



Industrial Strategy Green Paper

Consultation Response – Manufacturing Northern Ireland

Introduction

Manufacturing is the engine which drives the private sector in Northern Ireland. 1 in 4 families are directly or supported by the jobs and wages which the sector provides. Half of all investment and two thirds of private sector investment in R&D is delivered by the sector and its productivity levels are 38% higher than the Northern Ireland average with Advance Manufacturing contributing 27% more.

The bulk of Northern Ireland's exports (c7bn) and a huge proportion of external sales to GB are from the sector which represents c14% of local GDP. This is significantly higher than the rest of the UK (at 10%) but far behind the EU target of 20% and even further adrift from Ireland who sit at 24% despite sharing the same island and challenges of geography.

We have accompanied this response with a full analysis of the NI manufacturing economy from Oxford Economics (separately attached).

We welcome the UK's plan for a new Industrial Strategy and welcome many of the thoughts and principles which it outlines. We are however very unsure how this plan impacts on devolved nations (mentioned only 14 times in the document, with only 1 specific proposals) given many of the competencies are held by departments and administrations in Belfast, Edinburgh and Cardiff.

In general response, we believe the Green Paper needs to go further. Any new Industrial Strategy must:

1. Be more ambitious – we should be targeting growth in excess of an average 2% pa
2. Be more explicit in how the plan impacts on the devolved nations including its share of government spending.
3. Set targets, specifically to grow manufacturing to 20% of the economy
4. Pay more attention to the challenges of Brexit particularly on non-tariff barriers which will not be addressed by any new FTA with the EU
5. Commit to greater content from UK (and its Regions) suppliers in procurement and infrastructure projects (whether funded by Government or the consumer).
6. Set a course to become one of the most cost competitive economies in the world in areas such as energy, business tax and ease of starting, growing and doing business.
7. Ensure skills investment is significantly increased and that employers, regardless of where they are in the UK, have equal access to skills funding.

Consultation Questions Response

- 1. Does this document identity the right areas of focus: extending our strengths; closing the gaps; and making the UK one of the most competitive places to start or grow a business?**

We broadly agree with the proposals outlined in the Green Paper. However, we believe there needs to be (1) greater emphasis on making the UK a cost competitive economy in order to ensure export success and (2) more focus on the implication of Brexit (3) clearer ideas about how the whole of the UK, particularly the Devolved Regions will be able to raise productivity levels, compete (in both a UK and export context) and participate in more in UK national endeavours.

- 2. Are the ten pillars suggested the right ones to tackle low productivity and unbalanced growth? If not, which areas are missing?**

Cost competitiveness. The UK is one of the most expensive regions in the world in which to manufacture goods. This is impacted not only by energy prices, but in employment policy, transportation and capital investments. Additionally, we believe there is a strong need, particularly in the period immediately post-Brexit, to rapidly ramp up capital investment in factories and equipment. Using the tax system to encourage this would not only provide a huge boost to the economy across the UK but rapidly improve productivity lock in jobs and industries uncertain about a post-Brexit UK as a good place to do business.

- 3. Are the right central government and local institutions in place to deliver an effective industrial strategy? If not, how should they be reformed? Are the types of measures to strengthen local institutions set out here and below the right ones?**

There is a need to refine, reform, refocus and indeed retire some bodies in order to streamline the interaction between government and those who create wealth and work.

We also believe that there needs to be a raising of ambition levels. Accepting small digit percentage growth in our national and regional economies essentially means we stand still on a global stage. Setting higher ambitions means we must aggressively tackle barriers to this growth and speed up delivery of projects and programmes which create the conditions for business to thrive.

- 4. Are there important lessons we can learn from the industrial policies of other countries which are not reflected in these ten pillars?**

The Irish economy is near shore for the UK but also an example of successful government policy combined with ambition which has led to significant success in a relatively short period of time. Their focus has been on skills, infrastructure, taxation and ambition. They are one of the fastest growing economies in the world because of this.

- 5. What should be the priority areas for science, research and innovation investment?**

Hard, primary research is important however Development of ideas and taking those to markets is equally if not more important for the vast majority of firms – those who are creating wealth and work. For us, the focus should be on supporting development work particularly with SMEs with the capability of rapidly expanding and winning work overseas.

6. Which challenge areas should the Industrial Challenge Strategy Fund focus on to drive maximum economic impact?

The focus should be varied to take account of regional strengths. The industrial sector in Northern Ireland is not the same as the rest of the UK – energy, engineering and indeed in food. More thought needs to be in place to ensure that the country as a whole could benefit from this.

7. What else can the UK do to create an environment that supports the commercialisation of ideas?

The UK Government itself is the biggest buyer. There needs to be greater focus on procurement looking to be more creative and ambitious without the restrictions of EU State Aid rules. Additionally, there must be a greater emphasis on ensuring more UK content in public projects – infrastructure, DEL spending and indeed projects which are promoted by the UK Government but paid for by consumers (such as energy projects). This new approach must reach the devolved regions in particular.

8. How can we best support the next generation of research leaders and entrepreneurs?

Back them by buying from them! Of course support and structures will nurture them, but the confidence and support (particularly at early stage) of the Government itself is a much more powerful tool.

9. How can we best support research and innovation strengths in local areas?

When the UK exits the EU, there is a risk of losing important research funding which has been used to prop up our Universities. We believe it is now even more important to properly fund 3rd level education where teaching does not need the financial support of research.

Improving and providing more clarity on IP ownership between research providers and industry will likely improve the relationship between those who have research capability and capacity and those who have the experience and networks to bring commercial ideas to market.

10. What more can we do to improve basic skills? How can we make a success of the new transition year? Should we change the way that those resitting basic qualifications study, to focus more on basic skills excellence?

The UK has some of the best and equally some of the worst schooling in the world. Too many are left with little or no qualifications and unprepared for the world of work.

A systematic review of education, from Primary through to Higher Education, is required to ensure it meets the needs of the nation and of employers.

Improving the attractiveness of and access to apprenticeships is required. This should include ensuring employers everywhere in the UK have access to funding (which they pay through the Apprenticeship Levy) and the introduction of a Level 2 Apprenticeship in manufacturing operations.

11. Do you agree with the different elements of the vision for the new technical education system set out here? Are there further lessons from other countries' systems?

We support the introduction of a new technical education system. A greater focus on productive careers, aligned with our existing the new industrial sector, is essential to have a successful internationally recognised trading economy.

12. How can we make the application process for further education colleges and apprenticeships clearer and simpler, drawing lessons from the higher education sector?

We do not believe there is an issue here in Northern Ireland. There is good access and availability of further education colleges. However, we are at a huge disadvantage by not having access to the money collected from the Apprenticeship Levy.

13. What skills shortages do we have or expect to have, in particular sectors or local areas, and how can we link the skills needs of industry to skills provision by educational institutions in local areas?

The NI Executive produced an important and significant study on skills – for now and in the future – which should assist the Department in thinking about this issue.

The Skills Barometer is available here: <https://www.economy-ni.gov.uk/publications/ni-skills-barometer>

14. How can we enable and encourage people to retrain and upskill throughout their working lives, particularly in places where industries are changing or declining? Are there particular sectors where this could be appropriate?

Allow NI employers to have access to the Apprenticeship Levy!

15. Are there further actions we could take to support private investment in infrastructure?

The capability and capacity of the private sector will grow if the Government commits to more local content in infrastructure spend and directing private investment which is supported by Department (but paid for by consumers) to use a UK supply chain.

16. How can local infrastructure needs be incorporated within national UK infrastructure policy most effectively?

As we exit the EU, trans frontier strategic priorities and delivery vehicles (such as TEN-T and CEF and INTEREG need to be built into government policy, planning and financing. Additionally, a replacement for EIB funding is required.

17. What further actions can we take to improve the performance of infrastructure towards international benchmarks? How can government work with industry to ensure we have the skills and supply chain needed to deliver strategic infrastructure in the UK?

Greater emphasis on buying from the UK supply chain is required.

18. What are the most important causes of lower rates of fixed capital investment in the UK compared to other countries, and how can they be addressed?

There should be a greater use of the tax system to encourage capital investment in firms. Enhanced Capital Allowances will assist in releasing business investment in plant, machinery and buildings locking in jobs, growing the construction sector and delivering a large economic multiplier.

19. What are the most important factors which constrain quoted companies and fund managers from making longer term investment decisions, and how can we best address these factors?

Uncertainty. Delivering quick wins on the Brexit negotiations will help. Making it clear what our future trading relationships within the island of Ireland will look like.

20. Given public sector investment already accounts for a large share of equity deals in some regions, how can we best catalyse uptake of equity capital outside the South East?

Little is known locally about these schemes.

21. How can we drive the adoption of new funding opportunities like crowdfunding across the country?

No comment.

22. What are the barriers faced by those businesses that have the potential to scale-up and achieve greater growth, and how can we address these barriers? Where are the outstanding examples of business networks for fast growing firms which we could learn from or spread?

Costs, access to finance, skills shortages and uncertainty around future trading relationships.

We must aim to be one of the most cost-competitive economies in Europe. This begins with cutting the fixed costs such as business rates and extends into variable costs such as energy. We should not inflict any new costs unnecessarily and challenge certain business markets (particularly energy) who make unreasonable profits at the expense of the consumer.

23. Are there further steps that the Government can take to support innovation through public procurement?

With the UK's exit from the EU, there is no impediment to ensuring a better deal for the UK supply chain.

24. What further steps can be taken to use public procurement to drive the industrial strategy in areas where government is the main client, such as healthcare and defence? Do we have the right institutions and policies in place in these sectors to exploit government's purchasing power to drive economic growth?

The focus should be in building UK capacity through procurement – both supply chain and skills. This would then lead to export opportunities. Where government support (whether that be in buying power or indeed through support mechanisms) exists, then there should be clauses to ensure that suppliers are working to build UK capacity.

**25. What can the Government do to improve our support for firms wanting to start exporting?
What can the Government do to improve support for firms in increasing their exports?**

Provide a cost competitive environment in which to do business.

26. What can we learn from other countries to improve our support for inward investment and how we measure its success? Should we put more emphasis on measuring the impact of Foreign Direct Investment (FDI) on growth?

As stated earlier, the Irish Government has focused on providing the skills, infrastructure and business taxation environment which is attractive to FDI.

27. What are the most important steps the Government should take to limit energy costs over the long-term?

Set a target! We have targets on security of supply and on decarbonisation but none on the 3rd critical area of the energy trilemma, cost!

The focus should be on limiting policy costs which are an increasing burden on bill payers and critically challenging the profitability enjoyed by generators.

28. How can we move towards a position in which energy is supplied by competitive markets without the requirement for on-going subsidy?

We believe this environment already exists. Subsidy is not required in a market (in the all-island SEM) where generators are enjoying a 35% operating margin and 12% net margin. Indeed some generating technologies enjoy margins of up to 79%.

Analysis from Regulators here:

<https://www.semcommittee.com/sites/semcommittee.com/files/media-files/SEM-16-086%20CEPA%20Generator%20Financial%20Performance%20Report.pdf>

Any subsidy should be based on new technologies and in the form of research and innovation grant support and taxation reliefs only with commitments on building a UK regional skills base and supply chain.

29. How can the Government, business and researchers work together to develop the competitive opportunities from innovation in energy and our existing industrial strengths?

See previous answers on the need to build capacity regionally through supporting a regional supply chain which builds capacity.

30. How can the Government support businesses in realising cost savings through greater resource and energy efficiency?

Extend the scope of capital allowances in this area.

Support schemes (such as Industrial Symbiosis) which have proven track record of reducing wastage.

31. How can the Government and industry help sectors come together to identify the opportunities for a 'sector deal' to address – especially where industries are fragmented or not well defined?

Again, there needs to be a deeper understanding within UK Government of the make-up, strengths and opportunities in the regions and devolved nations. Supporting greater collaborations across the UK, particularly in public contracts, should be insisted upon.

32. How can the Government ensure that 'sector deals' promote competition and incorporate the interests of new entrants?

Our Oxford Economics report (accompanying this submission) shows that whilst 1% of manufacturers are large firms, they support half of all jobs and half of turnover. These firms also work on building the capacity of their supply chain, mostly locally. Supporting the growth of firms from SME to large builds capacity and deepens the impact on local economies.

33. How can the Government and industry collaborate to enable growth in new sectors of the future that emerge around new technologies and new business models?

See previous comments on using us purchasing power.

34. Do you agree the principles set out above are the right ones? If not what is missing?

No comment.

35. What are the most important new approaches to raising skill levels in areas where they are lower? Where could investments in connectivity or innovation do most to help encourage growth across the country?

See previous comments on using UK purchasing to build capacity (skills and supply chain).

36. Recognising the need for local initiative and leadership, how should we best work with local areas to create and strengthen key local institutions?

There is concern that the Devolved Nations have not been fully heard nor the specific challenges facing these regions by Brexit fully understood. Greater confidence in the structures in place for these engagements is required.

37. What are the most important institutions which we need to upgrade or support to back growth in particular areas?

UK national bodies, such as Innovate UK, National Infrastructure Commission and others should have a greater regional presence, more input and focus on supporting regional delivery.

38. Are there institutions missing in certain areas which we could help create or strengthen to support local growth?

Exiting the EU can allow for a new model in supporting enterprises. The removal of State Aid restrictions could see direct support for key industries and employers. However, care needs to be taken to not disrupt competition in these markets.