

Northern Ireland Affairs Committee – inquiry into investment in Northern Ireland

Written evidence from Pivotal

Pivotal was pleased to provide oral evidence to the Committee on Wednesday 12 January 2022. This written evidence gives more detail on some of the issues discussed, together with some other points that were not covered in the oral evidence session.

Pivotal is the independent public policy think tank for Northern Ireland. Pivotal is a new organisation which aims to help improve public policy in Northern Ireland, through promoting a greater use of evidence in decision-making and by involving a wider range of people in talking about policy issues that matter to them. Pivotal is independent of political parties and political ideologies, and we operate outside of government. We aim to enable discussion about policy issues in Northern Ireland that is evidence-based, inclusive and accessible.

Pivotal has published research reports on a range of issues, including two recent reports which are particularly relevant to this inquiry. The first is about education and training for 14-19 years olds, looking at how well the education and skills system is preparing young people for life and work. The second is on educational migration, exploring why so many young people choose to leave Northern Ireland for study and not return.

Pivotal also takes a role reviewing the performance of the Northern Ireland Executive as a government, to give an independent assessment of what has been achieved and what future policy priorities should be. To this end, we have launched a series of ‘tracker’ reports looking at past performance and future policy priorities in Northern Ireland. Informed by this work, this evidence also explores Northern Ireland’s broader investment needs, for example in skills and infrastructure.

1. Introductory comments

Before looking at specific issues, first we offer some cross-cutting comments about investment in Northern Ireland.

Poverty and inequality - any discussion about investment in Northern Ireland must address the poverty and inequality experienced by many people here. While there is a focus in economic plans on high growth sectors and FDI, the reality in Northern Ireland is that many people are a long way from seeing the benefits of this kind of investment. For example, one quarter of jobs pay below the living wage, almost 25% of children are growing up in poverty, economic inactivity is the highest in the UK, and there is a huge gap in educational attainment depending on socioeconomic background. Any investment strategy must ensure everyone benefits.

Regional growth - similarly, any consideration of investment must reflect the fact that most social and economic outcomes are worse outside the greater Belfast area. Northern Ireland is amongst the poorest regions in the UK, and regional inequality within Northern Ireland is significant. There is a risk that just focussing on growth clusters, for example, may be to the exclusion of geographical areas elsewhere which are greatly in need of investment.

Connecting UK Government initiatives to the Northern Ireland Executive’s investment plans - the Committee’s inquiry is particularly timely as two new UK-run investment programmes are being developed,

namely the Levelling Up Fund for local infrastructure projects and the Shared Prosperity Fund for skills and employment. There is however an immediate question here about why this new funding is being set up to by-pass the Northern Ireland Executive and be allocated directly to projects in Northern Ireland. It would be strongly advisable to ensure that this approach is not detached from the plans of the Northern Ireland Executive as the main driver and funder of public investment in Northern Ireland. There is an obvious risk of a rather piecemeal project-based approach from the UK Government's funding, and a lack of coherence with the overall investment plan for Northern Ireland.

Political stability and long-term planning – much of our evidence will point to the importance of political stability to investors, whether that investment is FDI or domestic. Such political stability is often lacking in Northern Ireland, and this is a deterrent to some investors. Moreover, investors want to see that governments have a clear agreed plan for public investment in the medium- and long-term, for example in infrastructure and skills. Unfortunately the Northern Ireland Executive struggles to agree these longer term strategies and plans that might convince investors that this is the right place to invest.

Ambition – many people believe in the need for a much bigger vision and much more ambition in economic plans for Northern Ireland. Such an economic strategy would be built on supporting sectors with existing strength and high growth potential, accompanied by significant public investment in skills, R&D and infrastructure. There are significant challenges to achieving this, but also huge potential. Many in the business community have high ambitions for Northern Ireland, but in some cases these do not seem well connected with the Executive's vision and plans. Unfortunately there is also a sense from some in the business community in Northern Ireland that the Executive lacks the unity, common purpose and long-term perspective to agree and drive such an ambitious strategy.

2. Education and training for 14-19 year olds

Pivotal's recent report [Transforming the 14-19 education and skills system in Northern Ireland - youth voices and solutions](#) (September 2021) looked at how the education system is preparing young people for future life and work. As well as looking at research evidence and assessing the current policy framework, importantly we also gathered the views of more than 250 young people, along with teachers, parents and employers, about how the current system is preparing young people for the future. Our research highlighted three strategic changes that need to take place to modernise the education system's approach to employability:

Employability and skills training require greater emphasis throughout the curriculum to prepare young people for the future workforce

- Northern Ireland's young people think schools are too heavily focused on maximising exam grades, such as by teaching pupils exam technique, and that this comes at the expense of broader personal development.
- Less than a third of local young people (31%) say they develop skills such as problem solving, communication, leadership and critical thinking in school.
- Only 25% young people and 29% of parents feel that young people were currently learning the skills they needed for future study and employment.

Young people said they would like:

- More engaging employability and careers advice
- The chance to learn useful life skills such as budgeting and applying for a mortgage
- Lessons about the skills and values required across different industry sectors
- Work experience opportunities to be more meaningful
- Opportunities to develop broader skills like critical thinking, communication and leadership while at school

Careers advice should be innovative, responsive and accessible to young people and parents/carers

- Only 20% of young people feel the careers advice they receive is helpful, compared with 25% who say it is no help at all (with the remaining 55% saying it is “somewhat” helpful). Almost four in five (79%) say that careers guidance could be improved.
- 55% of young people felt that work-based learning experiences were the most helpful in shaping their future choices.
- Both young people and parents felt that careers guidance should be more ambitious and up-to-date, covering areas of growth and innovation in the labour market.

Young people said they would like:

- Accessible and continual interaction with careers advisors, instead of a one-off guidance interview
- More opportunities for work-based learning, including workplace visits, careers talks from employers, careers events and work experience
- Work experience to be more varied and to take place earlier than Year 13

The status of vocational education must be elevated through effective working across education providers

- Over two thirds (69%) of young people claimed to have little to no knowledge of trends in the labour market.
- Only 30% of careers teachers felt they had enough time in their role to research and provide guidance about the labour market.

Young people said they would like:

- Clearer guidance about areas of growth and decline in the labour market
- Opportunities to learn about a greater number of career pathways and their outcomes

3. Educational migration – young people leaving Northern Ireland for study or work

In December 2021, Pivotal published new research into why young people leave Northern Ireland for university study elsewhere, and what might encourage them to return after graduation. [Should I stay or should I go? Reasons for leaving Northern Ireland for study or work](#) involved a survey of over 300 current

GB-based students from Northern Ireland followed by research interviews, as well as a series of interviews with older professionals who left Northern Ireland previously and have stayed away.

The research found that there are both “pull” factors which attract young people away, such as a broader range of university courses and the prospect of better job opportunities, as well as “push” factors which actively encourage them to leave Northern Ireland such as poor community relations, the unresolved social legacies of segregation, and their view that young people’s priorities are not represented by local politicians.

In terms of numbers, we know that there are around 17,000 young people from Northern Ireland studying at universities elsewhere. Past data show that around 64% have not returned one year after graduation. This represents a major loss of talent, and unlike elsewhere, it is not counter-balanced by significant inflows of students or graduates into Northern Ireland.

Why do young people leave Northern Ireland? Our research found that:

- The **ongoing effects of community divisions** and a **lack of political stability and maturity** in Northern Ireland are key reasons why so many high-achieving young people leave Northern Ireland after school and do not return.
- Young people find the **broader university options** and **better short- and long-term job prospects** available elsewhere attractive.

Unfortunately, the poor state of community relations in Northern Ireland does as much to drive young people away as the promise of varied studies and higher potential wages do to attract them elsewhere.

These concerns do not just make young people want to leave, but causes them to stay away too. The same reasons were given for why a huge number of leaver students will stay away from Northern Ireland after they graduate. Only 12% of the students in Pivotal’s recent research said they planned to return home after completing their studies.

Despite Northern Ireland’s long-standing problems with low levels of skills, productivity and innovation, and skills shortages in some key growth sectors, the Executive has no policy in place to seek to retain more of these talented young people in Northern Ireland.

Pivotal’s research also found that the reasons people leave have not really changed between generations. Detailed conversations with older professional workers who left Northern Ireland and never returned found similar concerns to those raised by today’s young people: poor community relations, poor job opportunities, and a lack of confidence in local political leadership.

Pivotal’s recommendations include that:

The Executive should develop a strategy to address the loss of talented young people – this needs to be an area of priority for policymakers, with specific planning that addresses all the recommendations in our report. For too long there has been a complete lack of attention or action from politicians here about this issue.

Northern Ireland, as a society, needs to acknowledge the impact of its poor community relations – many young people want to leave Northern Ireland because of ongoing segregation and the fact that so much of what happens here is framed within a green/orange lens. Respondents raised concerns about segregated schools, the fact this segregation can continue in local universities, and weariness with the constant focus on community background and identity.

The Executive needs to demonstrate that it is working collectively to move Northern Ireland forwards - young people do not feel represented by politicians or political debate in Northern Ireland, and their view is that government is “moving backwards rather than forwards”. Participants said they want politics to move beyond green-vs-orange arguments and on to things that matter to them, such as economic recovery, women’s rights and tackling climate change.

The Executive should complete a full review of the funding for Higher Education in Northern Ireland, with a view to providing sufficient places for an appropriate range of courses across the local universities. The Executive itself acknowledges that there is a long-standing funding deficit in higher education. In addition, the MaSN cap on student numbers has remained unchanged for a decade (apart from a slight increase in response to Covid impacts). This is despite young people from Northern Ireland having amongst the highest rates of participation in higher education in the UK

Other recommendations include **the Executive should work with universities and employers** to improve undergraduate work placements and graduate opportunities; **alternative routes to Higher Education** must be considered to help retain and upskill young people, including better routes into university via Further Education; and **the Executive should reduce the obstacles that prevent older diaspora returning to Northern Ireland**, such as complications with visas for spouses, and pensions and tax barriers.

4. Skills

Improving skills and human capital in Northern Ireland are fundamental to future economic success, whether that is in order to attract FDI, increase productivity, reduce poverty or increase the number of higher-paying jobs. Skills are a major long-run challenge for Northern Ireland. Any economic analysis will identify the priority of improving skills as central to future growth.

Data demonstrate that Northern Ireland has low skills levels compared to rest of UK and Ireland:

- Labour productivity is 17% below UK average (lowest UK region)
- Low skill, low paid jobs predominate (one quarter of jobs earn below living wage, although this is falling over time)
- Skills are improving over time, but:
 - 21% of people in NI are educated only to lower secondary level (compare UK 15%, RoI 9%)
 - 16% of people in NI do not have basic qualifications, which is the highest UK region (compare UK 9%)
 - Only 35% of people in NI have a third level qualification (compare UK 48%, RoI 54%)
 - Limited high paying jobs and opportunities for career progression
 - Fewer people with vocational qualifications

Overall in comparison to the UK and Ireland, Northern Ireland has: a) a high proportion of population with no/low qualifications; b) a low proportion of population with university education. Lower human capital in Northern Ireland is attributable to both low educational attainment overall and an attainment gap; and educational migration of high achieving young people.

Importantly, improving skills is not just about addressing historical issues about low attainment, but also about preparing people for changing roles as the nature of work evolves. Future skills needs will be in STEM subjects, coding, digital analytics, AI and digital marketing. There is also a need to focus on ‘softer’

transferable skills like problem solving, resilience, teamwork, critical thinking, people management and negotiation.

The [Skills Barometer](#) produced by Ulster University's Economic Policy Centre looks at skills needs of the Northern Ireland economy over the next ten years. It shows that when compared with NI's current skills, there is:

- Marginal undersupply of people with level 6 qualifications (degree and above) and a particular undersupply in STEM subjects
- Significant undersupply of people with levels 4-5 and 3 qualifications (vocational qualifications completed at FE colleges)
- Significant oversupply at level 2 (GCSEs and below)

Finally, there is growing and concerning evidence of current skills shortages in certain high-skills sectors in Northern Ireland, for example computer coding. There are multiple firms seeking to attract a very limited number of graduates and early career professionals. This is an immediate problem that needs to be addressed if economic growth in Northern Ireland is to be driven by these high-skill sectors.

Recent consultation by the Department for the Economy on a new skills strategy is welcome. This gives a realistic assessment of the skills challenges Northern Ireland faces.

5. Infrastructure

Like a strong pipeline of skilled labour, robust and developing infrastructure (transport, energy, telecoms) is essential to encourage investment, whether foreign or local. More than this, investors want to see that the government has an agreed medium- and long-term integrated plans for infrastructure investment.

Clearly there is huge deficit in infrastructure spending in Northern Ireland. This is particularly impactful at present in the [water and wastewater infrastructure](#), where limits to capacity are restricting development. This has a knock-on effect to the availability of new housing and other new-build in substantial parts of Northern Ireland. It is an increasing problem that will continue to grow without a step-change in investment.

On the positive side, Northern Ireland has the highest population access to full fibre broadband in UK, although there are still some rural areas which lack good connectivity.

Obviously investment in infrastructure requires planning with a long-term perspective, something which the NI Executive struggles to achieve. In recent years, there have not even been multi-year budgets, although these are now agreed for next year's Budget onwards. In many areas, particularly infrastructure investment, the Executive needs to do much more to put in place a longer-term plan to address Northern Ireland's challenges. An agreed long-term government plan for future infrastructure is important for convincing investors to choose Northern Ireland as a location.

The Executive's recent commitment to a new Infrastructure Commission to advise on long-term investment is welcome. Such an independent body would provide important external advice on infrastructure needs.

Finally, there is a risk here of being too focussed on addressing the infrastructure deficits from the past. While these are undoubtedly important, and there is quite a backlog in Northern Ireland, we need to move the conversation on to thinking about future infrastructure needs, not just catching up on what hasn't be

done in the past. Examples include investment in green transport (better rail connections; a study of high speed rail link between Belfast and Dublin has been commissioned), further improvements to online connectivity, decarbonised public transport, and the development of the electricity grid given future green energy requirements.

6. Foreign Direct Investment (FDI)

The most important factors in encouraging FDI are political stability, supply of skilled labour, infrastructure (transport, telecoms, energy), cost competitiveness, government R&D spending and market access.

In that context, we would emphasise the following points:

- Political stability in Northern Ireland is an extremely important factor for encouraging FDI.
- Skills are essential to attract and retain FDI, and to ensure spillover effects to the wider economy from this FDI. So there is a need to support investment in skills to provide a pipeline of suitably qualified labour for FDI and local firms.
- Investors put a very high value on clarity about public investment in the medium term (eg 5-10 years), for example investment in roads, rail, utilities, broadband and R&D. In Northern Ireland there is an absence of such an integrated medium or long-term plan for investment from the whole of government, although a new 10-year Investment Strategy is due soon.
- Higher value FDI will be attracted by a clear government plan for investment in R&D with a focus on existing areas of research strength.
- Policies to attract FDI should be balanced across Northern Ireland to reflect the different strengths and potential of local areas, particularly outside the greater Belfast area.

From our research, there is a lack of independent evidence about effectiveness of FDI promotion in Northern Ireland. The last full review of Invest NI was by the [Northern Ireland Audit Office](#) in 2012, followed by a [report by the NI Assembly Public Accounts Committee](#) in 2013. Overall these reports gave a good assessment of Invest NI's performance but made some strong recommendations about an increased focus on higher value jobs (which has happened since) and a greater emphasis on increasing Northern Ireland's spending on R&D in order to increase productivity.

Invest NI reports in detail annually about its performance against its own targets, but there is an absence of comparative data or independent external assessment in these reports.

A new report from ESRI [Enhancing the attractiveness of the island of Ireland to high value Foreign Direct Investment](#) (December 2021) looked at FDI projects in Northern Ireland and Republic of Ireland between 2003 and 2020. It found that:

- RoI and NI both do well in attracting high value FDI. NI does better than some other UK regions and better than most EU regions (but nowhere near the RoI performance).
- Around 70% of new FDI projects in NI in this period are high-value; the number of jobs created by these projects is above the UK and EU average.
- 91% of high value FDI projects in NI are in services

The ESRI report concludes that the most important policy actions for Northern Ireland to increase FDI would be improved educational attainment and increased government investment in R&D.

Policies to encourage FDI in Northern Ireland need to fit with the overall economic strategy, in line with the aims of the Department for Economy's [10X Economy strategy](#) to focus on certain high-growth sectors. This may mean being more strategic and selective than in the past, with a continued increased focus on higher quality jobs. They must also be part of a net addition to Northern Ireland's skills base, rather than just displacing labour from other firms.

If Northern Ireland is going to attract investors, it must have a strong reputation for delivering on its promises. In that context, current evidence of skill shortages for high-skill jobs in the IT sector are very concerning, since it suggests that Northern Ireland may not have sufficient people with the skills needed to meet the demand of current firms, whether foreign or locally owned.

7. UK Government investment in Northern Ireland

There is a history of the UK Government providing large extra funding settlements for Northern Ireland, above and beyond the Barnett allocations. Usually these have accompanied a deal to restore devolution, for example £2bn over 5 years for New Decade, New Approach in 2020 (investment and reform across a broad range of public services); the Fresh Start Agreement in 2015 (£254m for security, housing, shared education); and the Stormont House Agreement in 2014. The New Deal support package in autumn 2020 gave £400m to fund increased skills and promote trade and investment after Brexit.

In addition, in 2017 £1bn was allocated to Northern Ireland when the Conservative Government and the DUP signed a confidence and supply agreement.

These funding allocations are significant - in 2020-21 these 'additions' above Barnett were worth almost £1bn and made up around 5% of the NI block grant.

There is no evidence available of the effectiveness of these funding packages from the UK Government. The funding can be tracked in Department of Finance budget documents, but to our knowledge there is no published evaluation of the impact of this funding. So there is no information available about whether these huge extra investments of public money have been effective overall. There will be evaluations of some individual projects which have been funded (e.g. Northern Ireland Audit Office has just published a report about the Project Stratum broadband project). There is also a lack of evidence in the public domain about whether the commitments and conditions that accompanied these funding allocations have been met.

Looking ahead, the UK Government has big ambitions for the Levelling Up Fund (which will fund local infrastructure projects) and the Shared Prosperity Fund (which will fund skills, enterprise and employment projects). Both programmes allocated their first round of funding in the UK Budget in autumn 2021, after a process where applications from local projects were invited. There is a risk here that this spending is less effective than it could be because it is not well connected to other investment in Northern Ireland. The spending could be seen as piecemeal; while obviously beneficial to the individual projects funded, it risks being disconnected from other spending. So we would urge a more strategic approach to this funding, which importantly should connect with the Northern Ireland Executive's investment plans. These are large amounts of money and they should be delivered in partnership with the Northern Ireland Executive, rather than in a separate, disconnected manner. This should ensure better impact from the spending.

8. Brexit and the Northern Ireland Protocol

The Northern Ireland Protocol offers significant potential opportunities to attract FDI by promoting awareness of Northern Ireland's unique status of having unfettered access to the GB market and the EU single market for goods.

Businesses in Northern Ireland describe Brexit as a great opportunity given Northern Ireland's access to both UK and EU markets. There are already examples of businesses relocating operations to Northern Ireland to make the most of this. Business leaders would encourage political leaders to grasp this opportunity and in particular to provide the stability that investors require.

Investors, whether foreign or local, want certainty and predictability. The current situation of political disputes and lack of clarity around the future of the Protocol doesn't give them either. There is a clear need for a quick resolution of current difficulties with the Protocol for goods being imported from Great Britain.

The recent ESRI report [Enhancing the attractiveness of the island of Ireland to high value Foreign Direct Investment](#) on FDI in Northern Ireland and Republic of Ireland supports this. It says Northern Ireland's continued access to the EU Single Market for goods secured through the Northern Ireland Protocol is a key competitive advantage for Northern Ireland relative to other UK regions. This is supported by the evidence provided in the report indicating that EU market potential is a key driver of the location choice of high-value FDI, including high-value FDI in manufacturing.

Ann Watt
Director
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