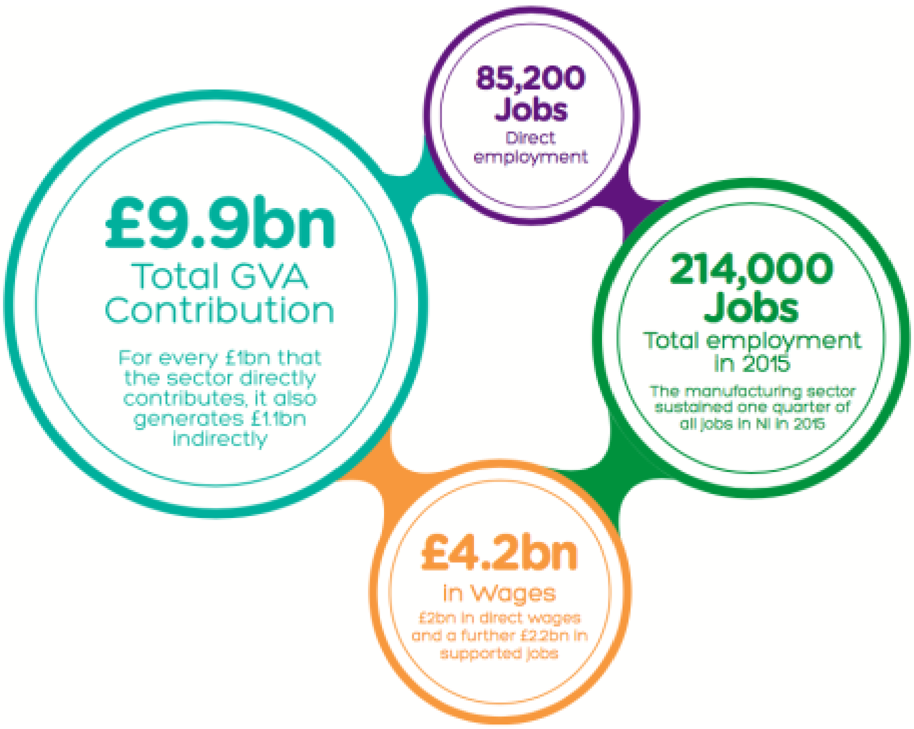
MANUFACTURING
NORTHERN IRELAND

Economy 2030
Consultation Response – Manufacturing NI

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.

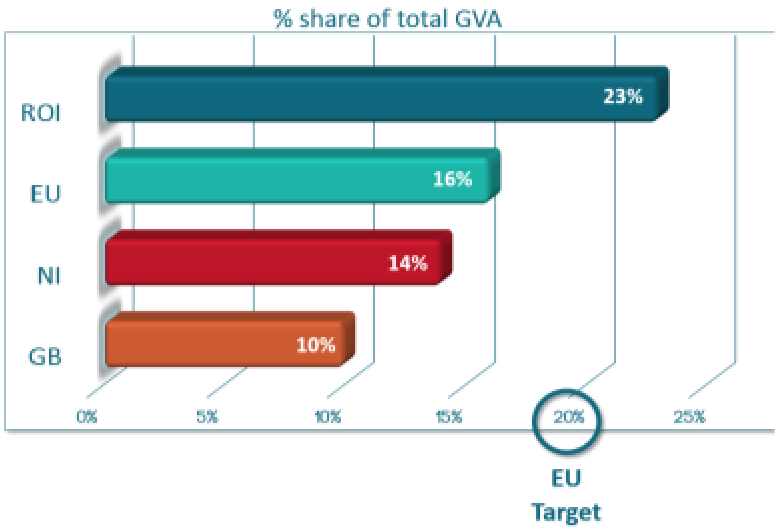
The bulk of Northern Ireland's exports (c£7bn) and a huge proportion of external sales to GB are from the sector which represents c14% of local GDP. This is significantly higher than the rest of the UK (at 10%) but far behind the EU target of 20% and even further adrift from Ireland who sit at 24% despite 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).

In general response, we believe the Strategy 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 aligns and gains benefit from the new UK Industrial Strategy.
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 NI 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 have equal access to skills funding, particularly through the Apprenticeship Levy.



Response

MNI welcome much of the content of the Strategy. In particular, we welcome the focus on developing the private sector, a commitment to benchmark against the world's leading, small advanced economies and to increase annual spend on Research and Development.

However, elsewhere we believe the plan is weak, doesn't commit to create the conditions in which businesses can compete and lacks appropriate success measures. We also believe there is insufficient ambition, urgency, a timeline and no ideas to address the risks and opportunities from the UKs decision to exit the EU.

Consultation Questions:

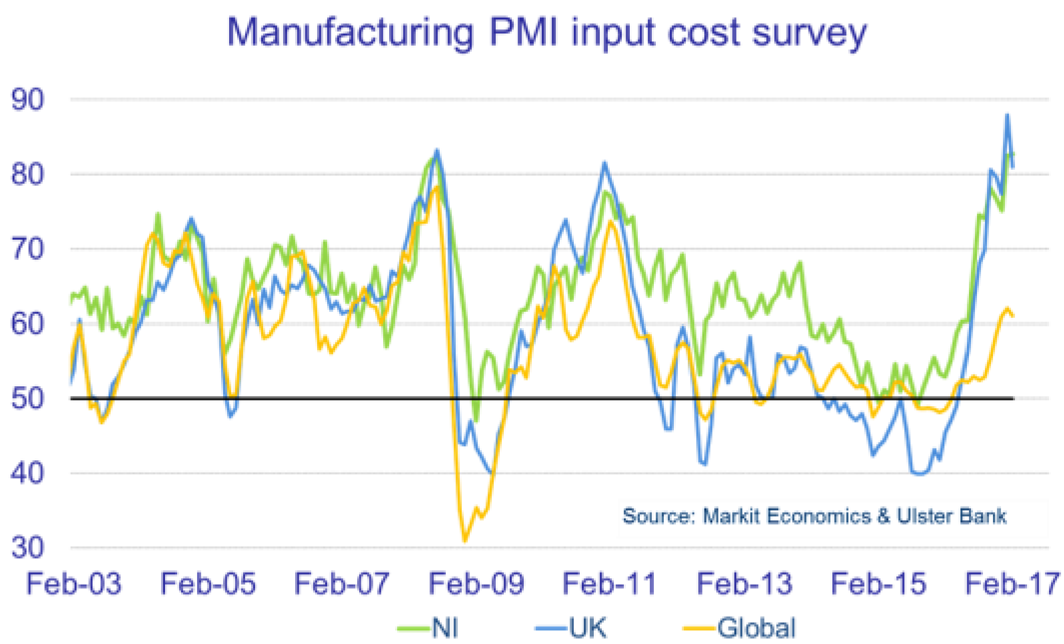
1. **Do you agree with the proposed vision for the Northern Ireland economy? In particular, do you agree with the twin emphasis on competitiveness and inclusiveness?**

Yes, but the plan does not go far enough.

The Plan defines competitiveness on a number of areas but does not provide actions to tackle the costs of doing business. Our economy remains one of the most expensive regions in the world in which to be a manufacturing firms – this stifles growth, jobs creation and ambition. As evidenced in the Oxford Economics report accompanying this response, it is clear that areas such as energy (electricity and gas), transportation and freight and indeed even business rates are higher or growing faster in NI compared to the EU and in some cases the UK. It is critical that the Executive and Department bear down on these costs, particularly as we face the risk of additional costs being inflicted as a result of the UK leaving the EU and Customs Union.

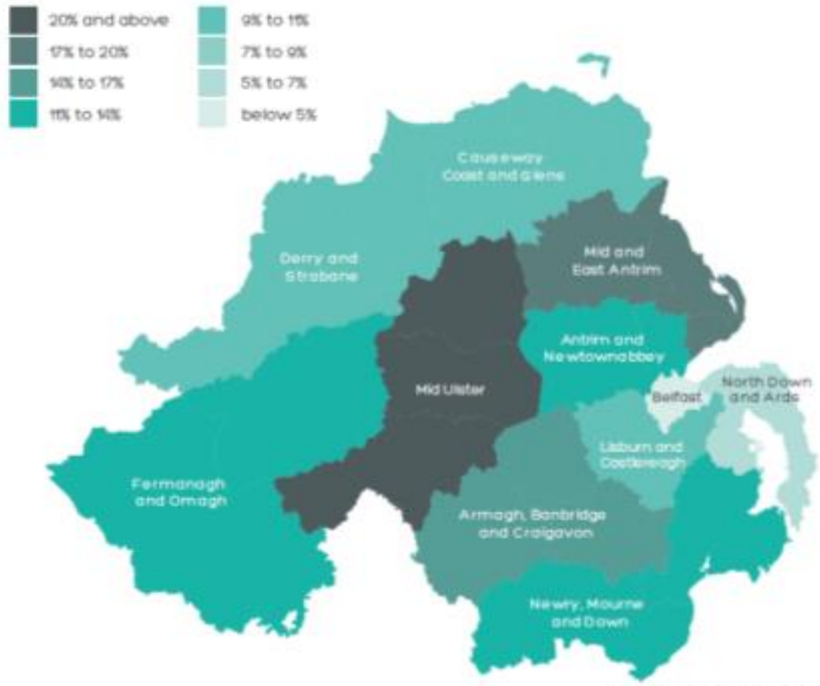
The latest PMI figures show the huge rise in manufacturing input costs. Some, but not all, are due to a change in currency values, however the Treasury figures show that input costs have in the past year risen by >22% whilst factory output prices have risen by <4%. NI has consistently been facing higher input costs versus GB and the rest of the world as evidenced right back to 2003 when the PMI figures have been available.

Whilst currency changes have been positive for those limited amount of firms who export, all firms are suffering from this huge rise in input prices. Now, more than ever, we need to challenge the costs of doing business in order to allow firms to be cost competitive.



Unlike other parts of the economy, Manufacturing provides jobs right across Northern Ireland. These are well paid, rewarding roles in places where people want to call home and contribute to their local community. If the Department's ambition is to ensure more and better jobs right across NI, then the best opportunity to do this is to grow our manufacturing sector to 20% of our economy (the EU target).

Fig. 5. Manufacturing employment in Northern Ireland, 2015



Source: DETI, Oxford Economics

Whilst manufacturing accounted for some 85,200 direct jobs in 2015, it further supported an additional 129,100 jobs in indirect and induced roles. Additionally, the Irish Government have shown that some 85% of jobs in the new economy (digital etc.) depend on traditional parts of the economy. You are as likely to see software jobs in rural manufacturing facilities as you are in office blocks in Belfast City Centre.

Fig. 20. Employment impacts of manufacturing, Northern Ireland, 2015[12]

	Direct	Indirect	Induced	Total
Antrim and Newtownabbey	7,200	6,300	3,800	17,300
Armagh, Banbridge and Craigavon	12,200	10,200	6,900	29,200
Belfast	10,900	14,100	5,400	30,400
Causeway Coast and Glens	4,000	3,600	3,200	10,800
Derry and Strabane	5,200	4,700	3,100	13,000
Fermanagh and Omagh	5,100	4,500	3,100	12,700
Lisburn and Castlereagh	5,400	4,800	3,300	13,500
Mid and East Antrim	10,200	8,600	6,400	25,200
Mid Ulster	15,100	12,800	7,800	35,700
Newry, Mourne and Down	7,100	6,200	4,800	18,000
North Down and Ards	2,900	2,900	2,700	8,500
Northern Ireland	85,200	78,700	50,400	214,400

2. **Do you agree with the proposed five Pillars for Growth?**

Yes, most would agree that these are important but again we don't believe this goes far enough. In particular, there is little reference to the UK Industrial Strategy which itself has 10 Pillars.

Missing from this are commitments on affordable energy and better public sector procurement in particular. The Pillars need to be widened and more far reaching across the devolved competencies as is the ambition of the new style of Programme for Government.

Pillar 1: Innovation

Manufacturing accounts for 47% of all R&D and 65% of business R&D. There is a culture of innovating and developing new products and processes.

Generally, the UK has a strong innovation package – R&D tax credit, Patent Box etc. One challenge is putting in place systems, within manufacturers, which clearly identifies the innovation process and the confidence to take advantage of the policies, support and benefits which arise from UK policy levers.

Additionally, whilst there has been some success, more needs to be done to link educational institutions with those who best understand customers and markets. There remains patchy commercialisation success. Some of this is due to patent ownership which make partnerships difficult.

Critically, there are no specific proposal or actions in the Strategy which are directed particularly towards manufacturing despite almost half of and R&D investment and 65% of business investment being derived from the sector. The proposals and actions are vague or directed towards the public sectors (including educational institutions).

Pillar 2: Skills

First, the Apprenticeship Levy must be delivered in NI on the same basis as the rest of the UK. It is unacceptable that companies here do not have access to this funding. Instead, alongside the impact of National Living Wage and other employment policy costs, it further widens our competitiveness gap.

As a minimum, this approximately £24m fund should be delivered by a skills body in Northern Ireland with direct input from business itself. The funding should be given back, nor used to plug a hole in the Executive's own budget.

Alongside this, there needs to be a commitment to improve the attractiveness of apprenticeships amongst potential candidates and indeed parents. This would require cultural change which can only be delivered by an active partnership between business and government.

Our economy and our businesses depend on a skilled workforce – both in existing employees and new arrivals. We need excellent schools and informed careers advice preparing all pupils for the workplace and sustainably funded skills development through quality apprenticeships and third level education.

Additional Actions:

1. There should be greater support for quality manufacturing leadership, management, specialist professional training and apprenticeships.
2. Schools, Colleges and Government should work more closely with employers to have a greater understanding and delivery of high-quality careers advice for roles within manufacturing.
3. An expert panel of employers who should advise on training needs right throughout manufacturing sector.
4. Funding, including Apprenticeship Levy income, should move to employers as opposed to being solely controlled by the colleges. The concept of the training school with experienced instructors needs to return.
5. All parties should prioritise the encouragement of engineering and STEM-related apprenticeships.
6. There should be a concerted effort to increase the number of women in manufacturing and engineering.
7. The opportunities for 3rd level study in STEM subjects should be provided across Northern Ireland by providing appropriate investment in Colleges and Universities close to where manufacturers are based.

There is no reference to employment law in the document, but this is a critical factor in delivering a growing economy. Inconsistency in employment law is barrier to job creation, inward investment, operating efficiency and a competitive disadvantage for NI companies competing for work in GB. We support the basis for a living wage and seek the support of workforce representatives and others to improve productivity in return. A fair day's pay for a fair day's work benefits all parties.

Actions:

1. Workforce representation is to be supported. Greater dialogue between all parties should be encouraged.
2. Agencies are an important source of capacity. However, this requires regulation ensuring that rates are properly reflected in what the people doing the work take home.
3. Employment law reform is needed to include mandatory early conciliation for workplace disputes.
4. Allow employers and employees to have "protected conversations".
5. Extend the qualifying period for unfair dismissal from 1 year to 2 years, in line with GB. The 1 year qualifying period acts as a deterrent for small businesses to take on new employees resulting in zero-hours, temporary and rolling contracts rather than full-time permanent positions being created.
6. More information on actual tribunal compensation settlement awards to be made available to tribunal chairs to lead to more consistency in the level of awards made.

Pillar 3: Inclusive, Sustainable Growth

Whilst only 1% of manufacturing companies are large firms, they provide almost half of all employment and turnover:

Fig. 6. Manufacturing businesses by employee bands in Northern Ireland, 2015

	Business Share	Employment Share	Turnover Share
0-49	92%	27%	19%
50-249	7%	23%	32%
250+	1%	49%	49%

These firms are also critical to the success and sustainability to smaller firms and to the supporting jobs. These smaller firms will grow 'under the wing' of larger firms as part of a supply chain, supporting market access and providing skills development.

This is critical as, evidenced by the Federation of Small Business, we have a strong business growth rate on par with the rest of the UK but a business death rate twice that of GB (some 12,000 businesses annually!)

One important action is how the NI Executive, its Departments and Agencies can support SMEs through its own procurement. There must be a commitment to having more 'local content' in public procurement.

Additionally, the NI Executive should work with Westminster to not only see Corporation Tax powers devolved but also to encourage a change in capital allowance. This would ensure small (and large) firms invest in plant, machinery and buildings leading to improved productivity, a greater chance of success and locking in investment and jobs for the long term. Unlike other parts of the economy, manufacturing jobs are not easily moved. Where the investment goes, the jobs are located.

Pillar 4: Succeeding in Global Markets

The glaring omission of the risks of Brexit in this section of the plan is a concern. NI faces enormous challenges if the right deal if not achieved. We cannot afford to sit, wait and hope for a successful outcome. We must plan and prepare.

Preparing firms for Brexit is critical yet there are no actions proposed. This includes ways in which to deal with an exit from the Customs Union (and its associated costs – e.g. the full total cost of Country of Origin Certification is c£478 per shipment). Additionally, other non-tariff barriers including regulatory sign-off for single market access needs addressed. Failure to help firms prepare will result in the loss of investments, jobs and trade.

From a policy perspective, there is a need to make NI as cost competitive as possible including challenging the costs of energy supply, transportation, business rates (which have raised 4x more in NI versus GB in the past 10 years) and labour.

It has already been confirmed that the devolution of corporation tax powers (and with it a NI rate) will be delayed. This is causing reputational damage in international markets. With no sign that this policy will be delivered in the short term, there is a need for a refocusing on the offer – this must be based on increasing cost competitiveness.

Pillar 5: Economic Infrastructure

Every part of the economy requires modern, effective infrastructure to be successful. This is particularly important to manufacturers to get goods to market as evidenced by their proximity to transport corridors. Whilst there have been improvements, but important strategic projects remain outstanding hindering growth and sub-regional regeneration. Infrastructural developments are internationally proven to provide enormous short and long term economic benefit. Focus and funding must be found to escalate their delivery.

Energy is, usually, the third largest input cost for manufacturers after raw materials and labour. It is hugely disappointing that there is no commitment to ensuring costs are reduced or competitiveness improved. In electricity, we are the 3rd most expensive market in Europe and the 2nd most expensive in gas (see the accompanying report from Oxford Economics). Instead, the only measure proposed in the 2030 Strategy is a new Energy Strategy (overdue) with the only metric being on ensuring security of supply. This is incredibly weak, lacks ambition and does nothing to improve the economy into the future.

Setting a target on electricity prices, competitive in Europe, must be a NI Executive strategic priority. This can be achieved by:

- Reduce — Generation, grid and market operator costs
- Avoid — Unnecessary policy and incentive costs
- Allocate — Cost equitably between customers
- Support — Demand reductions for large customers

Profits in electricity generation are excessive and must be challenged. Setting a policy objective to have competitive prices would direct actions from the SEM Committee and Regulators.

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

€m	2012	2013	2014	2015
Net profit excluding large impairment charges	**€ 335**	**€ 320**	**€ 303**	**€ 355**
Net profit margin	3%	3%	11%	9%
Net profit margin excluding large impairment charges	**11%**	**11%**	**11%**	**13%**

Table 1.1: Summary of generator financial performance based on financial reporting templates

€m	2012	2013	2014	2015
Revenue	€ 2,928	€ 2,822	€ 2,657	€ 2,706
Operating profit	€ 851	€ 870	€ 828	€ 906
Operating profit margin	29%	31%	31%	34%
Net profit	€ 76	€ 88	€ 303	€ 254

Additional Infrastructure Actions:

1. A commitment to a fully funded, time bound completion of the A6 dual carriageway.
2. Resolution of the A5 Planning Appeal and a commitment on a timescale for full delivery.
3. Plans to extend the A4 to Enniskillen and working up plans for the upgrade of the A29 and A26.
4. Investigating the costs of ferry/freight travel to GB which is sometimes x5 more expensive than across the English Channel.
5. The development of high-speed broadband particularly to manufacturing clusters.
6. A single, central and accountable regime which speeds up the delivery of infrastructural and capital projects on behalf of all NI Executive Departments and the inclusion of more local content in its delivery.

3. Do you agree with the proposed economic milestones?

Yes, however we would encourage the plan to include a commitment to achieve 20% of GDP to come from manufacturing. This would deliver much of the ambitions laid out in the strategy and PfG.

4. Do you agree with the importance of continuously benchmarking Northern Ireland against other small advanced economies?

Benchmarking is important. However we are surprised that there is no reference to the actions and success of the Irish economy in the plan. We share geographic challenges but they have set greater ambitions, taken swift actions and are enjoying one of strongest growing economies in the world. There is much to be learnt and gained from understanding their policy interventions, agency practices and performance.

5. Do you agree that the Industrial Strategy should now move towards a rebalancing focus?

Yes. It is our view that alongside this Economy 2030 Strategy, the NI Executive should commit to a manufacturing strategy.

Throughout government, its departments and agencies there are plans, mechanisms and support which interface, impact and have implications for the manufacturing sector. Whether they be red-tape, strategies for vertical parts of manufacturing or support in skills, government has levers which impact both positively and negatively on the environment in which manufacturers operate.

Missing, however, is a single, coherent cross departmental strategy which aims to sustain and grow manufacturing as a critical part of our economy.

Strategies are important. They set ambition, target and direct action. They are measureable and attract investment. They also give confidence and direction not only for Government but for business and investors.

For NI's economy to succeed, it must create the conditions in which manufacturing businesses can thrive – selling increasingly to markets at home and abroad, increasing its influence on GDP and GVA and creating wealth and work.

To get there, the NI Executive must commit to creating a single Manufacturing Strategy which is measurable and reported upon annually by a Minister.

This report should include:

1. Relevant statistics on GVA, jobs, revenues, export value and numbers of exporters
2. A 'health check' on costs and their impact
3. Cross departmental actions to remove or improve areas which are barriers to growth

We believe an Annual Manufacturing Report presented by the Economy Minister or Junior Minister for Manufacturing would be a useful intervention.

6. Do you agree that our Industrial Strategy should support sectors where Northern Ireland is world class or where we have the potential to be world class?

With extreme caution!

This sounds dangerously like 'picking winners'. Governments can't pick winners, markets do. This is a failed economic plan which governments everywhere, including the UK Government, are rolling away from.

The focus should be on creating the conditions upon which all firms – large and small, home-grown and FDI, with markets at home and abroad – can succeed.

We accept that there are sub-sectors which we perform well in. It is right to continue to 'sharpen the saw' to make their success grow and spread. However, invariably these are firms and sectors which have been built from the ground up, by entrepreneurs and innovators. The right support can give them a boost, but better still, the right environment can allow more to flourish.

'Picking winners' also suggests that others will not be provided with the support they need or deserve – despite assurances otherwise. Strategies direct actions and focus. All businesses make a contribution to jobs and GVA and deserve the same level of focus and attention.

This is even more critical in a planning for and trading in a post-Brexit world.

7. For each of the 5 Pillars for Growth:

- **Do you agree with what we want to achieve;**
- **What we plan to do to deliver; and**
- **How we plan to measure progress?**

These are covered in the points above.

However, we believe many of the metrics are weak and focusing on some of the wrong measurements. In particular, the energy elements focus solely on security of supply when the challenge is deeper and metrics are available from the Utility Regulator.

Conclusion

Whilst we believe there are many positive aspects to the Economy 2030 plan, there are critical gaps which need addressed. With the benefit of some additional time and reviewing this and other consultation responses, we believe the plan can be significantly strengthened.

For us, it should include:

1. Be more ambitious – we should be targeting growth in excess of an average 2% pa
2. Be more explicit in how the plan aligns and gains benefit from the new UK Industrial Strategy.
3. Set a specific targets to grow manufacturing to 20% of the economy through a bespoke Manufacturing Strategy
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 NI 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 have equal access to skills funding, particularly through the Apprenticeship Levy.

The striking omission from the Strategy is any planning or actions on Brexit. This will fundamentally alter our business environment, particularly in non-tariff areas such as benefitting from the Customs Union, labour and skills availability and regulatory access. Manufacturing is exposed to these risks and the Department and its agencies must support firms to navigate these. The Strategy offers no plan for this.

We are happy for this response to be published.

Manufacturing NI
25 April 2017

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