearer definition of the strategic aims of the sector and a greater focus on its role in supporting the regional economy.

Broadband

28. The level of broadband connectivity appears to be progressing well with over 65% of households and businesses currently having access to cost-effective broadband services. The Forum supports the recent publication of DETI's telecommunications vision document, *Broadband Northern Ireland – Fully Connected*. This sets new, demanding targets for broadband coverage across Northern Ireland and, above all, recognises the importance of translating <u>access</u>

into take-up of broadband services. Given the economic importance attached to broadband telecommunications, and the recent issue of a tender by DETI for the provision of broadband services to Northern Ireland, the Forum considers the revised target of 20% of companies to have broadband services by 2005 to be challenging but achievable. The Forum will, therefore, adjust its own targets accordingly.

29. As stated in the EDF Action Plan, much more needs to be done to persuade local businesses of the benefits of broadband and e-business and to ensure they appreciate the potential return from investment in broadband services. In this context, the Forum welcomes Invest NI's revised programme of demand stimulation measures, launched in June 2003, which puts in place a comprehensive package of measures to market broadband to companies and it is encouraging to note that over 400 companies have already taken up the available support packages.

Energy

30. There remains continuing concern about the gap between electricity costs in NI and GB, however, some commentators believe that electricity prices in GB are artificially low due to an over supply in the market at present. This should not, however, detract from the underlying problem of higher electricity costs resulting, largely, from the generation contracts signed at the time of privatisation in NI. The Forum welcomes the high priority being given by Government to examining the options for reducing the cost of electricity, as evident in the draft Energy Strategy and was encouraged by Ian Pearson's statement on proposals for the draft Budget 2003 aimed at reducing electricity prices across the business sector by at least 10% below the levels they would otherwise have been. While this investment will have a significant impact, Northern Ireland businesses will still not be operating on a level playing field with the rest of the UK, or ROI, in terms of electricity costs and more needs to be done to close this gap.

31. The Forum fully supports the ongoing collaborative efforts between NI and ROI to develop an all-island energy market and looks to this to deliver increased reliability / security of supply; lower costs; and greater choice for all NI consumers and looks forward to the publication, by DETI, of the final Energy Strategy for NI.

Transportation

32. Reliability of transport services, by air, sea and road, are vital to local businesses. NI companies, in particular, are often exposed to interruptions in ferry services and the difficulties caused by the 'not on time' arrival of planes.

33. While acknowledging the significant investment in the transportation network proposed in the Regional Transportation Strategy (RTS), the Forum remains concerned about the capacity to secure the scale of investment over a prolonged period of time to ensure that the momentum of the RTS is sustained. Significant improvements have been made in the roads network in ROI in recent years and there is a real danger that NI is not keeping pace with ROI in this regard and that regional competitiveness will be eroded even further as a result. The Forum is conscious of the need to address not only the main arterial routes but also to consider the needs of peripheral areas of Northern Ireland to ensure appropriate access to ports and markets. While acknowledging that the complexity of the statutory process too often results in unforeseen delays, it is vital that planned improvements in the roads infrastructure in NI are delivered in line with agreed targets.

Enterprise Sub-group

34. In July 2003, the Forum established a new Sub-group – the Enterprise Sub-group – with a remit to examine a number of specified enterprise issues where the collective influence of the partnership might be brought to bear. The Sub-group's Terms of Reference focused on three specific areas, namely: researching proposed fiscal incentives; assessing the extent and impact of the

shadow economy in NI; and arranging a business summit linked to a high profile awards ceremony.

EDF ACTION PLAN

35. *Working Together for a Stronger Economy* included a commitment by the Forum to produce a more detailed Action Plan describing the specific actions to be taken by key contributors to bring about the desired improvement in performance and contribute to the achievement of the targets set. The Action Plan, which details some 58 additional actions, was published in March 2003. Both documents can be viewed or downloaded at www.edfni.com.

36. Although at an early stage of implementation, there have been a number of notable developments flowing from the Action Plan, some of which are summarised below:

   – the business representative organisations arranged a series of workshops for local companies on issues including promoting the benefits of Broadband; the use of best practice techniques; and the importance of investment in structured programmes of management development. They also work closely with their member organisations and local careers advisors to encourage greater involvement by business in promoting enterprise in schools;

   – in order to promote Enterprise among students in further education colleges, the Council for Curriculum, Examinations and Assessment (CCEA) has developed a Certificate in Enterprise which is currently being piloted in three colleges; it is DEL's intention that, after evaluation, all 16-19 year old students will be offered this Certificate taken alongside their main course of study;

   – 1,000 HE places have been provided for economically relevant courses, including 120 Foundation degrees;

- further education colleges continue to develop links with SMEs and many deliver training and support on-line to suit the needs of small businesses – training in Essential Skills is a particular focus for SMEs;

- many further education colleges deliver ICT and Farm diversification to farmers and their families;

- the business representative organisations actively promote information on Research & Development (R&D) to their members in order to encourage greater R&D expenditure across the board; and

- a new forum has recently been established bringing together the business sector and the further and higher education sectors. The aim of this forum is to provide a mechanism enabling these sectors to consider and address policy issues of mutual concern.

Way Forward

37. This statement presents the findings of the Forum's first review of progress towards the targets set in *Working Together for a Stronger Economy*. The Forum remains convinced that it is still appropriate to focus specific actions around the seven strategic priority areas. The next review will be undertaken in Summer 2004 and a statement published in the Autumn 2004. In the months ahead, the Forum will also monitor progress on implementation of the Action Plan and reflect this in the Autumn statement.

ANNEX A

REVIEW OF PROGRESS AGAINST TARGETS: 2003

PRIMARY INDICATORS

Strategic Priority Area: Knowledge / Productivity Growth

Objective: "To generate wealth by maximising opportunities for, encouraging greater collaboration between, and increasing the capabilities and international competitiveness of, NI companies."

Indicator	Position at 2002	2010 Target	Actual Position at 2003
Productivity (a) manufacturing (b) private sector services (GVA per employee) ROI value: (a) 1999 estimate NI / ROI = 43%	 (a) 2001 Q3 (estimate) NI / UK= 95% (b) 1998 NI / UK = 85%*	 (a) 2010 NI / UK 105%+ (b) 2010 NI / UK 95% +	 (a) 2003 Q2 (estimate) NI/UK 97% (b) 2000 NI/UK = 85%
Manufacturing employment structure	Sept 2001 NI Low Tech 40% Med Tech 26% High Tech 34%	Sept 2010 NI Low Tech 27% Med Tech 26-34% High Tech 39-47%	September 2003 NI Low Tech 38.5% Med Tech 27.7% High Tech 33.8%

Source: Index of Production and Quarterly Employment Survey
Service Sector data from Regional Forecasts Ltd, based on new GVA data from National Statistics

Note: * Data revisions by National Statistics have resulted in a decline (from 90% to 85%) in NI private sector productivity relative to the UK for 1998.
Regional Forecasts have uncovered large discrepancies in Manufacturing Productivity figures depending on the method of measurement. They are currently working with DETI Statistics Branch to investigate this further. Their findings may necessitate a revised target.

Strategic Priority Area: Knowledge / Productivity Growth

Objective: "To generate wealth by maximising opportunities for, encouraging greater collaboration between, and increasing the capabilities and international competitiveness of, NI companies."

Indicator	Position at 2002	2010 Target	Actual Position at 2003
Knowledge based tradeable services employment	Sept 2001 NI 10.2% of employees	Sept 2010 NI 12.5% + of employees	Sept 2003 estimate 10.5%
  (a) NI whole economy employment (b) Invest NI client company employment growth (c) Inward Investment	June 2001 (a) civil employment =738,400 (revised to 745200) (b) 2000/01 net job creation = 1,908 jobs (c) 2000/01 jobs promoted = 3,085	June 2010 (a) civil employment 795,000 to 815,000 (b) 2000/01 to 2010/11 net job creation =>20,000 (c) 2000/01 to 2010/11 jobs promoted =20,000 to 30,000	June 2003 (a) 756,400 (b) 2000/2001 to 2001/02 cumulative net job losses = 4,130 (c) 2000/01 to 2001/02 cumulative figure = 4,688

Source: NI Labour Market Statistics and Invest NI

Strategic Priority Area: Innovation and Creativity

Objective: "To create an innovation culture and environment within which NI companies develop knowledge and ideas and then adapt and exploit them."

Indicator	Position at 2002	2010 Target	Actual Position at 2003
(a) Business R&D expenditure growth	(a) 1993 to 1999 NI real growth 48%	(a) 1999 to 2010 NI real growth > 100%	(a) 1999 to 2002 real growth = 42%
(b) Business R&D £ per person employed ROI Value: NI / ROI = £142 / £281= 51% (ROI – 1997)	(b) 1999 NI £/UK £ = 35%	(b) 2010 NI £/UK £ 100%	(b) 2001 = 46% of UK

Source: DETI Statistics Research Branch and ONS

Indicator	Position at 2002	2010 Target	Actual Position at 2003
InnovationLab survey of innovation NI / ROI	1999	2010	2002
(a) % of plants involved in product / process innovation	(a) Product 58% Process 58%	(a) Products 70%+ Process 70% +	(a) Product 54% Process 50%
(b) average number of product changes per plant	(b) 16.5	(b) 30+	(b) 27.8
(c) number of new / improved products per employee	(c) 0.38	(c) 0.6+	(c) 1.6
(d) average % of sales derived from new products sold for the first time / new products	(d) 21.5%	(d) 30% +	(d) 20%

Source: Invest NI / InnovationLab – previously the NIERC Innovation Survey

Strategic Priority Area: Enterprise

Objective: "To create a culture and environment which supports and encourages enterprise and entrepreneurial activity."

Indicator	Position at 2002	2010 Target	Actual Position at 2003
Birth rate VAT registered per 10,000 of business population ROI value: 1999 16.9 registered NI / ROI = 38% Other values: USA = 13.0% (1994-96); UK = 11.1% (2000); NI = 6.4% (2000)	2000 NI rate / UK rate= 58%	2010 NI rate / UK rate = 87%	2002 position 62%

Source: Small Business Service

Indicator	Position at 2002	2010 Target	Actual Position at 2003
(a) Number of jobs from new inward investment (b) Job quality – inward investment income compared to NI average earnings	(a) 2000/01 jobs promoted = 3,085 (b) Work ongoing within Invest NI	(a) 2000/01 to 2010 / 11 jobs promoted = 20,000 to 30,000 (b) Income 25% + above NI average	2000/01 to 2002/03 = 4,688
Level of venture capital £ per employee ROI value: £169 NI / = 13.7%	1999 NI £ / UK £ = 9.1%	2010 NI £ / UK £ = 100%	2002 NI £ / UK £ = 58%

Source: (a) and (b) Invest NI
Venture Capital - British Venture Capital Association – the raw data for Venture Capital are highly volatile. For example, NI venture capital increased from £13 million in 2001 to £68 million in 2002 while the UK declined from £4,752m to £4,480m.

Strategic Priority Area: Outward Looking

Objective: "To further enhance the ability of Northern Ireland companies to compete successfully in international markets and encourage NI entrepreneurs to take a more global view of business opportunities."

Indicator	Position at 2002	2010 Target	Actual Position at 2003
Export growth for manufacturing (manufacturing exports) ROI value: ROI growth 1999/2000 10%	1991/92 To 1999/00 real growth = + 109%	1999 / 00 to 2010/11 real growth = +200%	1999/00 to 2002/03 real growth of 0.4%
Tourism numbers ROI value: 1999 ROI visitor numbers 6.1 million	2000 1.672 million visitors to NI	2010 3.34 million visitors to NI	2002 = 1.741

Source: NI Manufacturing Sales and Exports Survey 2001/02 – 2002/03
Northern Ireland Tourist Board

Strategic Priority Area: Equality of Opportunity / Social Inclusion

Objective: “To maximise and support the integration of disadvantaged individuals / groups into mainstream economic activity.”

Indicator	Position at 2002	2010 Target	Actual Position at 2003
LTU as a % of the economically active (ILO measure)	August-October 2001 NI vs UK gap = +0.73%	August-October 2010 NI vs UK gap = 0.0%	
Changes in employment of people from new TSN areas	Results of DETI enhanced monitoring of jobs created in New TSN areas to be published	Attract 75% of all first time inward investment projects to New TSN areas	2002/03 = 80%
Low income measure percentage of employees earn < £250 per week	April 2000 NI = 32.7% UK =24.9%	April 2010 NI = 27.7%	April 2003 = 23.6%

Source: Invest NI
DETI Statistics and Research Branch

Note: LTU not currently available due to re-weighting of data set in light of 2001 census.
Earnings are positively skewed by a small number of highly paid employees. For example, 10% of men earn less the £214 per week and 10% earn more than £727, for women these figures are £189 and £574 respectively (New earnings Survey 2003).
The earnings targets have not been adjusted for wage inflation.

Strategic Priority Area: Human Capital – Enhancing Capabilities and Skills

Objective: "To ensure that the Northern Ireland workforce is equipped with appropriate skills to support the current and future needs of the economy."

Indicator	Position at 2002	2010 Target	Actual Position at 2003
(a) Proportion of working age population qualified to National Qualification Framework (NQF) level 2 (highest qualification) *[1] (b) Proportion of working age population qualified to NQF level 3 (highest qualification) (c) Proportion of working age population qualified to NQF level 4 (highest qualification)	(a) 2001 NI %/UK % = 109% (b) 2001 NI %/UK % = 89% (c) 2001 NI %/UK % = 79%	DFES targets	(a) Summer 2003 NI %/UK % = 114% (b) Summer 2003 NI %/UK % = 100%*[2] (c) Summer 2003 NI %/UK % = 76%

Source: Labour Force Survey

Notes: *[1]The first review highlighted an error in the wording of these indicators – 'National Qualification Framework (NQF)' should read 'National Vocational Qualifications (NVQ)'.

*[2] Parity with the UK may be insufficient if NI is to compete on a global scale.

Indicator	Position at 2002	2010 Target	Actual Position at 2003
Proportion of working age population with no qualifications	2001 NI %/UK % = 163%	see Annex 5 of Working Together for a Stronger Economy	Summer 2002 NI%/UK% = 160%
Level of Essential Skills for Living (ii)	5,500 Learners supported by FE colleges and the voluntary sector	2004/2005 Target 10,500 learners supported (sub to review in light of Adult Literacy Strategy)	At July 2003 8,732

Source: Labour Force Survey, DEL

Strategic Priority Area: A Competitive Physical Infrastructure

Objective: "To secure for Northern Ireland a well-developed and internationally competitive physical infrastructure which meets the needs of existing businesses and attracts inward investment."

Indicator	Position at 2002	2010 Target	Actual Position at 2003
Broadband access % of DETI / Invest NI companies with broadband telecoms services	1%	10% by 2005	5.2% of houses and businesses have broadband

Source: BT has provided a figure for business/house uptake.

Indicator	Position at 2002	2010 Target	Actual Position at 2003
Electricity prices domestic / industrial prices ROI value: 2000 Domestic = 6.89p/kWh NI = 9.45p/kWh NI/ROI =137% Industrial 80% Load NI/ROI p/kWh Small 3.85 157% Med 3.44 143% Large 3.22 120%	2001 / 02 Domestic NI / UK =133% Industrial Small NI/GB =129% Industrial Medium NI/GB =132% Industrial Large NI/GB =112%	2010 Move towards lower levels in GB	January 2002 136% 166% 167% 170%
Development of roads, highways and public transport infrastructure	N/A	Achieve the targets contained within the Regional Transportation Strategy	

Source: Electricity prices are from the Electricity Association publication 'International Electricity Prices – Issue 29'.

SECONDARY INDICATORS

Strategic Priority Area: Knowledge / Productivity Growth

Objective: "To generate wealth by maximising opportunities for, encouraging greater collaboration between, and increasing the capabilities and international competitiveness of, NI companies."

Indicator	**Position at 2002**	**2010 target**	**Actual position at 2003**
NI Manufacturing output growth ROI value: 1996 to 2000 +93% +18% per annum average in 2000 +16%	Q3 1990 to Q3 2001 output growth = +49%	Q3 2001 to Q3 2010 output growth = >25%	Q3 2001 to Q2 2003 = -4.6%
NI whole economy average earnings (NI versus UK) ROI value: 2000 NI / ROI in manufacturing NI £14,600 (ABI) ROI IR £16,300 (COIP)	April 2000 NI wage / GB wage = 86%	April 2010 NI wage / GB wage = 89% +	April 2003 NI / GB average gross weekly earnings = 85%

Source: NI Labour Market Statistics
New Earnings Survey

Indicator	**Position at 2002**	**2010 target**	**Actual position at 2003**
Whole NI economy profitability	1989 to 1999 Real growth: 16%	1999 to 2010 Real growth: 16% +	
Invest NI client company profitability	IDB core clients – 1999/00 profit as % of turnover = 5.3% Profit per employee - £5,300	By 2010/11 profit as a % of turnover > 5.3% Profit per employee >£8,600 (99/00 prices)	2000/01 = 4.5% 2000/2001 £4,800

Source: Whole economy profitability – Regional Accounts – not currently available
Invest NI Client Company profitability – IDB Annual Report and Accounts 2001 – 2002

Strategic Priority Area: Innovation and Creativity

Objective: "To create an innovation culture and environment within which NI companies develop knowledge and ideas and then adapt and exploit them."

Indicator	Position at 2002	2010 target	Actual position at 2003
(a) Proportion of business R&D devoted to commercialisation (i.e. experimental development R&D expenditure)	(a) 1999 NI % / UK % = 107%	(a) 2010 Maintain	2001 = 116%
(b) Experimental development R&D per employee	(b) 1999 NI £ / UK £ =39%	(b) 2010 NI £ / UK £ = 100%	2001 = 63%

Source: NI Research and Development Statistics 2001 – National Statistics.
Note: UK data is not yet available for 2002

Indicator	Position at 2002	2010 target	Actual position at 2003
Employment in business R&D as % of total employment ROI value: 1997 ROI = 0.6% NI / ROI = 55%	1999 NI % / UK % = 55%	2010 NI % / UK % = 100%	2001 = 65%

Source: NI Research and Development Statistics 2001 – National Statistics.
Note: UK data is not yet available for 2002

Strategic Priority Area: Enterprise

Objective: "To create a culture and environment which supports and encourages enterprise and entrepreneurial activity."

Indicator	Position at 2002	2010 target	Actual position at 2003
	2000	2010	
(a) Survival rate/ c/o of VAT registered surviving 3 years or more	(a) NI % / UK % = 112%	(a) Maintain	2001 = 111%
(b) Failure rate VAT de-registered ROI value: (b) 1999 7.1 de-registered NI / ROI = 80%	(b) NI rate / UK rate = 53%	(b) NI rate / UK rate = 79%	2001 = 64%

Source: Small Business Service

Indicator	Position at 2002	2010 target	Actual position at 2003
	2000		
Number of medium sized companies NI % of > 250 employees, number of businesses	>250 employees – 31%	Not applicable to target	2002 >250 employees = 31%
Growing small business into medium sized business – growth in manufacturing exports excluding the top 50 (by sales)	< 250 employees – 69%	1999/00 to 2010/11 real growth = +200%	1999/00 to 2002/03 = 10%
ROI value: not available for all enterprises			

Source: NI Manufacturing Sales and Exports Survey 2001/02 – 2002/3

Strategic Priority Area: Outward Looking

Objective: "To further enhance the ability of Northern Ireland companies to compete successfully in international markets and encourage NI entrepreneurs to take a more global view of business opportunities."

Indicator	Position at 2002	2010 target	Actual position at 2003
(a) Value of exports of goods (£ per employee job) (Customs and Excise data) (b)Tradeable services exports ROI value: (a) 2000 £30,533 employee job NI / ROI = 17%	(a) 2000 NI £ / UK £ = 83% (b) No data available	(a) 2010 NI £ / UK £ = 100 % (b) Measure being developed by DETI	2001 = 81%

Source: HM Customs and Excise

Indicator	Position at 2002	2010 target	Actual position at 2003
(a) Tourism spend per visitor (total) (£) (b) Tourism expenditure ROI value: (a) ROI 2000 £334 NI / ROI = 47%	(a) 2000 NI £ / UK £= 31% (b) 2000 £265m	(a) 2010 NI £ / UK £ = 100% (b) 2010 over £530m (in 2000 prices)	(a) 2002 = 31% (b) 2002 = £274m
Number of joint ventures / strategic partnerships as % of stock of business	No data available	Measure to be developed in conjunction with Invest NI	

Source: NITB
Note: Tourism revenue in Northern Ireland is estimated to be around 10% of the whole of Ireland tourism revenue indicating the potential for gains to be made from tourism.

Strategic Priority Area: Equality of opportunity / social inclusion

Objective: "To maximise and support the integration of disadvantaged individuals / groups into mainstream economic activity."

Indicator	Position at 2002	2010 target	Actual position at 2003
Employment rate – working age population rate ROI value: 15+ population rate 56.9% 16+ population rate NI 56.0%	August-October 2001 NI vs UK gap = +6.7%	August-October 2010 NI vs UK gap = +4.7%	Jul 03 – Sept 03 NI/UK gap = +6.3%
Unemployment rate ILO % of economically active ROI value: ILO ROI 2001 4.30%	August – October 2001 NI vs UK gap = +0.9%	August - October 2010 NI vs UK gap = 0.0%	Jul 03 – Sept 03 NI vs UK gap = + 0.6%

Source: NI Labour Market Statistics

Indicator	Position at 2002	2010 target	Actual position at 2003
Economic inactivity rate – working age population ROI value: 15 + all person rate 2001 39% NI 16 + rate all person 40%	August - October 2001 NI vs UK gap = + 6.4%	August - October 2010 NI vs UK gap = +4.9%	Jul 03 – Sept 03 Gap closed to 6.2%

Source: NI Labour Market Statistics

Strategic Priority Area: Human Capital – Enhancing Capabilities and Skills

Objective: "To ensure that Northern Ireland workforce is equipped with appropriate skills to support the current and future needs of the economy."

Indicator	**Position at 2002**	**2010 target**	**Actual position at 2003**
High income measure proportion of employees earn > £400 per week	April 2000 NI = 33.6% UK = 39.4%	April 2010 NI = 38.6%	April 2003 39.4%
Higher level jobs (% employees in SOC 1-3)	2001 – SOC 1-3 NI % / UK % = 79.5% 2001 – SOC 1-2 NI % / UK % = 88.5%	NI % / UK % = 100% NI % / UK % = 100%	Summer 2003 NI%/UK% = 85% Summer 2003NI%/UK% = 80.7%

Source: DETI Statistics Research Branch

Note: Earnings are positively skewed by a small number of highly paid employees. For example, 10% of men earn less the £214 per week and 10% earn more than £727, for women these figures are £189 and £574 respectively (New Earnings Survey 2003)
The earnings targets have not been adjusted for wage inflation.

Indicator	**Position at 2002**	**2010 target**	**Actual position at 2003**
Proportion of organisations with IIP accreditation	March 2001 (a) 200+ employees NI % / UK % =64% (b) 50+ employees NI % / UK % = 70%	March 2010 (a) NI % / UK % = 100%* (b) NI % / UK % = 100%* * Subject to review	December 2003 (a) NI % / UK% = 111% (b) NI % / UK% = 85%

Source: IIP figures provided by DEL - Number of companies with IIP (200+ employees) in NI = 147 UK = 5,712. For 50+ employees NI = 379 UK =16,538

Note: The denominator used in this calculation is the number of VAT registered businesses with 200+ employees (NI = 227 UK = 9,794) and 50+ employees (NI = 980 UK = 36,280).

Strategic Priority Area: A Competitive Physical Infrastructure

Objective: "To secure for Northern Ireland a well-developed and internationally competitive physical infrastructure which meets the needs of existing businesses and attracts inward investment."

Indicator	Position at 2002	2010 target	Actual position at 2003
Gas availability % of Households	2001 NI = 42% of households	2010 NI = 75% of households	42%
Gas prices*			
Small + large Com / industrial £/kWh	Small commercial plus industrial NI / GB 114%	Convergence on GB levels	2002 115%
NI / ROI small 115%			
Large 85%	Large commercial plus industrial NI/UK 104%	Convergence on GB levels	114%

Source: John Hall Associates England and Phoenix Natural Gas.

Note: *During this first review, EDF noted that the gas prices published in *Working Together for a Stronger Economy* were not a true reflection of the actual situation (the standing charge was not included in the comparisons). The figures have been amended accordingly. Information on Gas prices is limited given the commercially sensitive nature of the figures.

Indicator	Position at 2002	2010 target	Actual position at 2003
Proportion of electricity produced from renewable sources ROI value: 2%	2002 NI = 1.5%	2010 rising contribution	2002/03 = 2%

Source: NIE

ANNEX B

REVIEW OF ECONOMIC CONTEXT

NI ECONOMIC PERFORMANCE

INTRODUCTION

1. Data for the first half of 2003 shows that NI has continued the trend of steady growth that has typified the economy for over a decade. As has been the case for some time, the performance of the labour market looks more encouraging than the output market (employment continues to rise while manufacturing output has suffered a decline).

2. Any review of NI economic performance should be placed in the context of developments in the global economy. Although global economic activity strengthened in the first half of 2002, helped by a rebound in trade volumes and an upturn in industrial production, by the end of 2002 the recovery in the global economy faltered and after several false dawns a sustained recovery has failed to materialise.

3. NI has not been able to insulate itself from global economic events. In particular, Foreign Direct Investment (FDI), (especially aerospace & ICT), exports (notably transport equipment) and tourism have been affected by recent global economic uncertainty. Future prospects in these areas will to a certain extent depend upon a full global economic recovery but the situation is more complex than this. With lower cost regions such as China and India competing for FDI, a global recovery may not be enough to deliver pre-global recession FDI levels.

NI's RECENT PERFORMANCE – TRADE

4. Taken over five years, export performance of the NI economy has been very favourable. Between 1997/98 and 2002/03 NI manufacturing exports increased by 36% in real terms. However, recent performance has not been so

favourable, export sales declined in 2001/02 compared to 2000/01 down by 1.3%. Also, provisional data for 2002/03 shows that current economic conditions have impacted further on manufacturing exports. Overall, there was a decrease of £16m or 0.4% (in real terms).

5. The importance of the ROI market was highlighted by the fact that exports increased by £64m, offsetting much of the decline in sales to other markets. Data on redundancies is showing that the textiles industry and electrical and optical equipment are suffering most from weak global demand. Redundancy announcements in electrical and optical equipment totalled 1,052 in 2002, accounting for one in four reported redundancies. In 2003, there were over 2,000 announced job losses in textiles, nearly three times the number for the whole of 2002.

NI's RECENT PERFORMANCE – FDI

6. Figures from Invest Northern Ireland show that there were 10 new inward investment projects in 2002/03. These investments, promising 800 jobs and £22 million of investment represent 11% of the total inward investment into the UK and Republic of Ireland. This is still however, a considerable decrease on the 14 projects that were attracted in 2000/01.

NI's RECENT PERFORMANCE – TOURISM

7. In 2002, despite adverse events such as the Foot & Mouth crisis and the uncertainty surrounding the situation in Iraq, the total number of visitors to NI increased by 4% compared to the 2001 figures. This was largely due to a significant increase in the number of visitors from GB (+10% compared to 2001). Indeed, with the exception of a 4% rise in visitor numbers from continental Europe, the number of visitors from all other main markets was below the numbers recorded in 2001 (visitor numbers from the Republic of Ireland were down by 10%). The fragility of the world economic recovery is currently clouding the industry's outlook but figures for the first part of 2003 look positive for Northern Ireland, up by 15% on the same period one year ago.

NI's RECENT PERFORMANCE – AGRICULTURE

8. There was a sharp fall in the income of Northern Ireland agriculture in 2002, following the substantial rise in 2001, though from a low base. Total income from farming (TIFF) – which measures the return to farmers and all members of their families working on farms – declined by 32 per cent (33 per cent in real terms) to £129 million, from £191 million in 2001. The decline in income in 2002 resulted mainly from two factors; first, a fall of 14 per cent in the average producer milk price, leading to a reduction of £59 million, to £292 million, in the value of milk output; and, second, the consequences of adverse weather throughout much of 2002 (with rainfall 23 per cent above the long-term average), which led both to reduced volumes of output and significantly increased input costs. Early indications are that there has been a rise in TIFF in 2003 due to the strengthening of the Euro against Sterling.

9. Agreement reached in June 2003 on further CAP reform, which requires Member States to break the link between most agricultural subsidies and production, is intended to allow the market to have a much greater impact on production decisions. This may, or may not, have a small beneficial impact on farming income and there is the potential of lower output in parts of the food processing sector as supplies of home-produced farm produce are reduced.

GLOBAL PROSPECTS

10. The global economy has endured a challenging period over the last 2 years with growth muted across most of the world major economies. The US economy, the major driver in world growth with over a third of world GDP, has had a number of false starts, with growth stalling each time an upturn occurs and no consistent recovery apparent. Despite aggressive interest rate cuts and ambitious tax cutting plans, the US economy had not shown many signs of sustained recovery by mid-summer. However over recent months the omens look better, as the triple boost of low interest rates, fiscal expansion and a lower dollar all begin to impact. GDP growth in the three months to September 2003 was faster than

expected, at an annualised rate of 8.2% and consumer spending grew by more than 6% in the same period.

11. The Euroland economies have struggled even more significantly with Germany experiencing no growth in 2002. The International Monetary Fund (IMF) (September 2003) recorded GDP growth for the Euro area in 2002 of 0.9%. The IMF has revised downwards its estimate for 2003 growth in the Euro area, from 1.1% in its April report, to 0.5% in September. The downward revision was due to disappointing private domestic demand and the appreciation of the euro. Eurostat’s recent estimate (Sept 2003) for Euro area real GDP growth in Q2 2003 shows zero growth over the previous quarter, indicating a broadly stagnating Euro zone for the first half of 2003. The European Central Bank believes, however, that a recovery in 2004 is on course pointing out that there is evidence of a recovery and that confidence has strengthened further.

12. While the short-term performance of the world economy is uncertain, the NI economy is better placed than most to withstand the current global slowdown. This is due to rising public expenditure which will help sustain jobs and incomes during the next few years; its reliance on the GB economy and the significance of the ROI as both a key-trading partner and source of FDI. While these two economies are forecast to outperform most of their global competitors this year, growth is likely to be below recent years.