



EU STRUCTURAL FUNDS

The European Sustainable Competitiveness Programme for Northern Ireland 2007-2013 CCI: 2007UK162PO003

**Co-financed by the European
Regional Development Fund**

**To Note: Further changes approved by the EU Commission and
effective from 17 August 2012.
All changes to original Operational Programme highlighted in red**

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Competitiveness Programme for
Northern Ireland

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EU Structural Funds

European Regional Development Fund

Northern Ireland's Sustainable Competitiveness Programme 2007-13

Introduction

1. This EU-supported programme is about growth and jobs. The Government's strategy for economic growth in NI is aimed at creating a knowledge based, innovative and business friendly region with a highly skilled, flexible workforce generating a high quality of living, sustainable communities and lifetime opportunities for all throughout the entire region. The NI Sustainable Competitiveness Programme co-financed by the European Regional Development Fund (ERDF) programme will support the regional strategy by promoting investment in research and technological development and encouraging enterprise and entrepreneurship in an overall context of sustainable development.
2. The purpose of EU Regional Policy is to provide EU Member States, and regions within Member States, with assistance to overcome structural deficiencies and to enable them to strengthen their competitiveness and increase employment. The EU Structural & Cohesion Funds, the second largest item in the EU's budget have been refocused to concentrate on supporting individual Member States' activities to mobilize all national and EU resources to achieve the so-called Lisbon goal of making Europe the most dynamic economy in the world by 2010. The UK fully supports the Lisbon objectives and national policies are consistent with this aim.
3. The current cycle of EU Structural Funds programmes in NI came to an end in 2006 with new programmes coming into effect in 2007 covering the period 2007-13. Agreement on the EU Budget was reached at the European Council held on 17 December 2005 which was chaired by the UK who held the EU Presidency at that time. The Agreement, which diverts a larger share of EU resources to the new Member States, means that the UK will receive considerably reduced levels of EU funding – about half the level of Structural

Funds received for 2000 to 2006. This reduction carries through to NI which will receive in total €472 million for Competitiveness & Employment EU funding. This EU funding will be allocated between two distinct but inter-related programmes in NI: one co-financed by the European Regional Development Fund €307 million and one co-financed by the European Social Fund €165 million.

4. Both Competitiveness and Employment Programmes are relatively small and will pursue the same ultimate objective of creating a knowledge-based economy, with a vibrant private sector capitalizing on the outcome of research and development, to offer high-quality jobs and entrepreneurship opportunities to the existing and emerging workforce. The activities to be funded under each Programme will be distinct but complementary: the ERDF Programme will focus on providing the essential environment for businesses to flourish and establish the links between research bodies and companies, while the ESF Programme will focus on building the skills in the workforce to take advantage of the opportunities on offer. Businesses need people with the right qualifications to succeed and people need to be able to identify good jobs or self-employment opportunities to engage in further training or acquisition of skills.

5. Final agreement by the Council and the European Parliament at the end of July 2006 on the package of new Structural Funds Regulations and the EU Community Strategic Guidelines¹ (CSGs) provided the framework for how the EU funds can be spent and sets out the EU strategic priorities i.e.
 - Making Europe and its regions more attractive places to invest and work;
 - Improving knowledge and innovation for growth; and
 - More and better jobs.

¹ [Community Strategic Guidelines](http://ec.europa.eu/regional_policy/sources/docoffic/2007/osc/050706osc_en.pdf)
http://ec.europa.eu/regional_policy/sources/docoffic/2007/osc/050706osc_en.pdf

These are to be pursued with the objective of sustainable development and the objective of equality and the prevention of discrimination.

6. The new EU General Regulation introduced provisions to strengthen the strategic focus of EU regional policy. In addition to the agreement of the CSGs, each Member State is required to draw up a National Strategic Reference Framework (NSRF) setting out its main priorities for spending their Structural Funds – its purpose being to provide a reference framework for drawing up its Structural Funds Operational Programmes in line with the CSGs and the Member State’s National Reform Programme (NRP) for delivering the Lisbon Agenda. The UK Government consulted on a draft NSRF in early 2006 and published its NSRF² in October 2006 – this included a NI Chapter setting out a strategy and overall priorities for spending Competitiveness & Employment funding for the seven years 2007 to 2013.
7. The UK NSRF identified three key overarching themes:
 - Enterprise and Innovation
 - Skills and Employment
 - Environmental and Community Sustainability

These themes are fully consistent with EU Priorities and will be reflected in all UK Competitiveness and Employment Programmes and contribute to achieving the national goal of making the UK the most business-friendly environment in the world.

8. The EU General Regulation established three Objectives for the Funds:
 - a Convergence Objective (replacing the current Objective 1), to support the economic convergence of poorer regions with GDP per capita below 75% of the EU average;

² [National Strategic Reference Framework http://www.dti.gov.uk/files/file34769.doc](http://www.dti.gov.uk/files/file34769.doc)

- a Regional Competitiveness and Employment Objective (replacing the current Objectives 2 and 3), to increase competitiveness and employment in more prosperous regions; and
- a Cooperation Objective (which replaces the current *Interreg* Community Initiative), to finance cross-border and trans-national cooperation projects.

NI qualifies for EU Competitiveness & Employment funding and under the Cooperation Objective will receive funding under a further Peace & Reconciliation Programme, a cross-border programme with Ireland & Scotland and have access to transnational programmes for individual project funding. Measures will be put in place to ensure complementarity between the different EU funded Programmes and avoid duplication.

9. The plans set out in this ERDF Sustainable Competitiveness Programme provide additional support in key areas to enhance NI's competitiveness and promote sustainable growth and job creation. EU money and matching national resources will be targeted on increasing investment in research and technological development, promoting enterprise and entrepreneurship and creating a better climate for doing business in NI. Also, in line with NI's Anti-Poverty and Social Inclusion Strategy, the programme will help to overcome poverty, disadvantage and multiple deprivations in urban and rural areas across NI.
10. Another noteworthy requirement introduced by the General Regulation was the European Council's December 2005 decision that a minimum of 75% of EU Competitiveness & Employment spending in each Member State must be focused on designated activities to support the Lisbon Agenda i.e. to make the European economy the most dynamic and successful in the world by 2010.

11. The Sustainable Competitiveness Programme contains:
 - A detailed and a summary socio economic analysis of NI and a SWOT analysis pinpointing “Strengths, Weaknesses, Opportunities and Threats;
 - A summary of the national and EU policy contexts for the programme;
 - A description of the programme strategy, aims, objectives and Spending Priorities;
 - Arrangements for the delivery, management and evaluation of the programme; and
 - An indicative financial plan by Spending Priority.

12. In accordance with the EU General Regulation, an ex-ante evaluation has been undertaken for the Sustainable Competitiveness Programme. This evaluation was conducted on an iterative and independent basis by the NI Statistics and Research Agency (NISRA) throughout the development of the Programme. The purpose of the ex-ante evaluation is to review the development of the Programme to identify and appraise any disparities, gaps and potential for development and to ensure the coherence of the programme with EU strategic priorities. The ex-ante evaluation report for the programme is available on the Department of Finance and Personnel’s website www.dfpni.gov.uk.

13. An Equal Opportunities Impact Assessment screening and a Strategic Environmental Assessment screening were carried out on both draft programmes. In addition, a rural proofing exercise was carried out for each Programme and concluded that there are no negative implications. NI will also benefit from two EU-supported Programmes funded by the European Agriculture and Rural Development Fund (EARDF) and the European Fisheries Fund (EFF) and measures will be taken to ensure complementarity between the different Programmes and the avoidance of duplication

14. Finally, as required by the EU Regulations, the Government is committed to developing and delivering Structural Funds Programmes in partnership with

stakeholders. Partnership involves a wide range of organisations – including economic and social partners, local authorities and voluntary and community organisations – and NI public representatives and the European Commission. The Department of Finance and Personnel and other key NI Departments consulted with NI's political, social and economic representatives in the drawing up of the NI Chapter of the UK NSRF and took part in a number of consultation events across NI during the formal consultation on the draft UK NSRF.

15. In early 2006, a Consultative Partnership Group was established with a full range of partner interests to participate in the development of the two draft Competitiveness & Employment Programmes. The Group met on four occasions, and discussed and commented upon various drafts of the programmes. The final meeting of the Group was held on 16 April 2007 and agreed the outcome of the formal public consultation on the draft programmes which was launched on 20 December 2006 and closed on 14 March 2007. The replies received under the consultation and the NI responses are available on the Department of Finance and Personnel's website www.dfpni.gov.uk.
16. The outcome of this consultation process has informed the preparation of the Competitiveness and Employment Programmes, which will further the mutual UK and EU aims of creating a dynamic economy offering opportunities to all in NI while protecting and developing our environment and natural heritage for future generations.
17. These Programmes are part of the overall package of EU financial support for NI for the period 2007-13 which was announced by the President of the European Commission, Mr José Manuel Barroso during his visit to Belfast on 1 May 2007. The President came to Belfast to express the EU's support and encouragement to NI's new First Minister and Deputy First Minister in their work leading the NI Executive from 8 May 2007. In addition to the financial package for economic and social development, continued PEACE funding and inter-regional co-operation between NI, Ireland and Scotland, the

President announced a range of other support measures including the setting up of a special Commission Task Force for NI. The Task Force will provide expertise to assist us in identifying and exploiting opportunities for access to further EU funding streams and to promote better complementarity and synergies between the different EU policies and resources. The President's visit received widespread coverage in the media across NI.

EXECUTIVE SUMMARY: NORTHERN IRELANDS'S SUSTAINABLE ERDF COMPETITIVENESS PROGRAMME

1. The structure and content of the Programme is designed to meet the requirements set out in the relevant EU Regulations. This a relatively small EU Programme that is structured in Chapters as outlined below.

Chapter 1: Socio-Economic Analysis

2. Chapter 1 contains a summary of the Socio-Economic Analysis for NI setting out our Strengths, Weaknesses, Opportunities and Threats. This provides the basis for the determination of the strategy and choice of Priorities in the programme. A full version of the Socio-Economic Analysis is appended in Annex 4.

Chapter 2: Strategy and Justification of Spending Priorities for Regional/Economic Growth in NI

3. Chapter 2 sets out the strategy for the Programme and reflects both the EU Community Strategic Guidelines and domestic policy priorities within the UK's National Reform Programme (NRP), National Strategic Reference Framework (NSRF), and the Government's central economic aim to sustain high and stable levels of economic and employment growth. The strategy will develop and build on the elements of that overarching strategy that relates to NI's ERDF and ESF Competitiveness and Employment Programmes expenditure and how they will be operationalised to maximise added value within efficient delivery structures and proportionate administrative requirements. The choice of spending Priorities and the allocation of funding between them is justified by the needs and opportunities identified in the Socio-Economic Analysis and the potential for achieving the strategic aims and objectives of the Programme. The Programme will apply to all of NI to support balanced regional development and opportunities for all.

Strategic Aims

4. The strategic aim of NI's overall strategy for regional economic growth is to create a knowledge based, innovative and business friendly region with a highly skilled, flexible workforce generating a high quality of living, sustainable communities and lifetime opportunities for all throughout the entire region. It responds to the needs identified in the Socio-Economic Analysis and is closely aligned with the Lisbon Jobs and Growth Agenda with a minimum of 75% of expenditure in earmarked categories as required under EU Regulation 1083/2006. The strategy focuses on providing added value to the promotion of sustainable development including the long-term sustainability of the NI energy system, competitiveness and employment. It recognises that a healthy environment, a thriving economy, prosperity and quality of life are all inextricably linked. This Programme is not a stand-alone document: it concentrates the available EU Structural Funds in support of existing national initiatives pursuing the same aims and objectives. This is consistent with the EU's Community Strategic Guidelines specifying that all EU and national resources should be mobilised towards achieving the same aims and objectives. Full descriptions of NI's and the EU's relevant policies and how they will be implemented are set out in Chapter 2 which outlines the relevant UK and EU strategic documents which underpin this Programme.

Cross-Cutting Themes: Equality and Good Relations, Promoting Sustainable Development and Creating Sustainable Communities

5. Underpinning the Programme are the cross-cutting themes of the need for equality in accessing the Programmes, and the promotion of good relations (including good race relations) and sustainable development, and the creation of sustainable communities. These themes will act as strategic guidelines for those engaged in the implementation of the Programmes, to ensure that the activities to be funded are coherent, not only with the Programme Strategies but with Equality legislation and the wider aims and objectives of Government policy in NI – in particular, Section 75 of the NI Act 1998, the NI Sustainable Development Strategy, the Shared Future policy and the Anti-Poverty and Social Inclusion Strategy 'Lifetime Opportunities'.

6. Programmes Implementing provisions will ensure that Section 75 equality requirements are met, help build good relations (including good race relations and good community relations); tackle poverty and social exclusion; provide good quality employment opportunities and regenerate our urban and rural environments in order to successfully build sustainable inclusive communities.
7. Building on the successes and the lessons of the EU-supported NI Single Programme 1994-99 and the “Building Sustainable Prosperity Programme” 2000-06, the new ERDF Sustainable Competitiveness Programme will specifically focus on three inter-linked expenditure Priorities to concentrate EU and national resources on achieving the mutual EU and UK objectives. The delivery of this Programme will be streamlined and proportionate to the resources available. Every effort will be made to make the delivery of this Programme and the application process for potential project operators as simple and non-bureaucratic as possible while respecting UK national and EU audit and accounting requirements.

Chapter 3: Spending Priorities

8. Chapter 3 “Spending Priorities” provides details for each priority on the rationale, aims and objectives, the targets and indicators, target beneficiaries, as well as lists of indicative areas of activity to be funded. The lists of indicative activities are not exclusive, other activities may become relevant during the lifetime of the programme. The three main Priorities proposed, with indicative total budgetary allocations (EU and national), are as follows:
 - Sustainable Competitiveness and Innovation (320,000,000 euro);
 - Sustainable Enterprise and Entrepreneurship (210,000,000 euro); and
 - Improving accessibility and protecting and enhancing the environment (76,000,000 euro).

Technical Assistance

In addition, an amount of funds will be set aside for a fourth Priority “Technical Assistance” to help the implementation and management of the Programme (7,666,878 euro). The Structural Funds Regulations, in requiring Member States to undertake responsibilities to manage and implement EU Structural Funds Programmes, allow for technical assistance funds to finance a range of functions such as programme monitoring, evaluation and publicity. Hence, the financial allocation proposals for the Programme includes a small allocation for technical assistance as a separate priority.

Chapter 4: Programme Management and Implementation Arrangements, including Co-ordination with other Community Programmes and Technical Assistance Proposals

9. Chapter 4 sets out the Management and Implementation arrangements for the programme. Within the UK, the delivery of Regional Policy and EU Structural Funds Programmes is a devolved matter. The NI Administration, co-ordinated by the Department of Finance and Personnel and broadly fulfilling the Member State role as set out in Regulation 1083/2006, therefore takes full responsibility for all aspects of the preparation and delivery of the NI Structural Funds Programmes. Other NI departments and Implementation Bodies will, in line with their respective statutory remits, be accountable and responsible for the expenditure allocated to them for delivery. The same delegated authority arrangements that apply to all public expenditure in NI, will apply to EU Structural Funds expenditure. Accountable departments are responsible for ensuring that the necessary legal and DFP authorities for expenditure are in place and that the expenditure is applied only for the purpose intended. Departments are responsible for ensuring that the expenditure incurred complies fully with the requirements of both **Managing Public Money NI (MPMNI)** and with the EU Regulations governing expenditure under the Structural Funds. The Managing and Certifying Authorities for this programme will be the Department of Enterprise, Trade and Investment (DETI).

Chapter 5: Financial Tables

10. Chapter 5 includes tables showing the annual ERDF allocations to the Programme, the total amount of funding available, EU and National, by Priority and an indicative table showing the breakdown of expenditure by category relating to Lisbon 'earmarking'

11. **Annexes.**

There are four Annexes to the Programme

- Annex 1: SEA Determination
- Annex 2: EQIA – Screening
- Annex 3: Rural proofing Assessment
- Annex 4: Full ERDF Socio-Economic Analysis

Outcome of the Ex-ante Evaluation

12. The outcome of the independent ex-ante evaluation was positive in its support for the overall development of the Programme and principally in regard to key elements such as the determination of needs and the SWOT analysis, the choice of strategy and Spending Priorities, the indicative financial allocations and the implementation arrangements. The Report identified areas which could be clarified or where further information could be provided; earlier recommendations were taken on board during the development of the Programme and the final recommendations have been incorporated into the final version of the programme itself. Paragraph 2.86 in Chapter 2 sets out the main recommendations of the report and how they have been reflected in the Programme text.

Conclusions

13. The EU Budget Agreement reached under the UK Presidency in December 2005 recognised the need to extend EU Cohesion Policy across an enlarged EU. With this has come a re-direction of EU Structural Funds towards the

new Member States in recognition of their greater needs. This makes it more important than ever for NI to target its Structural Funds on areas where they are likely to have most impact.

14. The key challenges for NI are to expand the private sector, increase the level and quality of innovation and enterprise, improve our current infrastructure, and to help close the productivity gap with the rest of the UK by creating a better climate for doing business in NI and translating the results of research into commercial products and services.

15. The UK is committed to the overall EU Lisbon goals of mobilising EU and national resources to improve competitiveness and employment and we view this programme as an opportunity to help NI become a leading, knowledge-based region, with a high-quality of life and an attractive environment able to compete in a fast-changing, global economy.

Chapter 1: Summary Socio-Economic Analysis

(A full, detailed version of the Social-Economic Analysis is attached in Annex 4)

Introduction

This chapter provides a summary analysis of a general socio-economic overview of NI, and its strengths, weaknesses, opportunities and threats. The analysis provides the starting point for the choice of the strategy and priorities for the new ERDF Competitiveness Programme 2007-13 based on the needs and potential opportunities for growth in our region.

- 1.1 Northern Ireland (NI) is a region of the United Kingdom (UK) that operates in an island economy sharing a land border with Ireland. As a small open economy, NI cannot insulate itself from global economic developments. However, globalisation also presents a number of opportunities for domestic firms to take advantage of new markets.
- 1.2 Although NI is a relatively small region, there are a number of intra-regional disparities as identified in the full version of the socio-economic analysis. This Programme will apply to the whole of NI for the benefit of urban and rural communities alike.

Demography

- 1.3 NI's population is currently estimated at just over 1.7 million. The rural population is estimated at 588,651 (35% of total population) and the urban population is 1,096,616, or 65% of the total population. Between 2007 and 2013 the NI population is projected to increase by about 40,000 (2.3%). Longer-term projections suggest the population will peak around 1.86 million in the early 2030s and then start to fall gradually.
- 1.4 NI currently has a relatively youthful population, with 20.6% of the NI population aged less than 15 years compared with 18.0% of the UK population. NI also has a relatively youthful population compared to elsewhere in the EU. Comparative figures for the EU25 indicate that NI has the highest percentage of the population aged under 15 years, well above the EU25 average of 16.2% of the population.
- 1.5 A more youthful population is one of the factors that acts to increase the dependency rate of the local economy. This situation is unlikely to continue in the future, with NI's high dependency ratio expected to decline from 2011 as the currently youthful population moves into the working age population. This future increased supply of labour should impact positively on the economic growth of the region.

GVA and GVA per head

- 1.6 NI's Gross Value Added³ (GVA) has grown faster than any other region within the UK. In the early 1990s NI experienced much greater growth in GVA compared to the UK. The relatively higher growth rates during this time can be attributed to the fact that NI was spared many of the detrimental effects of the UK recession of the early 1990s. However, in the latter half of the period, NI's growth rates are much more in line with the UK. For example, the cumulative growth rate for NI and UK was 48.7% from 1996 to 2004.
- 1.7 Despite a higher than UK average GVA per head growth, the historic gap in regional performance continues to persist with only marginal convergence with the UK since 1990. In 1990, NI's GVA per head was 75 per cent of the UK. Currently NI's GVA per head lags behind the UK average by 20 per cent. There is considerable variation in GVA per head at NUTS III level across NI, with Belfast outperforming all other regions with GVA per head 183% of the NI Average. Within a European context, NI's GVA per head also lags slightly behind that of the EU25 average. In 2002, GVA per head was 92.6% of the EU25 average. However, it is well below UK and RoI levels, which show GVA per head of 17.8% and 32.7% above the EU25 average respectively.

Productivity

- 1.8 Productivity levels in NI, as measured by GVA per hour worked, are considerably lower than the UK average, with NI being the least productive region within the UK. Differences between NI and UK productivity rates partly reflect higher growth rates in hours worked and employee jobs, as well as differences in the composition of the local economy compared to other UK regions. NI continues to work longer hours on average and the gap between NI and UK is widening. Despite the increased growth in total hours worked in NI, its productivity relative to the UK continues to fall, indicating that GVA in NI has not grown in proportion to the rise in the total workforce hours worked in the region. This suggests that the recent employment growth has been primarily in low value added sectors.
- 1.9 The large differential in productivity between NI and the UK can be explained by examining the four key drivers:
- I. Innovation levels in NI;
 - II. Enterprise levels in NI;
 - III. Skills levels in NI; and
 - IV. Investment and Infrastructure.

Innovation and the Knowledge Economy (including R&TD)

- 1.10 The resources devoted to research and development (R&TD) within a region are an indicator of the degree of innovation in a region. In 2004 total expenditure on R&TD in NI amounted to £272.7 million. Expenditure by the

³ Gross Value Added is GDP less taxes plus subsidies.

Higher Education sector accounted for the highest proportion of R&TD expenditure, amounting to £136.1 million or 49.9% of total R&TD expenditure. Expenditure by businesses amounted to £124.3 million or 45.6% of total R&TD expenditure with the remainder accounted for by other government expenditure. NI has considerably lower levels of spending on R&TD as a % of GDP compared with the UK and the EU25. It is also well below the Lisbon Target of investing 3.0% of GDP in R&TD.

- 1.11 It is noted that the structure of NI business is an important factor in assessing its capacity to undertake R&TD expenditure. The lack of financial capacity amongst many NI firms is a growing issue in taking forward R&TD activities. In a tightening economic environment small businesses will be less likely to dedicate funding and resources to areas they may regard as non-essential, including R&TD. This represents a particular challenge for NI, as the private economy consists of a large number of small and very small businesses.

Enterprise & Entrepreneurship

- 1.12 The Global Entrepreneurship Monitor (GEM) provides a measure on entrepreneurial activity within a global context. Despite entrepreneurial activity in NI increasing, it still remains lower than in the UK. Within an international context, comparisons with the participating countries from the EU highlights that entrepreneurial activity in NI is higher than a number of EU member states, i.e., Belgium and the Netherlands. In an EU context, NI ranks alongside Finland and Italy in terms of entrepreneurial activity.
- 1.13 Evidence from the 2005 GEM report shows that the proportion of those involved in entrepreneurship in NI as a result of perceived opportunities is lower than in the UK. Although cultural support for entrepreneurship in NI is high relative to other UK regions, people in NI generally appear more negative about their own entrepreneurial capacity than their counterparts in the UK. Fear of debt and fear of failure are particular barriers and fewer people feel they have the skills to set up in business. This negative self perception is felt most strongly by women, the gap between female and male entrepreneurship is one of the widest in the UK.
- 1.14 Other key sectors with identified capability and growth opportunities in the NI economy include Health and Life Sciences, Food, Electronics, ICT, Energy and Environmental Technologies. These areas are currently the subject of a comprehensive capability study commissioned by the MATRIX panel. However, while there may be different initiatives launched by individual companies in specific sectors, there may not be a critical mass of a sufficient number of companies involved to justify special actions in favour of one area of activity.
- 1.15 Tourism is an important economic sector for NI, both in terms of the employment opportunities it provides and the revenue it generates as well as social and cultural benefits it offers. There has been an improvement in the

main tourism indicators in recent years. The Tourism sector offers specific growth opportunities for the future.

Human Capital, Skills and Employability

- 1.16 Across the UK substantial variations in educational achievement at school and university exist, although in most cases a strong performance at 16 is carried through to the percentage of the population with a degree or equivalent. NI has consistently been amongst the best regions in the UK in terms of educational performance at GCSE and A-level.
- 1.17 However, NI has a disproportionately high level of working age persons with no qualifications. Lower educational achievement amongst the older age groups in the workforce and migration from NI are likely to be significant factors in explaining this.

Infrastructure

- 1.18 In terms of technological infrastructure, NI has achieved 100% broadband availability, which is unique to Europe. Every household, business, school and library in NI will be able to access broadband regardless of location. The latest industry figures for 2006 show 230,000 broadband users within NI – up from 60,000 in 2004. Within the wider context, comparative broadband penetration rates show that NI is significantly below the rate for the UK and the EU15 average. It is currently only slightly below the rate for the EU25 average and is significantly above RoI rate of 4.4% of the population.
- 1.19 NI workers make significantly less use of public transport than their UK counterparts. In autumn 2004, 4% used the bus and only 0.8% travelled by train. The equivalent UK proportions were 7.6% and 3.9% respectively. It is widely acknowledged that NI has suffered from underinvestment in its public transport. NI compares unfavourably to levels of transport investment in England, Scotland and Wales.
- 1.20 Passenger numbers at NI's two main airports compare reasonably well with the rest of the UK. Belfast International passengers represented 2% of passengers at all UK airports in 2004, while Belfast City throughput represented 1% of UK passengers. This was an increase of 46% for Belfast International and 63.1% for Belfast City from 1999 figures, and represents increases in market share for both airports. This is reflective of the improvement of NI as both a tourist and business destination.

Structure of the NI Economy

- 1.21 NI has proportionately more employment in industries such as construction, agriculture and the public sector, which, on average, exhibit relatively low productivity levels. In addition, the type of service sector employment generated in NI tends to be lower value added in nature with a significant proportion of the employment growth in services being in the retail, wholesale,

hotels and restaurant sectors. Moreover, the proportion of people employed in the service sectors with high average valued added (transport, storage and communication, and real estate, renting and business activities) is appreciably below that of the UK as a whole. Figures show NI to be a small business economy with micro businesses (less than 10 employees) accounting for approximately 88.5% of the NI total. Of the 61,530 businesses classified as micro businesses, 36,300 (59%) employ at least 1 person.

Employment

- 1.22 NI has experienced a period of sustained growth in terms of employee jobs. From March 1990 to March 2006, employee jobs in NI have increased by 30.6% compared to 10.5% for the UK as a whole. Much of this increase is reflective of a growth in the services sector and the construction sector - increases of 48% and 35% respectively for NI compared with an increase of 27% and a slight decrease of 0.47% respectively for the UK. Growth in employee jobs within these industries have more than compensated for the reduction in employee jobs experienced within NI's manufacturing sectors. From March 1998 to March 2006, manufacturing jobs fell by almost 20% (107,690 to 86,180).
- 1.23 Within an international context, latest figures indicate that NI compares favourably with the EU25 and EU15. Using harmonised employment rates, based on a population aged between 15 – 64 years for both males and females for EU countries⁴, NI's employment rate is currently 66.6%. This is below the UK employment rate of 71.9% and the Republic of Ireland's rate of 68.8%, but 2.9 percentage points higher than the average EU25 employment rate (63.7%) and 1.5 percentage points above the EU15 rate (65.1%). NI's employment rate is currently above the Lisbon target of an employment rate of 65% by 2005, but below the Lisbon target of a 70% employment rate by 2010.
- 1.24 The public sector has a dominant role within the NI economy. In relation to employment, public services tend to be labour intensive – almost 31.1% of total employment is in the public sector compared to 20.1% in the UK as a whole. However, public sector employment as a percentage of the total population is broadly in line with the UK average. It is the unusually small private sector in the local economy that gives rise to the perception of a large public sector.
- 1.25 There has been an increase from 2000/01 in the number of migrant workers in NI⁵. Migration can have a number of economic benefits and can also pose challenges. For example the influx of foreign labour can be viewed as positive for the NI economy because migrant workers fill vacancies and bridge skills gaps, however, these increases also have implications for current and future educational provision and, in particular, in the area of language support classes.

⁴ This differs from the working age rates defined previously normally quoted for NI and the UK, which take account of both school leaving and state pension ages.

⁵ Measured by the number of non-UK nationals entering NI and allocated a NINo.

Unemployment & Inactivity

- 1.26 From Spring 1995 to Spring 2005 there has been a significant decrease in the number of people unemployed in NI: from 77,000 to 36,000. This decrease has continued to 35,000 (November – January 2007) representing an unemployment rate of 4.4% for males and 4.2% for females with the total unemployment rate for NI being 4.3%. NI currently has the second lowest rate of unemployment within the UK (South West – 4.0%). There are intra-regional variations within NI, in 2004 unemployment stood at only 3.2% in the East of the region whereas the rate was much higher in the North at 8.3%. Within a wider context, NI's unemployment rate is significantly below the EU25 average of 8.0% and the EU15 average of 7.4%.
- 1.27 In NI, 32.7% of the unemployed (11,000 persons) have been unemployed for 1 year or more. Indeed, much of the remaining unemployment is stubborn, long-term in nature and spatially concentrated, and this is combined with a high level of economic inactivity that also tends to be geographically concentrated. Long-term unemployment has declined considerably in NI. However, a similar trend has been experienced across the UK and, as a result; NI's relative position has altered little over the last decade. Within an international context, NI had much higher long-term unemployment rates relative to the RoI, Wales, Scotland and the UK over the period 2000-2004. In comparison with the EU25, NI had a lower long-term unemployment rate, and a similar rate to the EU15.
- 1.28 Economic inactivity remains a persistent problem within NI's labour market, which has been increasing over the last decade. For the quarter November – January 2007, the seasonally adjusted number of economically inactive persons was estimated at 534,000, down 5,000 over the quarter. The working age economic inactivity rate for NI is 26.9%. This is significantly higher than the UK average rate (21%) and is the highest of the twelve UK regions. Within a wider context, NI's inactivity rate is higher than the EU average (2006 Q3) by 4 percentage points.

Income and Earnings

- 1.29 Income per head in NI is substantially lower than the UK average. Gross disposable household income per head in NI (£10,988) is amongst the lowest in the UK regions, and 14% lower than the UK average (£12,840). This reflects NI's lower rates of economic activity, employment and its higher dependency rates relative to the UK.
- 1.30 The composition of household income differs substantially between NI and the rest of the UK. In 2004/05, 60% of NI's weekly household income was derived from wages and salaries. The comparable figure for the UK was 65%. However, this is largely offset by a higher level of self-employment income in NI, with 12% of weekly income being derived from the self-employed compared to 9% for the UK. Conversely, 11% of weekly household

income in NI was in the form of social security benefits compared to 7% for the UK as a whole.

- 1.31 NI continues to experience lower average earnings relative to the UK. The most recent data from the Annual Survey of Hours and Earnings (ASHE) 2006 indicates that median gross weekly earnings in NI were around 89% of the UK average for all employees. Comparable figures for the other UK regions indicate that, with the exception of the North East, NI had the lowest ranking median gross weekly earnings of all UK regions. Despite this, over the period 2005-2006, there has been a slight reduction in the earnings gap between the UK and NI.

Relative Consumer Prices

- 1.32 Figures produced by ONS suggest that relative consumer prices in NI are 4.2% lower than the UK average. These lower prices within NI predominately reflected lower property prices. However, recent data on house prices indicates that the average house price in NI is now £210,116 compared to the UK average of £184,924.
- 1.33 Despite this, there are a number of commodities in NI that are more expensive compared with the rest of the UK. Looking at goods and services across the regions of the UK, the cost of goods, and in particular necessity goods, such as food, fuel and motor expenditure are more expensive in NI relative to the UK. Specifically, food is 1.9% higher in NI, fuel is 12.6% higher and motor expenditure is 21.8% more expensive relative to the UK as a whole.

The Cost of Doing Business

- 1.34 Research on the cost of doing business in NI was recently published by the Economic Research Institute of NI (ERINI). The overall findings indicated that on balance business costs in NI are currently relatively competitive when compared to Great Britain and the Republic of Ireland.

Access and the Environment

- 1.35 NI has a rich and varied natural heritage, which includes habitats and species of international, national and local significance. NI has low levels of atmospheric pollution relative to other parts of the UK. It has a low concentration in sulphur dioxide and nitrogen dioxide emissions. The greatest concentrations of sulphur dioxide are in regions where manufacturing industries are more common. One of the main sources of nitrogen dioxide is road traffic, hence higher concentrations are found in heavily congested areas or major road networks.

North/South Co-operation

- 1.36 The two economies on the island of Ireland face common external threats and potential opportunities from globalisation, which, by working together, can be exploited to mutual advantage. The British and Irish Governments have placed a renewed focus on increased North South cooperation, which will deliver mutual benefits, particularly around the areas of trade and investment, energy, telecommunications, R&TD and skills. By working together in areas such as innovation, enterprise, infrastructure and the environment, we can further our development by utilizing economies of scale and maximizing trading opportunities.
- 1.37 NI can have a relative advantage by being part of a strong UK economy and by maximizing the trading opportunities within the island of Ireland. The proximity to the RoI and its position within the Eurozone means that many NI businesses are already trading successfully with their neighbours.

Conclusion

- 1.38 NI has a number of strengths, weaknesses, opportunities and threats, which are summarised in the SWOT analysis. This presents information on the main needs of the NI economy and its potential for growth.
- 1.39 The main challenges for NI are to improve upon innovation and enterprise levels, build on the current infrastructure, increase the employment rate for all groups in the labour market, reduce the high numbers of economically inactive and improve the skill and qualifications levels of existing employees as well as those seeking to enter employment, whether young people or those who are unemployed.
- 1.40 EU funding should be prioritised towards promoting R&TD expenditure by local businesses, improving enterprise performance to catch up with the best performing countries in Europe, raising the skills of the current workforce and encouraging take-up of recent advances in technological infrastructure. Improving the four key drivers of productivity will enable NI to become a more productive region and close the large differential that exists between NI and the rest of the UK.
- 1.41 In this way, NI will mobilise its share of the UK's allocation of EU Structural Funds under Competitiveness and Employment with national resources to help meet the Lisbon target of Europe becoming the most competitive, knowledge-based economy in the world by 2010.

Summary SWOT Analysis

<p><u>STRENGTHS</u></p> <ul style="list-style-type: none"> • Growing labour force pool of working age population. • Good performance of GVA & GVA per head. • NI HERD. • High business survival rates. • Inflow of young & well educated cadre of young people in workforce. • 100% broadband availability • Sustained growth in employee jobs. • Low rate of unemployment. • Rich and varied natural heritage. 	<p><u>WEAKNESSES</u></p> <ul style="list-style-type: none"> • NI is one of the most deprived areas of the UK. • NI is least productive region within UK. • Lower levels of R&TD spend. • Lower levels of entrepreneurial activity. • Lower levels of on-job training. • High proportions of workers with no qualifications. • Low working age employment rate. • High percentage of part-time jobs. • Relatively high LTU. • High economic inactivity rate. • High proportion of household income from benefits.
<p><u>OPPORTUNITIES</u></p> <ul style="list-style-type: none"> • From the restoration of Devolution. • Based on an increased labour pool as the currently youthful population moves into the working age population. • Relating to relatively higher levels of HERD. • To market NI as a vibrant tourism destination. • To attract foreign direct investment by being able to provide a pool of employees educated at graduate level. • From promoting the rich and varied natural heritage in NI. • For maximising North South co-operation opportunities. 	<p><u>THREATS</u></p> <ul style="list-style-type: none"> • Increased low cost competition from opening up of EU. • Gender segregation in entrepreneurship. • Need to create sufficient numbers of jobs and to have a labour force with appropriate skills. • Failure to deal with relatively high inactivity levels. • NI business costs expected to rise. • Potential risk to environmental sustainability.

Chapter 2: Strategy and Justification of Spending Priorities

Introduction

- 2.1 This Chapter sets out the strategy for the NI Sustainable Competitiveness and Employment Programme co-financed by the European Regional Development Fund 2007-13. NI's strategy reflects both the EU Community Strategic Guidelines (CSGs) and domestic policy priorities within the UK's National Reform Programme (NRP), National Strategic Reference Framework (NSRF), and the Government's central economic aim to sustain high and stable levels of economic and employment growth. The NI Chapter of the UK NSRF has already established the broad framework for spending EU Competitiveness and Employment Structural Funds in NI. This strategy develops and builds on the elements of that overarching strategy that relates to NI's ERDF Competitiveness Programme expenditure and how this will be operationalised to maximise added value within efficient delivery structures and proportionate administrative requirements appropriate to a relatively small EU structural funds Programme.
- 2.2 The EU CSGs clearly set out the principles governing the use of European Structural Funds in the Member States for the period 2007-13. All resources, National and Community, must be mobilised in a three dimensional approach, economic, social and environmental, to improve their synergies in a general context of sustainable development. The UK's NSRF and NRP specify how this will be done at UK level and this Programme describes how the EU funds in NI will be applied towards meeting that aim.
- 2.3 This strategy will build on the experiences and lessons learned from the current Building Sustainable Prosperity Programme as outlined in the mid-term Evaluation Report.

Strategic Framework Context

- 2.4 The strategic aim of NI's strategy for regional economic growth is to create a knowledge based, innovative and business friendly region with a highly skilled, flexible workforce generating a high quality of living, sustainable communities and lifetime opportunities for all throughout the entire region. The strategy is based on the Socio-Economic analysis in Chapter 1 and is supported by the recommendations of the independent ex-ante evaluation. It will focus on NI's contribution towards meeting the aims of the CSGs closely aligned with the Lisbon jobs and growth agenda. It will provide added value to the promotion of sustainable development competitiveness and employment. It recognises that a healthy environment, a thriving economy, prosperity and quality of life are all inextricably linked.
- 2.5 This is not a stand-alone Programme document: it will focus available EU Structural Funds in support of existing National initiatives pursuing the same aims and objectives as set out in the Community Strategic Guidelines. In particular, this ERDF co-financed Programme will work in tandem with NI's

ESF co-financed Programme, “Sustainable Employment” which will focus on improving the skills and educational levels of the workforce to enable individuals and businesses to take advantage of new opportunities and increase the numbers employed as a whole. Full descriptions of NI’s relevant policies and how they will be implemented are set out in a number of strategic documents which, in themselves are coherent with European-wide objectives as set out in a number of key EU documents which are also listed to illustrate the strategic context within which this ERDF Programme and its counterpart ESF Programme will be implemented. Both Programmes have been designed to ensure complementarity with existing and developing Regional, National and European objectives.

- 2.6 The UK’s National Strategic Reference Framework was approved by the European Commission on 30 July 2007. The NSRF identified three priority themes to benefit from the assistance of EU funds, Enterprise and Innovation, Skills and Employment, Environmental and Community Sustainability. These three themes have been chosen for the NI ERDF and ESF Competitiveness and Employment Programmes 2007-13. The strategy of the NSRF is fully reflected in the strategy of the NI Operational Programmes which provide the practical framework for identifying projects on the ground which will contribute to meeting the overall aims and objectives of the Community Strategic Guidelines, the National Strategic Reference Framework consistent with the UK National Reform Programme.

Strategic Context: UK Policy Documents

- 2.7 The Government’s strategy for economic development in NI is set out in its *Economic Vision for NI*⁶ published in February 2005. The strategy was drawn up in partnership with NI’s main social and economic organisations through the Economic Development Forum. It sets out how NI can become a high value-added, highly skilled, creative, innovative and enterprising economy, able to compete globally and to provide greater opportunities for employment and wealth creation. The framework emphasises the importance of improving competitiveness, removing barriers to employment and creating a larger, more dynamic private sector in order to increase productivity and living standards.
- 2.8 Further details of how the vision will be realised are outlined in the draft *Regional Economic Strategy* which was issued in January 2007. The Regional Economic Strategy has been constructed within the parameters of national economic policy and centres on raising productivity in the local economy. This is to be achieved by focusing on prioritising the four key drivers of productivity – infrastructure, enterprise, skills and innovation and R&TD. The Strategy also sets out interventions to tackle economic inactivity and improve the employment rate
- 2.9 It acknowledges that closer economic cooperation with the Republic of Ireland can deliver mutual benefits, which will help the local economy progress

⁶ *Economic Vision for NI* (www.detini.gov.uk/cgi-bin/downutildoc?id=936)

further. It stresses that the private sector must become more innovative and outward looking and there needs to be greater linkages with the universities to encourage and exploit commercial research and development opportunities. There also needs to be greater communication between businesses and the education sector to facilitate the improvement in skill levels of our workforce.

- 2.10 The *Investment Strategy for NI*⁷ launched in December 2005, pledges sustained Government investment in a modern public infrastructure in NI over a ten-year period between 2005 and 2015. It includes investment in public transport, roads, water and sewerage, and energy infrastructure to deliver economic returns and environmental benefits and reflects the need to ensure that the investment programme is based on the principles of sustainable development in general.
- 2.11 Published in June 2003, 'think|create|innovate' – the *Regional Innovation Strategy*⁸ (RIS) for NI aims 'to create a culture and environment in which NI will prosper by using its knowledge, skills and capacity to innovate'. Progress has been realised on a number of fronts including the development of research infrastructure to accelerate commercially focused research and development, technology transfer and stimulate the development of innovative and viable products and processes. The RIS has co-ordinated key players and stakeholders from business, government and academia in a series of measures aimed at improving the R&TD and innovation performance of the region. The RIS has just reached the end of its second action plan and has undergone an external evaluation to assess the extent to which it has delivered against its aims and objectives and made a positive difference to NI's R&TD and innovation system and infrastructure. The findings of this evaluation are currently being used to inform the development of new innovation policy framework for the NI region going forward.
- 2.12 The *Regional Development Strategy for NI 2025*⁹ published in September 2001 established a spatial planning framework for all public bodies undertaking development, in order to make the best use of key regional assets, deliver balanced and integrated development, address regional disparities and encourage more sustainable patterns of development. The strategy emphasises the importance of an integrated approach, which brings together economic, social and environmental policies.
- 2.13 The *Regional Transportation Strategy 2002-2012*¹⁰ published in July 2002 also emphasises the vital role of developing sustainable transport networks in order to facilitate economic development and improve quality of life. It provides a framework for developing these transport networks, which are crucial to the business community and the wider public, both in urban and rural areas.

⁷ *Investment Strategy for NI* (www.detini.gov.uk)

⁸ *Regional Innovation Strategy* (www.detini.gov.uk)

⁹ *Regional Development Strategy for NI 2025* (www.drdni.gov.uk/shapingourfuture).

¹⁰ *Regional Transportation Strategy 2002-2012* (www.drdni.gov.uk/rts)

- 2.14 The *NI Sustainable Development Strategy*¹¹ published in May 2006 outlines the Government's commitment to tackling the challenges of sustainable development and simultaneously securing a better future for the present generation and protecting the future for generations to come. It commits NI to becoming more resource efficient both in our production and consumption, to reducing waste and to looking more critically and imaginatively at how we generate and use energy. It emphasises the need to build sustainable communities founded on economic prosperity, attractive, healthy, high quality environments and greater community engagement and civic leadership.
- 2.15 NI Energy policy places targeted demand reduction and the development of renewable energy sources at its heart. It is also recognised as a major factor in environmental policy in terms of climate change and carbon reduction. In line with the overall climate agenda and the NI Sustainable Development Strategy, the Strategic Energy Framework¹², published in June 2004, places a firm emphasis on renewable energy generation and reduced environmental impact. The Environment and Renewable Energy Funding Package¹³ announced in February 2006 committed resources specifically to realise the aims of the Strategic Framework.
- 2.16 The Government has also concluded a fundamental review of NI's rural development policy to identify the economic, environmental and social needs of rural communities to establish the rationale for Government intervention and to assess the effectiveness of current policy and delivery mechanisms. The full decoupling of agricultural subsidies support from output, which began in 2005, enables farmers to make better informed production decisions based on market prices and demand. This makes larger scale diversification into the production of energy crops possible and could in the longer term result in higher farm incomes. After two separate periods of consultation during 2005 and 2006, *DARD's Rural Strategy 2007-2013*¹⁴ was published on 9 October 2006. The Strategy reflects the multifunctional role farming plays in the richness and diversity of landscapes, food products, renewable energy and cultural and natural heritage throughout NI. It has the overall theme of diversifying the rural economy and sustaining rural communities. The four key aims are: creating a Rural Champion; improving performance in the marketplace; conserving and investing in the rural environment; and strengthening the social and economic infrastructure of rural areas.
- 2.17 *The UK National Reform Programme*¹⁵ published in October 2005 includes a common contribution by the British and Irish Governments indicating that improved co-operation within Ireland, North and South, has an important role to play in helping to meet the Lisbon and Gothenburg objectives. Both NI and Ireland face common challenges from globalisation and mutual benefits can be secured through co-operation. Renewable Energy policy needs to be addressed within a well worked long-term strategy, which like all aspects of

¹¹ *Northern Ireland Sustainable Development Strategy* (www.doeni.gov.uk/epd/susdev.pdf)

¹² *Strategic Energy Framework* (www.detini.gov.uk)

¹³ *Environment and Renewable Energy Funding Package* (www.detini.gov.uk)

¹⁴ *DARD Rural Strategy 2007-2013* (www.dardni.gov.uk)

¹⁵ *The UK National Reform Programme is at:* www.dti.gov.uk/ewt/lisbon_reform.htm

energy in NI merits analysis in an all-island context. Department of Enterprise, Trade and Investment (DETI) and its Republic of Ireland (ROI) counterpart, the Department of Communication, Marine & Natural Resources (DCMNR) have conducted a major joint consultation on a year 2020 vision for renewable energy and its place in the all-island energy market.

- 2.18 “*A Shared Future*”¹⁶ policy and strategic framework for good relations was published in March 2005 which sets out the Government’s objectives for establishing over time a shared society based on partnership, equality and mutual respect. The policy provides a framework for addressing the human and economic cost of social division in NI and for shaping public policy and policy development, to improve relationships through explicitly promoting ‘sharing over separation’ and to enable trust to grow.
- 2.19 The Government’s “*Lifetime Opportunities*” *Anti-Poverty and Social Inclusion Strategy* for NI was launched on 13 November 2006. The goals of the strategy are to eliminate poverty and tackle inequalities and to provide everyone, children and young people, working adults and older citizens with opportunities to participate fully in the social and economic life of our community. To achieve the goals and targets set, the Government has made the strategy a key cross-cutting priority within the Comprehensive Spending Review. In addition, and in line with the UK’s commitment to the European Union in its report “*The UK National Action Plan for Social Inclusion*”, the UK and Irish governments will seek to co-operate and share best practice, and experience in tackling poverty and social exclusion affecting the quality of life in communities across the island of Ireland.

Strategic Context: Key EU Policy Documents

- 2.20 *Cohesion Policy in Support of Growth and Jobs: Community Strategic Guidelines, 2007-13* published by the EU Commission in July 2005 calling for Europe to renew the basis of its competitiveness, increase its growth potential and its productivity and strengthen social cohesion, placing the main emphasis on knowledge, innovation and the optimisation of human capital in an overall context of sustainable development. The Community Strategic Guidelines provided an overarching framework at European level on EU spending priorities best suited to achieving the Lisbon goals. Using the CSGs as the starting point Member States drew up their National Strategic Reference Framework which in the UK’s case, contained a separate chapter for NI. The UK NSRF and the NI Chapter in particular provided the basis for the development of both the ERDF and the ESF Competitiveness Programmes in NI. The clear links between this Programme and the overarching community policies are fully complemented by the national UK policies and initiatives outlined above which share the same vision and aims as the EU.
- 2.21 *The Seventh Framework Programme (FP7) “Taking European Research to the Forefront”* adopted in December 2006 groups the EU’s main instruments

¹⁶ *A Shared Future* (www.ofmdfmi.gov.uk/policy-strategic-framework-good-relations.pdf).

for funding research in Europe. Covering the period 2007-13 and with a budget of some 53 billion euro it is the biggest ever EU Research Programme and is a clear demonstration of the commitment to increase research spending within the EU from 2% to 3% by 2010.

- 2.22 *The Competitiveness and Innovation Framework Programme (2007-13)* within the Seventh Framework outlined above is one of a series of flagship EU Programmes designed to work in parallel and complement other major EU Programmes covering cohesion activities, research, technological development and lifelong learning. It provides an integrated response to the objectives of the renewed Lisbon strategy as set out in the Community Strategic Guidelines above. With a budget of some 3.6 billion euro for 2007-13, it represents a 60% increase in funding for this type of co-operation compared to the 2000-2006 period.
- 2.23 *Regions for Economic Change* launched in 2006 is an EU initiative to refocus two existing instruments of EU Regional Policy – Inter-regional Cooperation and Urban development – to provide a testing ground for economic modernisation and increased competitiveness. It will facilitate the exchange of best practice among all European regions and support the renewed Lisbon Agenda as set out in the Community Strategic Guidelines.
- 2.24 *Ten Priority Actions* to achieve a broad-based innovation strategy for the European Union is an EU Communication launched in September 2006 with the aim of presenting a broad-based innovation strategy for Europe that translates investments in knowledge into innovative products and services. The Communication proposes a 10 point programme for action to make the business environment more innovation-friendly and calls on Member States to co-ordinate their efforts in the fields of research, science and technology, innovation, education and industry.

EU Task Force for NI

- 2.25 The President of the European Commission Mr José Manuel Barroso visited Belfast on 7 May 2007 to express the EU's support and encouragement to NI's First Minister and Deputy First Minister on the setting up of the new NI Executive on 8 May 2007. As part of a package of measures designed to assist economic and social development in NI, President Barroso announced the formation of a special EU Commission Task Force to help NI maximise the benefits of EU membership and to promote the exchange of experience between NI and other EU regions.
- 2.26 The Task Force will assist in identifying and exploiting EU opportunities of relevance to NI in areas other than the Structural Funds but which will support the central objective of helping NI develop as a sustainable, knowledge-based economy over the current EU programming period 2007-13 in which NI has moved from Transitional Objective 1 status to a Competitiveness and Employment Region.

- 2.27 The authorities in Northern Ireland will seek to ensure that maximum synergies are achieved between the ERDF programme and other EU programmes, including possibilities to gain better access to finance via, for example, the Jeremie and Jessica initiatives that are run jointly with the European Investment Bank. The Commission Task Force established in 2007 will help the authorities to benefit from EU initiatives and policies the the outset of the programming period, notably by improving information on the different possibilities that exist in key policy fields for growth, employment and competitiveness.
- 2.28 Exchange of experience and networking also offer important opportunities for development and NI hopes to develop active partnerships and make a positive contribution to other regions using almost 20 years of EU experience related to the Structural Funds.

Choice of Strategy and Justification of Spending Priorities

- 2.29 *Priority 1: Sustainable Competitiveness and Innovation* will focus on research and knowledge transfer to companies. Long-term sustainable growth will depend on our ability to build up and exploit our innovation and research capacity. Innovation is a key economic driver and stems from the relationships between regional actors whether research bodies, SMEs, public bodies and financial providers. One of the main aims of this strategy will be to help build up a regional innovation system which will identify existing and potential sources of knowledge and expertise, build up networks to facilitate exchange of experiences and increase access to finance and promote better co-operation among regional actors.
- 2.30 The Socio-Economic analysis shows clearly that NI needs to increase investment in Research and Development, both public and private, and to promote a culture of entrepreneurship and enterprise if it is to achieve the strategic goal of an expanded private sector and the creation of more high-tech, knowledge-based companies offering high-quality employment opportunities for all.
- 2.31 Overall NI currently spends much less on R&TD (1.2% GDP) than the UK average (1.88% GDP) and is well below the EU average of 1.92%. NI would need to almost treble the amount of R&TD investment in order to meet the Lisbon target of 3% of GDP by 2010.
- 2.32 Business spend (BERD) on R&TD at approx 0.5% of GVA is the lowest in the UK. As well as citing high costs, smaller companies in particular do not see innovation related activity as part of their business planning and believe that R&TD support schemes could be better aligned with particular business needs.
- 2.33 The level of R&TD spend among the Higher Education sector is more positive and at 0.6% of GVA it is above the UK average of 0.4% of GVA. However, it is not clear that businesses are making enough use of the results of R&TD in the HE sector and translating those results into new products or services.

- 2.34 NI (14.3) compares favourably with other EU Member States and the EU average (12.3) when it comes to the number of science and technology graduates per 1,000 people but not when compared to the UK as a whole (21.0). This can partly be explained by the number of students who choose to study elsewhere than in NI but, encouragingly, this trend has been in decline over the past 10 years.
- 2.35 *Priority 2: Sustainable Entrepreneurship and Enterprise* will focus on the creation of new companies and improving the business climate. Fostering a climate of enterprise and entrepreneurship is crucial to achieving higher productivity. The Socio-Economic analysis specifically recognises that enterprise heightens competition within the market and provides an entry point for innovative techniques and technology.
- 2.36 NI's level of entrepreneurial activity is lower than that for the UK as a whole although it is compatible with other EU regions. Nevertheless, there is a negative perception, particularly among females, about our entrepreneurial capacity despite the fact that business survival rates here are much higher than the UK average.
- 2.37 The strategy will focus on actions designed to encourage entrepreneurship, build awareness among SMEs, create new business and promote networking to facilitate the exchange of experiences and help businesses to benefit from economies of scale.
- 2.38 The Socio-Economic analysis therefore shows that a cultural shift towards entrepreneurship and enterprise is required as well as efforts to improve the business environment enabling companies to flourish to incorporate innovation and to take advantage of the results of R&TD to create new growth opportunities.
- 2.39 The Socio-Economic analysis has identified Tourism as a specific growth sector in NI. There has been a marked improvement in the main tourism-related indicators in recent years. The NI Tourist Board has published a strategic plan "Growing the future for Tourism" which demonstrates how important the industry is for the NI economy and sets out a vision to increase the numbers of visitors and tourist revenue and help create opportunities for new businesses in NI. Tourism is one of the sectors that has benefited from closer North/South co-operation with Ireland.
- 2.40 *Priority 3: Improving Accessibility and protecting and enhancing the environment* will focus on energy and telecoms and promote the concept of sustainable development and building sustainable communities. NI is the first region in the UK to achieve 100% broadband coverage and we will seek to build on that competitive advantage by increasing available speed and bringing NI up to the level of other European regions in the delivery of next-generation broadband.

- 2.41 NI recognises that a thriving economy and an attractive environment are inter-linked and that development must be sustainable and provide lasting benefits for the entire region. The Socio-economic analysis shows that there is an infrastructure deficit between NI and the rest of the UK but also highlights the positive aspects of our physical and cultural heritage. Accordingly, as well as investing in research and enterprise, this Programme will examine ways of protecting and enhancing our environment and finding innovative approaches to issues such as waste management, transport, air and water quality and biodiversity.
- 2.42 Based on the needs of the region and potential opportunities identified in the Socio-Economic analysis [and supported by the ex-ante evaluation] the strategy for this Programme will focus on a limited number of priority actions to achieve a step-change in NI's competitiveness and contribute to developing the region into a more dynamic, knowledge-based economy.
- 2.43 The three main Spending Priorities and the proposed allocation of EU resources between them are:
1. Sustainable Competitiveness and Innovation €160,000,000
 2. Sustainable Enterprise and Entrepreneurship €105,000,000
 3. Improving Accessibility and Protecting and Enhancing the Environment €38,000,000
- 2.44 The choice of these Priorities is justified by the results of the Socio-Economic analysis of the region, the UK and EU strategic policy context, the amount of EU resources allocated to NI and the need for a streamlined delivery structure proportionate to the resources available.
- 2.45 The balance of funding allocated to each of the three main priorities has been determined on the basis of need, the potential to achieve the strategic aims and objectives of the Programme and the requirements to earmark categories of expenditure deemed compatible with the Lisbon objectives as set out in EU Regulation 1083/2006. Approximately 85% of the proposed expenditure falls into the required categories which is higher than the overall EU target of 75% for the eligible regions involved in the Member States concerned ie EU 15. This demonstrates NI's support for the Lisbon agenda and our intention to use this Programme to achieve a step change in our competitiveness and incorporate innovation in both the public and private sectors to further our strategic aims.
- 2.46 The choice of strategy and Priorities as well as the proposed funding allocations are supported by the outcome of the ex-ante evaluation.

Strategic Objective: A More Competitive and Sustainable NI

- 2.47 The strategic objective of NI's ERDF Competitiveness Programme 2007-13 is to help create a more competitive and sustainable NI and specifically, to contribute to closing the productivity gap with the UK. The whole of NI will be eligible for funding under the Competitiveness and Employment Objective for the 2007-2013 period. It will be targeted through the concentration of resources on activities that are most directly related to the CSGs and to the realisation of the Economic Vision and other policies aimed at securing a step-change in our sustainable competitiveness.
- 2.48 The promotion of innovation and sustainable enterprise activities will be the top priority for the Programme. It will make businesses and potential entrepreneurs aware of the need to create and to innovate and will encourage better links between companies (especially SMEs) and research bodies. It will improve the overall climate for business creation and expansion and stimulate entrepreneurship and risk-taking. The benefits of increased commercialisation will encourage more business start-ups and help to expand the private sector in NI. Support for R&TD, will be tailored to the needs of various businesses and promote technology collaboration and knowledge transfer. To encourage the business sector to take advantage of the new and emerging opportunities, small-scale local infrastructure investments will be made to improve accessibility, to reduce costs and to protect and enhance the natural environment.
- 2.49 All activities will be consistent with NI's own policies as outlined in the strategic policy documents listed above, to improve our performance towards meeting Lisbon jobs and growth targets as well as the need to promote sustainable development coherent with EU policies and objectives.

Spatial Cohesion

- 2.50 All areas of NI will be eligible to benefit from the Programme which is intended to raise the competitiveness of the region as a whole and promote the strengths of urban and rural areas alike across the entire region.

Cross-Cutting Themes

- 2.51 Underpinning the three key expenditure areas are the cross-cutting themes of equality and good relations, and promoting sustainable development and the creation of sustainable communities. These themes will act as Strategic guidelines for those engaged in the implementation of the Programme to ensure that the activities to be funded are coherent not only with the ERDF Programme Strategy in itself, but with the wider aims and objectives of Government policy in NI.

Equality of Opportunity and Good Relations

2.52 In accordance with Article 16 of the EU General Regulation 1083/2006 and Section 75 of the NI Act 1998, the Programme is required to have due regard to the need to promote equality of opportunity:

- between persons of different religious belief, political opinion, racial group, age, marital status or sexual orientation;
- between men and women generally;
- between persons with a disability and person without;
- between persons with dependants and persons without;

and without prejudice to the above, to have regard to the desirability of promoting good relations between persons of different religious beliefs, political opinion or racial group. The Programme was subject to an Equality Impact Assessment Screening in line with departmental procedures. The screening information was based on high level impact assessments provided by Departments. The exercise concluded that the Programme will have only positive neutral effects and that a full Impact Assessment is not necessary – see [Annex 2](#).

Lessons learned

2.53 Equality has been mainstreamed into the ERDF Competitiveness Programme. Equality considerations are required at every stage; it is integrated into the programme design and development, through application for structural fund support to selection, monitoring and evaluation. All eligible applicants for EU support will be afforded equal opportunities to access funding. Equality of participation in the Programme Monitoring Committee, working groups and selection panels shall be encouraged in accordance with the provisions of the regulations.

2.54 The Mainstream Equality Working Group established under the Community Support Framework 2000-2006 had a task to monitor and advise the Monitoring Committees on equality issues. From the outset, the group found that monitoring information was not readily available so new arrangements were put in place to collect individual Section 75 data from project beneficiaries. Although the confidential equality monitoring questionnaire went some way in solving the lack of data for reporting purposes there were some fundamental problems. As a result, the working group commissioned research into ways of assessing the impact of EU Structural Funds on NI Section 75 Groups.

2.55 The following recommendations were made for consideration in the development of the programmes 2007-2013 programmes.

- Prior to the commencement of new programmes, clear and concise guidance should be provided to implementing bodies on how to report on equality matters for projects that are not training related.

- Equality principle should become more central in the selection process.
- In relation to the equality monitoring questionnaire a number of issues need to be addressed:
 - detailed guidance on the use of the equality monitoring questionnaire should be prepared and issued to all implementing bodies;
 - closer monitoring of return rates; and
 - more feed back on the monitoring data to be provided to implementing bodies.

In addition to the above, the working group also issued a new equality guide for use by groups applying for funding, selection panels which assess project applications and for implementing bodies responsible for distributing EU Structural Funds. This guide will be updated with the recommendations and incorporated into the 2007-2013 Structural Funds Competitiveness and Employment Manual.

Implementation of Equality

2.56 The need to ensure that Section 75 equality requirements are met will be built into the Programmes Implementation structures at all levels. DFP in its capacity as Member State will prepare and issue guidance for the Managing Authorities and all Implementing Bodies. This will build on the experience of the implementation of the BSP Programme for 2000-06. It will also reflect best practice as outlined by the Equality Commission in their current consultation exercise and will be updated as this work is finalized. The new PMC will be invited to form an Equality Working Group to oversee this aspect of Programme delivery. This Working Group will consider the need for a full EQIA study and will commission this study if considered necessary. Irrespective of that Accountable Departments will include their expenditure under the EU Programmes as part of their Departmental Equality Schemes.

Promoting Sustainable Development and Creating Sustainable Communities

2.57 The ERDF Competitiveness Strategy will be targeted and implemented in a manner that promotes sustainable development and creates sustainable communities. Respecting the environment is one of the key principles of the NI Sustainable Development Strategy and in seeking to create a strong and stable economy, we must, above all, make sure it is a sustainable economy by becoming more resource-efficient and reduce the amount we waste. In this way, we will improve business competitiveness, stimulate innovation, create new markets and encourage sustainable product design and processes. NI has the potential to develop renewable energy sources and to come up with innovative ideas and new technologies in this field and this Programme will explore ways of doing so that have not yet been tried in NI.

2.58 However, Sustainable Development is not just about climate change and the environment, primarily it is about people and the communities we live and

work in. Sustainable development is about ensuring a better quality of life for everyone and reducing the inequalities that exist across our society. Often those people who are most economically and socially disadvantaged also live in the most degraded environments with fewer jobs, unsafe and unattractive streets. The disparity has been exacerbated by decades of sectarian conflict, which has divided communities at a time when they should be uniting to face the bigger challenges of the future. Similarly there are inequalities in employment between urban and rural areas and between the more deprived and more affluent sectors of our society.

2.59 The challenge therefore is to build good relations (including good race relations) and community relations; tackle poverty and social exclusion; provide good quality employment opportunities and regenerate our urban and rural environments in order to successfully build sustainable communities. The government has outlined its commitment to meeting this challenge in the Anti-Poverty and Social Inclusion Strategy “Lifetime Opportunities” which is a cross-cutting priority for all NI spending plans, including this Programme.

2.60 The ERDF Competitiveness Programme will therefore observe the six guiding priorities of the NI Sustainable Development Strategy:

(i) *Living within environment limits*

Respecting the limits of the planet’s environment, resources and biodiversity – to improve our environment and ensure that the natural resources needed for life are unimpaired and remain so for future generations.

(ii) *Ensuring a strong, healthy and just society*

Meeting the diverse needs of all people in existing and future communities, promoting personal well-being, social cohesion and inclusion, and creating equal opportunity for all.

(iii) *Achieving a sustainable economy*

Building a strong, stable and sustainable economy that provides prosperity and opportunities for all, in which environmental and social costs fall on those who impose them (polluter pays) and efficient resource use is incentivised.

(iv) *Promoting good governance*

Actively promoting effective, participative systems of governance in all levels of society – engaging people’s creativity, energy and diversity.

(v) *Using sound science responsibly*

Ensuring policy is developed and implemented on the basis of strong scientific evidence, whilst taking into account scientific uncertainty as well as public attitudes and values.

(vi) *Promoting opportunity and innovation*

Innovation is the successful exploitation of new ideas; incorporating new technologies, design and best practice. Opportunities lie in the

development of new markets in environmental technologies and other sustainable development related areas/fields.

Strategic Environmental Assessment (SEA)

- 2.61 A preliminary screening exercise was carried out to determine whether a full Strategic Environmental Assessment of the Programme was necessary. In the event that Major Projects are to be co-funded, the necessary environmental assessments will be carried out. The outcome of the screening exercise which has been agreed by the responsible environmental authority – the Department of the Environment for NI, was that a full SEA is not necessary for this Programme as it focuses mainly on operations related to R&TD, entrepreneurship and protecting and enhancing the environment and a determination to that effect is appended in Annex 1.
- 2.62 However, in view of the fact that certain projects which may be included in the Programme in the future might have an environmental impact, N. Ireland informed the EU that it would conduct a full Strategic Environmental Assessment and a draft SEA report was issued for public consultation on 16th April 2007 and closed on 9th July 2007. There was only 1 response to the consultation from the many organisations consulted. The response to the consultation will be published on the Department of Finance and Personnel website.
- 2.63 The SEA Directive requires monitoring to identify unforeseen adverse effects to enable appropriate remedial action to be taken. As climate has been identified as having a potential negative effect, greenhouse gas emissions within NI will be monitored under the NI Sustainable Development Strategy. The Strategy identifies key targets such as the reduction of greenhouse gas emissions (reduce by 25% below 1990 levels by 2025), to make the Government estate carbon neutral by 2015, to reduce electricity consumption by 1% annually from 2007 to 2012 and to increase the amount of electricity obtained from indigenous renewable energy sources.

Implementation of Sustainable Development

- 2.64 As a cross cutting theme sustainable development will be integrated at all levels of implementation of the programme. Steps have been taken by Government to integrate the three pillars of the NI Sustainable Strategy within key Government policies, which this programme supports, such as the Economic Vision of NI and the Regional Development Strategy ‘Shaping our Future.’ Specific activities funded under the programme will augment and support the six guiding principles detailed above.
- 2.65 The Sustainable Development Strategy adopted by the European Council on 15-16 June 2006 urges Member States and the European Commission to work together to promote synergies between the EU Structural Funds Programmes and other sources of EU financing mechanisms such as LIFE and the 7th Framework Research and Development Programme and the Competitiveness and Innovation Programme. NI will actively seek to pursue

this approach and views the special Commission Task Force for NI as a good opportunity to identify complementarity between different EU and national Programmes.

- 2.66 Funding will be conditional on projects complying with the requirements of both EU directives and national legislation, so as to safeguard or enhance sustainable development in NI. In enhancing sustainable communities whereby giving the people of NI more say in the decisions that affect them it will be for the Monitoring Committee members to determine and agree the selection criteria for funding projects. This partnership will follow through to monitoring performance.
- 2.67 A fundamental aspect for this programme will be the acceptance and implementation of comments arising from the public consultation of the Sustainable Environmental Assessment report. The Working Group established under the Community Support Framework (CSF) 2000 -2006 will be re-convened to take this forward.
- 2.68 NI is represented on the UK Environment and Structural Funds Groups (ESFs) and may liaise with the Irish Environment Co-ordinating Committee (ECC) on issues affecting the entire island of Ireland.

Lessons learned from the 2000-2006 EU funded programmes

- 2.69 The Mid-term Evaluation of the programmes under the CSF raised a number of questions in relation to the Developmental Path Analysis (DPA), a tool adopted by the Managing Authorities to monitor environmental impact of the programmes. As a result the CSF Environment Working Group commissioned research to uncover how the horizontal principle of environmental sustainability was being interpreted and implemented. As a result of the research a number of recommendations were implemented in particular DPA advice and training.
- 2.70 One of the many strengths of DPA is that it focuses people to think about transforming the way we behave, it encourages people to do more than meet minimum regulations; it can encourage people to undertake activities that will do more to protect and enhance the environment at the same time as they contribute to economic development and enhancing competitiveness and employment. For this programme DPA scores will help to inform the selection panel in the award of funding.

Lisbon Earmarking Competitiveness and Employment

- 2.71 At least 75% of all Member States' Competitiveness and Employment Programme's expenditure must be set aside for activities deemed compatible with the Lisbon priorities of promoting competitiveness and employment. The relevant categories of expenditure are listed in Annex IV of the General Regulation 1083/2006. The relevant table in Chapter 5 now indicates that approx 85% of proposed expenditure within their Programme falls within the relevant categories. The Special EU Commission Task Force for NI set up by

President Barroso on 1 May 2007 will help NI identify potential opportunities under these initiatives.

Urban/Rural Complementarity and Demarcation

- 2.72 EU regulations governing the European Fisheries Fund (EFF), the European Agricultural Fund for Regional Development (EAFRD) and Structural Funds specify that the respective strategies and operational programmes must set out how the different funding streams will complement each other. In NI, the Managing Authority for the EFF and the EAFRD is the Department of Agriculture and Rural Development (DARD).
- 2.73 The NI Rural Development Programme (NIRDP) was approved by the EU Commission on 24 July 2007. The NIRDP sets out in detail how it will complement/avoid duplication with other policy instruments and Programmes including the ERDF and ESF Competitiveness and Employment Programmes.
- 2.74 While there is some potential for mutual funding throughout all the programmes, generally speaking and subject of course to final confirmation, the main areas for consideration in relation to demarcation and complementarity are as follows:
- Improving the competitiveness of the agricultural and forestry sectors
 - Improving the environment and the countryside
 - Improving the quality of life in rural areas
 - Increase diversification of the rural economy

ERDF C&E / NIRDP

- 2.75 There is a substantial difference with regard to the available EU funding for the ERDF Programme, €306 million while the EAFRD Programme has an EU contribution of €170 million. Even with substantial national co-financing the Rural Development Programme will be much smaller than the ERDF Competitiveness Programme. The immediate impact of this is that the ERDF Programme can be more ambitious in terms of the scale of its interventions which will in general comprise generic NI wide interventions. The EAFRD will be focussed on the farming and agri-food sector and rural communities with much of the support at individual farm, business or village area. The ERDF Programme has different objectives with regard to NI wide sustainable enterprise and innovation particularly targeting SMEs.
- 2.76 Priority 1 of the ERDF Programme will focus on support for increased participation in research and development thus embedding a creative and innovative ethos in the NI manufacturing and services sector. This will help to ensure that particularly SMEs realise the benefits of expenditure on innovation, RTD and design. e.g. Research into agri-food technologies will be supported. As the EAFRD Programme does not support research or provide other support for R&TD, there is no scope here for overlap. However the EAFRD Programme does support agri-food businesses and farmers who wish

to introduce new technologies demonstrating a clear complementarity with the ERDF Programme.

- 2.77 Priority 2, however, has scope to overlap both with Axis 1 and Axis 3 of the EAFRD Programme. While marketing support is common to both Programmes, under the ERDF Programme, marketing support is targeted on non agricultural sectors. The area of business creation and support is also common to both Axis 3 and Priority 2. However, the ERDF Programme will provide the business creation infrastructure ensuring access to services while the EAFRD will provide grant aid towards capital and resources costs at individual business level. This is another way in which the two Programmes will work together in a complementary fashion.
- 2.78 Axis 3 in the EAFRD Programme is delivered by the LEADER method and there will be clear separation of instruments at the local level to ensure no overlap between ERDF funds and EAFRD funds.
- 2.79 Priority 3 includes actions supporting renewable energy. These will be large scale interventions such as supporting research into the capacity for renewable energy as a fuel for electricity with the aim of enhancing the long term stability of the NI energy system. In contrast the EAFRD could only support small scale renewable energy projects coming forward under Axis 3.
- 2.80 To ensure that there is no duplication of resources but at the same time, that there is full complementarity in the activities supported. The following table displays an analysis of how the ERDF and ESF Competitiveness and Employment Programmes will complement the NIRDP and the NI section of the UK's European Fisheries Fund Programme and avoid duplication.

Complementarity between Competitiveness and Employment Programmes, EAFRD and EFF for 2007-13				
ERDF Sustainable Competitiveness	ESF Employment Programme	NI RDP AXIS	EAFRD interventions	EFF
Priority 1: Increasing investment in research and technological development and promoting innovation				
Assistance given to businesses to allow investment in training and development	Training provided as part of the NI employment strategy to assist people into sustained employment and improve workforce skills	1: Improving the competitiveness of the agricultural and forestry sector	Vocational training targeted at members of the farm household and linked to knowledge transfer in the agriculture, horticulture and agri-food sectors	Training limited to fisheries and aquaculture sectors
Support provided for processing and marketing for non agricultural, agri-food (except annex 1 into annex 1 and annex 1 into non annex 1), forestry, fishing and aquaculture enterprises (except micro businesses in rural areas.		1: Improving the competitiveness of the agricultural and forestry sector	Support provided to processing and marketing of annex 1 products and forestry products into annex 1 or non annex1 products	Support provided only to processing and marketing within the fisheries sector
Support for research into innovative agri-food technologies		1: Improving the competitiveness of the agricultural and forestry sector	The only research supported will be Market Research. Support will be provided for the application of new technologies.	
Priority 2: Sustainable enterprise and entrepreneurship				
Business supply chain expansion will be targeted at new firms other than primary producers of agricultural products.		1: Improving the competitiveness of the agricultural and forestry sector	Supply chain development is targeted at primary producers	
Larger scale capital tourism projects will be supported except those in rural areas that meet EAFRD eligibility.		3: The quality of life in rural Areas and diversification of the rural economy	Creation of tourism and service industries and adding value to the tourist product in rural areas with a maximum grant aid of 200,000 euro to private	

Complementarity between Competitiveness and Employment Programmes, EAFRD and EFF for 2007-13				
ERDF Sustainable Competitiveness	ESF Employment Programme	NI RDP AXIS	EAFRD interventions	EFF
			business and £250,000 to public/community sector.	
Provision of business start-up infrastructure. Assistance given to businesses to allow investment in training and development		3: The quality of life in rural Areas and diversification of the rural economy	Business creation and business support for micro businesses (as per Commission Recommendation 2003.361.EC) and support for farm diversification projects on-farm through the provision of grants for capital and resource costs	
Local Councils will take forward a locally driven economic and enterprise development component seeking to develop imaginative local solutions to local environmental and access issues.		4: LEADER	All axis 3 measure will be delivered using the LEADER methodology. Demarcation criteria will be established between the plans of the Local Action Groups and other actions funded by the Community as identified for the measures in Axis 3 above. In order that the LEADER approach is respected, criteria will established to ensure that ERDF support does not overlap with EAFRD support whilst ensuring that LAGs still have responsibility for innovative actions. All LAGs will work closely with local councils to ensure that rural economic development under the	

Complementarity between Competitiveness and Employment Programmes, EAFRD and EFF for 2007-13				
ERDF Sustainable Competitiveness	ESF Employment Programme	NI RDP AXIS	EAFRD interventions	EFF
			EAFRD and ERDF is complementary.	
Priority 3: Improving accessibility and protecting and enhancing the environment.				
Large scale renewable energy programmes will be supported (except short rotation coppice on farm)		3: The quality of life in rural Areas and diversification of the rural economy	Establishment on farm of short rotation coppice for energy use. (see further energy support under Axis 3	
Promotion of knowledge of biodiversity of the region, including identification and promotion of protected landscapes.		2: Improving the Environment and the Countryside	Less favoured areas scheme is targeted on Farmers with breeding herds Agri-environment schemes are targeted on land mangers and will include actions to maintain and enhance biodiversity. First afforestation and improvement of the forest environment is targeted at landowners.	Promotion of adoption of fuel efficient methods of fishing. Promoting sustainable fishing practices
Larger scale renewable energy programmes will be supported outside of the scope of EAFRD. Research into renewable energies as an electricity resource		3: The quality of life in rural Areas and diversification of the rural economy	Small scale renewable energy projects at the level of the farm or communities of less than 4,500 population.	

- 2.81 Each Programme Monitoring Committee will include representatives from the other Monitoring Committees with the express remit of ensuring that the actions under each programme complement each other and that there is no scope for duplication.
- 2.82 Local Councils will be developing community plans under the enterprise strategy in the ERDF programme. The Local Action Groups delivering AXIS 3 will work closely with each local council, thus ensuring delineation at the project level. Criteria will be established to ensure that support for actions under ERDF groups will not be provided under EAFRD. However, LAGs will still retain ability to be innovative

Access to Finance

- 2.83 The NI Administration welcomes the European Commission's JESSICA and JEREMIE initiatives¹⁷. Both of these initiatives are operated jointly between the European Commission (DG REGIO), the European Investment Bank (EIB) and the European Investment Fund (EIF), and open up options for lending facilities, run by an arm of the EIB for urban development and for micro and small business finance, respectively. The JEREMIE facility is intended to facilitate additional financial products specifically engineered for micro, small and medium-sized enterprises. The UK is participating in a scoping exercise, carried out by the EIF, which will make recommendations for any future engagement. Future take-up of the Programme is optional and will be considered at that time. JESSICA is again a joint initiative of the institutions listed above and is designed to offer loans for urban development. The UK is awaiting further information before making any decisions on whether to participate. The facility is again optional. The potential for NI to benefit from Jessica and Jeremie will be one of the areas to be explored through the EU Commission Task Force on NI.

Partnership

- 2.84 This Programme has been developed by DFP, DETI, DEL, DARD, DRD, DSD and other government departments in partnership with a wide range of regional actors from the public and private sectors. A Consultative Partnership Group was set up in early 2006 with partners representing business and trade unions, research and education, the voluntary and community sector, local government, environmental, equality interests, the Agri-rural Forum and urban concerns. In addition, a series of public events and seminars was organised throughout 2006 at venues across NI as well as meetings with specific groups such as local government representatives and the NI Members of the European Parliament. Draft versions of both the ERDF and the ESF Competitiveness and Employment Programmes were issued for public consultation on 20th December 2006. The Consultation closed on 14th March 2007 and copies of the 54 written replies and the Government

¹⁷ European Commission's JEREMIE and JESSICA initiatives:
<http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/06/219&format=HTML&aged=0&language=EN&guiLanguage=en>

Response is available on the Department of Finance and Personnel's website www.dfpni.gov.uk. The draft Programmes have both been amended as a result of the consultation.

Ex-Ante Evaluation

2.85 The Programme has been subject to an ongoing ex-ante evaluation carried out by NISRA to ensure that it responds to identified socio-economic needs and reflects national and European priorities and policies. The ex-ante evaluation was an interactive process between the evaluators, NISRA, and the Programme developers with the aim of producing a high-quality Programme for NI that addresses our specific needs within the European context of improving competitiveness and creating more and better jobs. The ex-ante final report was submitted to the Department of Finance & Personnel on 24 April 2007. The outcome of the Report was positive in its support for the development of the draft Programme and acknowledged that most of the evaluation's recommendations had been taken into account. Some further work is required on the development of indicators included in Chapter 3 and will be incorporated in the final version of the Programme. The Report endorsed the strategy and proposed Spending Priorities in the programme and the fact that they are coherent with NI's needs as set out in the Socio-Economic analysis and SWOT analysis.

2.86 The main recommendations of the ex-ante report and the response thereto are summarised as follows:

Ex Ante Evaluation: Main recommendations	Programme Developers Response
<u>Socio-economic and SWOT analysis</u>	
A number of iterations and versions of the analyses were commented on and various recommendations made.	These were mostly taken on board.
However, as the analysis is very detailed it is recommended that a summary version containing the main points is included in the main chapter in the Operational Programme and the detailed analysis is included as an annex for completeness.	A summary analysis is included in Chapter 1 and the full version is included in Annex 4.
<u>Assessment of Strategy</u>	
It is recommended that the text in Chapter 2 contains some detail from the socioeconomic analysis to provide the context for the rationale behind the chosen strategic focus.	The Section "Choice of Strategy and Justification of Spending Priorities" in Chapter 2 was expanded to refer to the SE analysis.
it is also recommended that clear links are established for the identified key national/regional policies with a similar strategic focus to that of the ERDF Programme.	The Section "Strategic Framework Context" and "Strategic Context: UK policy documents" were included in Chapter 2.
The detail of the relationship between the ERDF strategy and the NSRF as well as the CSGs is not clearly defined and the text would benefit from the inclusion of further detail.	The introduction to Chapter 2 clearly states that the ERDF strategy will support the aims and objectives of the EUCSGs and as set out in more detail in the UK NSRF. Paragraph 2.18 has been expanded to better illustrate the links

	between the high-level framework documents and this strategic Programme.
<u>Assessment of the Funding Proposals</u>	
The 3 priorities of the programme are clearly consistent with the strategy for the programme but their rationale requires further detail from the socioeconomic analysis, the relationship with European Policy and how the objectives are going to be achieved.	The rationale for each Priority was redrafted to take account of these points.
The priorities would benefit from the inclusion of further detail regarding how their interventions are going to complement those in the ESF Programme in order to demonstrate the complementarity of the C&E approach in NI.	Complementarity with the ESF Programme and other EU and national Programmes is outlined at the strategic level in Chapter 2: this can be further developed at priority level during the implementation of the Programmes.
Although some further detail regarding the specific nature of the likely supported activities would demonstrate further the relevance of the funding allocations across the priorities. It would also be useful for the priority descriptions to contain some information on the level of funding and the rationale for these levels.	The financial tables in Chapter 5 set out the indicative allocations by priority and categories of expenditure as required under Annex XVI of Commission Regulation 1828/06 of 8 December 2006.
<u>Assessment of the Indicators</u>	
It is recommended that a set of context indicators is developed for the Programme in order that an assessment can be made at the macro level regarding the socioeconomic conditions on an ongoing basis.	An initial set of context indicators was included in Chapter 3.
The current set of indicators across the programmes requires further input in order that they are specific to the proposed interventions and also that they will measure achievement against both the objectives of the priority as well as the Programme. Targets need to be defined and baselines should be established. This is essential to ensure that the indicators are functional.	This point was accepted and work is ongoing to improve and refine the initial set of proposed indicators.
Finally, it is recommended that an evaluation plan is established that sets out how and when the indicators are to be measured as well as details of any other ongoing evaluation. This should be developed as soon as the indicators are finalised.	This will be carried out once the final set of indicators has been established.
<u>Assessment of the Systems</u>	
It is recommended that further information is provided to detail the monitoring that will take place, the systems that will be used to capture the information, how often data will be collected etc.	Included in Chapter 4 "Management and Implementation of the Programme".
It is also recommended that an evaluation plan is established to detail the types of periodic evaluation that will be undertaken to assess the achievement of the Programme against the set objectives.	This will be part of the evaluation plan which will be established once the set of indicators is finalised.
This section would benefit from the inclusion of a brief section on lessons learned from previous programmes and how these have helped steer	This section in Chapter 4 was expanded to reflect the main lessons learned.

Sustainable Urban Development

2.87 The Community Strategic Guidelines recognise the role of cities as economic drivers for regional growth. Cities are home to most jobs, firms and institutes of higher education and are most open to change based on innovation and enterprise. The guidelines encourage an integrated approach to urban development so that it promotes not only growth and jobs but also social and environmental objectives. Within a relatively small region such as NI, our cities act as hubs for the surrounding rural areas so specific actions planned for cities will also have an effect in the wider region. NI benefited from EU support under the URBAN programmes in the 2000-06 period and the results of this Programme will be used to incorporate sustainable urban development into the new Programme. Belfast City Council has already declared its interest in furthering co-operation and the exchange of best practice among other European cities under the Regions for Economic Change initiative and on 23 April 2007 hosted a major conference “Belfast, the State of the City” on the subject of urban development.

Innovative Actions and Inter-Regional Co-operation

2.88 The revised Lisbon strategy places a strong emphasis on activating knowledge and promoting innovation. This is reflected in the Community Strategic Guidelines which encourage the development of strategies with specific provision for experimentation to stimulate regional and local actors to innovate and the new regulatory requirements concerning the mainstreaming of innovative actions. Innovation in this context is broader than traditional ‘technological innovation’. It is defined as the generation of new knowledge and its transformation into new products, processes or services that respond to a demand from citizens. It includes social innovations that support the modernisation of the economy, as well as the reform of employment and social inclusion policies and actions.

2.89 The new Sustainable Competitiveness Programme will encourage innovation and support the dissemination of outcomes and the sharing of best practice. The results of this experimental work will be used to inform both policy and delivery, with the lessons learned feeding into mainstream programme implementation and project development.

2.90 During the 2000-06 funding period, NI received ERDF support for a Regional Programme of Innovative Actions designed to test new approaches and experiment with new projects including ones with a higher risk element than is usually the case. The results of this Programme will be evaluated to see how they can contribute to promoting the concept of innovation and inform both policy and delivery mechanisms in the mainstream programme. There will be no specific allocation for innovative actions in the new Programme but rather innovation will be seen as a horizontal theme underpinning all future actions.

Conclusion

- 2.91 The strategy for this EU-supported Programme is based on NI's identified needs and has been designed to provide targeted support to key NI policies and objectives within the context of the Lisbon jobs and Growth Agenda and the wider Gothenburg agenda for sustainable development. It reflects and supports the key aims and objectives outlined in the NI chapter of the UK's National Strategic Reference Framework which was drawn up in response to the EU's Strategic Guidelines on the co-ordination of EU and national resources to achieve the Lisbon goals.
- 2.92 The Programme will be delivered through the three interlinked Priorities and will concentrate on activities with a high added-value and new, innovative approaches to boost NI's competitiveness, create sustainable communities and better opportunities for all our citizens. This is a much more concentrated European-supported Programme than in the past firmly targeted on sustainable enterprise and innovation which will be complemented by activities under its counterpart ESF Programme to boost skills and increase the number of people in employment. This Programme will not achieve its central objective on its own: NI needs to expand its private sector to help reduce the productivity gap with the rest of the UK and better performing regions of the EU. This will not be an easy task, but this Programme will contribute to helping NI take its place as part of a more competitive and dynamic European economy founded on knowledge and innovation.

Chapter 3: Spending Priorities

Programme Objective

- 3.1 The overall objective of the Programme is to help create a more competitive and sustainable NI and specifically, to contribute to closing the productivity gap with the UK. The Socio-Economic analysis (Chapter 1) clearly identified the need to expand the private sector if NI is to achieve long-term sustainable economic growth and this Programme will contribute to creating the right conditions for businesses to flourish and expand. Building on the successes and the lessons of the NI Single Programme 1994-99 and the Building Sustainable Prosperity Programme 2000-06, the new ERDF Competitiveness Programme will specifically focus on three inter-linked Priorities to concentrate resources on achieving the central objective. The delivery of the Programme will be streamlined and proportionate to the resources available for this relatively small programme.
- 3.2 This Chapter provides detail on the rationale, aims, the objectives, the targets and indicators, potential beneficiaries, (indicative) budgetary allocations as well as lists of indicative areas of activity to be funded under each of the three Priorities. These lists are not prescriptive but are intended to illustrate the types of actions that may be co-funded during the seven-year Programme period: more definitive lists will only become available once the Programme Monitoring Committee has been established and the selection criteria for projects has been established. Emphasis will be placed on encouraging genuinely innovative activities and approaches.

Priority 1: Sustainable Competitiveness and Innovation

- 3.3 This Priority will focus on three key areas:
- increasing the level and quality of R&TD;
 - exploiting the commercial opportunities of the R&TD base; and
 - promotion and mainstreaming of innovation.

Rationale

- 3.4 The renewed Lisbon strategy identified the need for a structural shift in the economy towards knowledge-based activities and called for action on a number of fronts: to increase levels of R&TD, especially in the private sector, to promote innovation through new or improved products, processes and services which can withstand international competition, to increase regional capacity to generate and absorb new technologies (ICTs in particular) and to provide more support for risk-taking.
- 3.5 The “Economic Vision” recognises the importance of innovation/creativity and R&TD investments as crucial factors in driving economic growth and increasing competitiveness and defines innovation as the successful commercial exploitation of new ideas and approaches. NI’s Regional

Innovation Strategy is the key strategic vehicle for taking NI forward as a high-value added, knowledge based economy, recognising as it does that improving and enhancing NI's overall innovation and R&TD performance will lead to increased productivity and prosperity, moving the NI economy up the value-added chain.

- 3.6 The economic and social analysis has shown that NI spends less on R&TD compared to other regions in the UK and the EU average. Spending is also well below the Lisbon target for investment in R&TD of 3% of GDP by 2010. Other relevant aspects in relation to R&TD of the economic and social analysis are set out in paragraphs 33 - 46 in the full version of the analysis in Annex 4.
- 3.7 As part of the Regional Innovation Strategy, DETI has established MATRIX, a business led, NI Science-Industry expert panel - to advise government on the commercial exploitation of the science and R&TD base and give NI industry the opportunity to influence policy in the areas of science and research. MATRIX aims to increase the economic return from science, technology and research through the development of effective and productive interactions between business, academia and government. It will act as a focal point through which to promote R&TD and science to the broader NI business community, especially through a communications strategy, which will include identifying regional "Innovation Champions".
- 3.8 Under the NISIP, five Niche Technology Horizon Scanning Panels (NTHSPs) will be created to build on the work to date of the NI Foresight Programme. These will identify, through a new, more focused, foresight exercise, the niche technology areas that will be of future significance to the NI economy and on which support should be focused, taking into account the capabilities of the research-base and the absorptive capacity of NI businesses. These panels will concentrate initially on the areas of Life and Health Sciences, aerospace technologies, agri-food technologies, ICT and nanotechnology. They are likely to drill down into more precise subsets of these and further areas.
- 3.9 Central to a truly innovative economy is a strong and commercially focused R&TD base and the successful exploitation of internationally competitive science and technology by industries focused on future business trends. This can be done in a variety of ways, including the application of greater creativity to business planning, the use of design, the promotion of innovative business practices and through the establishment of cross-sectoral business networks and clusters for firms of all sizes through which to transfer and disseminate knowledge, experience and best practice.
- 3.10 One of the most significant initiatives to enhance and stimulate R&TD is the investment in major Centres that enhance the technology capability within local industry and the universities to stimulate further the restructuring of the economy. NI has recognised that greater improvements in infrastructural capability are required and therefore wishes to support further major proposals in order to grasp the opportunities offered by the new technologies. A number of industry hosted Centres now have the ability and capability to

undertake leading edge, industrially exploitable and above all commercially focused R&TD. These are improving the structure and competitiveness of the region's industry.

- 3.11 Centres based in our two universities will also contribute to enhanced prosperity by strengthening the local science and technology base while also helping to raise the overall technology and skills level of the workforce. In the modern economy, universities are increasingly recognised as the “factories of knowledge”, and the university “Third Mission” of exploiting R&TD for commercial ends is key to increasing economic competitiveness and prosperity. University and industry Centres have added to the weight of R&TD activity in NI through their direct expenditure affects and also by: attracting skilled research staff to NI; generating new commercial contracts gained for research and product development by the wider organisations as a result of the centre's activities; and the attraction of new research projects from UK and international funding sources, levered by Centres of Excellence funding.
- 3.12 NI businesses also need to become more proactive in exploiting the HE R&TD base and in working with HE institutions in more and better collaborative R&TD. Interactivity between business and the HE-FE sector has grown significantly during the past decade, but there is still room for improvement. The universities in particular have made noteworthy efforts to open their R&TD pipelines to commercial exploitation opportunities. Business, on the other hand, needs to do more to engage with the HE community in a more proactive fashion in order to “pull” through more and better commercially realisable R&TD. Government will work with business and academia to develop effective mechanisms to encourage the creation of “critical mass” in key sectors. These will be both formal and informal, and will include: Cross-sectoral collaborative opportunities (for example, in technology sectors like aerospace, or ICTs); NI/RoI collaborative partnerships; NI linkages with UK Government and UK regions; and NI linkages with other EU regions.
- 3.13 However, R&TD is only one aspect, and increasingly, innovation is no longer seen as the preserve of a small elite number of companies working in high-technology sectors and investing in costly R&TD programmes. The innovation agenda is relevant for all NI firms irrespective of industrial sector or size. NI can no longer compete on low wages and costs. In an increasingly competitive global economy, the application of innovation has become a necessary precondition for competitive performance for all firms especially SMEs.
- 3.14 Between 2001 and 2005 the proportion of NI firms engaged in innovation increased significantly. During 2002-2004 around 56% of firms in NI undertook some form of innovative activity – a level similar to the UK average. However, a key determinant of innovation performance is firm size, with large firms more innovative than their SME counterparts. The most significant differences lie in wider innovation, such as changes to business structure, marketing strategy and management techniques. A key challenge for NI which was highlighted in the mid-term evaluation of the current Building

Sustainable Prosperity Programme 2000-06 is therefore to stimulate increased innovation within smaller companies and increase their capacity to engage in R&TD activities. This will mean encouraging SME business growth and overcoming the perception amongst NI business people that innovation and R&TD is a cost rather than an investment offering significant long-term benefits.

- 3.15 Smaller businesses are less likely to have either the capability or the awareness of the possibilities inherent in working directly with universities. However, more connectivity between SMEs and the FE colleges at sub-regional level will be encouraged, firstly to provide the relevant skills to service the needs of local industries, and secondly to create a culture of collaborative working which will ultimately offer a form of brokerage between businesses and the HE-FE sector.
- 3.16 The aim is to bring levels of business expenditure on innovation and R&TD up to or in excess of our competitors. Activities funded in this area will focus on encouraging a creative and innovative ethos in the manufacturing and services sector and ensuring that all companies, especially SMEs, realise the benefits of expenditure on innovation, R&TD and design.
- 3.17 This approach is consistent with the activities co-funded under the ESF programme and the “Skills and Science Funding Package 2006-08” (Feb 2006) which provides for investment in skills and training programmes to complement targeted investment in R&TD and the promotion of greater links between industry and the research base. The co-ordination of activities within the two C&E programmes should lead to better synergy between the different national investment programmes.
- 3.18 Businesses will be targeted through broad awareness campaigns and through broad proactive initiatives to encourage businesses to engage in innovative activities as part of their wider business development strategies.

Aims and Objectives

- 3.19 Key objectives for increasing investment in R&TD and promoting innovation include:
- to increase expenditure on R&TD, innovation and design by companies across all sectors;
 - to build the absorptive capacity of NI companies for R&TD innovation;
 - to promote better links between businesses and the research sector; and
 - to support the development of research excellence through strengthening the innovation infrastructure.

Table 3.1: Targets and Indicators, Priority 1

Increasing Investment in Research and Technological Development and Promoting Innovation				
Indicative Activities	Output	Result	Impact	Sources of Verification
R&D	<ul style="list-style-type: none"> 1000 RTD Projects 	<ul style="list-style-type: none"> £450m of investment by all partners in supported RTD projects 12 R&D collaborations 1500 research jobs supported 560 companies to engage in R&D for the first time 	<ul style="list-style-type: none"> 60% of businesses to produce new, improved products and services BERD to have increased at a faster rate than other UK regions 	<ul style="list-style-type: none"> Invest NI project records Regional data sources NISRA
Management Information Systems	<ul style="list-style-type: none"> 550 SMEs receiving assistance for development of MIS 	<ul style="list-style-type: none"> £28m contributed to MIS projects 		
Interim Manager Programme	<ul style="list-style-type: none"> 250 interim manager projects supported 	<ul style="list-style-type: none"> £2.6m leveraged investment from the private sector 		
Proof of Concept	<ul style="list-style-type: none"> 100 proof of concept projects supported 	<ul style="list-style-type: none"> >60% of proof of concept projects to proceed to development of commercialisation roadmap 		
Design Development Programme	<ul style="list-style-type: none"> 40 Design Development Programmes facilitated 	<ul style="list-style-type: none"> 380 SMEs participating in the Design Development Programme 		
NISP Connect Programme	<ul style="list-style-type: none"> 75 events provided by NISP Connect 	<ul style="list-style-type: none"> £0.9m of private sector pro-bono support leveraged for the NISP Connect Programme 		

Core Indicators

Under this priority there are 4 core indicators (for codes 01-05 and 07), namely:

1. Number of RTD projects
2. Number of cooperation projects enterprises – research institutions
3. Research jobs created (preferably 5 years after project start)
4. **Number of SME projects**

3.20 Target Beneficiaries

- Research sector in NI
- Businesses (especially SMEs)
- Local Authorities
- Voluntary and Community Sector
- **Public Authorities**

3.21 Indicative Activities

This list of indicative activities is not exhaustive but serves to give an indication of the types of activities that may be funded over the lifetime of the programme.

- Increase the proportion of businesses involved in R&TD (including near market research) and the quality of R&TD and Innovation activity in NI
- Encourage and facilitate the commercial exploitation of publicly funded R&TD and provide support for collaborative partnerships with the UK knowledge base.
- Support the development of research excellence through strengthening the innovation infrastructure ensuring the transfer of technology from Academia to the business base
- Provide support to businesses to invest in training and development activities linked to business improvement.
- Put in place a supportive infrastructure to aid with the translation of technological innovation into commercial reality and producing industrially relevant research.
- Awareness campaigns.

These activities will support Community Strategic Guideline 4.2.1 “Increase and improve Investment in RTD” and 4.2.2 “Facilitate Innovation and promote entrepreneurship”.

Priority 2: Sustainable Enterprise and Entrepreneurship

3.22 This Priority will focus on two key areas:

- Expanding the private sector; and
- Creating a world-class business climate in NI.

3.23 Investments in R&TD and innovation will not yield optimum results if companies do not exist to exploit them commercially. NI is over-reliant on the public sector and the private sector must be expanded if we are to achieve sustainable growth. Complementary higher levels of enterprise and entrepreneurship are essential to achieving greater productivity and increasing value added. The UK's National Reform Programme in support of the Lisbon strategy for jobs and growth explicitly states that "The UK aims to be the best environment in the world for starting and growing a business". This aim is reflected in the "Economic Vision" for NI which is designed to allow NI to take full advantages of momentum in the UK economy and to address weaknesses or barriers to growth. Closing the productivity gap and reducing economic inactivity are the key aims.

Rationale

3.24 The *Economic Vision* recognises enterprise as a key driver of productivity growth in a region, serving to increase competition within the market and encourage innovative techniques and technology. It is an essential component in developing private sector activity, particularly important given the relatively underdeveloped status of the private sector in NI. To grow the private sector, Government must therefore create and sustain the economic environment necessary to allow productive and enterprising businesses to flourish. Challenges and opportunities for the enterprise agenda in NI include the need to:-

- encourage business start ups and improve survival rates;
- encourage business growth and improve expert performance and the ability to operate in international market places;
- attracting foreign direct investment; and
- promoting tourism.

Investments will be made in line with the provisions of the Sustainable Development Strategy which recognises that economic growth and sustainable development are inter-linked. This Priority will help accelerate a cultural shift towards enterprise and entrepreneurship and to improve the business environment to enable companies to take advantage of the results of R&TD to create more growth opportunities as highlighted in the socio-economic analysis.

3.25 A locally driven economic and enterprise development component is essential to complement and enhance regional initiatives that support and strengthen business competitiveness. These locally driven activities, in line with Local Action and Community Plans, actively encourage enterprise and innovation

and seek to develop imaginative local solutions to local environmental and access issues that are currently acting as a constraint on development. This local delivery approach facilitates the ability to address rural and urban issues. The importance of urban areas at a regional level has been clearly articulated in the EU Paper *Cohesion Policy and Cities: the Urban Contribution to Growth and Jobs in the Regions*. This underlines both the importance of cities as motors for growth and jobs and the need to address social cohesion, environmental issues and social and economic disparities within and between cities. It is equally important that the specific needs of rural areas are identified and addressed. NI will also have a separate Rural Development Programme funded through the European Agriculture Fund for Rural Development (EAFRD) for 2007-13. This programme will specifically seek to improve the competitiveness of agriculture and forestry, to improve the environment and countryside through land management, and to improve the quality of life and encourage diversification of economic activity in rural areas.

- 3.26 A key element of the enterprise strategy will be for each local council to develop action or community plans and activities that target specific sectors of the economy and address the productivity drivers in a manner that meets their own particular mix of needs. Such an approach will ensure that locally based regeneration fits within, and is complementary to, regional strategies. It will also help identify and address the regional disparities that exist in economic performance across NI. It is anticipated that several of the measures in the Rural Development Programme will be delivered through Local Action Groups, again facilitating the addressing of needs at local level as part of integrated strategies covering the range of actions under the programme.
- 3.27 At regional level the initiatives to promote and encourage enterprise are Invest NI's suite of Business Development Solutions (including Selective Financial Assistance) and its Accelerating Entrepreneurship Strategy, NITB's Strategic Framework for Action, DETI's Developing a Successful Social Economy and the NI Consumer Strategy. We must build on these to encourage business starts, business growth and more investment in NI. Stimulating entrepreneurship supports the delivery of:
- *Increased job creation;*
 - *Increased economic activity* - entrepreneurial start-ups also provide the seed-bed from which the high-growth companies of tomorrow will emerge, creating further employment opportunities;
 - *Increased innovation* - new firms are one of the main sources of ideas and innovation in an economy, contributing directly to the Economic Vision goal of productivity growth;
 - *An expanded business supply chain* - new firms make a vital contribution through their role as suppliers to larger companies and the presence of a small firm supplier base can be an important factor in attracting internationally mobile branch plants of large firms; and

- *Greater social inclusion* - social enterprises assist the development of an entrepreneurial culture at a local level and in a way that positively embraces new Lifetime Opportunities policy imperatives, through income generation and an increased circulation of money in disadvantaged communities.
- 3.28 Generally, people in NI also appear more negative about their own entrepreneurial capacity than in the UK as a whole. Fear of failure and debt are particular barriers and fewer people feel they have the skills to set up in business. There is a particular stark contrast between men and women regarding the proportion who believe they have the necessary skills to start a business. Just over half of men, compared to a third of women, believe they have the skills to start a business. It is important, therefore, that people are provided with the opportunities to develop the skills and confidence required to start a business.
- 3.29 The programme of activity will be targeted across key priority areas to encourage more people from all backgrounds to start and grow a business. Action will be required to tackle cultural barriers as identified by the Global Entrepreneurship Survey (e.g. fear of failure and lack of confidence in ones own ability). There is also a need to strengthen the start-up support infrastructure, ensuring appropriate services are easily accessible, particularly for those in groups currently under-represented amongst the entrepreneurial population (e.g. women, young people, ethnic minorities, disabled people and those from disadvantaged communities). The low levels of entrepreneurship within many of these groups represent a lost opportunity to the NI Economy and the barriers they face can only be addressed through a sustained intervention over the medium-long term.
- 3.30 The potential of high technology business start-ups is also recognised. University initiated ideas and inventions are encouraged through the Centres of Excellence programme before being captured, assessed and exploited by the Higher Education Innovation Fund and the Proof of Concept programme. These mechanisms are designed to foster research, development and technology transfer within academia and translate science into products, services and marketable commodities.
- 3.31 Entrepreneurial activity is not just about business creation but also business growth. A relatively small number of fast growing enterprises tend to be the main source of innovation and job creation. Success in export markets is crucial to long-term business growth. International trade and relationships are essential for increasing GDP and driving up global competitiveness. Companies must therefore become more export-oriented and increasingly competitive in the international marketplace. They also need to increase their capability to adopt external knowledge through establishing joint ventures and strategic alliances with overseas partners. Cross-border economic collaboration will, of course, continue to be important, with companies being encouraged to maximise opportunities offered by the RoI market, which is expected to grow strongly over the next ten years.

- 3.32 Externally-owned companies make a valuable contribution to the NI economy directly, through providing employment, skills and R&TD, and indirectly through developing the local supplier base and growing capability and employment in indigenous companies. There is, therefore, a continuing need to attract investment from externally-owned companies for the benefit of indigenous business.
- 3.33 Tourism has the potential to become a key sector in the transformation of NI and to contribute significantly to economic growth as highlighted in the socio-economic analysis. It is an important economic sector generating both revenue and employment, particularly in rural areas. Building increasingly positive international perceptions through the successful promotion of NI as a place to visit may also have spin-off benefits in influencing how it is regarded as a place in which to invest and do business and how its export products (such as food) are perceived. Recent years have seen increased visitor spend and increased direct air access. Tourism currently generates some £500 million revenue and provides over 50,000 jobs. Some key targets for the future are to increase visitor numbers by 4.5% pa and revenue spend by 7.5% pa. Future priorities include the long term sustainability of the industry through longer staying visitors, more spend, focused macro investment and delivering the Tourism Signature Projects. This will require joined up government to address issues such as planning, transport and how departments engage the private sector to ensure that the NI tourism industry becomes internationally competitive, is increasingly able to think globally and takes more ownership in growing tourism.
- 3.34 As identified in the Socio-economic analysis, the MATRIX panel are currently engaged in a capability study to identify new or emerging key sectors which offer greater growth opportunities for the NI economy. These include Health and Life Sciences, Food, Electronics, ICT, Energy and Environmental Technologies.
- 3.35 There are a number of activities which have been earmarked for transfer from Invest Northern Ireland to Local authorities under the Review of Public Administration. These comprise a number of programmes which focus on local economic development, such as the Start a Business Programme, Youth entrepreneurship, Investing in women, the Social Enterprise Programme and some activities around Neighbourhood Renewal and Tourism micro-businesses. The extent and timing of the Review of Public Administration is currently being re-assessed and, while a clear commitment has been made to transfer activities and budgets from Invest Northern Ireland to local authorities, it is not possible at this time to confirm what functions and budgets will actually transfer, or what the impact might be on ERDF funds.
- 3.36 The contribution of private services to GDP, Foreign Direct Investment (FDI) success and employment has increased substantially in all developed economies, and the same is true in NI. The region has a strong track record in recent years in capturing FDI in service activities and, although NI is greatly under-represented in certain key sub-sectors, such as financial and business services, the tradable services sector presents an enormous opportunity for

NI. Forecasts suggest that the sector will generate up to 54,000 additional jobs over the next decade.

3.37 At the same time, manufacturing will remain a fundamental component of our economy. The prognosis for the sector is generally positive if companies can move up the value chain and address competition from lower cost (but high skilled) economies like China and India. We must build on our skilled and flexible workforce, good infrastructure links, world-class universities and robust suite of business support services. We must also embrace knowledge-intensive, higher skilled manufacturing to compete increasingly on quality rather than price.

Aims and Objectives

3.38 Key objectives for promoting enterprise and entrepreneurship:

- to increase business start up and survival rates;
- to encourage growth of NI firms by encouraging companies of all types and sizes to become more market-aware, research aware, outward-looking, export orientated and committed to ongoing business development;
- to promote foreign direct investment; and
- to facilitate a globally competitive and sustainable tourism industry.

Table 3.2: Targets and Indicators, Priority 2

Promoting Enterprise and Entrepreneurship				
Indicative Activities	Output	Result	Impact	Sources of Verification
NI Screen	<ul style="list-style-type: none"> 31 projects supported 	<ul style="list-style-type: none"> 4.65:1 ratio achieved in value of direct spend achieved through the Screen Fund relative to the ERDF contribution 	<ul style="list-style-type: none"> Contribute to the reduction in the productivity gap between NI and its competitors 	<ul style="list-style-type: none"> Invest NI project records General monitoring and evaluation data Regional data sources NISRA
Entrepreneurship and Innovation Promotion in SMEs	<ul style="list-style-type: none"> 55,000 calls to the Go For It helpline 	<ul style="list-style-type: none"> 30,000 follow-up meetings attended following calls to helpline 		
Selective Financial Assistance	<ul style="list-style-type: none"> 130 SMEs supported 	<ul style="list-style-type: none"> 1500 jobs promoted £160m of investment committed in Letters of Offer to supported projects 		
Local Economic Development	100 projects supported	<ul style="list-style-type: none"> 20 projects that support SMEs to develop their export focus 100 projects that support SMEs in business improvement activities 12 projects that support SMEs in innovation 70 projects that support SMEs in entrepreneurship 10 projects that support SMEs through collaborative activities 		

Tourism	24 tourism projects developed	<ul style="list-style-type: none"> • £9.25m additional investment leveraged from Programme contribution • Excellence' BREEAM rating achieved by the Giant's Causeway Visitor Centre • Run 9 promotional campaigns • Generate a return in investment from promotional activities of £1:£4 • Achieve industry awards for promotional campaigns 	Contribute to increasing visitor revenue by +7.5% per annum	<ul style="list-style-type: none"> • NITB project records
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Core Indicators

Under the direct assistance to SMES there are 4 core indicators (for code 08), namely;

1. Number of projects
2. Of this: number of start-ups supported (first 2 years after start-up)
3. Gross direct full-time equivalent jobs created
4. Investment induced (million €)

For the tourism element there are 2 core indicators (for codes 55-57)

1. Number of projects
2. Number of jobs created

3.39 Target Beneficiaries

- Entrepreneurs
- NI Business, especially SMEs (including tourism – related business)
- Local Authorities
- Voluntary and Community Sectors
- **Event management organisations**
- **Public Authorities**

3.40 Indicative Activities

This list of indicative activities is not exhaustive but serves to give an indication of the types of activities that may be funded over the lifetime of the Programme.

- Encouraging measured risk taking through targeted promotion and facilitating SMEs access to business support services.
- Promotion of entrepreneurship amongst under-represented groups – women, youth, ethnic minorities, disabled people and those from disadvantaged communities.
- Strengthening the Incubation infrastructure available to nurture start-up ideas and accelerate the growth of new business ventures, for example, social economy businesses.
- Encourage franchising as a route to entrepreneurship, strengthen entrepreneurial networks and support business networks and clusters.
- Enhance the locally based business support infrastructure to supplement the current ENI network and incorporate further 'Go for it' franchise outlets including FE colleges, DEL Job Centres, University Business outreach centres, community economic development organizations and District Council Offices. This will embed an entrepreneurship support structure at community level and reinforce the message from the 'bottom up'.
- Strengthen entrepreneurial networks.
- Local Enterprise and Community (urban and rural) regeneration initiatives and activities

- Investing in Tourism capital projects and product development activity including Signature projects and the development of sustainable activity tourism.

These activities will support Community Strategic Guideline 4.2.1 “Increase and improve investment in RTD” and 4.2.2 “Facilitate innovation and promote entrepreneurship.

Priority 3: Improving Accessibility and Protecting and Enhancing the Environment

3.41 This Priority will focus on two key areas:

- Protecting and enhancing the natural environment; and
- Promoting sustainable development and creating sustainable communities.

Rationale

3.42 A pre-requisite for sustainable economic development is a sound efficient modern infrastructure (transport, telecoms, energy, water, etc). NI has underinvested in these areas in the past and achieving the necessary improvement now is a formidable task that is long term and cannot be achieved without the co-operation of all parties. The economic and social analysis has highlighted major gaps and weaknesses in NI’s basic infrastructures which act as barriers to sustainable growth and pose a threat to the environment. Nevertheless, the level of EU funds available under this programme and the requirement for a high focus on Lisbon-related activities in Competitiveness and Employment Programme excludes any investment in major transport projects or the whole scale renovation of redundant military bases in NI. However, this does not preclude future innovative action such as traffic-management solutions or small-scale investment in key secondary roads linked to TENS or support for businesses and companies located in former military sites.

3.43 NI’s infrastructure needs must be addressed as an essential component of the economic, social and environmentally coherent strategy to improve NI’s competitiveness and employment. The *Investment Strategy for NI 2005/15* and the *Regional Development Strategy for NI 2025* constitute a comprehensive framework for tackling the deficiencies in our infrastructure and thereby help to underpin the overall development of our economy and society. The NI Sustainable Development Strategy has identified key targets for reducing greenhouse gas emissions and these will be monitored within NI.

3.44 The *Regional Development Strategy* in particular provides a spatial planning context for:

- infrastructure providers and public services promoters;
- strengthening the competitiveness of the regional economy and tackling social and economic disadvantage;
- protecting and enhancing the physical, natural and man-made assets of the region;
- housing, transport, air and water quality, energy and waste strategies; and
- development plans and for guiding public and private investment decisions relating to land use.

3.45 NI in common with all regions across Europe is conscious of the pressing need to conserve energy and ensure security of supply for the future. Energy costs in NI are considerably higher than in other parts of the UK which represents a significant barrier to growth. These factors have to be addressed in the context where demand for energy is still rising. The *NI Environment and Renewable Energy Funding Package* (Feb 2006) is aimed at enhancing the long-term sustainability of the NI energy system in a manner which increase the security and diversity of supply. It will help protect biodiversity, encourage innovation and the development of new skills, underpin employment and create new job opportunities (especially in rural communities) and contribute to the reduction of energy costs, aiding industrial competitiveness and helping to alleviate fuel poverty. This is an ambitious initiative, which adds considerably to the ongoing programmes of renewable energy activities.

3.46 The implementation of the EU Nitrates Directive¹⁸, the Water Framework Directive, and the Integrated Pollution Prevention and Control Directive will create steep challenges for the farming industry. There is a need to encourage uptake of developing technologies in the coming decade in order to meet renewable energy objectives.

3.47 An efficient waste management system is another precondition for sustainable growth and the first ever NI Waste Management Strategy launched in March 2006 places more emphasis on waste prevention. It reinforces the need to increase waste recycling and recovery through a mixture of approaches including the renewal of recycling targets, focused awareness campaigns and the possible introduction of incentive schemes.

¹⁸ Directive 91/677/EEC concerning the protection of waters against pollution caused by nitrates from agricultural sources

- 3.48 Telecoms development is a fast-changing and ever developing field and we must continue to reinvest and improve services to maintain and increase our competitive advantage as the only UK region with 100% broadband coverage. To neglect investment in this area would negate the efforts and the resources deployed in the past. Telecoms development aims to bring NI up to the level enjoyed in the major urban areas in the UK and other parts of Europe by delivery of next generation broadband and the adoption of leading edge technology by local companies, especially SMEs.
- 3.49 Actions under this Priority will underpin efforts under the first two Priorities and recognise the connection between a healthy environment, a thriving economy and sustainable communities.

Aims and Objectives

- 3.50 The key objectives for Priority 3: Improving Accessibility and Protecting and Enhancing the Environment are:
- to improve key elements of NI's infrastructure to support and complement sustainable economic and social development.
 - to work with the private sector to upgrade NI's existing first generation broadband infrastructure to one of the world's first and most widely accessible next generation, high speed, telecommunications systems, with equitable access to broadband services of at least 20 Mbps at equitable prices by 2011.
 - to address issues of energy efficiency and promote the increased use of renewable and/or more sustainable energy resources.
 - To develop more efficient and clean transport, particularly on main commuter routes and in urban areas.

Table 3.3: Targets and Indicators, Priority 3

Improving Accessibility and Protecting and Enhancing the Environment				
Indicative Activities	Output	Result	Impact	Sources of Verification
Environment and Renewable Energy Fund	<ul style="list-style-type: none"> • 4 renewable energy projects supported 	<ul style="list-style-type: none"> • £8m invested in renewable energy projects (private /public /ERDF) • 	<ul style="list-style-type: none"> • Increased security and supply of energy • Improved sustainability of energy supply 	<ul style="list-style-type: none"> • Project records
Biomass Challenge Fund	<ul style="list-style-type: none"> • 10 renewable energy projects supported 	<ul style="list-style-type: none"> • 50% of supported projects to have commenced installation of biomass technologies by 31 December 2013 • Lever £3m additional private sector investment • Each operational project to achieve >10% of total energy requirements from renewable energy sources • Each operational project to achieve a carbon saving of at least 35% over conventional fossil fuel use 		<ul style="list-style-type: none"> • DARD project records
Other Renewable Energy Activity	<ul style="list-style-type: none"> • 16 renewable energy 	<ul style="list-style-type: none"> • Secure royal assent 		<ul style="list-style-type: none"> • DETI Energy

	projects supported	for common arrangements in Gas legislation by December 2012		
		<ul style="list-style-type: none"> • Enable the Crown Estate to grant development rights to 2 renewable energy facility projects by December 2012 		<ul style="list-style-type: none"> • Crown Estate
		<ul style="list-style-type: none"> • Contribute towards the achievement of the Strategic Energy Framework targets of having 12% of total electricity generated from renewables by 2012 and 20% by 2015 		<ul style="list-style-type: none"> • DETI Energy
		<ul style="list-style-type: none"> • Increased awareness of renewable energy and energy efficiency measures 		<ul style="list-style-type: none"> • For each promotional campaign the Marketing Agent will be required to partner with a Research Analyst to conduct pre and post campaign research
Telecoms - Next Generation Network	<ul style="list-style-type: none"> • Invest £16.5m in telecoms infrastructure to support next generation broadband services 	<ul style="list-style-type: none"> • Upgrade 166 exchanges • Upgrade 1,265 cabinets by 2013 • Provide 3,000km of 	<ul style="list-style-type: none"> • 95% of NI businesses to have access to next generation broadband services by 2013 	<ul style="list-style-type: none"> • DETI Telecoms

		<ul style="list-style-type: none"> additional fibre optic cable Attract 20 new next generation retail communications providers to NI by 2013 	<ul style="list-style-type: none"> Lever at least £30m of additional investment from the private sector investment 	
Broadband Fund	<ul style="list-style-type: none"> 8 projects assisted under the Broadband Fund 	<ul style="list-style-type: none"> Increase accessibility to next generation services in 100 remote rural areas across NI To lever at least £2m additional investment from the private sector 		<ul style="list-style-type: none"> DETI Telecoms
Log-on NI	<ul style="list-style-type: none"> Invest £3.9m in a broadband guidance programme for SMEs 	<ul style="list-style-type: none"> Establish 2 ICT Demonstration Centres Establish a team of 10 broadband advisors Deliver 9,500 broadband action plans to participating SMEs by 2013 	<ul style="list-style-type: none"> Increase the level of e-sophistication of participating SMEs by 10% on average from individually determined baselines 	<ul style="list-style-type: none"> DETI Telecoms
Clean Urban Transport	<ul style="list-style-type: none"> Invest £11.6m in upgrading public transport (buses) to Euro Standard V 	<ul style="list-style-type: none"> Replace 42 Euro I standard buses with Euro V standard, 		<ul style="list-style-type: none"> Department for Regional Development (NI)

Core Indicators

Under the information society there **is 1 core indicator** (for codes 10-15), namely;

1. Number of projects

For renewable energy there are 2 core indicators (for codes 39-42)

1. Number of projects
2. Additional capacity of renewable energy production (MWh)

There is also an additional climate change core indicator (for codes 16, 17, 39-43, 49, 52)

3.51 Target Beneficiaries

- NI Businesses, particularly SMEs
- Public Authorities
- Environmental, Voluntary and Community Groups
- Energy consumers

3.52 Indicative Activities

This list of indicative activities is not exhaustive but serves to give an indication of the types of activities that may be funded over the lifetime of the Programme.

- Activities that work with the private sector to upgrade NI's existing broadband infrastructure to broadband services of at least 20 Mbps at equitable prices by 2011.
- Activities that establish ICT/telecommunication demonstration centres by 2008 and support mechanisms for SMEs, especially micro-SMEs, during the period of the programme.
- Activities that create a healthier living environment by **reducing traffic pollution** and ensuring compliance with domestic and international standards of air quality, noise control and environmental quality matters.
- **Activities which increase energy efficiency (including the housing sector).**
- **Activities which encourage greater use of renewable and/or more sustainable energy resources.**
- Activities that support initiatives which apply the principles of sustainable development to waste management which promote or deliver waste prevention; recycling and recovery; and related data collection/research.

- Activities that develop support mechanisms to encourage/pilot renewable energy programmes.
- Activities that raise awareness and knowledge of both renewable energy and energy efficiency.
- Support research into the capacity of renewable energy as a fuel for electricity and ensure the electricity transmission and distribution system is sufficiently robust and flexible to effectively manage the increasing contribution from renewable energy.

Note: Activities aimed at the private sector under this priority will comply with EU State Aid rules as will the programme as a whole.

These activities will support Community Strategic Guideline 4.1 “Making Europe and its regions more attractive places to invest” and 4.2.3 “Promote the Information Society for all.

Technical Assistance

Rationale

3.53 The Structural Funds Regulations require Member States to undertake specific responsibilities associated with the management and implementation of an operational programme funded by the ERDF. The impact of the Programme must be monitored, audited, evaluated and publicised effectively. Activity under this heading will support the effective management and implementation of the NI ERDF programme structures and achievement of the Programme’s aim and objectives

3.54 Indicative activities:

- Monitoring and Evaluation.
- Information and Publicity.
- Recruitment and selection of projects, including economic appraisals.
- Monitoring Committee and other management activities.
- Dissemination of project good practice.
- Modifications to the Structural Funds Central Database.
- Audit activity.

Indicators

3.55 The ex-ante evaluation recommended that a set of context indicators could be developed for the Programme in order that an assessment can be made at the macro-level regarding the socio-economic conditions on an ongoing basis. It also recommended that the current set of indicators be developed still further so that they are specific to the proposed interventions and will measure achievement against both the objectives of the Priority as well as the

Programme. DFP is taking this work forward and targets will be defined and baselines established.

3.56 The following context indicators provide a basis for further development.

- Gross Value Added per capita (£13,482: 2004)
- Productivity levels (GVA per hour worked) (NI=82.2; UK=100: 2004)
- Business expenditure on R&TD (£142.6m: 2005)
- Entrepreneurship participation levels (4.9%: 2005)
- VAT registration rate (31 per 10,000 adults: 2004) and de-registration rate (35 per 10,000 adults: 2004)
- NI business cost levels
 - employment costs per capita (£15,791: 2005)
 - net capital expenditure per capita (£4,885: 2005)

CHAPTER 4: MANAGEMENT AND IMPLEMENTATION OF THE PROGRAMME

Introduction

- 4.1 Within the UK the delivery of Regional Policy and EU Structural Funds Programmes is a devolved matter. The NI Administration co-ordinated by the Department of Finance and Personnel (DFP) will therefore be fully responsible for all aspects of the preparation and delivery of the NI Structural Fund Programmes. In this capacity DFP will broadly fulfil the functions identified as being the responsibility of the Member State within Regulation 1083/2006. Other NI departments will, in line with their respective statutory remits, be accountable and responsible for the expenditure allocated to them for delivery. The same delegated authority arrangements that apply to all public expenditure in NI will apply to EU Structural Funds expenditure.

Roles of DFP as Member State

- 4.2 DFP will co-ordinate the following:
- Preparation, negotiation and approval of Operational Programmes;
 - Ex-ante Evaluation;
 - Setting up of management, monitoring and control arrangements;
 - Publicity and information; and
 - Compliance assessment.

In addition, DFP will provide the secretariat and chair the Competitiveness and Employment Programme Monitoring Committee.

Roles of Accountable Departments

- 4.3 Accountable departments are responsible for ensuring that the necessary legal and DFP authorities for expenditure are in place and that the expenditure is applied only for the purpose intended. Departments are responsible for ensuring that the expenditure incurred complies fully with the requirements of both Government Accounting NI and with all relevant EU regulations governing expenditure under the Structural Funds.

Roles and Responsibilities

- 4.4 The following sections set out the roles and responsibilities for the management of the programme. It covers the identity and duties of the following:
- Managing Authority;
 - Certifying Authority;
 - Audit Authority;
 - Compliance Assessment Bodies; and
 - Intermediate Bodies.

Managing Authority

4.5 The Managing Authority function of the Programme will be carried out by the Department of Enterprise, Trade and Investment (DETI). The 'Managing Authority Unit' within DETI will be functionally independent from the 'Certifying Authority Unit' within DETI.

4.6 The tasks of the Managing Authority will consist of the following:

- Ensuring that operations are selected for funding in accordance with the criteria applicable to the operational programme and that they comply with applicable Community and National rules for their whole implementation period;
- Verifying that the co-financed products and services are delivered and that expenditure declared by the beneficiaries for operations has actually been incurred and complies with Community and national rules. On-the-spot verifications of individual operations may be carried out on a sample basis in accordance with the detailed rules to be adopted by the Commission;
- Ensuring that there is a system for recording and storing in computerised form accounting records for each operation under the operational programme and that the data on implementation necessary for financial management, monitoring, verifications, audits and evaluation are collected;
- Ensuring that beneficiaries and other bodies involved in the implementation of operations maintain either a separate accounting system or an adequate accounting code for all transactions relating to the operation without prejudice to national accounting rules;
- Ensuring that evaluations of the operational programme are carried out according to Council Regulation 1083/2006;
- Setting up procedures to ensure that all documents regarding expenditure and audits required to ensure an adequate audit trail are held in accordance with the requirements of Council Regulation 1083/2006;
- Ensuring that the Certifying Authority receives all necessary information on the procedures and verifications carried out in relation to expenditure for the purpose of certification;
- Guiding the work of the Monitoring Committee and providing it with the documents required to permit the quality of the implementation of the operational programme to be monitored in the light of its specific goals;
- Drawing up and, after approval by the Monitoring Committee, submitting to the Commission the annual and final implementation reports;
- Ensuring compliance with information and publicity requirements; and

- Providing the Commission with information to allow it to appraise major projects paying the beneficiaries on receipt of valid claims.
- 4.7 DFP working with the Managing Authority will draw up rules on the eligibility of expenditure. These rules will take account of:
1. The Provision of **Managing Public Money** NI.
 2. The provisions and exceptions as set out in the ERDF Regulation 1080/2006.
 3. The existing (and updated) NI Structural Funds guidance and operational manuals

In drawing up these updated guidance and operational manuals, Accountable Departments will prepare the eligibility guidance for the expenditure for which they are responsible and to take account of the existing eligibility rules as laid down in Commission Regulation 448/2004.

- 4.8 All of the functions specified in paragraphs 4.6 to 4.8 are delegated by DFP to DETI in line with their statutory remit.

Certifying Authority

- 4.9 The sole Certifying Authority of the Programme will be DETI. The Accountable Department will provide assurance to the relevant Managing Authority that the expenditure certified meets all regulatory requirements before presentation to the Certifying Authority. Certification will be undertaken by the Certifying Authority Unit within the Department that is functionally independent from the Managing Authority Unit. Its functions include:
- Drawing up and submitting to the Commission certified statements of expenditure and applications for payment;
 - Certifying that:
 - The statement of expenditure is accurate, results from reliable accounting systems and is based on verifiable supporting documents; and
 - The expenditure declared complies with applicable Community and national rules and has been incurred in respect of operations selected for funding in accordance with the criteria applicable to the Programme and complying with Community and national rules;
 - Ensuring for the purposes of certification that it has received adequate information from the Managing Authority on the procedures and verifications carried out in relation to expenditure included in statements of expenditure;

- Taking account for the purposes of certification of the results of all audits carried out by or under the responsibility of the Audit Authority;
- Maintaining accounting records in computerised form of expenditure declared to the Commission; and
- Keeping an account of amounts recoverable and of amounts withdrawn following cancellation of all or part of the contribution for an operation.

NI will receive all payments made by the Commission through the Certifying Authority.

Separation of Functions

4.10 The General Regulation 1083/2006 permits the Managing Authority and the Certifying Authority to be part of the same body i.e. DETI. Nevertheless the Regulation also stipulates that the management and control system for the programme must comply with the principle of separation of functions within such body. The 'Managing Authority Unit' and the 'Certifying Authority Unit' within DETI will be functionally independent to each other in compliance with the Regulation.

Audit Authority

4.11 The Programme Audit Authority will be the Internal Audit Authority of the Department of Enterprise, Trade and Investment (DETI). The functions of the Audit Authority include:

- Ensuring that audits are carried out to verify the effective functioning of the management and control systems of the operational programme;
- Ensuring that audits are carried out on operations on the basis of an appropriate sample to verify expenditure declared;
- By 31 December each year from 2008 to 2015:
 - Submitting to the Commission an annual control report setting out the findings of the audits carried out during the previous 12 month period ending on 30th June of the year concerned in accordance with the audit strategy of the operational programme and reporting any shortcomings found in the systems for the management and control of the programme. The first report, to be submitted by 31 December 2008 shall cover the period 1 January 2007 to 30 June 2008. The information concerning the audits carried out after 1 July 2015 shall be included in the final control report supporting the closure declaration;
 - Issuing an opinion, on the basis of the controls and audits that have been carried out under the responsibility of the Audit Authority, as to whether the management and control system functions effectively, so

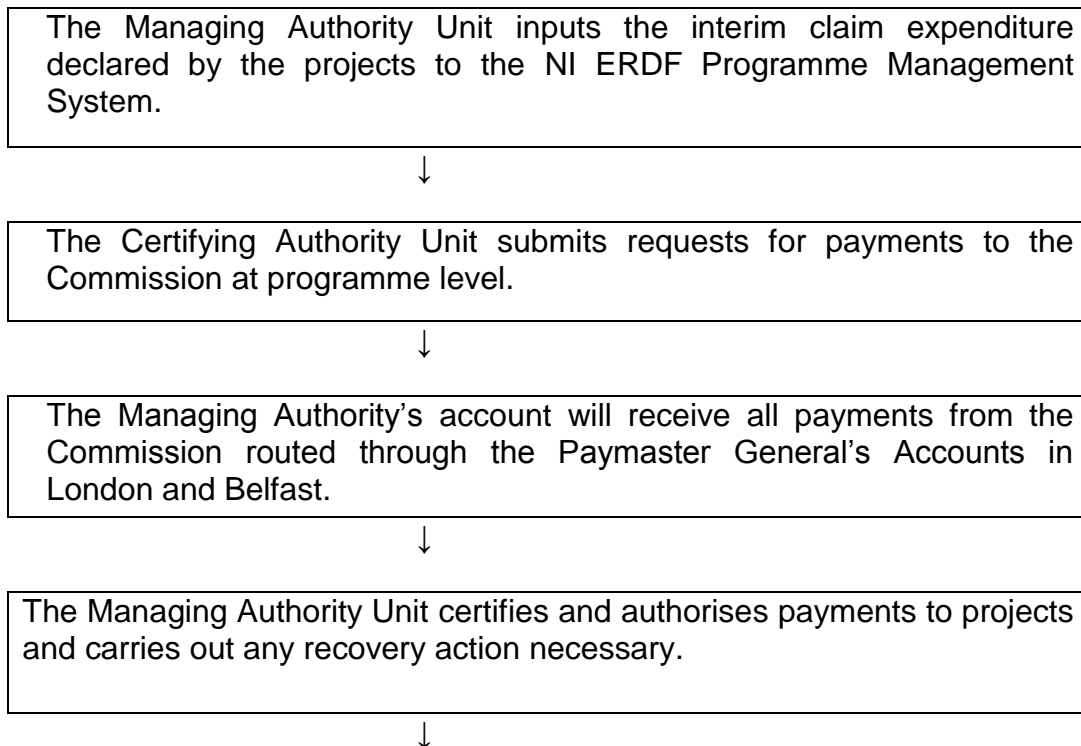
as to provide a reasonable assurance that statements of expenditure presented to the Commission are correct and as a consequence reasonable assurance that the underlying transactions are legal and regular; and

- Submitting, where applicable, a declaration for partial closure assessing the legality and regularity of the expenditure concerned;
- Submitting to the Commission at the latest by 31 March 2017 a closure declaration assessing the validity of the application for payment of the final balance and the legality and regularity of the underlying transactions covered by the final statement of expenditure, which shall be supported by a final control report; and
- Ensuring that the audit work takes account of internationally accepted audit standards.

The Audit Authority will require the Internal Audit Authorities of Accountable Departments to provide it with all the necessary assurances to fulfil these functions in respect of expenditure for which their Department is responsible.

The flowchart below summaries the above:

Roles of Managing, Certifying and Audit Authorities



The Managing Authority Unit makes payments to projects through its DETI BACS account.



Where the European Commission requests a refund, the Managing Authority Unit will make the necessary payments.

All the above is subject to review by Audit Authority which provides an assurance to the Permanent Secretary. The Audit Authority is located at **Netherleigh, Massey Avenue, Belfast, BT4 2JP**

The Managing Authority Unit is located at Netherleigh, Massey Avenue, Belfast, BT4 2JP. The Certifying Authority Unit is located at Netherleigh, Massey Avenue, Belfast, BT4 2JP.

For further detail please see organisation chart attached.

Payments from the Commission

Will be routed through HMT Paymaster General Account (NI Consolidated Fund) Bank of England, London

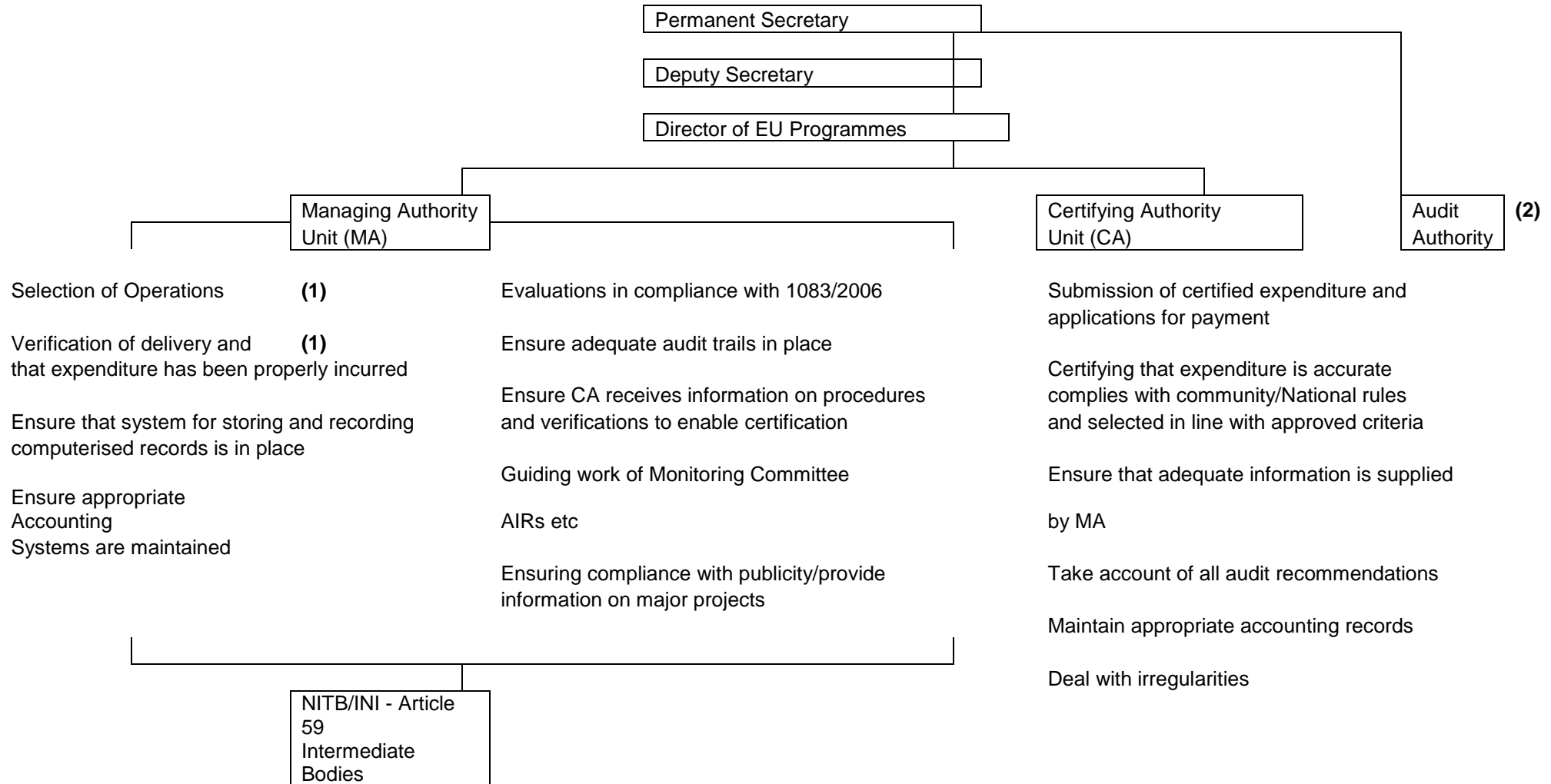


Paymaster General's Account, Northern Bank Belfast.



The Department of Enterprise, Trade and Investment will receive all payments made by the Commission.

**DEPARTMENT OF ENTERPRISE, TRADE AND INVESTMENT (DETI)
EUROPEAN PROGRAMMES ORGANISATIONAL STRUCTURE 2007-2013**



Selection of Operations

Ensure appropriate
Accounting
Systems are maintained

Ensure adequate audit trails in place

Ensuring compliance with publicity/provide
information on major projects

Verification of delivery and
that expenditure has been properly incurred

Ensure that system for storing and recording
computerised records is in place

Evaluations in compliance with 1083/2006

**(1) These activities will be carried out by
different agents**

**(2) For Audit Authority activities see
paragraph 4.11**

Irregularity reporting and recovery of amounts unduly paid

4.12 DFP will co-ordinate the irregularity reporting process. Each Managing Authority will have responsibility to DFP for reporting, monitoring and investigating irregularities and for the recovery of amounts unduly paid in accordance with Article 58(c) of Council Regulation (EC) No. 1083/2006. Regulations (EC) No 2988/95 and 2185/96 on the protection of the European Communities' financial interests will be complied with.

Monitoring Committee

4.13 In accordance with Council Regulation 1083/2006 a single Monitoring Committee will be established for the NI ERDF and ESF Programmes within three months following the approval of the Programmes. The Monitoring Committee, and the Managing Authority shall ensure the quality of the implementation of the NI ERDF Programme and monitor the achievement of the programmes financial and non-financial indicators

4.14 The Monitoring Committee will be chaired by the Department of Finance and Personnel and its membership will include representation from the Managing Authorities, Certifying Authorities, Social Partners, Community and Voluntary Sector, Business Sector, Higher Education Sector, Trade Unions, Equality Commission, Government Departments, Rural development sector, local Government and those representing environmental interests, the Special EU Programmes Body will be represented along with the International Fund for Ireland as observers and the European Commission in an advisory capacity, all main political parties will also be represented on the Committee. Non-permanent Members may be invited by the Monitoring Committee to attend Monitoring Committee meetings in response to specific agenda items. The Monitoring Committee will aim to ensure the balanced participation of the different sectors and promote the balanced participation of men and women. The representation of the Monitoring Committee will enable it to assess specific EU fund/programme issues appropriately. The Monitoring Committee will meet at least twice a year.

4.15 The Monitoring Committee will agree its own terms of reference and rules of procedure to satisfy itself as to the effectiveness and quality of the implementation of the programmes, including:

- Provide arrangements to review progress towards achieving the specific objectives of the Programme;
- Satisfy itself as to the effectiveness and the quality of the implementation of the Programme;
- Consider and approve the criteria for selecting the operations financed projects within six months of the approval of the Operational Programme and approve any revision of those criteria in accordance with programming needs;

- Periodically review progress towards achieving the specific targets of the Operational Programme on the basis of documents submitted by the Managing Authority;
- Examine the results of implementation, particularly the achievement of the targets set for each Priority axis and the evaluations referred to in Article 48(3);
- Consider and approve the annual and final reports on implementation referred to in Article 67;
- Be informed of the annual control report (or of part of the report referring to the Operational Programme concerned) and any relevant comments the Commission may make after examining that report or relating to that part of the report;
- It may propose to the Managing Authority any revision or examination of the Operational Programme likely to make possible the attainment of the Fund's objectives referred to in Article 3 or improve its management, including its financial management; and
- Consider and approve any proposal to amend the content of the Commission decision on the contribution from the Funds.

4.16 An Environmental Working Group and an Equality Working Group will be set up to cover the Programmes. The Monitoring Committee will decide on the constitution of further Working Groups or Sub-committees.

Compliance Assessment

4.17 The General Regulation requires the Member State within 12 months of the adoption of the programme to provide the Commission with a description of the management and control systems and to give an assessment of their compliance with the Regulation or if not, to indicate what corrective action will be taken. DFP in its role as Member State will fulfil this function.

Intermediate Bodies

4.18 Article 59(2) of EU Regulation 1083/2006 stipulates that “the Member State may designate one or more intermediate bodies to carry out some or all of the tasks of the managing or certifying authority under the responsibility of that authority”. The tasks currently envisaged to be delegated by the Managing Authority are:

- Ensuring that operations are selected for funding in accordance with the criteria applicable to the operational programme and that they comply with applicable Community and National rules for their whole implementation period;

- Verifying that the co-financed products and services are delivered and that expenditure declared by the beneficiaries for operations has actually been incurred and complies with Community and national rules. On-the-spot verifications of individual operations may be carried out on a sample basis in accordance with the detailed rules to be adopted by the Commission;
- Ensuring that there is a system for recording and storing in computerised form accounting records for each operation under the operational programme and that the data on implementation necessary for financial management, monitoring, verifications, audits and evaluation are collected;
- Ensuring that evaluations of the operational programme are carried out according to Council Regulation 1083/2006;
- Setting up procedures to ensure that all documents regarding expenditure and audits required to ensure an adequate audit trail are held in accordance with the requirements of Council Regulation 1083/2006;
- Ensuring compliance with information and publicity requirements; and
- Providing the Commission with information to allow it to appraise major projects paying the beneficiaries on receipt of valid claims.

The principle of separation of functions within the same body applies to Intermediary Bodies as well as to the Managing and Certifying Authorities. There are no plans to designate any Certifying Authority tasks to the Intermediate Bodies.

- 4.19 Invest NI and the NI Tourist Board will be designated as Intermediate Bodies within the meaning of Article 59(2), EU Regulation 1083/2006 to deliver parts of the Programme. In all cases, the Structural Funds will be supporting activities that are clearly additional to the bodies' existing activities and fully eligible under the scope of the Programme.
- 4.20 Within the framework of the body's Corporate Plans, annual Operating Plans will be drawn-up setting out planned expenditure and identifying performance targets and objectives. The Intermediate Bodies will be accountable to the Managing Authority, the Department of Enterprise, Trade and Investment and through them to the Department of Finance and Personnel and the Programme Monitoring Committee. The Intermediate Bodies will act in accordance with formal financial memoranda and contractual agreements to be established.

Major Projects

- 4.21 No major projects have been identified for inclusion in the Programme although it is possible that this may change over the lifetime of the Programme.

Partnership and Committee Structure

- 4.22 The Operational Programme will be implemented in partnership with the European Commission and with appropriate authorities and bodies in accordance with national rules and practice. At the consultation stage, the Programme was developed in partnership with key stakeholders such as relevant Government departments, social partners, equality commission, the voluntary and community sector and others who will have a positive contributory role to play. Partnership arrangements will continue as Programme activity is prepared, implemented, monitored and evaluated.
- 4.23 The participation of social partners will be encouraged and facilitated in Programme activities. The Managing Authority will also encourage and facilitate participation and access of non-governmental organisations, particularly in projects that will promote social inclusion, gender equality and equal opportunities in the programme. Where appropriate, Technical Assistance funds may be made available to support partners in the non-governmental sector to participate in the implementation of the Programme.
- 4.24 At Programme level, partnership will be embodied in the Programme Monitoring Committee, which will be responsible for monitoring implementation of the programme. Reflecting the principle of partnership, its membership will be drawn from representatives reflecting the regional and sectoral interests in the programme, including the economic and social partners. The European Commission will be represented in an advisory capacity. The aim will be to ensure a gender balance in representation.
- 4.25 In June 2006 the European Council adopted a renewed Sustainable Development Strategy for the EU. The renewed Strategy included specific reference (point 25) to the co-ordination of EC co-financing in the section on Complementarity between ERDF and ESF Programmes and other EU policies and funding instruments:

'In order to ensure that EU funding is channelled and used in an optimum way to promote sustainable development, Member States and the Commission should co-ordinate to enhance complementarities and synergies between various strands of Community and other co-financing mechanisms, such as cohesion policy, rural development, LIFE+, research and development (R&TD), the Competitiveness and Innovation Program (CIP), and European Fisheries Fund (EFF).'

- 4.26 The single Monitoring Committee for both the ESF and ERDF Programmes will include representation from the rural development and fisheries fund programmes, Rural development sector, local Government and those representing environmental interests.

State Aid

- 4.27 The Managing Authority will ensure that any public support under the NI ERDF Programme complies with procedural and material EC State Aid rules applicable at the point of time when the aid is granted.

Public Procurement

- 4.28 The Managing Authority will ensure that public contracts awarded, concerning projects benefiting from assistance of the ERDF, the Treaty principles comply with the provisions of Directives 2004/17/EC, 2004/18/EC.

Publicity and Information

- 4.29 Article 69 of the general regulation 1083/2006 stipulates that the Managing Authority is responsible for setting out communication and publicity actions to ensure the full visibility of the funds throughout the programming area.
- 4.30 Publicity forms an integral part of the programming strategy and DFP in its Member State capacity will work with each NI Managing Authority will ensure that the benefits of the funds are communicated to the wider public.
- 4.31 Innovative publicity activities and campaigns will help to clearly promote the EU Structural Funds Programmes in NI. These activities will be developed proactively and implemented in collaboration with the European Commission in Brussels, the Representation Office [in Belfast] and Information relays and networks in the UK, which will ensure the visibility and transparency of the funds at a local, regional and national level.
- 4.32 Potential projects sponsors and final beneficiaries/fund recipients will be informed of funding opportunities and also the publicity requirements linked to receiving ERDF and ESF funding during the programming period.
- 4.33 Project sponsors will be required to respect the publicity elements of the general and implementing regulations especially with regards to signage – including billboards, plaques and promotional material.
- 4.34 In conformity with the provisions set out in section 2 of the implementing provisions, the Member State and Managing Authorities will present a communications plan to the Commission no later than four months after the formal adoption of the programme.
- 4.35 The Communication plan will set out the:
- objectives of the plan and the target groups;
 - activities in support of publicity and information including events, seminars and project launches, for potential applicants, partners and the wider public
 - bodies/persons responsible for the implementation of the plan;

- budget for implementing the plan; and
 - evaluation frameworks for the plan.
- 4.36 The Managing Authority will report on progress in implementing the plan (including examples of publicity activities) to the Programme Monitoring Committee and also in the annual implementation report.
- 4.37 The Communication plan will be easily accessible and will be published on the managing authority's website.
- 4.38 Funding for publicity and communications will be provided through the technical assistance budget for the programme.

Lessons Learned from 2000-06 Programmes

- 4.39 As a result of the Mid-term Evaluation of the 2000-2006 Programmes and a number of research projects carried out by the Working Groups established under the Community Support Framework Monitoring Committee, a number of recommendations regarding the management and implementation of the Programmes were made and actioned.
- 4.40 The main lesson arising from the programmes was the need for adequate staffing, guidance and procedures. This has been at the forefront during the development of this programme as all the key operatives have been identified and guidance notes have and will be issued. Other areas include:
- Strengthening Partnership working, information given to Monitoring Committee members was improved and financial assistance was made available to provide support to the social partners;
 - Better communication links with implementing bodies which enhanced the managing and monitoring arrangements;
 - Simplification of the audit process in compliance with EU audit requirements. Detailed check lists were developed and the computer system enhanced to record Article 10 checks;
 - Publicity is a key requirement and as such a dedicated Publicity officer was appointed and “good news” success stories were published;
 - Regular monitoring of the database to ensure that all data, financial and non financial were recorded as early as possible. This was used for claim purposes and to enable more accurate information for reports;
 - Quarterly monitoring of financial spend by Implementing Bodies, outturn figures against spend profile, this action helped in the management of the N+2 target each year;

- Extensive work was carried out in providing guidance and training for the Development Path Analysis (DPA), used to monitor the environmental impact of the programme. It is recognised that for the 2000-2006 programme the DPA score was not always relevant for a number of reasons but a requirement for this programme will be that the score will be available to selection panels to enable informed decisions to be made and that baseline information will be available for monitoring purposes; and
- Assessment of the equality impact of the 2000-2006 programmes was difficult mainly because not only did NI have to monitor the gender issue but the programmes were subject to monitoring equality of access across nine categories as specified in Section 75 of the NI Act 1998. Research into this area made a number of recommendations in particular the need for detailed guidance on monitoring.

4.41 The lessons learnt in the 2000-2006 Programmes have made improvements in the management of the Programmes and these will be carried forward and enhanced.

Monitoring and Evaluation

4.42 Monitoring will be carried out by the Managing Authority under the supervision of the Programme Monitoring Committee. Monitoring will ensure the quality and effectiveness of implementation through assessment of progress towards achievement of the financial and impact indicators and those concerning qualitative aspects of implementation.

4.43 The Programme will be evaluated during its implementation, most likely in or around the mid-term point. An evaluation plan will be established setting out the systems to collect information and the types of evaluation to assess the achievement of the Programme against the set objectives. Programme evaluations will include and assessment of the cross cutting themes on equality and good relations and on promoting sustainable development.

Monitoring System

4.44 The Managing Authority and the Monitoring Committee will ensure the quality of implementation of the NI ERDF Programme and monitor the programmes financial indicators. The Managing Authority will establish monitoring systems to gather and produce the necessary project data to:

- Enable measurement of progress towards the achievement of financial, output and result indicators at priority axis level;
- Provide programme performance measures, including equality issues, for the Managing Authority and the Monitoring Committee;
- Support the preparation of annual and other reports on programme performance;
- Allow the transfer of data on participants in the NI ERDF Programme to be transmitted to the Commission in accordance with Annex XXIII of

the Commission Regulation (EC) No. 1828/2006 of 8 December 2006 setting out rules for the implementation of Council Regulation (EC) No. 1083/2006; and

- Contribute to the wider evaluation of the programme.

4.45 In accordance with the requirements of the Strategic Environmental Assessment Directive as mentioned in Chapter 2: para 2.63, greenhouse gas emissions will be monitored within NI under the NI Sustainable Development Strategy.

4.46 Building on the experience of the 2000-06 programming period the NI ERDF Programme will have a limited number of indicators for outputs and results to measure the performance of the Programme and its Priorities, as set out in Chapter 3. Management information systems will provide core data on a regular, timely and consistent basis over the length of the programming period to enable the Managing Authority and the Monitoring Committee to monitor programme performance and results and take remedial action where necessary.

4.47 The Managing Authority will be responsible for ensuring that verification activity complies with Article 13 of the Commission's Implementing Regulation including the arrangements for on the spot checks and correctness of financial claims. The Managing Authority will provide details of all verifications to the Certifying Authority.

Payment Bodies

Payments from the Commission

4.48 The Department of Enterprise, Trade and Investment will receive all payments made by the Commission. The money received will be routed through HMT Paymaster General Account (NI Consolidated Fund) Bank of England, London to the Paymaster General's Account, Northern Bank Belfast. Separate, non interest bearing accounts are reserved for Community Funds.

Payments to Beneficiaries

4.49 The Managing Authority will pay the beneficiaries the total amount of the public contribution, on receipt of valid claims.

Financial Flows

4.50 In the UK Structural Funds experience is managed, disbursed and monitored in exactly the same way and using the same systems as the UK's own public expenditure. The basic principles of the UK Government Accounting apply to these receipts, in particular:

- Parliamentary scrutiny and accountability;
- The identification of an Accounting Officer responsible for the funds under his or her control; and

- Statutory basis for all expenditure, whether from national or EU source.
- 4.51 Detailed provisions for handling transactions are contained in the procedural guide, Government Accounting in NI. A feature of the UK public sector financial management and control is the obligatory requirement to submit all public expenditure operations to periodic audits.
- 4.52 The Managing Authority will be responsible for ensuring that payments systems used have robust financial controls. Standards of probity and propriety consistent with those used for UK government expenditure will be applied to the management of ERDF grant funds while these are under the control of the Managing Authority. Procedures will be established to ensure that on submission of valid and properly completed claims, projects will be paid promptly. Claims will be subject to Departmental check and can be audited by the DETI, the Department's Internal Audit Service, the NI Audit Office, the European Commission and the European Court of Auditors.
- 4.53 The Certifying Authority will make all payment claims to the European Commission. Interim and final claims will be derived from declarations of expenditure submitted by projects. Systems will be maintained to clearly identify all receipts from the Commission and individual payments to projects.
- 4.54 An outline of how the flows of Community funds will work is as follows:
- The Managing Authority Unit inputs the interim claim expenditure declared by the projects to the NI ERDF Programme Management System.
 - The Certifying Authority Unit submits requests for payments to the Commission at programme level.
 - The Managing Authority's account will receive all payments from the Commission routed through the Paymaster General's Accounts in London and Belfast.
 - The Managing Authority Unit certifies and authorise payments to projects and carry out any recovery action necessary.
 - The Managing Authority Unit makes payments to projects through its DETI BACS account.
 - Where the European Commission requests a refund, the Managing Authority Unit will make the necessary payments.

Use of the Euro and conversion rates

- 4.55 In accordance with Council Regulation 1083/2006 certified statements of expenditure, claims to the Commission and expenditure in the annual and final report of implementation shall be denominated in euro using the Commission's

monthly accounting exchange rate in the month during which the expenditure was registered in the accounts of the Certifying Authority.

Computerised Exchange of Data

- 4.56 The Commission is establishing a secure database system to permit the exchange of data between the Commission, National Authorities and Programme Authorities. This system will be used to exchange information about the Operational Programme, as set out in EC Regulation 1828/2006 ('the Implementing Regulation'), Section 7 Articles 39 to 42 and noted in Article 37(1)(g)(vi) of the General Regulation. UK and NI Authorities will be involved in the development, and any major redevelopment of that computer system.
- 4.57 The Commission and the NI Authorities will ensure that the Community and national provisions on the protection of personal data are complied with. Information exchanged shall be covered by professional confidentiality and be protected in the same way as similar information is protected by United Kingdom national legislation.
- 4.58 In addition, information may not be used for any purpose other than that agreed between the NI Authorities and the Commission, unless the NI Authorities have given their express consent and provided that the provisions in force in NI do not prohibit such use.
- 4.59 The computer system shall contain information of common interest to the Commission and the NI Authorities. An agreement will be reached with the Commission on the core data and the categorisation data which will be provided. The categories will not change during the life of the programme.
- 4.60 Exchange of data and transactions shall be signed electronically in accordance with Article (13) of the Implementing Regulation. The Commission shall specify the arrangements for use of electronic signatures.
- 4.61 A document shall be regarded as having been sent to the Commission once it has been signed by the appropriate authority in the computer system. The commission acknowledges that the date of receipt by the Commission shall be the date that the document is entered into the system, in accordance with Article 42(2) of the Implementing Regulation.
- 4.62 In case of force majeure, particularly the malfunction of the computer system or the failure of a lasting connection, the programme authorities may forward information and documents to the Commission in hard copy, in accordance with Article 42(3) of the Implementing Regulation.
- 4.63 The Commission will provide the technical specifications for the exchange of data and the Programme Managing Authority will develop its computer systems to provide data for transmission to the system either by direct entry or via an automatic interface, as provided for in Article 42(1) of the Implementing Regulation.

- 4.64 The Programme Managing Authority will develop its computer systems to retain the data required for an audit of its accounts. The Managing Authority will set up reliable accounting, monitoring and financial reporting systems in accordance with the general principles of management and control systems set out in Article 58 of the General Regulation.
- 4.65 The NI Authorities are developing a new computer system which will contain all the data relating to the financial transactions and monitoring information.
- 4.66 Extracting data from this system will enable the Programme Authorities to exchange data with the Commission satisfying Articles 37(1)(g)(vi) and Article 66(3) of the General Regulation and Article 39 to 42 of the Implementing Regulation. The Programme Authorities will use the standard Web-Application interface of the Commission's SFC2007 system. Accessing the SFC2007 website will be via the Internet using Internet Explorer and entering the data via the menu-driven options and screens.

European Investment Bank

- 4.67 There are no plans to use the European Investment Bank. However, the special Commission Task Force for NI is reviewing the opportunities for complementarity and better synergies between all EU Programmes applicable to NI and may identify potential recourse to the Bank.

CHAPTER 5: FINANCIAL TABLES

Introduction

5.1 The NI ERDF Programme budget is €613,666,878, of which the ERDF contribution is €306,833,439. This Chapter contains tables showing the annual breakdown of the ERDF funding, and the breakdown of the programme budget by priority axis, as required by Article 37.1.e of Council Regulation (EC) No. 1083/2006 of 11 July 2006. It uses the format set out in Annex XVI of Commission Regulation (EC) No. 1828/2006 of 8 December 2006.

Financing plan of the Operational Programme giving the annual commitment of the Fund in the Operational Programme

5.2 The table below sets out the annual breakdown of financial appropriations from the ERDF. The annual breakdown of funds is determined by profiles established by the EU in its 2007-2013 Financial Perspective and by the annual allocations to the Regional Competitiveness and Employment ESF allocation to NI for the 2007-2013 period set out in the financial table in the UK National Strategic Reference Framework¹⁹.

Operational Programme reference (CCI number): 2007UK162PO003

Year by source for the programme, in EUR:

	Structural Funding (ERDF)	Cohesion Fund	Total
	(1)	(2)	(3)=(1)+(2)
2007	41,272,766		41,272,766
In Regions without transitional support			
In Regions with transitional support	000		000
Total 2007	41,272,766	000	41,272,766
2008	42,098,221		42,098,221
In Regions without transitional support			
In Regions with transitional support	000		000
Total 2008	42,098,221	000	42,098,221
2009	42,940,186		42,940,186
In Regions without transitional support			
In Regions with transitional support	000		000
Total 2009	42,940,186	000	42,940,186
2010	43,798,990		43,798,990
In Regions without transitional support			

¹⁹ UK National Strategic Reference Framework, DTI October 2006

In Regions with transitional support	000		000
Total 2010	43,798,990	000	43,798,990
2011	44,674,969		44,674,969
In Regions without transitional support			
In Regions with transitional support	000		000
Total 2011	44,674,969	000	44,674,969
2012	45,568,469		45,568,469
In Regions without transitional support			
In Regions with transitional support	000		000
Total 2012	45,568,469	000	45,568,469
2013	46,479,838		46,479,838
In Regions without transitional support			
In Regions with transitional support	000		000
Total 2013	46,479,838	000	46,479,838
Total in Regions without transitional support (2007-2013)	306,833,439		306,833,439
Total in Regions with transitional support (2007-2013)	000		000
Grand Total 2007-2013	306,833,439	000	306,833,439

Financial plan of the Operational Programme giving, for the whole programming period, the amount of the total financial allocation of each Fund in the Operational Programme, the national counterpart and the rate of reimbursement by priority axis

- 5.3 The table below sets out the breakdown of the NI ERDF Programme's budget, by priority axis, for the 2007-2013 programming period. It includes the breakdown of the ERDF and national financial contributions. The national financial contribution will be provided by public **and private** funding.
- 5.4 The table also shows the co-financing or intervention rate of the ERDF. The ERDF will contribute 50% of the total public **and private** eligible expenditure in the Programme.

Operational Programme reference (CCI number): 2007UK162PO003

Priority axis by source of funding (in EUR)

	Community Funding (a)	National counterpart (b)=(c)+(d))	Indicative breakdown of the national counterpart		Total funding (e)=(a)+(b)	Co-financing rate (f)=(a)/(e)	For information	
			National Public funding (c)	National private funding (d)			EIB contributions	Other funding
Priority Axis 1 ERDF Public	€160,000,000	€160,000,000	€140,000,000	€20,000,000	€320,000,000	50%	000	000
Priority Axis 2 ERDF Public	€105,000,000	€105,000,000	€95,000,000	€10,000,000	€210,000,000	50%	000	000
Priority Axis 3 ERDF Public	€38,000,000	€38,000,000	€38,000,000	000	€76,000,000	50%	000	000
Priority Axis 4 ERDF Public	€3,833,439	€3,833,439	€3,833,439	000	€7,666,878	50%	000	000
Total	€306,833,439	€306,833,439	€276,833,439	€30,000,000	€613,666,878	50%	000	000

Categorisation of expenditure and 'Lisbon earmarking'

5.5 Information on the indicative breakdown by category of the programmed use of the contribution of the ERDF to the NI ERDF Programme has been entered on to the Commissions SFC database alongside this Programme. For information purposes, in accordance with Article 37(d) Council Regulation (EC) No. 1083/2006 of 11 July 2006, the table below presents the summary indicative breakdown by category;

Summary

Dimension 1: Priority Theme

Code	Description	Community Amount	Priority 1	Priority 2	Priority 3	Priority 4	TOTAL
2	R&TD infrastructure (<i>including physical plant, instrumentation and high-speed computer networks linking research centres</i>) and centres of competence in a specific technology	€13,460,000	€13,460,000	-	-	-	13,460,000
3	Technology transfer and improvement of cooperation networks between small businesses (SMEs) between these and other businesses and universities, post-secondary education establishments of all kinds, regional authorities, research centres and scientific and technological poles (<i>scientific and technological parks, technopoles, etc</i>)	€19,500,000	€19,500,000	-	-	-	19,500,000
4	Assistance to R&TD, particularly in SMEs (<i>including access to R&TD services in research centres</i>)	€65,237,000	€65,237,000	-	-	-	65,237,000
6	Assistance to SMEs for the promotion of environmentally-friendly products and production processes (<i>introduction of effective environment managing system, adoption and use of pollution prevention technologies, integration of clean technologies into firm production</i>)	€31,040,000	€31,040,000	-	-	-	31,040,000
8	Other investment in firms	€53,015,000	€16,000,000	37,015,000	-	-	53,015,000
9	Other measures to stimulate research and innovation and entrepreneurship in SMEs	€62,748,000	€14,763,000	47,985,000	-	-	62,748,000
10	Telephone infrastructures (<i>including broadband networks</i>)	€10,875,000	-	-	10,875,000	-	10,875,000
14	Services and applications for SMEs (<i>e-commerce, education and training, networking, etc.</i>)	€4,650,000	-	-	4,650,000	-	4,650,000
15	Other measures for improving access to and efficient use of ICT by SMEs	€4,650,000	-	-	4,650,000	-	4,650,000
39	Renewable energy: wind	€700,000	-	-	700,000	-	700,000
40	Renewable energy: solar	€700,000	-	-	700,000	-	700,000
41	Renewable energy: biomass	€4,300,000	-	-	4,300,000	-	4,300,000
42	Renewable energy: hydroelectric, geothermal and other	€3,000,000	-	-	3,000,000	-	3,000,000
43	Energy efficiency, co-generation, energy management	€2,425,000	-	-	2,425,000	-	2,425,000
52	Clean Urban Transport	€6,700,000	-	-	€6,700,000	-	€6,700,000
57	Other assistance to improve tourist services	€20,000,000	-	20,000,000	-	-	20,000,000
85	Preparation, implementation, monitoring and inspection	€1,833,439	-	-	-	1,833,439	1,833,439
86	Evaluation and studies; information and communication	€2,000,000	-	-	-	2,000,000	2,000,000
Total		€306,833,439	€160,000,000	€105,000,000	€38,000,000	€3,833,439	€306,833,439

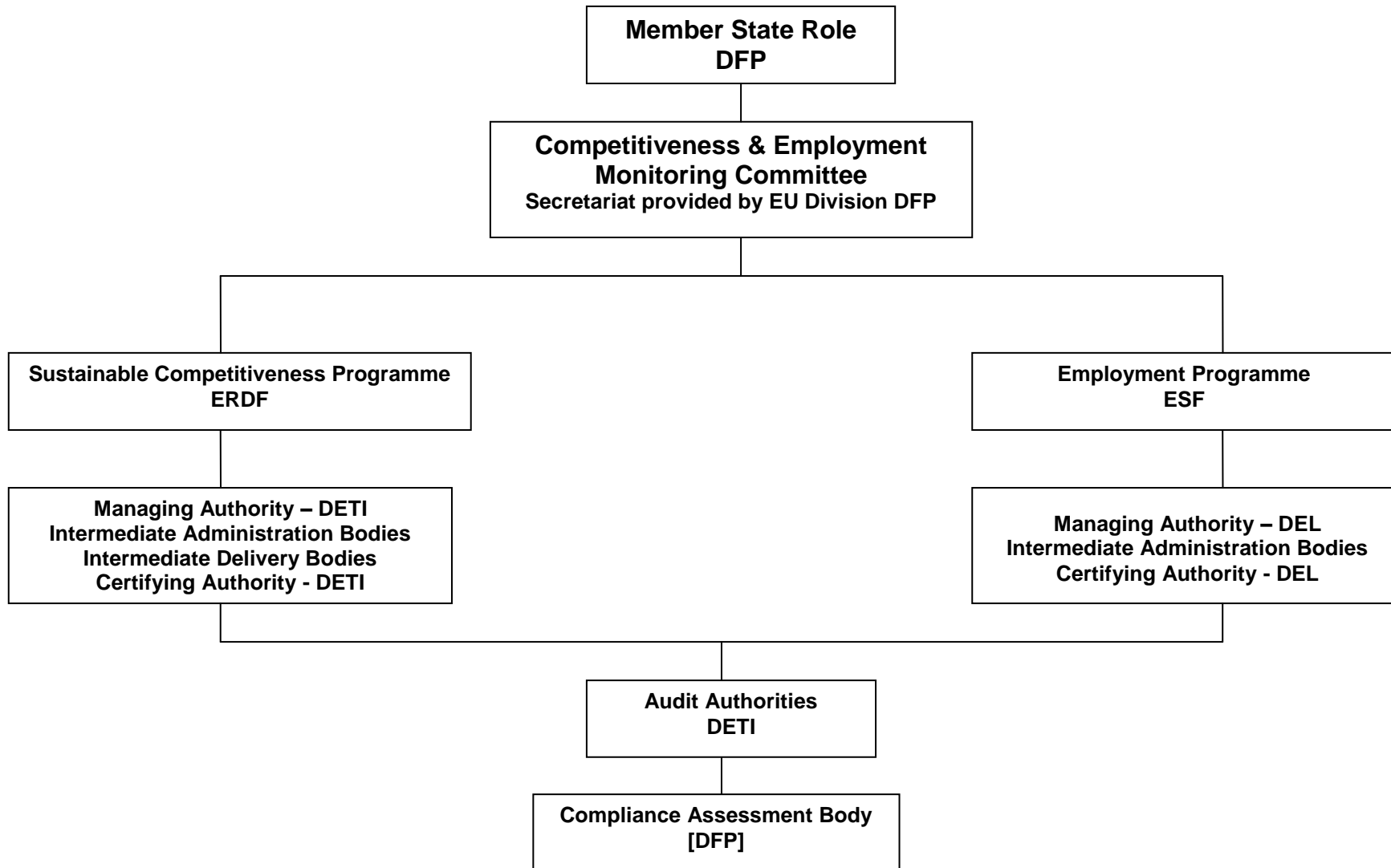
Dimension 2: Forms of Finance

Code	Amount
1. Non-repayable Aid	€302,733,439
2. Aid (loan, interest subsidy, guarantees)	€0
3. Venture Capital (participation, venture-capital fund)	€4,100,000

Dimension 3: Territory

Code	Amount
1 Urban	€199,441,735
5 Rural Areas	€107,391,704
Total	€306,833,439

*NI's population is currently estimated at just over 1.7 million. Based on the 2001 census, the definition of rural/urban areas as favoured by the Inter-Departmental URBAN-RURAL definition group, the rural population was estimated at 35% of the total population and the urban population at 65% of the total population.



STRATEGIC ENVIRONMENTAL ASSESSMENT (SEA) - DETERMINATION

In accordance with the Directive 2001/42/EC and Statutory Rule 2004 No 280, the Environmental Assessment of Plans and Programmes Regulations (NI) 2004 a determination of whether the ERDF Competitiveness Programme is likely to have significant environmental effects was conducted and a screening report was passed for consultation to NI's designated consultation body, the Department of the Environment's Environment and Heritage Service on 21 November 2006.

The screening report was based on the Environment and Heritage Service proforma and specifically the criteria specified in Schedule 1 of the Regulations.

The Managing Authority, as the responsible authority determined that there was no need for a full Strategic Environmental Assessment of the NI's ERDF Competitiveness Programme under the Directive 2001/42/EC and NI's Statutory Rule 2004 No 280, the Environmental Assessment of Plans and Programmes (NI) 2004 for the following reasons:

- Over 75% of the programme funding focuses on immaterial operations related to R&TD, innovation, sustainable enterprise and entrepreneurship and improving accessibility and protecting and enhancing the environment, therefore this Programme does not set the framework for projects likely to have significant environmental effects.
- Projects funded under Priority 3, improving accessibility and protecting and enhancing the environment will actually focus on improving and enhancing the natural environment.
- The ERDF programme is based on Departmental programme spend and any major project will be subject to Statutory Rule 2004, No 280 Environmental Assessment of Plans and Programmes (NI) 2004 by that Department; and
- All projects applying for funding will be subject to selection criteria and one prerequisite will be the allocation of a Developmental Path Analysis (DPA) score which the selection panel must consider.

The Environment and Heritage Service concurred with the Managing Authority's opinion that a full environmental assessment in accordance with Part III of the Regulations is not required. Nevertheless, in the interests of transparency and in view of the fact that the programme might, in the future, contain projects which could have an environmental impact, it was decided to conduct a full SEA at the outset of the programme. A draft SEA report has been drawn up by independent consultants and was issued for public consultation on 16th April 2007. The consultation period ended on 9th July 2007. The final SEA will be submitted to the European Commission for information purposes.

DEPARTMENT OF FINANCE AND PERSONNEL

EQUALITY IMPACT ASSESSMENT SCREENING

The purpose of the screening for an Equality Impact Assessment is for the Department to assess whether new options or options for change are likely to impact on equality of opportunity or good relations, and seeking to identify which Section 75 groups, if any, would be adversely affected. The Department must record the outcome of the Preliminary Section 75 Assessment and will make this available on request.

It is essential that before completing this preliminary assessment you should satisfy yourself that you are familiar with the commitments outlined in the Department's Equality Scheme.

This form should be completed when:

- (a) considering options for a **new** policy, service or programme, or
- (b) **changing** an existing policy, service or programme.

The form will help you to record the evidence for the decisions you have made and the final outcome of the screening for the Equality Impact Assessment for new and / or changes to policies.

Equality Impact Assessment Screening

GENERAL DETAILS

Business Area

European Division

Title of policy. Date policy or change to policy introduced:

NI ERDF Competitiveness Programme: 2007-2013

Programme to run from January 2007 to December 2013

For purposes of this document evidence used to complete this screening exercise has been based on the high-level equality impact assessment proformas completed by Government Departments who proposed the expenditure.

Brief summary of policy

The European Regional Development Fund (ERDF) is one of two funds under the EU Competitiveness and Employment Objective. The ERDF programme will have some £211m EU funding to help create a more competitive and sustainable NI and in particular contribute to the closing of the productivity gap with the UK. It follows on from the 2000 – 2006 BSP EU programme worth some £370 million ERDF EU funding.

DFP as Member State will coordinate the management of the programme but expenditure will be delivered through other government departments and intermediary bodies. The vast majority of the expenditure will be delivered by DETI. All Government departments in NI operate Equality Schemes and all expenditure schemes are designed in line with Section 75 requirements.

The whole of NI will be eligible for funding in the 2007-2013 funding period. As the programme and each departmental scheme will be widely advertised all citizens of NI, if eligible, has the opportunity to apply.

The programme has been developed in line with the UK National Strategy Reference Framework which was subject to public consultation in early 2006. One response to that was concern that S75(2) requirements were given greater prominence than S75(1) requirements. This concern has been taken on board and addressed in the programme document where it is clear that the requirements of both paragraphs of section 75 must be adhered to in the operation of the Programme.

Aims of the Policy

The main aim of NI's ERDF Programme is to close the productivity gap with the UK and increase NI's GVA per hour worked compared with international averages.

It will make businesses aware of the need to innovate and will encourage better links between companies and research bodies. It will improve overall climate for business creation and expansion and stimulate entrepreneurship and risk taking. In addition small-scale investments will be made to improve accessibility, to reduce costs and to maintain and protect the local environment.

The Programme will be delivered through 4 priorities:

1. Sustainable Competitiveness and Innovation

The objective is to assist the development and maintenance of a world class innovation system in NI by delivering a range of programmes that will increase the capability of businesses to utilize knowledge, skills and innovation to create unique competitive advantage.

Target groups for this priority

- NI industry, especially SMEs
- Higher Education and research bodies

2. Sustainable enterprise and entrepreneurship

The objective is to encourage more people from all backgrounds to consider starting a new business or grow an existing business. Also it will strengthen the support infrastructure, ensuring appropriate services are accessible, particularly for those in groups currently under-represented amongst the entrepreneurial population (eg women, young people, ethnic minorities, disabled people and those from disadvantaged communities). Investment will develop the tourism infrastructure and industry competitiveness in some of the NTSN areas of the western region.

Target groups for this priority

- Entrepreneurs,
- Local Industry, SMEs
- Local authorities
- Tourism
- Voluntary and Community sector

3. Improving accessibility and protecting and enhancing the Environment.

One objective is to bring the next generation broadband services plus competition in the delivery of services throughout NI up to the level in major urban areas in the UK and other parts of Europe, this will lead to an increase in both take up and productivity by SMEs. It is envisaged that these services will provide opportunities for new businesses to emerge and new opportunities for new jobs for all areas of NI.

Target groups for this priority

- NI Businesses, particularly SMEs
- Public Authorities
- Environmental, Voluntary and Community Groups

4 Technical Assistance

- Technical assistance will support the management, monitoring, evaluation and publicity for the programme.

As all PE in NI is subject to statutory equality and good relations legislation, spend must also be consistent with the anti poverty and sustainable development strategies. EU Programmes are required to meet exactly the same requirements.

Stimulus for change; e.g economic reasons, legislation

NI is eligible for ERDF in the [new 2007-2013 programming period](#). The NI ERDF Programme has been subject to an ex-ante evaluation carried out by NI Statistical and Research Agency to ensure that the programme strategy responds to identified Socio-Economic needs of NI and is aligned with the Lisbon growth agenda.

The ERDF competitiveness Programme will support existing national initiatives pursuing the same aims and objectives.

EU funding should be prioritised towards promoting R&TD expenditure by local businesses, improving enterprise performance to catch up with the best performing countries in Europe, raising the skills of the current workforce and encouraging take-up of recent advances in technological infrastructure.

The ERDF Programme will adhere to Section 75 of the NI Act 1998 and Article 16 of Council Regulation 1083/2006.

EQUALITY IMPACT ASSESSMENT SCREENING

Using your knowledge of the policy area and any relevant monitoring data, evaluation findings and external research data for each option being considered answer the following questions as best you can. Please note that absence of relevant data for any of the questions may lead to a full Equality Impact Assessment.

1. Would this option promote equality of opportunity between people of different religious beliefs?

YES / NO please underline

Please explain:

Activities funded under the NI ERDF Programme are available to all those who meet the criteria for funding. Therefore funding will be available to applicants irrespective of religious belief. For those individuals, groups or areas of social disadvantage that are successful in securing funding there will be a positive benefit to them.

2. Could this option adversely affect equality of opportunity between people of different religious beliefs?

YES / NO please underline

Please explain:

Activities funded under the NI ERDF Programme will be available to applicants irrespective of religious belief.

3. Would this option promote equality of opportunity between people of different political opinion?

YES / NO please underline

Please explain:

Activities funded under the NI ERDF Programme are available to all those who meet the criteria for funding. Therefore funding will be available to applicants irrespective of political opinion. For those individuals, groups or areas of social disadvantage that are successful in securing funding there will be a positive benefit to them.

4. Could this option adversely affect equality of opportunity between people of different political opinion?

YES / NO please underline

Please explain:

Activities funded under the NI ERDF Programme will be available to applicants irrespective of political opinion.

5. Would this option promote equality of opportunity between people of different racial groups?

YES / NO please underline

Please explain:

Activities funded under the NI ERDF Programme will be available to applicants irrespective of racial group. There will be particular activities in Priority 2 that will incorporate initiatives that specifically target ethnic minorities groups.

6. Could this option adversely affect equality of opportunity between people of different racial groups?

YES / NO please underline

Please explain:

Activities funded under the NI ERDF Programme will be available to applicants irrespective of racial group. There will be particular activities in Priority 2 that will incorporate initiatives that specifically target ethnic minorities groups.

7. Could this option promote equality of opportunity between people of different ages?

YES / NO please underline

Please explain:

Activities funded under the NI ERDF Programme are available to all those who meet the criteria for funding. Therefore funding will be available to applicants irrespective of age.

8. Could this option adversely affect equality of opportunity between people of different ages?

YES / NO please underline

Please explain:

Activities funded under the NI ERDF Programme will be available to applicants irrespective of age.

9. Would this option promote equality of opportunity between people of different marital status?

YES / NO please underline

Please explain:

Activities funded under the NI ERDF Programme are available to all those who meet the criteria for funding. Therefore funding will be available to applicants irrespective of marital status.

10. Could this option adversely affect equality of opportunity between people of different marital status?

YES / NO please underline

Please explain:

Activities funded under the NI ERDF Programme will be available to applicants irrespective of marital status.

11. Would this option promote equality of opportunity between people of different sexual orientation?

YES / NO please underline

Please explain:

Activities funded under the NI ERDF Programme are available to all those who meet the criteria for funding. Therefore funding will be available to applicants irrespective of sexual orientation.

12. Could this option adversely affect equality of opportunity between people of different sexual orientation?

YES / NO please underline

Please explain:

Activities funded under the NI ERDF Programme will be available to applicants irrespective of sexual orientation.

13. Would this option promote equality of opportunity between men and women?

YES / NO please underline

Please explain:

Activities funded under the NI ERDF Programme will be available to male and female applicants. The Programme will adhere to Article 16 of Council Regulation 1083/2006 ensuring that equality between men and women and the integration of the gender perspective is promoted during the various stages of implementation.

Strands within the programme are aimed at encouraging more females to participate where they are underrepresented, in particular in considering entrepreneurship as a viable career option.

14. Could this option adversely affect equality of opportunity between men and women?

YES / NO please underline

Please explain:

Activities funded under the NI ERDF Programme will be available to male and female applicants.

15. Would this option promote equality of opportunity between persons with a disability and persons without?

YES / NO please underline

Please explain:

Activities funded under the NI ERDF Programme will be available to persons with a disability and persons without.

Elements within the programme may have a positive impact on persons with a disability ie some activities are designed to encourage those with disabilities to consider innovation, creativity and entrepreneurship.

16. Could this option adversely affect equality of opportunity between persons with a disability and persons without?

YES / NO please underline

Please explain:

The activities funded under the NI ERDF Programme will be available to persons with a disability and persons without.

17. Would this option promote equality of opportunity between persons with dependants and persons without?

YES / NO please underline

Please explain:

Activities funded under the NI ERDF Programme will be available to persons with dependants and persons without.

18. Could this option adversely affect equality of opportunity between persons with dependants and persons without?

YES / NO please underline

Please explain:

Activities funded under the NI ERDF Programme will be available to persons with dependants and persons without.

19. Would this option promote good relations between people of different religious beliefs?

YES / NO please underline

Please explain:

Activities funded under the NI ERDF Programme will be available to people of different religious beliefs.

Improved access will improve opportunities for all groups to engage in social, educational and work activities within NI.

20. Could this option adversely affect good relations between people of different religious beliefs?

YES / NO please underline

Please explain:

Activities funded under the NI ERDF Programme will be available to people of different religious beliefs.

21. Would this option promote good relations between people of different political opinion?

YES / NO please underline

Please explain:

Activities funded under the NI ERDF Programme will be available to people of different political opinion.

Improved access will improve opportunities for all groups to engage in social, educational and work activities within NI.

22. Could this option adversely affect good relations between people of different political opinion?

YES / NO please underline

Please explain:

Activities funded under the NI ERDF Programme will be available to people of different political opinion.

23. Would this option promote good relations between people of different racial groups?

YES / NO please underline

Please explain:

Activities funded under the NI ERDF Programme will be available to people of different racial groups. In fact the programme will contribute to greater social inclusion among different ethnic groups

Improved access will improve opportunities for all groups to engage in social, educational and work activities within NI.

24. Could this option adversely affect good relations between people of different racial groups?

YES / NO please underline

Please explain:

Activities funded under the NI ERDF Programme will be available to people of different racial groups.

25. Would this option challenge or strengthen stereotypes?

Please explain:

The ERDF Programme will support activities to promote a knowledge-based economy, characterised by higher levels of innovation, creativity, and research and development. It will also focus on stimulating higher levels of entrepreneurship in the private sector in order to improve competitiveness and productivity. The programme will protect and enhance the natural environment and promote sustainable development and create sustainable communities.

The Programme should help to challenge any stereotypes associated with the target groups listed above and impact positively across all the Section 75 groups.

OPTIONS

If you are considering a range of new options or a range of options for change you must answer questions 1-25 for each option.

Please note -

If any of the options under consideration have greater potential than the others for promoting equality of opportunity then this should be taken into account when reaching a decision.

FULL EQUALITY IMPACT ASSESSMENT DECISION

If an option for change is likely to have an **adverse** impact on equality of opportunity, then the Department is committed to consulting publicly as part of a **full impact assessment** before deciding to adopt or recommend that change.

Do you consider therefore taking account of your analysis of questions 1 –25 that this new policy or policy change needs to be subjected to a Full Equality Impact Assessment?

YES / NO please underline

Reason for decision

The aim of the new NI ERDF programme is to close the productivity gap with the UK and increase NI's GVA per hour worked compared with international averages. The ERDF programme activities are based on other Departmental programme spend and subject to the statutory EQIA. The EU programme will be realised through the 4 Priorities:

1. Increasing investment in research and development and promoting innovation.

It is envisaged that those successful in securing funding there will be a positive benefit to them in R&TD terms.

2. Promoting enterprise and entrepreneurship.

There is potential to promote equality of opportunity in groups currently under-represented amongst the entrepreneurial population (eg women, young people, ethnic minorities, disabled people and those from disadvantaged communities). Also investment will develop the tourism infrastructure and industry competitiveness in some of the NTSN areas of the western region.

3. Improving accessibility and protecting and enhancing the Environment.

It is envisaged that opportunities for new businesses will emerge and there will be new opportunities for new jobs for all areas of NI.

4. Technical Assistance

All priorities are implemented by Government Departments with separate requirements to submit their policies to Equality Impact Assessments. These Assessments will continue throughout the Programming period including for the EU expenditure.

These requirements will be integrated within:

- the promotion of the programme;
- the application form;
- the project selection process; and
- monitoring and evaluation.

From the information provided by Government Departments the NI ERDF Programme has been screened against all the criteria in the Assessment of Impacts and it is evident that there is no adverse impact on equality of opportunity or good community relations in fact the programme will have a positive or neutral effect. The new Programme does not need to be subjected to a full Equality Impact Assessment.

**EU DRAFT COMPETITIVENESS AND EMPLOYMENT PROGRAMMES
(2007-2013) RURAL PROOFING ASSESSMENT**

INTRODUCTION

1. The Department of Finance and Personnel, European Division has prepared this Rural Proofing Assessment for the 2007-13 EU Competitiveness and Employment (C&E) Programmes based on the guidance on rural proofing provided by the Department of Agriculture and Rural Development. In drawing up the proposed C&E Programmes' spending priorities, all Departments proposing expenditure areas were asked to identify any impacts on rural areas. This DFP assessment is based on those inputs and the overall conclusion reached is that all the proposed (C&E) Programmes' expenditure areas would either be available to both rural and urban communities or for some activities would have a demonstrably positive rural effect.

Context

2. During the 2000-2006 EU funding period, elements of three EU Structural Funds Programmes – the Programme for Building Sustainable Development, the NI LEADER+ Programme and the PEACE II Programme – provided specific support to rural communities through the EAGGF and FIFG. For the 2007-13 EU funding period these Structural Funds have been replaced by two new EU Funds established from 1 January 2007 – the European Agricultural Fund for Rural Development (EAFRD) and the European Fisheries Fund (EFF). The Department of Agriculture and Rural Development has prepared a new Rural Development Programme (funded in part from EAFRD), and NI's part of a new UK EFF Operational Programme, for European Commission approval; it is these 2007-13 EU Programmes and not the 2007-13 EU Competitiveness Structural Funds Programmes that will provide rural areas with the specially targeted successor EU support to that they received from Structural Fund Programmes in the 2000-06 period. It remains important however, that all areas of NI, both rural and urban, are eligible for C&E Structural Funds support and this is the case. Complementarity and coherence between actions financed by ERDF, ESF, EAFRD and EFF will be ensured.

Assessment

3. For most of the specific expenditure areas proposed for the C&E Programmes, the Departments making the proposals have indicated that the expenditure will be available to both urban and rural areas. For other expenditure as highlighted below, proposing Departments have identified a positive rural effect.

4. For the ERDF Competitiveness Programme such positive effects are expected from the indicative activities under the proposed priority in the ERDF Programme for 'Improving Accessibility and Protecting and Enhancing the Environment' that includes measures to upgrade NI's existing broadband infrastructure making high-speed telecommunications more widely accessible and to support sustainable energy diversification programmes. The proposed 'Enterprise and Entrepreneurship' priority includes provision for possible Rural Enterprise activities and a key element of the enterprise strategy is the provision for each local council to develop its own action plan to address local community needs.
5. With regard to the spending priorities for the ESF Employment Programme, the proposed expenditure areas, to help people into sustainable employment and improve workforce skills and adaptability, would address the needs of both urban and rural communities, in that the ESF Programme would primarily be taken forward as part of the Department of Employment and Learning's regional employment and skills policies, which apply throughout NI.
6. The Structural Funds Implementing Regulation (EC) No 1828/2006 requires a comprehensive Communication Plan to be drawn up and implemented for each Operational Programme – the implementation of the Plan is closely monitored by the Programme Monitoring Committee, which will include representatives for rural interests.

Conclusion

7. DFP has considered the issues set out in the rural proofing checklist, and has completed this assessment of their impact on rural areas based on information provided by Departments proposing the expenditure areas for the 2007-13 Competitiveness and Employment Programmes. Programmes have been developed to recognise the needs of both rural and urban communities. The Competitiveness and Employment Programmes will apply throughout NI and some of the Competitiveness Programme spending priorities would have a positive rural effect. Provision to address the rural needs, currently included in the 2000-06 EU Programmes, has been made in the separate Rural Development Programme. On this basis it is considered that there are no barriers to participation for rural communities within the Competitiveness and Employment Programmes.

Socio-Economic Analysis

INTRODUCTION

1. Northern Ireland (NI) is a region of the United Kingdom (UK) that operates in an island economy sharing a land border with the Republic of Ireland (RoI). NI is located on the North-West periphery of the European Union (EU).
2. As a small open economy, NI cannot insulate itself from global economic developments. Not only is NI facing increased competition from new competitors such as China, India and the EU Accession countries, but also the business cost base is rising. However, globalisation also presents a number of opportunities for firms to become more outward looking and to take advantage of new markets.
3. NI covers a relatively small area of 13,576 square kilometres. The landscape is predominantly rural, but almost two-fifths of the province's population lives in the Belfast Metropolitan area. The only other sizeable concentration of population is in and around Derry City (population 105,000 in 2001) in the North-West. In the west the population is more rural and centres of settlement are more widely dispersed. In addition, there is a greater dependence on agriculture, with food processing also being relatively more important.

Overview

4. Favourable demographics can have a positive effect on economic growth, through an increase in working age population and large inflows of skilled migrants. NI's population is currently estimated at just over 1.7 million. It has a relatively youthful population, for example, 20.6% are less than 15 years of age compared to 18.0% in the UK. This leads to a higher dependency rate in the local economy. However, this scenario is expected to change over the next ten years as the currently youthful population moves into the working age population.
5. On the standard measures of economic performance the NI economy has performed quite well. Employment is at record levels, although the latest working age employment rate²⁰ is estimated at 69.9%²¹, which ranks the 2nd lowest amongst the UK regions, and 4.5 percentage points below the UK average. Unemployment remains at historic lows. At 4.3%, NI currently has the one of the lowest rates of unemployment within the UK (except South West - 4.0%). The NI average annual economic growth has exceeded the UK average since 1990 (with the fastest NI growth at the beginning of the period). However, NI's GVA per head currently lags behind the UK average by around 20%.

²⁰ The working age employment rate refers to females aged 16-59 years and males aged 16-64 years.

²¹ ONS figure at November – January 2007.

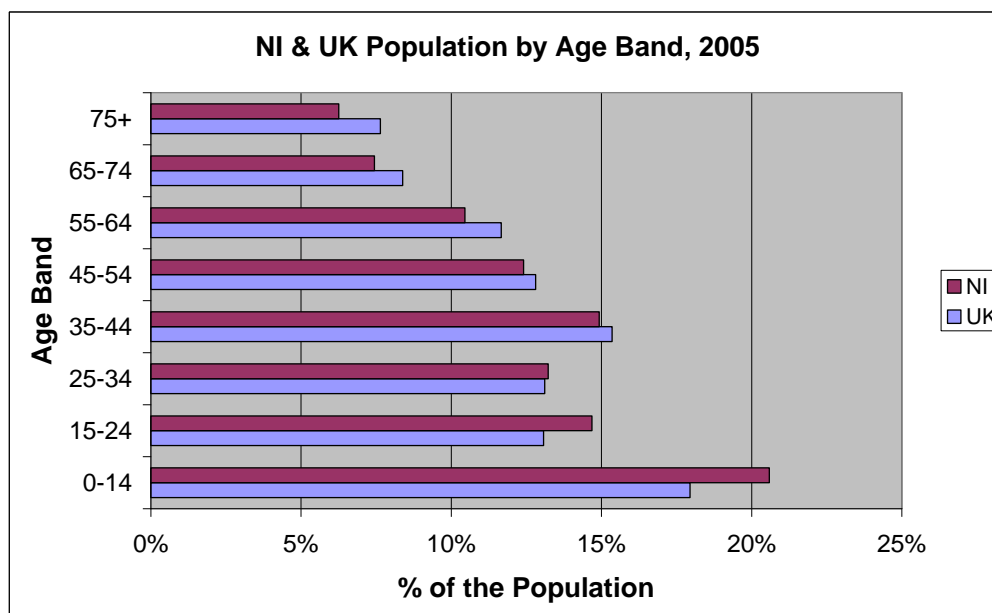
6. NI has a number of strengths, weaknesses, opportunities and threats, which are summarised below. This presents information on the main intervention needs for the NI economy. Detail relating to these areas is provided in the subsequent analysis. Before proceeding further with this analysis, it is noted that three decades of civil unrest and terrorism has led to a legacy of lost economic opportunity in NI. The restoration of Devolved Administration on 8 May 2007 provides a major opportunity to the social and economic development of the region. This should not be underestimated in the development (and potential success) of the Programme.

<p><u>STRENGTHS</u></p> <ul style="list-style-type: none"> • Growing labour force pool of working age population. • Good performance of GVA & GVA per head. • NI HERD. • High business survival rates. • Inflow of young & well educated cadre of young people in workforce. • 100% broadband availability • Sustained growth in employee jobs. • Low rate of unemployment. • Rich and varied natural heritage. 	<p><u>WEAKNESSES</u></p> <ul style="list-style-type: none"> • NI is one of the most deprived areas of the UK. • NI is least productive region within UK. • Lower levels of spending on R&TD. • Lower levels of entrepreneurial activity. • Lower levels of on-job training. • High proportions of workers with no qualifications. • Low working age employment rate. • High percentage of part-time jobs. • Relatively high LTU. • High economic inactivity rate. • High proportion of household income from benefits.
<p><u>OPPORTUNITIES</u></p> <ul style="list-style-type: none"> • From the restoration of Devolution. • Based on an increased labour pool as the currently youthful population moves into the working age population. • Relating to relatively higher levels of HERD. • To market NI as a vibrant tourism destination. • To attract foreign direct investment by being able to provide a pool of employees educated at graduate level. • From promoting the rich and varied natural heritage in NI. • For maximising the trading opportunities within the island of Ireland. 	<p><u>THREATS</u></p> <ul style="list-style-type: none"> • Increased low cost competition from opening up of EU. • Gender segregation in entrepreneurship. • Need to create sufficient numbers of jobs and to have a labour force with appropriate skills. • Failure to deal with relatively high inactivity levels. • NI business costs expected to rise. • Potential risk to environmental sustainability.

Demography

7. Demographic factors are an important determinant of economic performance:
 - The population growth rate is positively correlated to the rate of economic growth, and the size of the domestic market; and
 - Population structure determines the proportion of people of working age and the extent of the population that this group must support.
8. NI's population is currently estimated at just over 1.7 million. Based on the 2001 Census, using the settlements based definition of rural/urban areas²², the rural population is estimated at 588,651 (35% of total population) and the urban population is 1,096,616, or 65% of the total population.
9. Between 2007 and 2013 the NI population is projected to increase by about 40,000 (2.3%). Longer-term projections suggest the population will peak around 1.86 million in the early 2030s and then start to fall gradually.
10. NI currently has a relatively youthful population. Figure 1 below provides a comparison of the age structure of NI's population with the UK in 2005. It illustrates that, compared to the UK, NI has relatively more of its population aged between 15 and 35 years. In addition, 20.6% of the NI population are aged less than 15 years compared with 18.0% of the UK population.

Figure 1



Source: ONS

²² This definition, favoured by the **Inter-Departmental Urban-Rural definition group**, takes into account three key criteria when ascribing meaningful urban characteristics to settlements: population size; population density; and service provision. Rural areas are characterised by a dispersed population, agricultural or other extensive land use and by their distance from major urban centres.

11. NI also has a relatively youthful population compared to elsewhere in the EU. Comparative figures for the EU25 indicate that, NI and Rol, at 20.8%, have the highest percentage of the population aged under 15 years. This is well above the EU25 average of 16.2% of the population (Table 1).

Table 1 – Percentage of the Population aged under 15 years, 2005 & 2013

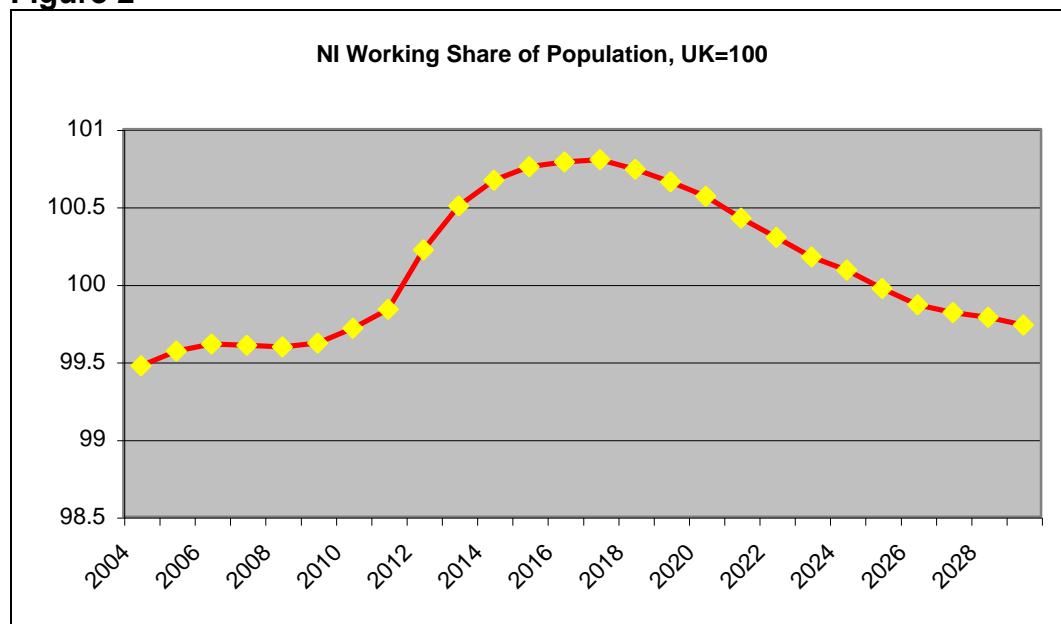
	% of Population aged under 15 years, 2005	% of Population aged under 15 years, 2013
EU25	16.2	16.0
UK	18.0	16.8
Rol	20.8	21.5
NI	20.6	18.5

Source: Eurostat; ONS

12. Table 1 also shows that the proportion of the population aged under 15 years in NI is expected to fall to 18.5% by 2013. This remains above the UK figure of 16.8% of the population but is below the Rol percentage (21.5%). The fertility rate²³ follows a similar pattern. The NI rate (1.87) is above the UK rate (1.74) but falls below the Rol rate of 1.99.
13. A more youthful population is one of the factors that acts to increase the dependency rate of the local economy. A higher dependency rate is one of the factors that underlies the gap in GDP per head between NI and the other regions of the UK.
14. This situation is unlikely to continue in the future, with NI's high dependency ratio expected to decline from 2011 as the currently youthful population moves into the working age population. Figure 2 shows that NI is projected to have a higher proportion of working age population than the UK from 2011 until 2024. This future increased supply of labour should impact positively on the economic growth of the region.

²³ Measured as the mean number of children that would be born alive to a woman during her lifetime.

Figure 2



Source:

NISRA, Government Actuary Department

15. The number of children aged under 16 in NI is projected to fall by 7.1% from 380,000 in 2005 to 353,000 in 2013. The number of people of working age in NI is projected to increase from 1,063,000 in 2005 to 1,099,000 by 2013, an increase of 36,000 (3.4%). The number of people of pensionable age in NI is projected to increase from 280,000 in 2005 to 328,000 by 2013, an increase of 17.1%. While this latter rate acts to increase the dependency rate in the local economy, the trend towards an ageing population is similar to that of other developed countries.

Health in NI

16. In 2005 there were 14,223 deaths registered, which was the lowest ever number of deaths on record for NI. The death rate has fallen by 26% from 11.3 deaths per 1,000 population in 1974 to 8.3 deaths per 1,000 population in 2005. Within a EU context NI has a relatively low death rate, with countries such as Portugal and Italy having the highest death rates and Cyprus and RoI having the lowest. Although NI fares well in comparison to the UK & EU average death rates of 10.13 and 10.10 respectively, it is higher than RoI death rate of 7.82 deaths per 1,000 population.
17. The reduction in the number of deaths in NI over the years has occurred despite the population increasing in size and containing a higher proportion of elderly people, i.e., those aged 75 and over represent 6% of the population now compared to 4% in 1974. The reduction in the number of deaths reflects the continuing reduction in mortality rates across all age groups and the corresponding increase in life expectancy.
18. All deaths registered in 2004 have been coded using the International Statistical Classification of Diseases, Injuries and Causes of Death (ICD-10). Circulatory diseases, malignant neoplasms (cancer) and respiratory diseases

accounted for 76.5% of all deaths in NI, compared with 77.6% in England and Wales, 76.4% in Scotland and 77.5% in the UK as a whole in 2004.

Table 2 - Main Causes of Death for the UK, 2004

Country	Circulatory	Cancer	Respiratory	Total Number
England & Wales	37.2	26.9	13.5	512,541
Scotland	37.1	27.3	12.0	56,187
NI	36.7	26.2	13.6	14,354
UK	37.2	27.0	13.4	583,082

Source: ONS, NISRA, Scottish Executive

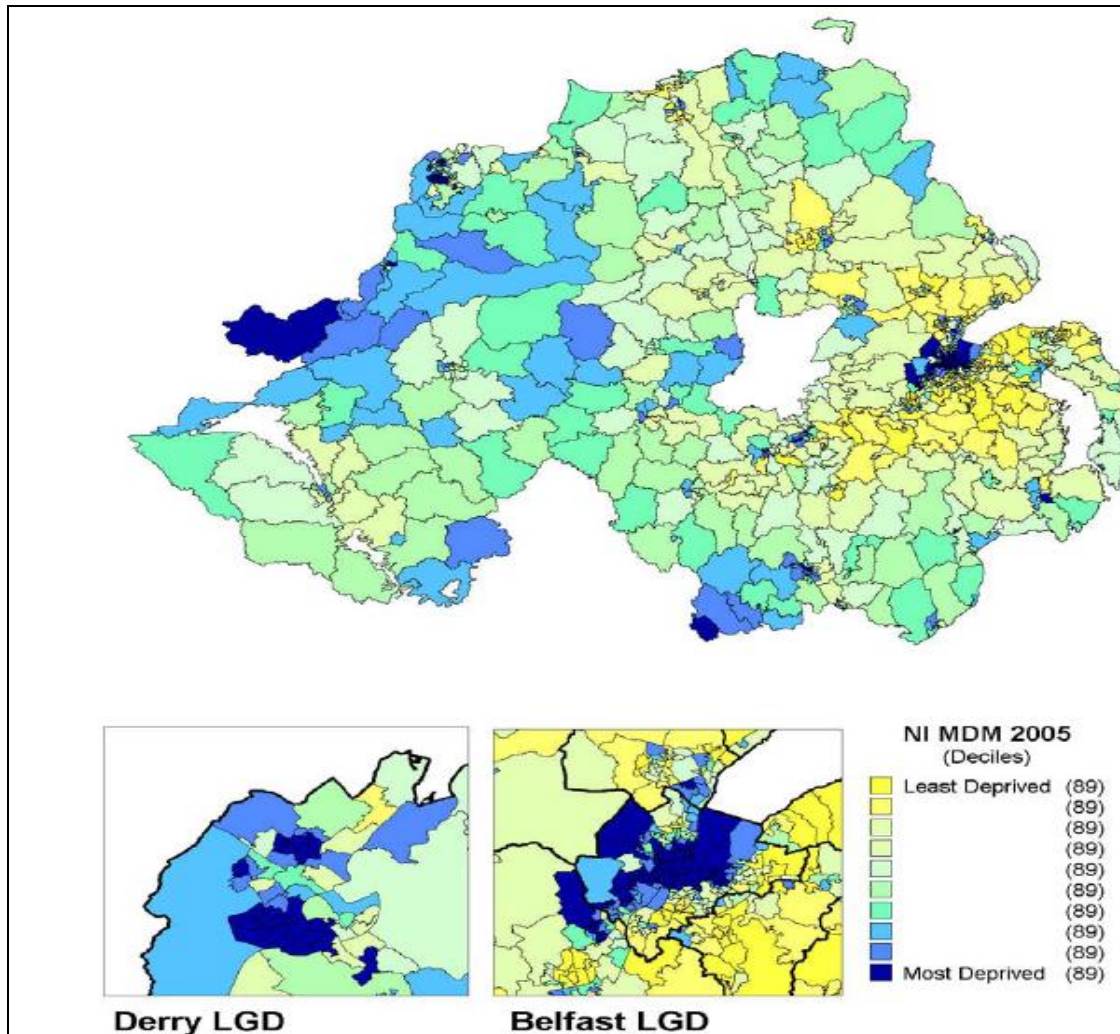
19. Circulatory diseases account for the largest number of deaths attributable to a single group of causes for all four countries in the UK. In 2004 circulatory diseases accounted for 5,272 deaths, almost 37% of all deaths in NI. However, between 1994 and 2004 the number of deaths due to diseases of the circulatory system in NI fell by 25%. Cancer accounted for 3,757 deaths in 2004, 26% of all deaths in NI. The number of deaths due to cancer in NI has remained broadly consistent over recent years at about 3,700 per year. Deaths from respiratory diseases in 2004 numbered 1,950, representing 14% of all deaths in NI (Table 2).
20. While it is not possible to be definitive about exactly why the death rate has been improving so markedly, it is likely to be due to a combination of factors, most notably, improved living standards, improved healthcare and people having greater health awareness. However, comparison with some Western countries shows that improvement is still possible. While it can be reasonably assumed that NI will continue to improve, it is possible that further improvement could be offset by adverse lifestyle factors such as sedentary living, leading to increasing obesity.

Deprivation²⁴

21. NI is one of the most deprived areas of the UK. For the purposes of Stamp Duty Relief around 42% of wards in NI were designated as disadvantaged. This compares to 15% in England and Scotland. NI, Wales and the North East England were classed as the three most disadvantaged areas of the UK.
22. Chart 1 illustrates relative levels of deprivation within NI. The most deprived parts of NI are areas within the Whiterock, Shankill, Falls and Crumlin wards in the north and west of Belfast City Council Area. Urban parts of Derry, Craigavon, Strabane and Lisburn Local Government Districts also feature among the fifty most deprived areas within NI. At the other end of the scale, the least deprived parts of NI are to be found in North Down, Castlereagh and the Jordanstown area of Newtownabbey.

²⁴ Deprivation refers to unmet need, which is caused by a lack of resources of all kinds (i.e. not just financial). It is measured through the Multiple Deprivation Measure (Noble, 2001), a combination of deprivation in the domains of income, employment, health, education, geographical access to services, social environment and housing.

Chart 1



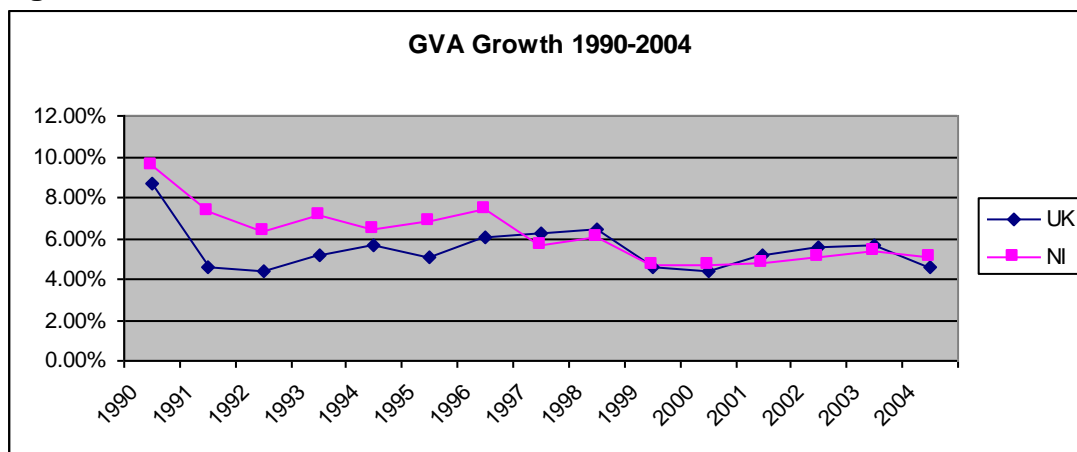
23. The Bamford Review of Mental Health and Learning Disability shows evidence of a link between higher prevalence rates of mild/moderate learning disability and poorer socio-economic status. More recent international research also suggests a link between severe learning disability and poorer socio-economic status.

GVA and GVA per head

24. NI's Gross Value Added²⁵ (GVA) has grown faster than any other region within the UK. Figure 3 shows GVA growth for the UK and NI over the period 1990-2004. As the diagram highlights, in the early 1990s NI experienced much greater growth in GVA compared to the UK. The relatively higher growth rates during this time can be attributed to the fact that NI was spared many of the detrimental effects of the UK recession of the early 1990s. However, in the latter half of the period, NI's growth rates are much more in line with the UK. For example, the cumulative growth rate for NI and UK was 48.7% from 1996 to 2004.

²⁵ Gross Value Added is GDP less taxes plus subsidies.

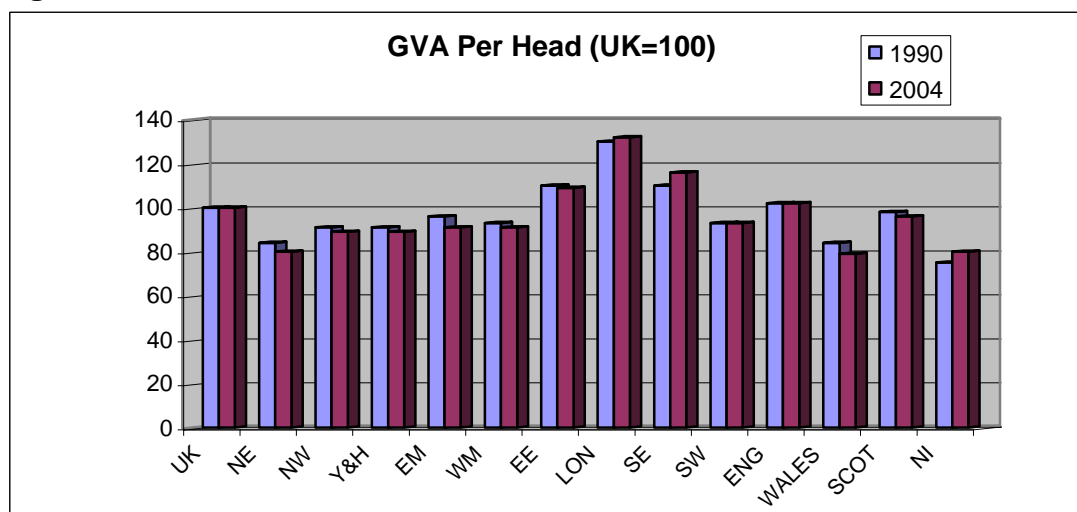
Figure 3



Source: ONS

25. Similarly, growth in NI's GVA per head has outperformed all other UK regions. Despite a higher than UK average GVA per head growth, the historic gap in regional performance continues to persist with only marginal convergence with the UK since 1990 (Figure 4). In 1990, NI's GVA per head was 75% of the UK. Currently NI's GVA per head lags behind the UK average by 20%.

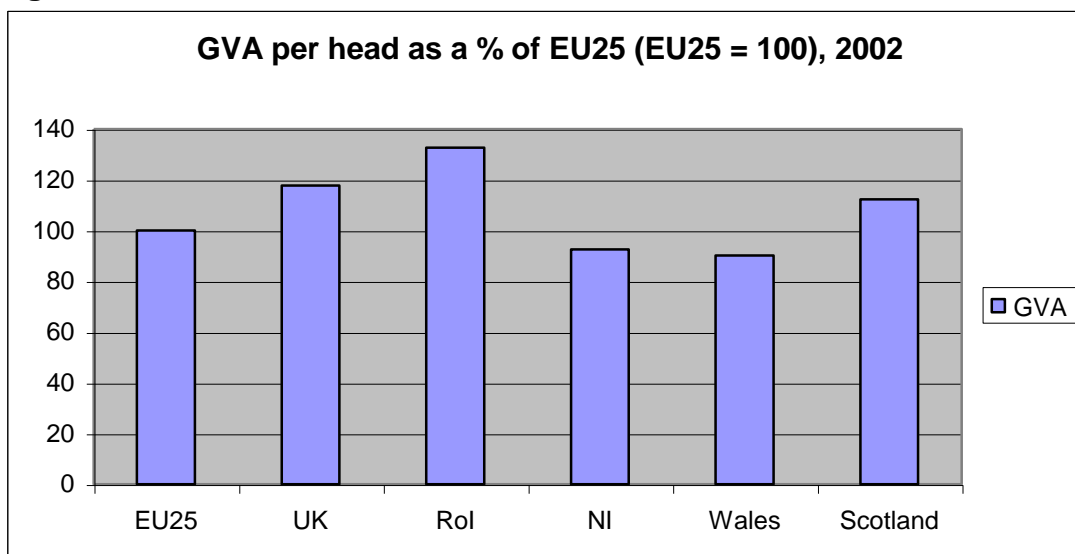
Figure 4



Source: ONS

26. Within a European context, NI's GVA per head also lags slightly behind that of the EU25 average. In 2002, GVA per head was 92.6% of the EU25 average (Figure 5). However, it is well below UK and RoI levels, which show GVA per head of 17.8% and 32.7% above the EU25 average respectively.

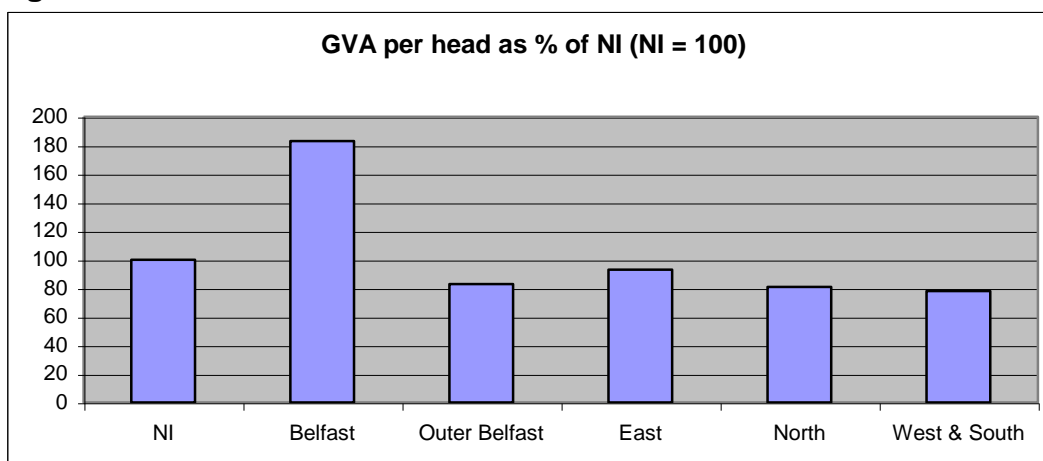
Figure 5



Source: Eurostat

27. The most recent GVA per head at NUTs III level shows considerable variations across NI, with Belfast outperforming all other regions (GVA per head 183% of the NI average). The remaining four regions tend to lag behind the NI average, with the West and South recording the lowest regional GVA, at 78% of the NI average (Figure 6).

Figure 6



Source:

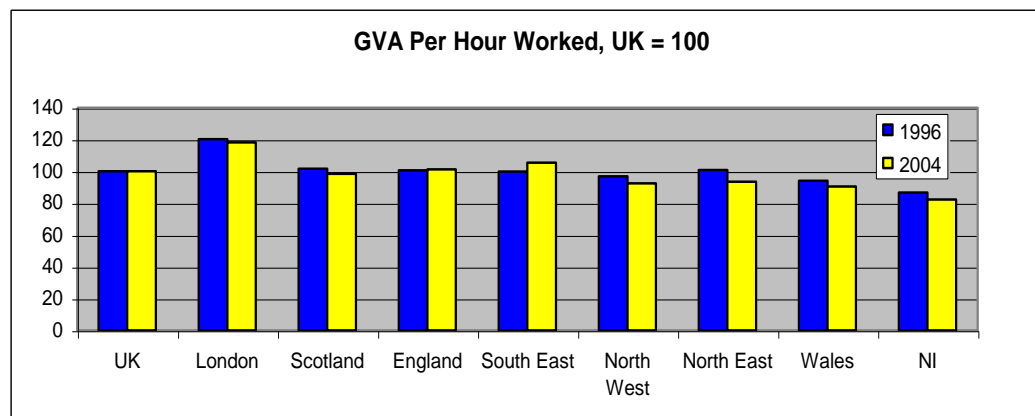
ONS

28. However, these statistics need to be interpreted with some caution as they are workplace based and the Belfast area draws much of its workforce from areas outside Belfast. Data on household income indicates that the highest household incomes are in the Rural East (through the export of earnings gained in Belfast by commuters) with the lowest incomes in the Rural West.
29. The gap in GVA per head between the UK (and between NI regions) can be explained by differences in productivity and employment. The latter depends

on the percentage of the population of working age, the level of participation and unemployment, and hours worked (and is discussed later in the paper). Analysis by HM Treasury has found that around 60 per cent of regional disparities are explained by differences in productivity.²⁶

Productivity

Figure 7



Source: ONS

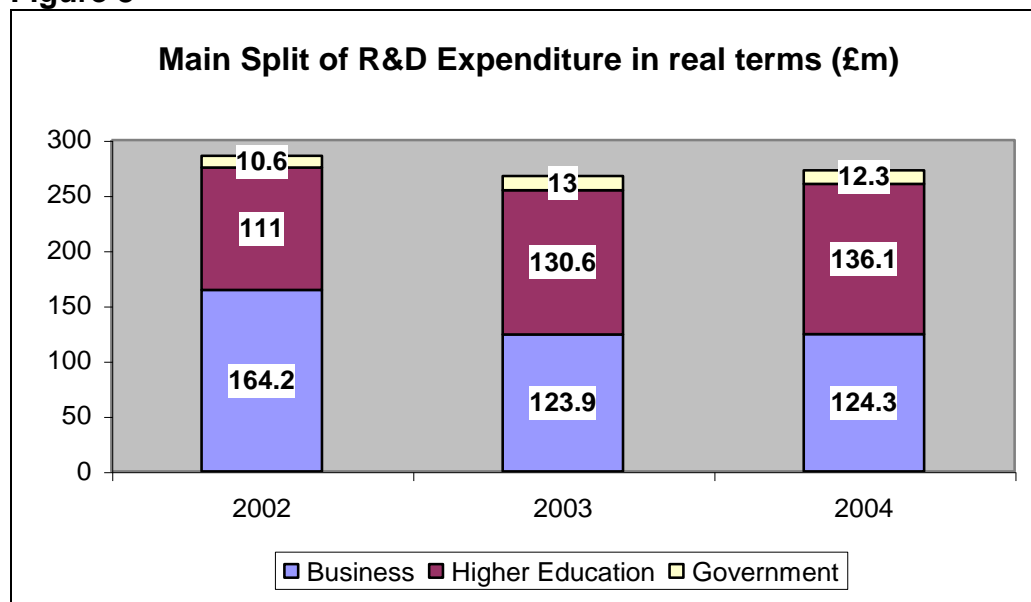
30. Figure 7 illustrates that productivity levels in NI, as measured by GVA per hour worked, are considerably lower than the UK average, with NI being the least productive region within the UK. Differences between NI and UK productivity rates partly reflect higher growth rates in hours worked and employee jobs, as well as differences in the composition of the local economy compared to other UK regions. NI continues to work longer hours on average and the gap between NI and UK is widening. Despite the increased growth in total hours worked in NI, its productivity relative to the UK continues to fall, indicating that GVA in NI has not grown in proportion to the rise in the total workforce hours worked in the region. This suggests that the recent employment growth has been primarily in low value added sectors.
31. The large differential in productivity between NI and the UK can be explained by examining the four key drivers:
 - I. Innovation levels in NI;
 - II. Enterprise levels in NI;
 - III. Skills levels in NI; and
 - IV. Investment and Infrastructure.
32. These four key drivers of productivity are analysed in more detail below. In summary, NI exhibits relatively low levels of productivity because: NI businesses generally invest less in innovation activity; entrepreneurial activity is well below the UK average; there are poor skills levels in the existing NI workforce; and investment in infrastructure has been historically lower compared to GB.

²⁶ Productivity in the UK, No. 3: The Regional Dimension (H.M. Treasury, November 2001)

Innovation and the Knowledge Economy (including R&TD)

33. The role of innovation is well recognised in economic growth theory for the contribution that it makes to the economic performance of a country or region. The resources devoted to research and development (R&TD) within a region are an indicator of the degree of innovation in a region. R&TD activity is therefore an essential component in the drive towards a competitive economy that can develop new products/processes in response to changing demands and market conditions.
34. In 2000 the European Council of Lisbon established a clear objective that by 2010 the EU would be transformed into the “most dynamic, knowledge-based economy in the world”. Central to this strategy is the stimulation of knowledge and innovation, with a related goal of increasing the level of investment in R&TD to 3% of GDP by 2010.
35. In 2004 total expenditure on R&TD in NI amounted to £272.7 million. This represents a 4% increase in spending from 2003 and a similar level to 2002. Expenditure by the Higher Education sector accounted for the highest proportion of R&TD expenditure, amounting to £136.1 million or 49.9% of total R&TD expenditure. Expenditure by businesses amounted to £124.3 million or 45.6% of total R&TD expenditure with the remainder accounted for by other government expenditure (Figure 8). R&TD expenditure by Business and by Higher Education increased over the year to 2004 by 0.4% and 4.2% respectively. There was a fall in real terms (-4.9%) in R&TD expenditure by Government between 2003 and 2004.

Figure 8



Source: DETI

36. Public investment in NI’s scientific capacity falls well behind levels in the rest of the UK and the Republic of Ireland. Per capita investment in science in NI (£29) is less than half the rate of England (£75) and is only a third of the

Scottish levels (£88), with Wales marginally ahead at £37. According to the OECD, investment in R&TD per capita in universities is £44 for the RoI and only £23 for NI.²⁷

37. However, for its size, NI has a strong science base, despite the low level of funding, with research across a range of subjects, and universities have been particularly effective at seizing the opportunity to work with industry.²⁸
38. Looking at R&TD intensity (i.e. R&TD expenditure as a % of GDP) across the EU member states, it is clear that NI has considerably lower levels of spending on R&TD as a % of GDP compared with the UK and the EU25 (Table 3). It is also well below the Lisbon Target for investment in R&TD.

Table 3 – Innovation and Research & Development, 2003

Country	Gross Domestic Expenditure on R&TD (% of GDP)	Science & Technology Graduates per 1,000 population
Belgium	1.92	11.0
Czech Republic	1.26	6.4
Denmark	2.59	12.5
Germany	2.52	8.4
Estonia	0.82	8.8
Greece	0.62	N/A
Spain	1.05	12.6
France	2.18	22.2
Ireland	1.16	24.2
Italy	1.14	9.0
Cyprus	0.35	3.6
Latvia	0.38	8.6
Lithuania	0.68	16.3
Luxembourg	1.78	N/A
Hungary	0.95	4.8
Malta	0.27	3.1
Netherlands	1.76	7.3
Austria	2.19	8.2
Poland	0.56	9.0
Portugal	0.78	8.2
Slovenia	1.54	8.7
Slovakia	0.58	8.3
Finland	3.48	17.4
Sweden	3.98	13.9
UK	1.88	21.0
NI	1.19	14.3
EU25	1.92	12.3

Source: Eurostat; DETI – NI Economic Bulletin 2005

²⁷ <http://www.iop.org>

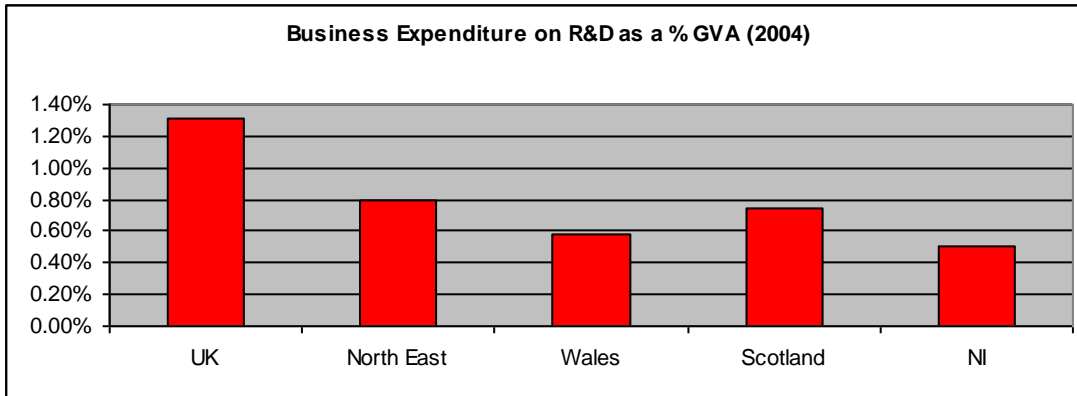
²⁸ <http://www.sciencecampaign.org.uk>

39. Human resources are another innovation performance indicator. As table 3 illustrates, the number of science and technology graduates in NI compares favourably to the other EU member states and the EU25 average. However, at present NI has less science and technology graduates per 1,000 persons than the UK. More generally, despite NI continuing to have high rates of participation in Higher Education, student migration away from NI continues to persist with nearly 30% of NI students moving away to take their degree and not returning. Often the cap on higher education places in NI is blamed on forcing our students to study away from these shores. However, the evidence presents a different picture:
- The students who leave tend, on average, to be better qualified in terms of 'A' level scores than those that remain in NI;
 - The vast majority of those that leave do so to secure their first choice course as revealed during the application process;
 - Those students who leave NI tend to be drawn much more heavily from the higher socio-economic groups;
 - The proportion of NI students leaving for a position elsewhere has been declining since 1996/97; and
 - The proportion of NI students who study in GB and return after graduation has stayed more or less constant since 1996/97.
40. Therefore, it can be concluded that these students' departure from NI appears to be more out of choice as opposed to being a result of necessity brought about by an inability to secure a place in a NI university.
41. Within the national context, there are wide variations in the amount of resources devoted to developing new products across the UK (Figure 9). In NI the resources devoted to R&TD by local businesses are particularly low. There are a number of possible reasons for this:
- i. A significant number of NI businesses of all sizes cite high costs as being a primary barrier to investing more in innovation or R&TD. Many smaller firms trading in more traditional sectors in NI do not see innovation related activity as an intrinsic aspect of their business planning.
 - ii. Many NI companies have concerns that government's support programmes are not wholly aligned with the needs of particular business sectors or are too bureaucratic to deliver assistance in the tight timeframes usually associated with R&TD-led projects.
 - iii. NI businesses are often unwilling or unable to carry out effective future planning through horizon scanning 'Foresight' activities
 - iv. It is widely recognised that the NI education and skills system does not typically encourage innovative thinking as a core skill. Businesses and business representative organisations frequently point to difficulties in recruiting staff with a holistic understanding of innovation or enterprise.

Similarly, NI firms tend to under-invest in relevant staff training and offer too few staff development opportunities in terms of innovation and R&TD.

42. A significant step change is required for NI to close the gap. It has been estimated that, in terms of BERD, a further investment of £184 million is needed for NI to reach the UK average. It should be noted, however, that the UK average remains below the Lisbon target.

Figure 9



Source: National Statistics & DETI

43. While Business R&TD spend is comparatively poor with the rest of the UK regions the picture is more encouraging in Higher Education R&TD (HERD) activity. NI HERD, at 0.6% of GVA, is above the UK average of 0.4%. It is not clear, however, that businesses in NI are making adequate use of the R&TD being carried out within the HE sector. In any event the Lisbon Target of investment in R&TD (3% of GDP by 2010) is likely to challenge the investment levels in R&TD by both Business and Universities in NI.
44. It is noted that the structure of NI business is an important factor in assessing its capacity to undertake R&TD expenditure. As highlighted in the mid-term evaluation update of the 2000-06 Building Sustainable Property (BSP) operational programme, the lack of financial capacity amongst many NI firms is a growing issue in taking forward R&TD activities. In a tightening economic environment small businesses will be less likely to dedicate funding and resources to areas they may regard as non-essential, including R&TD. This represents a particular challenge for NI, as the private economy consists of a large number of small and very small businesses.
45. The information above demonstrates that businesses in NI should be encouraged to invest more in R&TD and innovation. This is a challenge not only for Government, but for businesses and the wider community as well. Importantly, there is clearly a particular need to promote R&TD expenditure by local businesses. One solution may be to encourage capacity building or the collaboration of SMEs with Universities.

46. There are a number of possible programmes to promote innovation within NI, which would help to achieve higher growth and value in the NI economy. These include:
- A possible second science park;
 - The concept of science cities;
 - Enhanced levels of university commercial research; and
 - Development of broadband capacity for business use.

Enterprise & Entrepreneurship

47. Enterprise and entrepreneurial activity are both recognised as essential to achieving greater productivity. Specifically, enterprise heightens competition within the market and provides an entry point for innovative techniques and technology.
48. The Global Entrepreneurship Monitor (GEM) provides a measure on entrepreneurial activity within a global context. The most recent report for 2005 provides results for 34 countries worldwide. The total entrepreneurial activity (TEA) of EU countries that participated in the survey is presented in table 4.

Table 4 – Total Entrepreneurial Activity by country, by % of adult population, 2002-2005

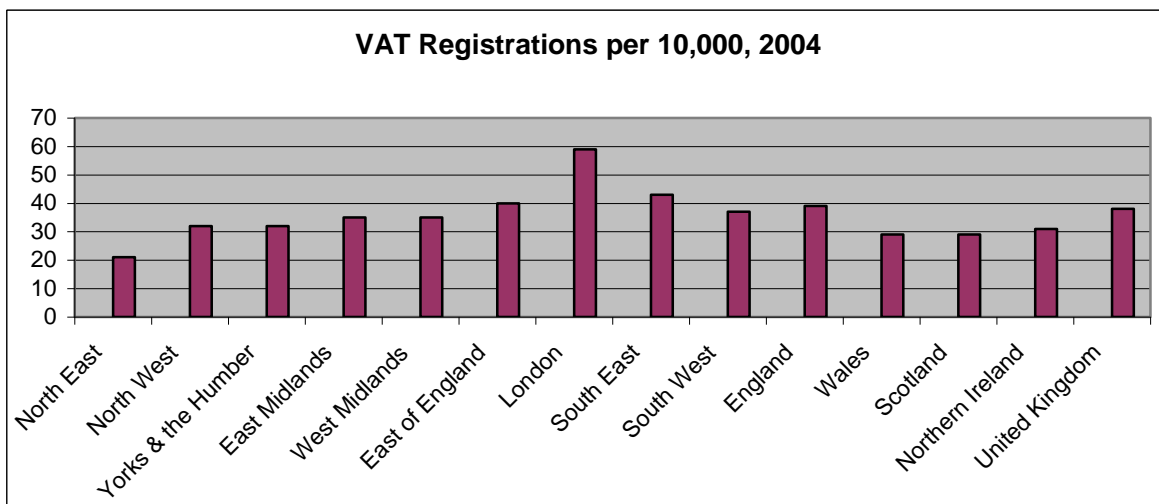
Country	2002	2003	2004	2005
Germany	5.2	5.2	4.5	5.4
UK	5.4	6.4	6.3	6.2
France	3.2	1.6	6.0	5.4
Poland	4.4	N/A	8.8	N/A
Italy	5.9	3.2	4.3	4.9
Spain	4.6	6.8	5.2	5.7
Netherlands	4.6	3.6	5.1	4.4
Greece	N/A	6.8	5.8	6.5
Portugal	N/A	N/A	4.0	N/A
Belgium	3.0	3.9	3.5	3.9
Sweden	4.0	4.1	3.7	4.0
Ireland	9.1	8.1	7.7	9.8
Finland	4.6	6.9	4.4	5.0
Slovenia	4.6	4.1	2.6	4.4
NI	3.6	5.3	5.0	4.9

Source: GEM 2005, GEM UK 2005 Report – Invest NI

49. Despite entrepreneurial activity in NI increasing on the 2002 figure, it still remains lower than in the UK. Within an international context, comparisons with the participating countries from the EU highlights that entrepreneurial activity in NI is higher than a number of EU member states, i.e., Belgium and the Netherlands. In a EU context, NI ranks alongside Finland and Italy in terms of entrepreneurial activity.

50. Evidence from the 2005 GEM report shows that the proportion of those involved in entrepreneurship in NI as a result of perceived opportunities is lower than in the UK. Although cultural support for entrepreneurship in NI is high relative to other UK regions, people in NI generally appear more negative about their own entrepreneurial capacity than their counterparts in the UK. Fear of debt and fear of failure are particular barriers and fewer people feel they have the skills to set up in business.
51. The level of female entrepreneurship in NI has improved since 2002 and is no longer the lowest of all UK regions, however the gap between male and female entrepreneurship is one of the widest. While graduates are more likely to be entrepreneurs than any other qualifications group in NI, female graduates have one of the lowest TEA rates of all UK regions. The negative self-perceptions mentioned above are most strongly felt by women.
52. Figure 10 illustrates that NI's entrepreneurial activity in 2004 (as measured by VAT registrations) was greater than in Scotland and Wales, but well below the UK average. In 2005, analysis of the Inter Departmental Business Register (IDBR) revealed that there were 55,265 businesses in NI registered for VAT. This represents an increase of 2.7% over the year, and a higher rate of growth compared to the UK (1.2%). Approximately 24% of businesses are located, or have their head offices, in urban areas with Belfast accounting for some 11% of the total.

Figure 10



Source: DETI – Inter Departmental Business Register (May 2006)

53. NI has much higher business survival rates compared to the rest of the UK (Table 5). For example, 74.7% of NI businesses registered in 2001 survive for at least three years, compared with 68.9% of the UK average. However, there has been some convergence from 1997 survival rates. At that time NI had a 9.5% survival rate above the UK average. This may reflect increasing competition in the NI economy. In other words, it is likely that a decreasing percentage of firms are surviving for three years as the market becomes more competitive.

Table 5 – Three year survival rates of VAT registered businesses, by region

	Year of Registration				
	1997	1998	1999	2000	2001
UK	68.9	68.2	69.3	69.5	68.9
North East	68.0	67.9	68.3	68.2	68.9
North West	65.0	65.6	66.7	67.5	67.3
York & the Humber	68.6	67.4	69.5	67.9	69.8
East Midlands	68.7	68.9	71.2	70.6	70.6
West Midlands	67.5	68.4	69.3	70.7	68.9
East of England	71.1	71.0	71.6	71.5	70.9
London	65.6	64.3	65.3	65.5	64.3
South East	71.9	71.3	72.1	72.3	71.1
South West	72.0	71.0	71.6	72.0	71.7
England	68.7	68.1	69.2	69.4	68.8
Scotland	69.5	69.0	70.7	69.7	68.5
Wales	67.6	66.2	67.6	69.0	70.0
NI	78.4	76.6	77.2	76.6	74.7

Source: DETI – Inter Departmental Business Register (May 2006)

54. The evidence presented on enterprise suggests that, both in a UK and a EU context, NI compares reasonably well, with NI performing considerably better than the worst region/country in several indicators. However, this must be qualified by adding that NI still needs to improve to catch up with the best performing countries in Europe.
55. There are a number of ways in which this might be achieved:
- i. Creating and sustaining an economic environment necessary to allow productive and enterprising businesses to flourish;
 - ii. Encourage business starts, business growth and more investment in NI;
 - iii. Build upon the skilled and flexible workforce, good infrastructure links, world-class universities and robust suite of business support services in NI;
 - iv. Embrace knowledge-intensive, higher skilled manufacturing to compete increasingly on quality rather than price;
 - v. Encourage export oriented new starts in addition to providing key tools to assist in attracting new investment into NI, with a focus on projects that are strategically important in terms of accelerated growth, increased value added and improved capabilities and performance;
 - vi. Provide people with the opportunities to develop the skills and confidence required to start a business; and
 - vii. Encourage companies to become more export-oriented and increasingly competitive in the international marketplace, as well as to increase their capability to adopt external knowledge through establishing joint ventures and strategic alliances with overseas partners.

Tourism

56. Tourism is an important economic sector for NI, both in terms of the employment opportunities it provides and the revenue it generates as well as social and cultural benefits it offers. Table 6 shows a marked improvement in the main tourism indicators in recent years. For example, visitor nights increased by 10% from 2000 to 2005 while tourism revenue rose by 35% during the same time period.

Table 6 – NI Visitor Figures and Revenue

Year	Trips (000s)	Nights (000s)	Revenue (£m)
2000	1,672	8,693	265
2001	1,676	8,692	282
2002	1,741	8,555	274
2003	1,896	8,947	284
2004	1,985	8,504	313
2005	1,972	9,561	357

Source: NITB

57. The results from the first installment of the Tourism Barometer of 2006 suggest that the NI tourism industry has had a good start to the year. All accommodation sectors report growth in the overall number of bednights and improved levels of profitability. With the majority of managers reporting business growth, the performance of the hotel sector has matched that of last year. The hostel sector has also recorded a particularly buoyant start to the season with almost two thirds of managers reporting an overall increase in bednights.
58. The growth in the overall volume of hotel bednights can be attributed in equal measure to an increase in overseas demand and growth in RoI/Domestic market demand. The net result is that room yield is up on the corresponding period in 2005.
59. The growth recorded in respect of the overseas markets has been the key driver in the overall performance of guesthouses. The sector has also experienced an increase in bookings from NI and RoI. B&B establishments also report growth across all market areas.
60. The self-catering sector has benefited from a growth in overseas bookings. NI and RoI businesses have also grown, albeit marginally. Caravan and camping operators and hostels each report an increase in demand across all of the main markets.
61. The NI Tourist Board (NITB) recognises the need to ensure long-term viability and economic sustainability. Its current Strategic Framework for Action and Corporate Plan aims to help consolidate the importance of NI tourism in the years ahead and ensure that NI tourism maximises its potential.

62. The framework identifies ten steps in response to the challenge of attracting visitors, increasing the competitiveness of tourism businesses and stimulating effective communication between all industry partners. These include:
- Know the visitor – good market intelligence will enable the industry to target its efforts at those segments that have the greatest ability to maximise tourism revenue;
 - Develop a compelling proposition – a strong brand, reinforced by common messages will enable the industry to adopt a more consistent approach;
 - Reach the consumer – convert best prospects in the marketplace into visitors on the ground;
 - Take care of our visitors – ensure positive first and last impressions, aiming to exceed visitor expectations;
 - Develop signature projects – achieving international “stand-out” projects will have a significant impact on NI tourism performance;
 - Focus on winning themes – to help deliver a competitive advantage for NI.
 - Develop internationally competitive enterprise – using models of international best practice to provide advice on prospects for growth for tourism businesses;
 - Deliver memorable experiences – emphasise people qualities as a source of value added by identifying programmes to enhance hospitality, foster business acumen and encourage professionalism;
 - Share information – find new ways to tell others about successes; and
 - Strengthen effective relationships for delivery – focus on more effective ways of working to maximise impact and reduce duplication.
63. Step 5 of the framework addresses the development of signature projects. Five such projects have been identified by NITB for their potential to deliver world-class excellence:
- Giant’s Causeway;
 - Titanic;
 - Walled City of Derry;
 - Saint Patrick; and
 - Mourne National Park.
64. These projects are expected to have a significant impact on NI’s tourism performance and thus to achieve a step-change towards higher growth in the NI economy.
65. Other key sectors with identified capability and growth opportunities in the NI economy include Health and Life Sciences, Food, Electronics, ICT, Energy and Environmental Technologies. These areas are currently the subject of a comprehensive capability study commissioned by the MATRIX panel. However, while there may be different initiatives launched by individual companies in specific sectors, there may not be a critical mass of a sufficient number of companies involved to justify special actions in favour of one area of activity.

Human Capital, Skills and Employability

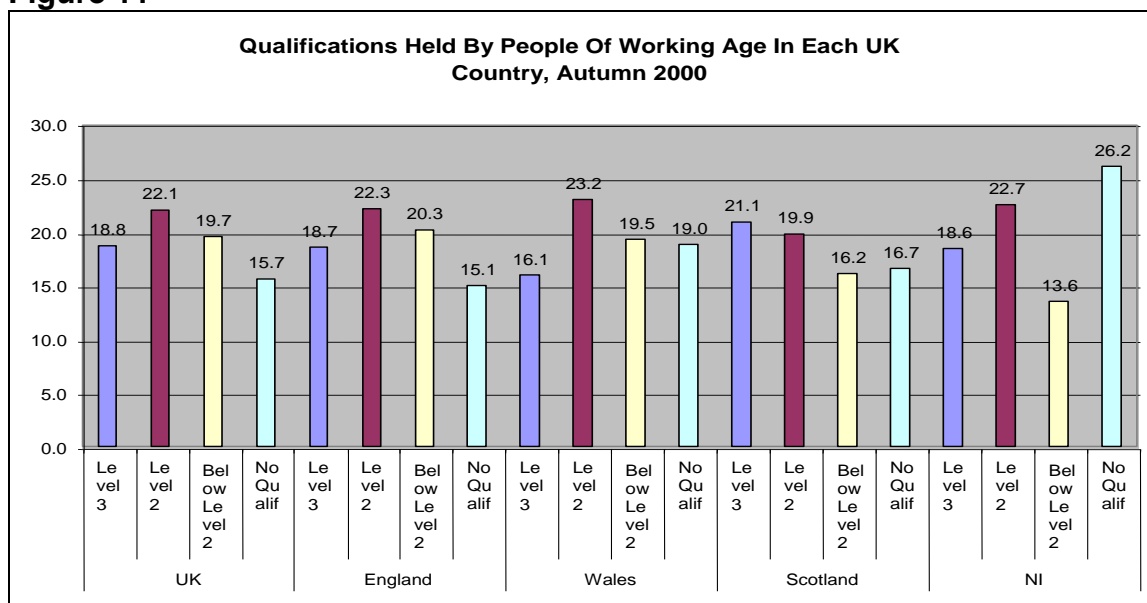
66. Skills is recognised as a vital factor in the achievement of higher rates of productivity growth. Various studies have derived a strong positive relationship between educational attainment, the skills of the workforce and subsequent economic growth. Across the UK substantial variations in educational achievement at school and university exist, although in most cases a strong performance at 16 is carried through to the percentage of the population with a degree or equivalent.
67. NI has consistently been amongst the best regions in the UK in terms of educational performance at GCSE and A-level. In addition, NI has the lowest proportion of pupils who leave school without any GCSE qualifications (Table 7).

Table 7 – Educational achievement for selected UK countries and dates, 1995-2004

	Country	1995/96	1999/00	2003/04
% Achieving 2+ A levels A- E	NI	90	93	96
	England	83	87	94
	Wales	87	92	95
% Achieving 5+ GCSEs A*-C	NI	52	57	60
	England	45	49	54
	Wales	42	49	51
% Achieving 5+ GCSEs A*-G	NI	84	87	88
	England	86	89	89
	Wales	79	85	85
% Achieving No GCSEs	NI	5	4	4
	England	8	6	5
	Wales	11	8	7

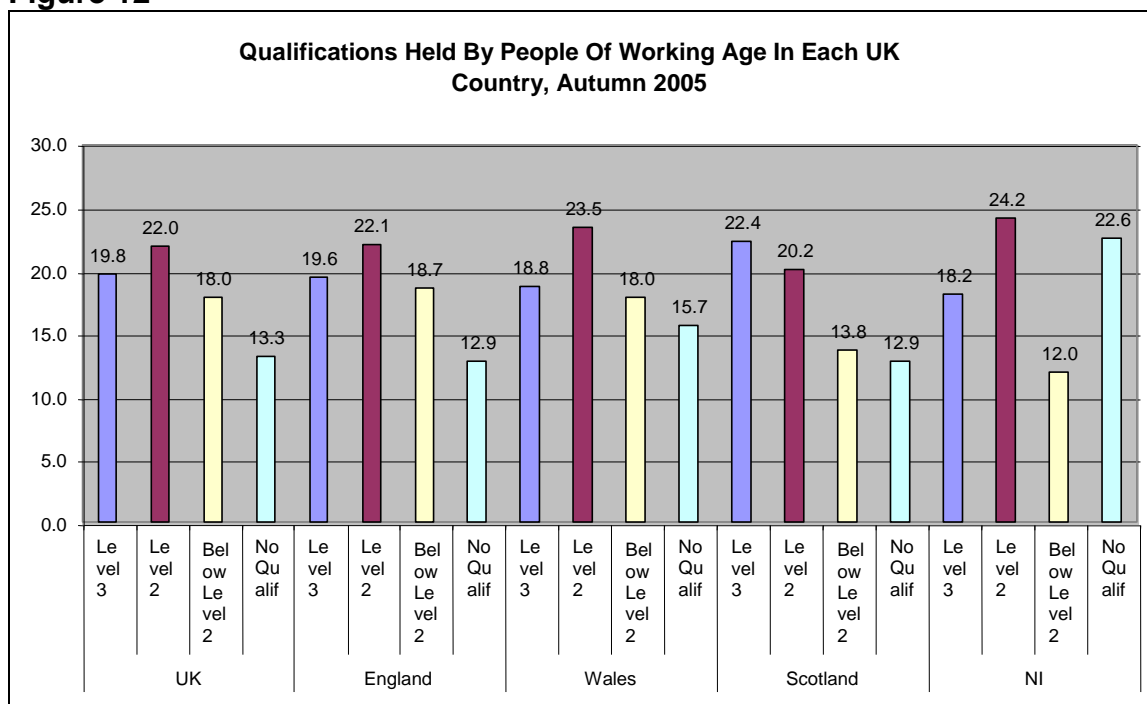
68. However, while educational attainment has been relatively high in NI this has not always translated into the labour market. Figure 11 compares the skill levels of the workforce in NI with other UK countries. NI compares reasonably well in terms of the proportion of the working age adults with a high level of qualifications at levels 2 and 3. However, NI has a disproportionately high level of working age persons with no qualifications.
69. Since autumn 2000 NI (22.7%) has out performed all other UK countries (apart from Wales – 23.2%) at Level 2 standard and also is above the UK average of 22.1%. However, NI also had the highest level of people of working age with no qualifications (26.2%) and this was much higher than the UK average of 15.7% and the next highest value in Wales (19.0%).

Figure 11



70. This same trend is evident in autumn 2005 (Figure 12) where NI is now the best performer throughout the UK at Level 2 (24.2%). However, NI is still the UK country with the highest level of working age people with no qualifications (22.6%).

Figure 12



71. Poor educational achievement amongst the older age groups in the workforce and migration from NI are likely to be significant factors in explaining this. For example it is estimated that 9% of full-time students who studied in NI in 2004 left after graduation while 65% of those who studied in GB did not return but

entered employment outside NI.²⁹ On average, nearly 30% of NI domiciled students moved away from NI to take their university course.

72. Evidence of skills shortages and mismatches has emerged from the comprehensive labour market research conducted on behalf of the former NI Skills Task Force. It has published a number of key labour market studies, most notably the Skills Monitoring Reports and the sector-based Skills Forecasting Papers. The evidence suggests that NI faces some specific skills shortages³⁰.
73. There are also particular problems at occupational skills levels 3 and 4 with some employers reporting a degree of mismatch between the skills needs of their industry and the content of the qualifications on offer. There is also a continuing proportion of the workforce that require employability skills, as well as the essential skills of literacy and numeracy. For example, 13% of employers reported a gap between the skills of the current workforce and those needed to meet their business objectives.
74. In addition, the International Adult Literacy Survey (IALS 1996) highlighted that approximately 24% of the adult population in NI have low levels of literacy and numeracy. It should also be noted that approximately 10% of 16-18 year olds are classified as Not in Employment, Education or Training (NEET). When looking at school leavers the percentage for those classified as NEET is 4% to 6%.
75. At the other end of the spectrum it is also recognised that many graduates are vastly over-qualified for the jobs they are doing and are consequently under-employed.
76. One potential reason for lower productivity rates in NI are lower skill levels, demonstrated through lower levels of on-job training. Figure 13 shows that 4.3% of males and 4.8% of females receive on-the-job training only in NI. This is lower than any other UK region and subsequently falls well below the UK averages of 4.9% and 6.2% for males and females respectively.

²⁹ This does not include the unemployed who stayed away or those who went travelling, etc.

³⁰ Skills shortages are highlighted in paragraphs 72-74.

Figure 13



Source: ONS

77. To improve skills across the entire workforce there are two broad challenges. Firstly, it is crucial that NI can retain, or regain, its most able graduates for the benefit of the local economy. This should help to ensure that the supply of labour is of the highest quality and capable of coping with the demands of technology change and increasing competition from abroad. Secondly, at the other end of the spectrum, the high percentage of economically active adults with no qualifications needs to be addressed. For NI, raising the level of post school human capital and improving graduate opportunities will be a key factor in enabling the region to improve its economic performance. In addition to improving skills, there will also be a requirement to better match the supply of skills to those demanded by employers.
78. Indeed, the Department of Employment and Learning's (DEL) Skills Strategy set out the rationale for putting in place an overarching framework for the development of skills. The Skills Strategy Implementation Plan (2006) sets out how DEL will take these proposals forward. The component projects and strands are grouped into four broad themes:
- understanding the demand for skills;
 - improving the skills levels of the workforce;
 - improving the quality and relevance of education and training; and
 - tackling the skills barriers to employment and employability.
79. The most recent Skills Monitoring Survey identifies various data relating to skills gaps in NI. The same proportion of employers (13%) in both the private sector and the public sector reported a skills gap among some of their existing staff. This perception varied between employers of different sizes as well as across various locations. For example, only 11% of smaller employers (those with 1-4 employees) reported a skills gap compared to 22% of larger employers (50+ employees). At NUTS III regional level, 16% of employers in Belfast reported a gap compared to only 10% in Outer Belfast.

80. Table 8 provides a breakdown of the types of skills that employers stated that their staff needed to improve by occupational group. Overall, 36% of employers said that their staff needed to improve their knowledge of IT. This gap was felt most acutely by employers in the administrative and secretarial occupations, where 54% reported a skills gap.

Table 8 – Reported skills gaps by occupational group (%)

	All Groups	Managers & Senior Officials	Admin & Secretarial	Skilled Trades	Sales
Practical skills	35	9	22	63	36
Literacy skills	6	2	11	7	8
Numeracy skills	8	4	9	8	17
Communication skills	24	18	24	13	33
Management skills	18	40	15	3	12
Customer handling skills	28	13	24	10	59
Team working skills	17	14	17	18	15
Problem solving skills	14	15	18	13	11
Knowledge of IT	36	46	54	9	38
Interpersonal skills	25	17	24	19	34
Foreign Language skills	2	3	1	0	1
Managing own development	9	14	11	3	5
Other	16	15	9	22	14

Source: NI Skills Monitoring Survey 2002

81. Reasons cited by employers for the lack of full proficiency among staff included lack of experience (42%), the introduction of new technology (28%) and new skills needed for the development of new products (27%).
82. The measures taken to overcome skills gaps are shown in table 9. The main measure taken by employers was to provide extra training and development (67% of all groups). However, in 15% of cases, no measures were taken to improve the skills of staff.

Table 9 – Measures taken to overcome skills gap

	All Groups	Managers & Senior Officials	Admin & Secretarial	Skilled Trades	Sales
Increase recruitment	8	4	3	11	6
Provide further training	67	54	68	56	68
Changed working practices	13	18	17	5	10

Relocated work within company	6	7	11	3	5
Expanded recruitment channels	4	6	1	3	2
Increase trainee programmes	15	10	9	12	14
No particular solution	6	6	3	8	11
Not taken any measures	15	17	14	20	6
Other	8	9	6	2	6

Source: NI Skills Monitoring Survey 2002

83. In line with the statistical information regarding skills weaknesses provided above, the NI Skills Strategy 'Success Through Skills' defined three different types of skills required to close the gap:
- essential skills of literacy and numeracy and, increasingly, information and communications technology (ICT);
 - employability skills, including the key skills of teamworking, problem solving and flexibility; and
 - work-based skills, specific to a particular occupation or sector.
84. The Skills Strategy highlighted the need to focus on:
- raising the skills of the current workforce;
 - enhancing the "knowledge base" of the current workforce; and
 - addressing the employability skills of those not in employment.
85. While educational attainment in NI compares favourably with the UK as a whole, the proportion with no qualifications is significantly higher. Resources should be deployed to address this in line with the Skills Strategy recommendations set out above.

Infrastructure

86. In terms of technological infrastructure, NI has benefited to a significant extent from past and current EU Programmes such as BSP EU Structural Funds, PEACE II and INTERREG IIIA. NI has achieved 100% broadband availability, which is unique to Europe. Every household, business, school and library in NI will be able to access broadband regardless of location.
87. With the infrastructure in place, broadband take-up has now assumed greater importance, with the demand for broadband increasing dramatically. The latest industry figures for 2006 show 230,000 broadband users within NI – up from 60,000 in 2004. The region is still lagging behind areas such as London and the South East but is comparable to Scotland and Wales.
88. Within the wider context, comparative broadband penetration rates show that NI is significantly below the rate for the UK and the EU15 average. It is

currently only slightly below the rate for the EU25 average and is significantly above Rol rate of 4.4% of the population (Table 10).

Table 10 - Broadband Penetration Rates in EU, 2005

Country	Broadband Penetration Rates as % of Population
EU25	10.6
EU15	12.0
Belgium	17.4
Czech Republic	4.3
Denmark	22.0
Germany	10.2
Estonia	11.1
Greece	0.8
Spain	10.0
France	13.9
Ireland	4.4
Italy	9.5
Cyprus	2.7
Latvia	3.7
Lithuania	5.0
Luxembourg	11.7
Hungary	4.5
Malta	10.4
Netherlands	22.4
Austria	11.6
Poland	1.9
Portugal	10.1
Slovenia	7.8
Slovakia	1.5
Finland	18.7
Sweden	17.1
UK	13.5
NI	8.8

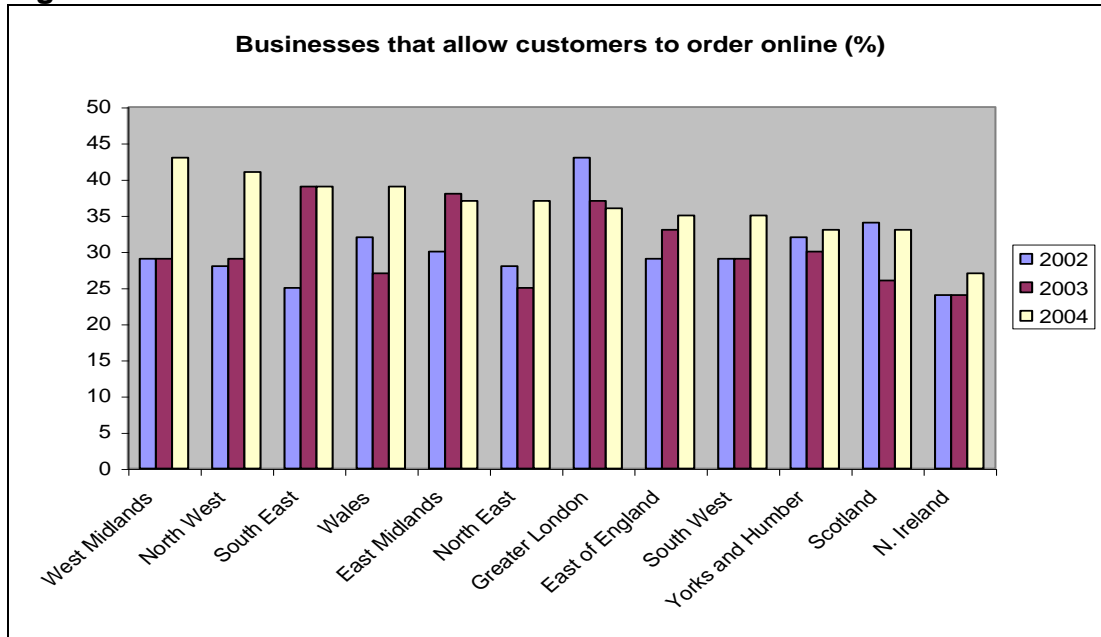
Source: Eurostat; www.internetworldstats.com

89. NI now has a first-class telecommunications infrastructure, allowing our businesses to compete in the global marketplace, having benefits such as more effective communication, improved business productivity and cost savings. This is especially important given the physical geography of NI on the periphery of the EU. In January 2006, 38% of businesses signed up for broadband, which exceeded the Department of Enterprise, Trade and Investment's (DETI) targets set for the end of 2005 (20%).
90. The use of NI's telecommunications infrastructure by business has showed a marked increase. Businesses with access to the Internet increased from 81% in 2003 to 89% in 2004. Similarly, there are more businesses with a website (an increase from 65% in 2003 to 75% in 2004) and with external email (77%

in 2003 to 87% in 2004). These figures still fall below England and Scotland and are on a par with those in Wales.

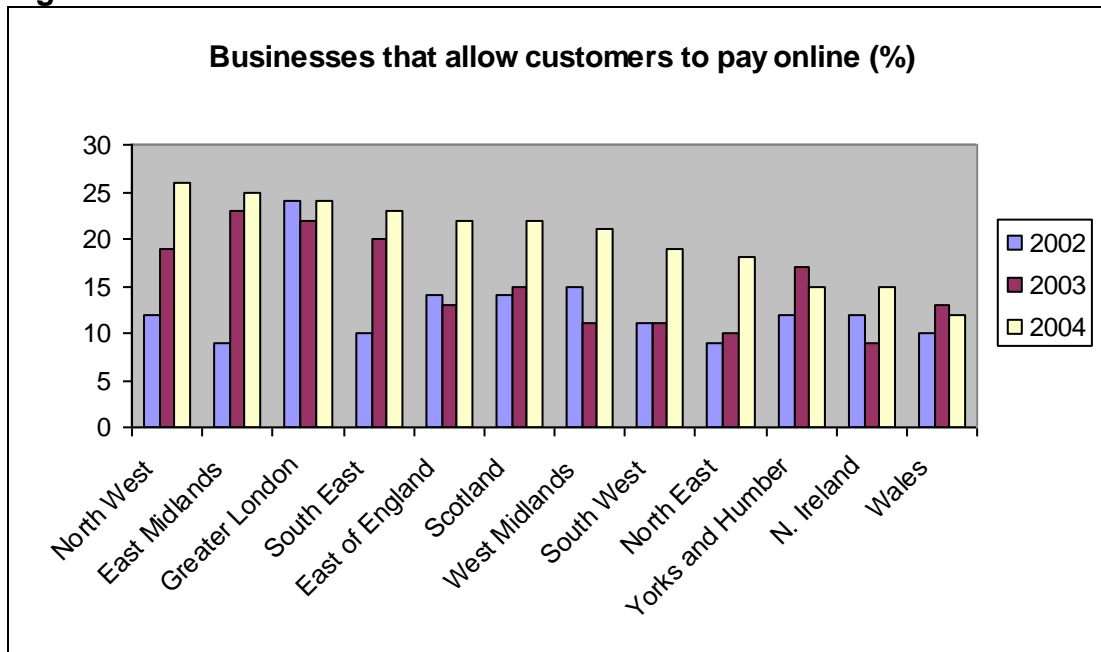
91. E-commerce has increased in all regions. Northern Irish business follows this trend but remains the lowest performing region. In 2004, 27% of NI businesses allowed customers to order online while 15% allowed customers to pay online.

Figure 14



Source: DTI

Figure 15



Source: DTI

92. The role of infrastructure in promoting competitiveness and economic growth within a region is well recognised and is heightened in a country like NI, which lies on the periphery of the European Union. Poor infrastructure leads to traffic congestion, reduced productivity and increased costs, as well as discouraging inward investment from firms outside the region. Infrastructure refers to the physical and organisational structures that are necessary for a region or enterprise to operate.

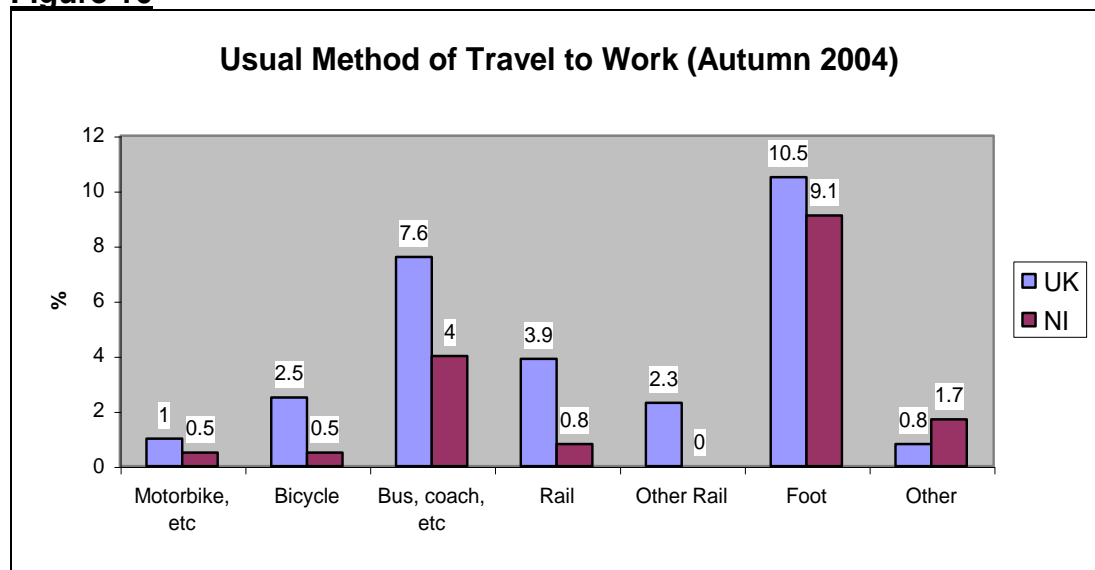
Table 11 – Motorway Network in the EU25 (1,000km), 2002

Country	Motorway network (1,000 km)	Area Size (sq km)	
Belgium	1.7	30,528	5.6%
Germany	11.7	357,021	3.3%
Denmark	0.9	43,094	2.1%
Austria	1.6	83,870	1.9%
Spain	11.2	504,782	2.2%
Greece	0.7	131,940	0.5%
France	12.0	547,030	2.2%
Finland	0.6	338,145	0.2%
Italy	6.6	301,230	2.2%
Ireland	0.1	70,280	0.1%
Luxembourg	0.1	2,586	3.9%
Netherlands	2.2	41,526	5.3%
Portugal	1.7	92,391	1.8%
Sweden	1.5	449,964	0.3%
UK	3.4	224,820	1.5%
Cyprus	0.3	9,250	3.2%
Czech Republic	0.5	78,866	0.6%
Estonia	0.1	45,226	0.2%
Hungary	0.5	93,030	0.5%
Latvia	N/A	N/A	N/A
Lithuania	0.4	65,200	0.6%
Malta	N/A	N/A	N/A
Poland	0.4	312,685	0.1%
Slovakia	0.3	48,845	0.6%
Slovenia	0.5	20,273	2.5%
EU25 Total	59.1	N/A	N/A
NI	0.1	14,144	0.8%

Source – European Road Statistics 2005, European Union Road Federation (ERF); NI Transport Statistics September 2005, DRD

93. Table 11 demonstrates that NI has an underdeveloped motorway network relative to the EU member states. NI ranks alongside Ireland, Luxembourg and Estonia in terms of motorway network. However, when making comparisons of motorway provisions, it is important to bear in mind other factors that influence motorway provision, such as population densities.

Figure 16



Note –

“Other Rail” includes underground, light railway and tram. “Other” includes taxi as main method.

Source: LFS, ONS, DETI

94. Figure 16 shows that NI workers make significantly less use of public transport than their UK counterparts. In autumn 2004, 4% used the bus and only 0.8% travelled by train. The equivalent UK proportions were 7.6% and 3.9% respectively.
95. It is widely acknowledged that NI has suffered from underinvestment in its public transport. NI compares unfavourably to levels of transport investment in England, Scotland and Wales. (In terms of its rural nature, NI is considered most comparable with Scotland). Some urban areas suffer from acute congestion and consequently poor environmental conditions, while approximately 70% of the maintenance backlog is related to roads in rural areas.
96. In terms of rail services, both track and rolling stock are in poor condition and require investment. There remains inadequate integration with other modes of travel, for example, inadequate car and cycle parking at stations. Bus services also have problems. There are often only limited services available, particularly in the evenings, in rural areas. In addition, those with disabilities cannot easily use many of the vehicles and the bus fleet is old. Strategies such as the Regional Transport Strategy have been put in place in NI to seek to address these issues.
97. Passenger numbers at NI’s two main airports compare reasonably well with the rest of the UK. Belfast International passengers represented 2% of passengers at all UK airports in 2004, while Belfast City throughput represented 1% of UK passengers. This was an increase of 46% for Belfast International and 63.1% for Belfast City from 1999 figures, and represents increases in market share for both airports. This is reflective of the

improvement of NI as both a tourist and business destination (as discussed in paragraphs 52 to 56 above).

Table 12 – UK Airports by number of terminal passengers¹: 1999 and 2004

Airport	2004		1999		Percentage change (2004/1999)
	Terminal passengers (000s)	Percentage of passengers at al UK airports	Terminal passengers (000s)	Percentage of passengers at all UK airports	
Heathrow	67,109	31.1	61,975	36.8	8.3
Gatwick	31,391	14.6	30,408	18.1	3.2
Manchester	20,969	9.7	17,418	10.3	20.4
Stansted	20,907	9.7	9,409	5.6	122.2
Birmingham	8,797	4.1	6,935	4.1	26.8
Glasgow	8,557	4.0	6,755	4.0	26.7
Edinburgh	7,992	3.7	5,084	3.0	57.2
Luton	7,520	3.5	5,246	3.1	43.3
Newcastle	4,708	2.2	2,930	1.7	60.7
Bristol	4,603	2.1	1,966	1.2	134.1
Belfast Int'l	4,603	2.0	3,012	1.8	46.2
East Midlands	4,375	2.0	2,217	1.3	97.3
Liverpool	3,352	1.6	1,301	0.8	157.6
Aberdeen	2,634	1.2	2,432	1.4	8.3
Leeds Bradford	2,368	1.1	1,450	0.9	63.3
Belfast City	2,091	1.0	1,282	0.8	63.1
Cardiff Wales	1,873	0.9	1,297	0.8	44.4
London City	1,675	0.8	1,384	0.8	21.0
Southampton	1,531	0.7	749	0.4	104.4
Teeside	787	0.4	725	0.4	8.6
Other airports	8,039	3.7	4,388	2.6	83.2
Total	215,681	100	168,363	100	28.1

Note 1 – Excludes air taxi operations

Source: Civil Aviation Authority

98. In conclusion, although NI is the only region in the EU to enjoy 100% broadband availability, it is clear that penetration to both private users and business users is disappointing. In particular, NI businesses are among the worst in the UK in terms of e-commerce. This should be promoted to take full advantage of the opportunities it provides. In terms of physical infrastructure, NI has an underdeveloped motorway network relative to the EU member states, and NI workers make significantly less use of public transport than their UK counterparts. It is widely acknowledged that NI has suffered from underinvestment in its public transport over the years. In contrast, passenger numbers at NI's two main airports compare reasonably well with the rest of

the UK. This is reflective of the improvement of NI as both a tourist and business destination.

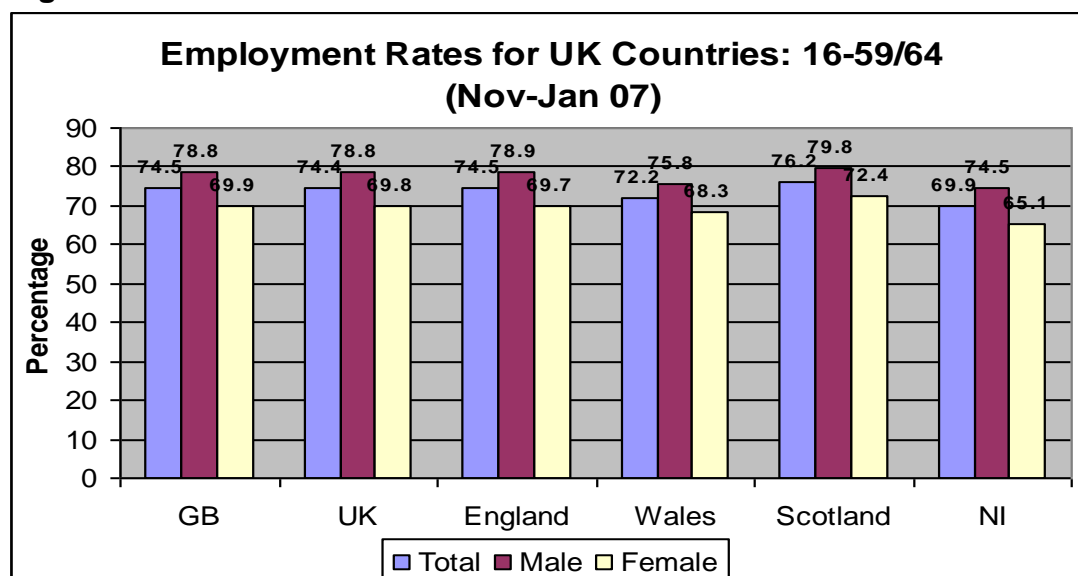
Structure of the NI Economy

99. NI has proportionately more employment in industries such as construction, agriculture and the public sector, which, on average, exhibit relatively low productivity levels. In addition, the type of service sector employment generated in NI tends to be lower value added in nature with a significant proportion of the employment growth in services being in the retail, wholesale, hotels and restaurant sectors. Moreover, the proportion of people employed in the service sectors with high average value added (transport, storage and communication, and real estate, renting and business activities) is appreciably below that of the UK as a whole. Figures from the Inter Departmental Business Register show NI to be a small business economy with micro businesses (less than 10 employees) accounting for approximately 88.5% of the NI total. Of the 61,530 businesses classified as micro businesses, 36,300 (59%) employ at least 1 person.

Employment

100. NI has experienced a period of sustained growth in terms of employee jobs. From March 1990 to March 2006, employee jobs in NI have increased by 30.6% compared to 10.5% for the UK as a whole. Much of this increase is reflective of a growth in the services sector and the construction sector - increases of 48% and 35% respectively for NI compared with an increase of 27% and a slight decrease of 0.47% respectively for the UK.
101. Growth in employee jobs within these industries have more than compensated for the reduction in employee jobs experienced within NI's manufacturing sectors. From March 1998 to March 2006, manufacturing jobs fell by almost 20% (107,090 to 86,040). The growth in employee jobs over the last year (Mar-May 2005 to Mar-May 2006) by category shows that full time jobs increased by 14,000 while part time employment fell by 3,000. Workers with second jobs and temporary workers both increased by 2,000.
102. Two Labour market weaknesses in NI are high inactivity rates and low female participation compared to the UK. NI has a higher proportion of those who identify sickness or disability as the main reason for not wanting to work (31%) than the UK (29%). NI also has a higher percentage of students that do not want a job (33%) compared to the UK (23%). The difference between the working age employment rate of males and females is currently estimated at 9.4%.
103. The latest statistics show that this growth in employment has continued to increase with the number of persons in employment in the period November – January 2007 estimated at 770,000, up 11,000 over from the previous quarter. The latest working age employment rate is estimated at 69.9%, which ranks 2nd lowest amongst the UK regions, and 4.5% below the UK average of 74.4% (Figure 17).

Figure 17



Source: ONS

104. Within an international context, latest figures indicate that NI compares favourably with the EU25 and EU15 (Table 13). Using harmonised employment rates, based on a population aged between 15 – 64 years for both males and females for EU countries³¹, NI's employment rate is currently 66.6%. This is below the UK employment rate of 71.9% and the Republic of Ireland's rate of 68.8%, but 2.9 percentage points higher than the average EU25 employment rate (63.7%) and 1.5% above the EU15 rate (65.1%). NI's employment rate is currently above the Lisbon target of an employment rate of 65% by 2005, but below the Lisbon target of a 70% employment rate by 2010.

Table 13 – International Comparisons of ILO Employment Rates, 2005

	Employment Rate (%)
EU25	63.7
EU15	65.1
Republic of Ireland	68.8
UK	71.9
NI	66.6

Source: DETI

105. The public sector has a dominant role within the NI economy. In relation to employment, public services tend to be labour intensive – almost 31.1% of total employment is in the public sector compared to 20.1% in the UK as a whole. However, public sector employment as a percentage of the total population is broadly in line with the UK average. It is the unusually small private sector in the local economy that gives rise to the perception of a large public sector.

³¹ This differs from the working age rates defined previously normally quoted for NI and the UK, which take account of both school leaving and state pension ages.

106. The major industry sectors show varying results. From December 2005 to December 2006, manufacturing jobs fell by 1.2%. During the same time period, jobs in the construction sector rose by 4.6% and those in services increased by 1.9%. It is noted that services jobs account for 79.9% of all NI employee jobs.

Table 14 – NI Employee Jobs, December 2006

	Male		Female		Total	% change in total	
	Full Time	Part Time	Full Time	Part Time		Since last quarter	Since last year
Manufacturing	64700	1900	15540	3420	85560	-0.1%	1.2%
Construction	34550	1410	2740	1500	40200	0.7%	4.6%
Services	174720	51540	166930	177290	570480	0.4%	1.9%
Other	6840	8250	1060	1100	17250	0.4%	2.8%
Total	280810	63100	186270	183310	713490	0.4%	1.5%

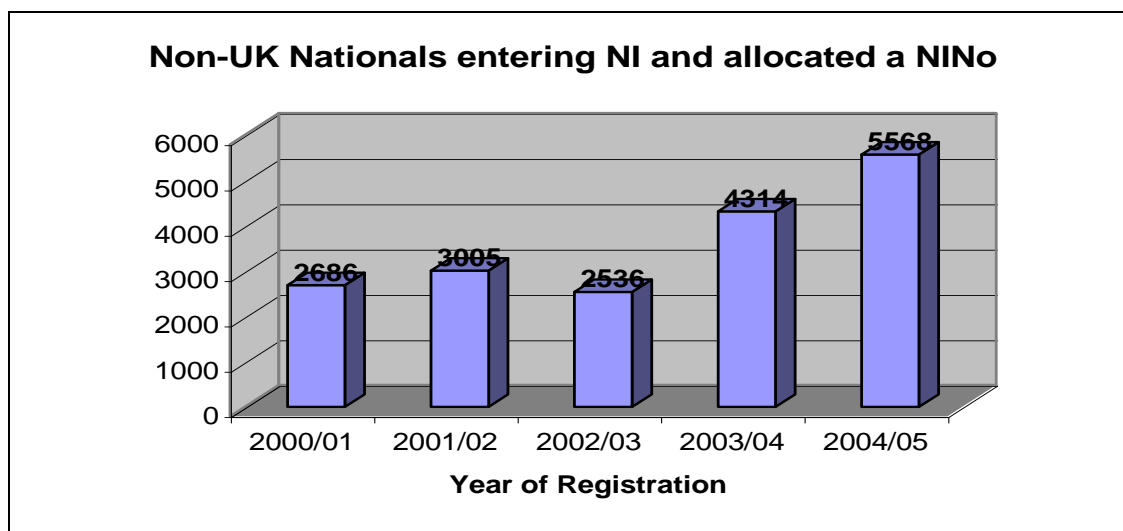
Source: DETI

107. Over the period 1996-2006, there has been a marked decrease in manufacturing jobs by 18,340 (18%). However, construction jobs have risen by 15,960 (69.9%) and services employment has increased by 126,490 (29.4%).
108. Working patterns between males and females in NI are very different with a greater proportion of females (25.7%) working part-time compared with males (8.8%). These differences are reflected in other UK regions, although they are generally not as wide. In the UK as a whole, 5.2% of males and 20.6% of females in employment are part-time workers.
109. Self-employment in NI increased by 11% to 117,800 in 2006 from the 2001 position. Only 6% of females and 24% of males in employment are self-employed (compared to 6% and 21% respectively in 2001). Over this period, self-employment jobs in Agriculture, Forestry and Fishing (AFF) decreased by 8%, while in both Production and Construction (P&C) and in Services self-employment jobs increased by 16%. It is noted from the Quarterly Employment Survey that AFF make up 16%, P&C make up 32% and Services make up 52% of all self-employment jobs.
110. Recently published figures show steady increases from 2000/01 (with the exception of 2002/03) in the number of migrant workers in NI³². Figure 18 illustrates that the total number of National Insurance number (NINo) registrations to non-UK nationals in 2004/05 was 5,568 (an increase of 29% on the 2003/04 figure of 4,314). Registrations to nationals of the ten most recent EU accession countries increased from 145 in 2003/04 to 1,572 in 2004/05, with Poland being the largest country represented (712 NINo

³² Measured by the number of non-UK nationals entering NI and allocated a NINo.

registrations). Registrations from non-Accession nationals fell from 4,169 to 3,996 between 2002/03 and 2003/04.

Figure 18



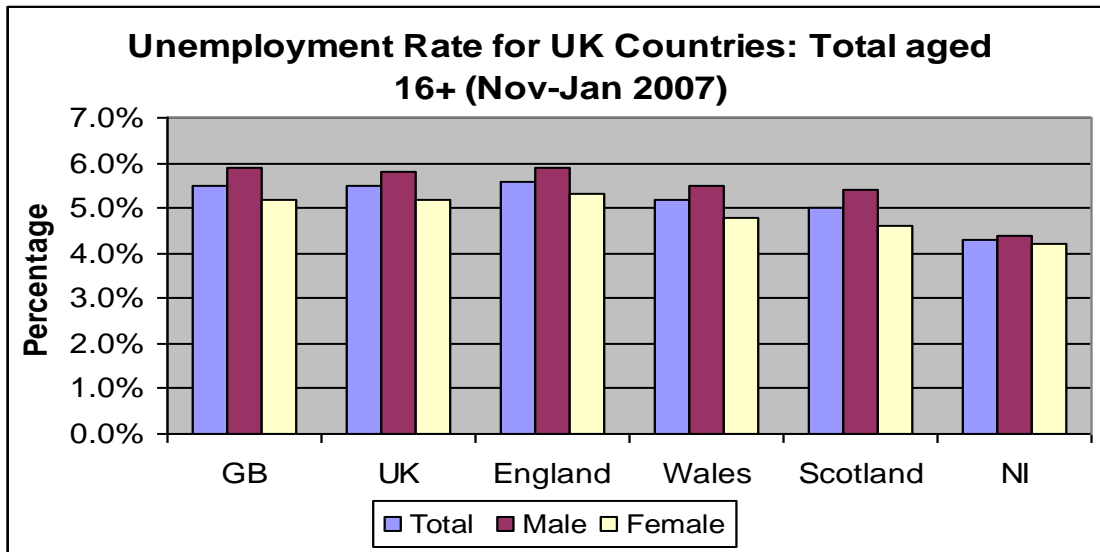
Source: DSD, NISRA

111. Migration can have a number of economic benefits and can also pose challenges. The influx of foreign labour can be viewed as positive for the NI economy because migrant workers fill vacancies and bridge skills gaps. Moreover, the resulting increase in the supply of labour should help to keep down wage inflation in the local economy, although no firm evidence supporting this view is available yet. It is also important to recognise that migrant labour is needed for rebalancing the NI economy in terms of the balance between the public and private sector. In particular, migrant workers are very important to the health sector and the food industry. However, these increases also have implications for current and future educational provision and, in particular, in the area of language support classes.

Unemployment & Inactivity

112. From Spring 1995 to Spring 2005 there has been a significant decrease in the number of people unemployed in NI: from 77,000 to 36,000. This decrease has continued to 35,000 (Nov-Jan 2007) representing an unemployment rate of 4.4% for males and 4.2% for females with the total unemployment rate for NI being 4.3%. NI currently has the second lowest rate of unemployment within the UK (South West – 4.0%).

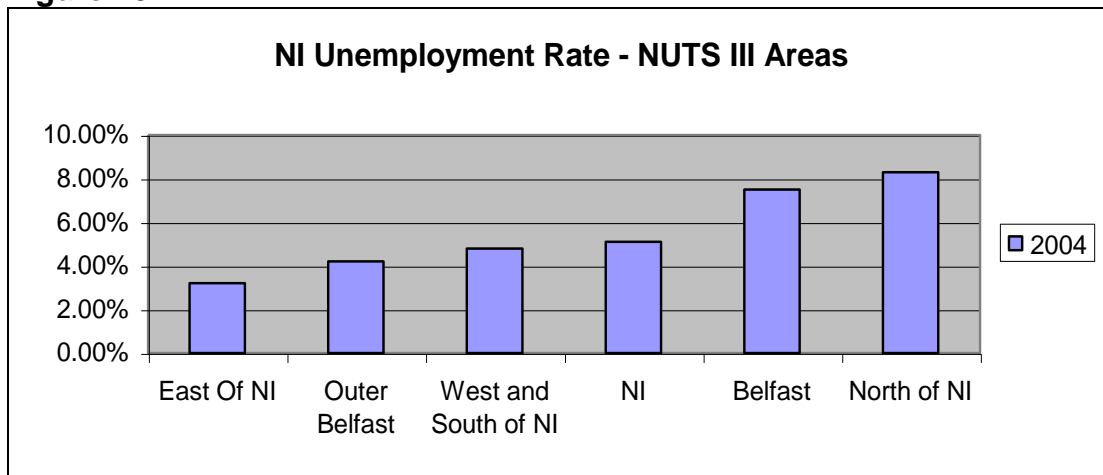
Figure 19



Source: ONS

113. Figure 20 highlights significant intra-regional variations in unemployment within NI. For example, in 2004 unemployment stood at only 3.2% in the East of the region whereas the rate was much higher in the North at 8.3%.

Figure 20



(Source: LFS: 2004 Local Area Database, (Figures resident based))

114. Within a wider context, the unemployment rates in Table 15 indicate that NI's unemployment rate is significantly below the EU25 average of 8.0% and the EU15 average of 7.4%, and is currently in line with the Lisbon target set for unemployment to reduce, by 2010, the average level of unemployment in the EU to the levels already achieved by the best performing countries (around 4%). The unemployment rate in NI is currently lower than the rate in any of the member states. NI has a slightly lower unemployment rate than the UK national unemployment rate and a slightly higher rate than the RoI.

Table 15 – International Comparisons of ILO Unemployment Rates, Oct-Dec 2005

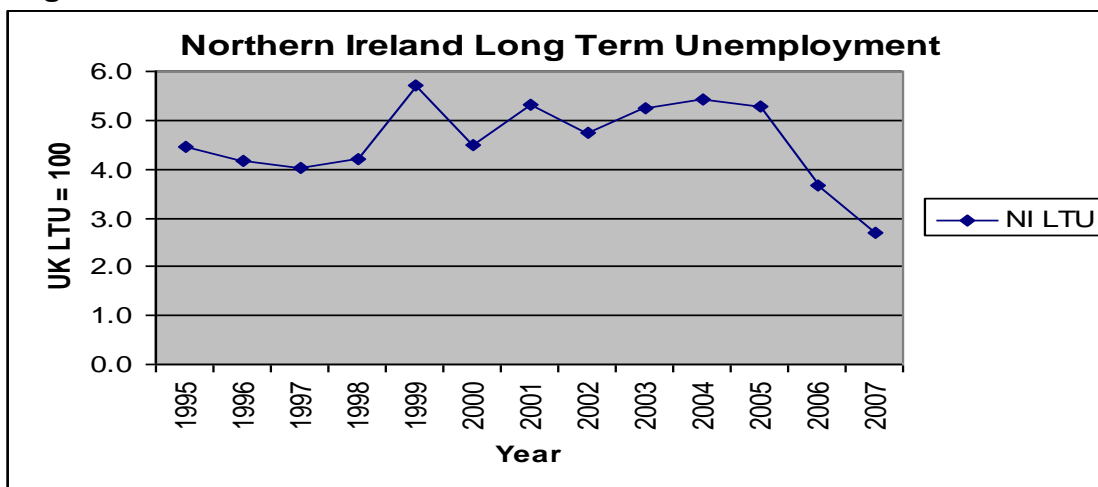
	Unemployment Rate (%)
EU25	8.0
EU15	7.4
Republic of Ireland	4.4
UK	5.1
NI	4.5

Source: DETI, ONS

LONG-TERM UNEMPLOYMENT IN NI

115. In NI, 32.7% of the unemployed (11,000 persons) have been unemployed for 1 year or more. Indeed, much of the remaining unemployment is stubborn, long-term in nature and spatially concentrated, and this is combined with a high level of economic inactivity that also tends to be geographically concentrated. However, long-term unemployment has declined considerably in NI. The long-term unemployment rate fell from 61.3% in spring 1995 to 36.6% in spring 2006. The most recent data available (November – January 2007) shows a further decrease in the long-term unemployment rate (32.7% of unemployed persons are long-term unemployed). However, a similar trend has been experienced across the UK and, as a result; NI's relative position has altered little over the last decade. This is illustrated in figure 21.

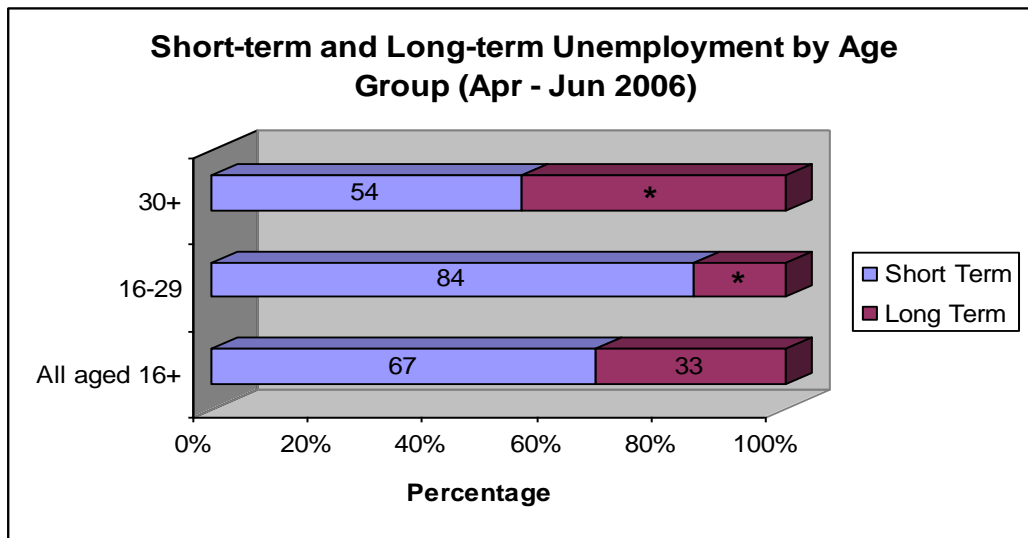
Figure 21



Source: Labour Force Survey, ONS and NISRA

116. The proportion of unemployed persons who were unemployed for one year or more in NI is shown separately for older and younger age groups in Figure 22. Of those aged 16-29, 84% were short-term unemployed, while 54% were short-term unemployed in the 30+ category.

Figure 22



* Too small for a reliable estimate

117. Within an international context, Table 16 indicates that NI had much higher long-term unemployment rates relative to the RoI, Wales, Scotland and the UK over the period 2000-2004. In comparison with the EU25, NI had a lower long-term unemployment rate, and a similar rate to the EU15.

Table 16 – Long Term Unemployment Levels (12 months and more – as a % of total unemployed) at NUTS level 2, 2000-05

	2000	2001	2002	2003	2004	2005
EU 25	45.60	45.10	44.21	45.05	44.46	45.47
EU 15	44.80	42.60	40.50	41.50	42.50	41.60
RoI	37.29	32.82	30.15	32.77	34.92	33.37
UK	26.73	25.25	21.69	21.46	20.55	21.06
Wales	32.71	28.35	20.09	16.00	20.64	22.00
Scotland	30.31	26.80	23.65	22.61	20.49	22.61
NI	44.21	39.86	37.42	41.30	43.00	40.71

Source: Eurostat

118. The issues related to unemployment have been recognised by Government. The key initiatives and actions that Government will take to address these are outlined below.

Welfare to Work Agenda

- Continue to target the expansion of the active labour market in NI through maintaining or introducing employment policies, where appropriate, similar to those in GB.
- Continue to review all the *New Deal* programmes on a regular basis to ensure that the interventions are effective in improving labour market outcomes and develop, in line with GB, a more flexible menu of

provision to assist the unemployed and economically inactive towards and into work.

Reducing Barriers to Work

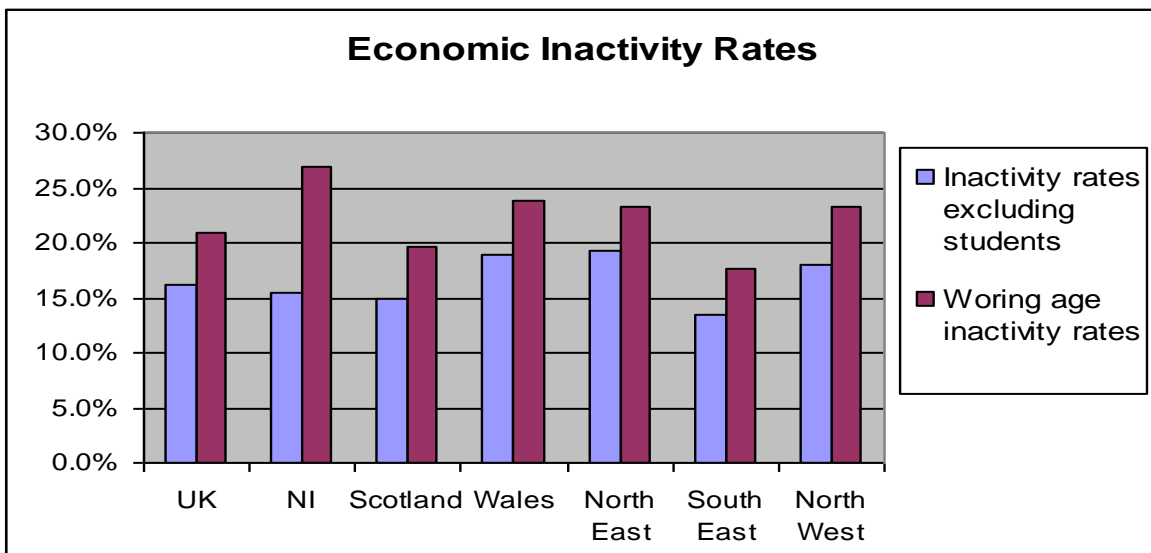
- Work towards reducing barriers to employment thereby helping more people into sustainable work and increasing the employment rate.

Promoting Flexible Working

- Raise the awareness of employers’ responsibilities and the benefits associated with flexible working. In line with their obligations, employers should, where practicable, facilitate flexible working patterns and practices in the workplace.

119. Economic inactivity remains a persistent problem within NI’s labour market, which has been increasing over the last decade. For the quarter November – January 2007, the seasonally adjusted number of economically inactive persons was estimated at 534,000, down 5,000 over the quarter. As Figure 23 highlights, the working age economic inactivity rate for NI is 26.9%. This is significantly higher than the UK average rate (21%) and is the highest of the twelve UK regions. Within a wider context, NI’s inactivity rate is higher than the EU average (2006 Q3) by 4%.

Figure 23

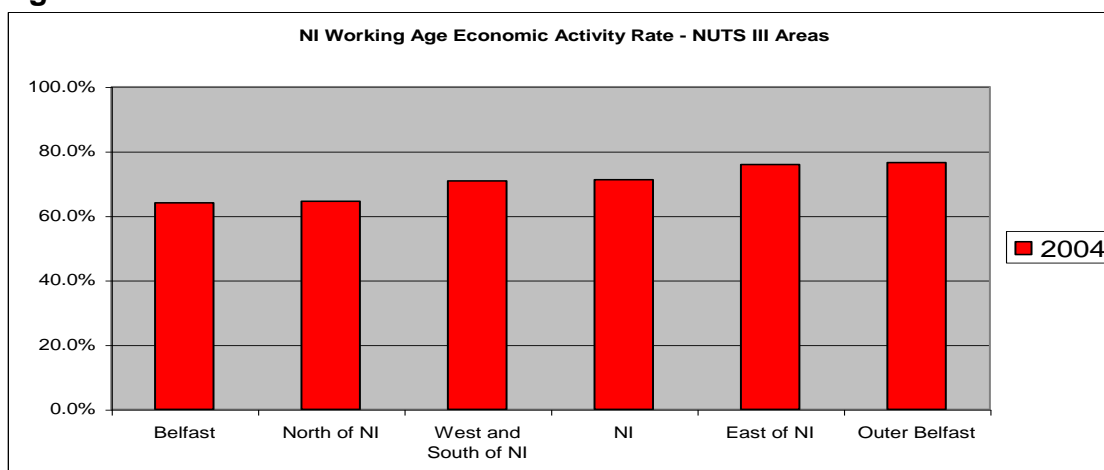


Source: Labour Force Survey, ONS and NISRA

120. The main groups classed as economically inactive are those looking after the family and home, students and those who are long-term sick or disabled. As more young people stay in education for longer, the student group as a proportion of the working-age population is increasing. Students represent a large number of potential workers, highly likely to participate in the labour market at some time in the future. The other main reasons for inactivity are retirement and temporary sickness.

121. As figure 23 illustrates, NI has a larger proportion of student designated as inactive compared to the other UK regions. This is positive for the economy in the future as students begin to enter the labour force. Inactivity rates should see a natural decline as the youth population falls in the future.
122. There are also significant intra-regional variations in economic activity within NI (Figure 24). For example, in 2004 the economic activity rate differed substantially with a high of 76.5% in Outer Belfast and a low of 64% in Belfast.

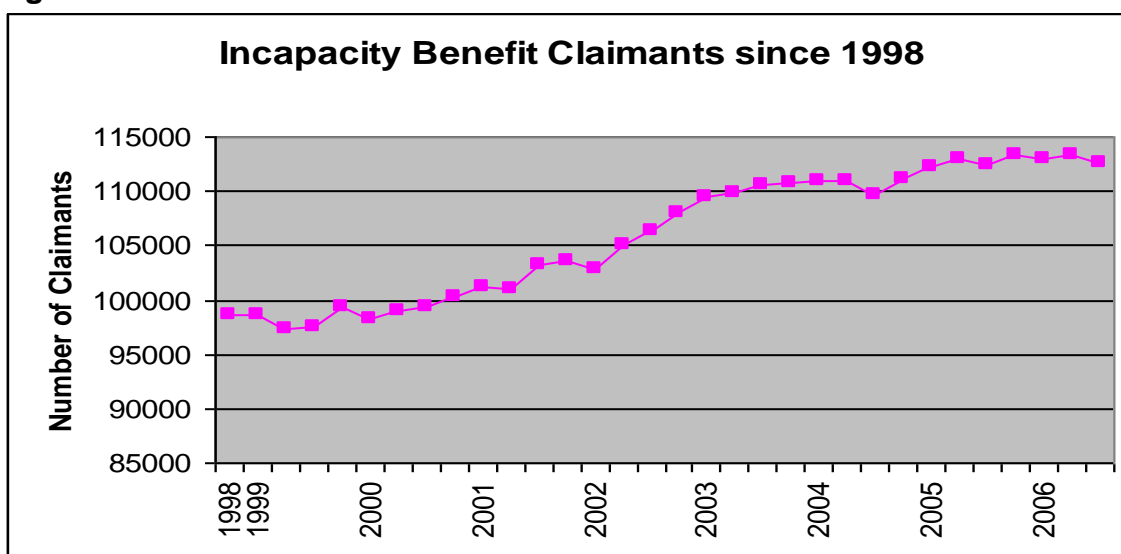
Figure 24



(Source, LFS: 2004 Local Area Database, (Figures resident based))

123. Around 112,500 people in NI are currently claiming Incapacity Benefit, almost half (62,640) of whom have been claiming for four years and over.

Figure 25



Source: DSD – Incapacity Benefit and Severe Disablement Allowance, August 2006

124. Along with the North East and Wales, NI has the highest percentage of households claiming incapacity benefit. In August 2006, 10.6% of NI working

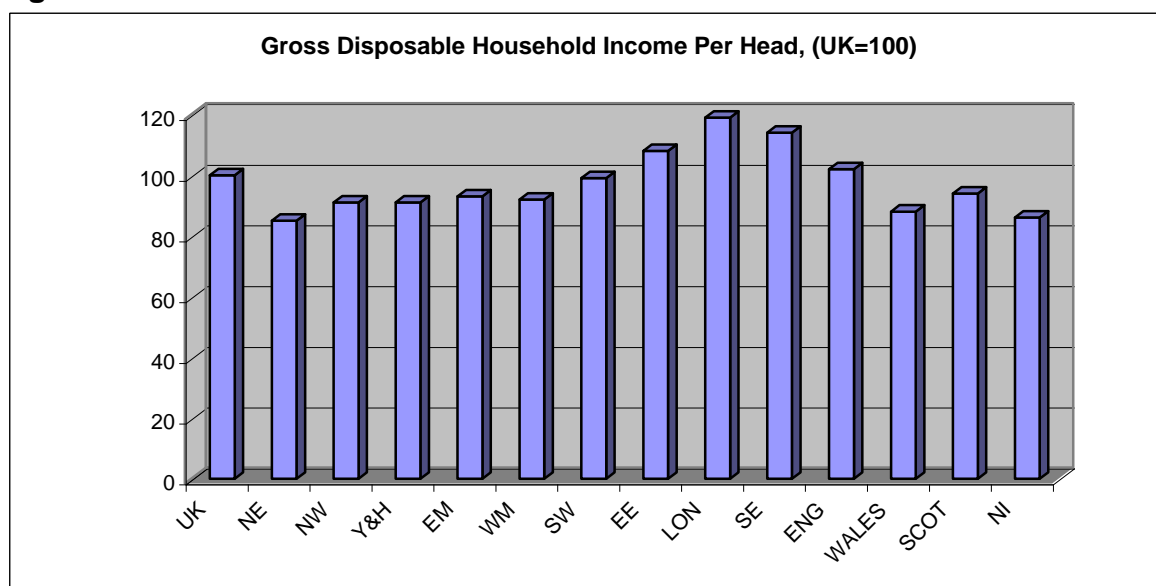
age population claimed incapacity benefit, which is significantly above the UK average (6.7%).

125. People tend to stay on Incapacity Benefit longer and after more than two years the probability of returning to work becomes very low. Incapacity Benefit recipients represent a significant proportion of the working age population who have effectively removed themselves from the active labour market. Major UK and NI employment policy initiatives have started to focus on the Incapacity Benefit problem, such as the recent Welfare Reform Green Paper 'A new deal for welfare: Empowering people to work' (published January 2006), 'Pathways to Work' Pilots and the New Deal for Disabled People.

Income and Earnings

126. Income per head in NI is substantially lower than the UK average. Recent data from the Office of National Statistics (ONS) highlights that gross disposable household income per head in NI (£10,988) is amongst the lowest in the UK regions, and 14% lower than the UK average (£12,840) (Figure 26). This reflects NI's lower rates of economic activity, employment and its higher dependency rates relative to the UK.

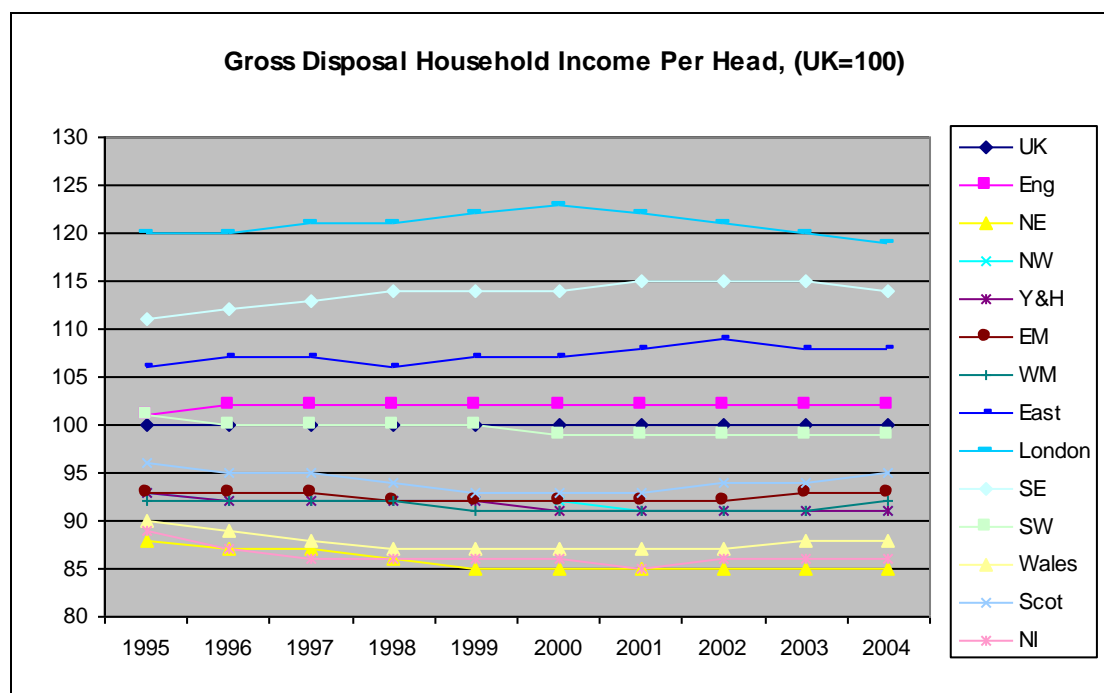
Figure 26



Source: ONS

127. Figure 27 illustrates Gross Disposable Household Income (GDHI) per head indices for the past ten years for NI and the English regions. It shows that the NI position has remained relatively steady from 1995 and that, along with North East England, it consistently has the lowest GDHI per head in the UK.

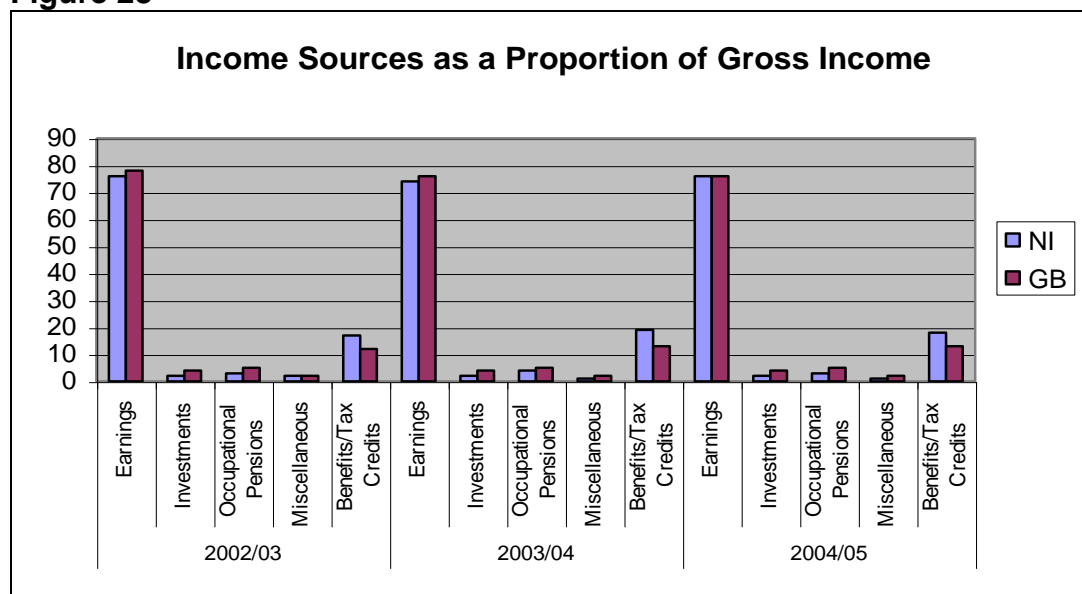
Figure 27



Source: ONS

128. The composition of household income differs substantially between NI and the rest of the UK. Specifically, a greater proportion of NI weekly household income is derived from social security benefits. In 2004/05, 60% of NI's weekly household income was derived from wages and salaries. The comparable figure for the UK was 65%. However, this is largely offset by a higher level of self-employment income in NI, with 12% of weekly income being derived from the self-employed compared to 9% for the UK. Conversely, 11% of weekly household income in NI was in the form of social security benefits compared to 7% for the UK as a whole.
129. Correspondingly, the proportion of people in receipt of social security benefits in NI is greater than for the rest of the UK. Specifically, the proportion of people in receipt of disability living allowance is two times higher than in the UK as a whole.
130. Figure 28 shows income sources as a proportion of gross income for the years 2002/03, 2003/04 and 2004/05. This illustrates that NI households consistently rely much more on benefits than their counterparts in Great Britain. However, it should be noted that NI has proportionately more households with children under 16 than GB. This means that there are proportionately more households in receipt of Child Benefit and Tax Credits than in GB. This explains some of the difference between reliance on benefits.

Figure 28



Source: HBAI

131. NI continues to experience lower average earnings relative to the UK. The most recent data from the Annual Survey of Hours and Earnings (ASHE) 2006 indicates that median gross weekly earnings in NI were around 89% of the UK average for all employees (Table 17). Comparable figures for the other UK regions indicate that, with the exception of the North East, NI had the lowest ranking median gross weekly earnings of all UK regions. Despite this, over the period 2005-2006, there has been a slight reduction in the earnings gap between the UK and NI, a 3% reduction in weekly earnings for all employees.

Table 17 – Regional Median Weekly Earnings (All Employees), 2006

	Median Gross Weekly Earnings (£)	Relative to the UK (UK = 100)
UK	364.1	100
North East	322	88
North West	344.2	95
Yorkshire & Humberside	334.5	92
East Midlands	344.7	95
West Midlands	345.	95
South West	339.7	93
East of England	357.2	98
London	500.8	138
South East	380.1	104
England	369.4	101
Wales	330.8	91
Scotland	346.9	95
NI	324.7	89

Source: ASHE 2006, ONS

132. Table 18 shows NI median gross weekly earnings by full/part time split and gender. It illustrates that while men's full time earnings are on average 12% higher than their female counterparts, part-time female workers earn almost 10% more than part-time male workers.

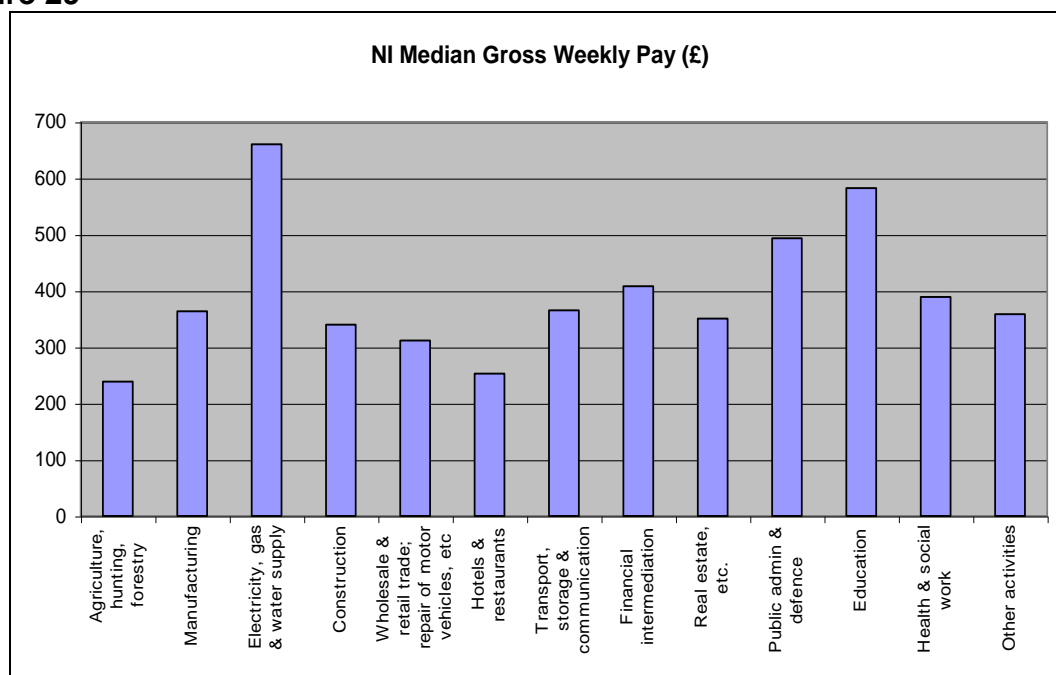
Table 18 – Median Gross Weekly Earnings (NI), 2006

£ per week	Full-time	Part-time	All
Men	422.9	121.3	391.5
Women	378.5	133.2	261.8
All	405.2	131.3	324.7

Source: DETI, ASHE 2006

133. Figure 29 shows median gross weekly pay of full-time employees by industry, April 2005. Those in electricity, gas and water supply are the highest earners (£660.20), while employees in the agriculture, hunting and forestry industry earn the least per week (£238.80).

Figure 29



Source: DETI, ASHE 2005

134. Comparative figures on median gross weekly earnings for NI's local government district areas shows that clear variations exist across NI. Castlereagh records the highest median gross weekly earnings of £408.10, compared with Antrim, which has the lowest average weekly earnings of £277.10, or around 86% of the NI average.
135. Average gross weekly earnings of people in rural areas are consistently below those of people living in urban areas over the years from 2000 to 2003. There is no evidence to indicate that the gap in earnings between urban and rural areas is narrowing (or widening) (Table 19). However, data on household income indicates that the highest household incomes are in the Rural East –

the result of the export of earnings gained in Belfast by commuters – with the lowest incomes in the Rural West.

Table 19 – Average Gross Weekly Earnings per Person (£), 2000-2003

	2000	2001	2002	2003
Urban	359.58	372.80	385.58	396.27
Accessible Rural	331.16	350.14	356.48	364.65
Less Accessible Rural	321.78	322.81	346.68	360.58

Source: NISRA (NINIS website: <http://www.ninis.nisra.gov.uk/>)

Note 1: LGD based definition of Rural Areas is used

Relative Consumer Prices

136. Figures produced by ONS suggest that relative consumer prices in NI are 4.2% lower than the UK average (Table 20). These lower prices within NI predominately reflected lower property prices at the time. However, recent data on house prices indicates that the average house price in NI is now £210,116 compared to the UK average of £184,924.³³

Table 20 – Regional Relative Consumer Prices, 2004³⁴ (UK = 100)

	National Weights
North East	94.2
North West	96.9
Yorkshire & Humberside	94.2
East Midlands	97.4
West Midlands	97.8
Eastern	101.1
London	109.7
South East	105.3
South West	101.3
Wales	93.1
Scotland	94.5
NI	95.8

Source: ONS

137. In addition, there are a number of commodities in NI that are more expensive compared with the rest of the UK. Looking at goods and services across the regions of the UK, the cost of goods, and in particular necessity goods, such as food, fuel and motor expenditure are more expensive in NI relative to the UK. Specifically, food is 1.9% higher in NI, fuel is 12.6% higher and motor expenditure is 21.8% more expensive relative to the UK as a whole.

³³ Figures provided for England and Wales by Land Registry, for Scotland by Registers of Scotland Executive Agency, both for period October-December 2006 and NI figures from University of Ulster in partnership with Bank of Ireland for period July – September 2006,

³⁴ 2004 is most recent data available.

The Cost of Doing Business

138. Research on the cost of doing business in NI was recently published by the Economic Research Institute of NI (ERINI). The overall findings indicated that on balance business costs in NI are currently relatively competitive when compared to Great Britain and the Republic of Ireland.
139. The principal reason for this competitive advantage lies in cheaper labour costs and cheaper property costs, (although this may have changed somewhat in view of recent property price increases) which together make up approximately 19.3% of company turnover (on average). Although some costs elements are higher in NI relative to GB (such as energy and insurance), they make up less than 4% of turnover and therefore are less significant. Finance, environmental, compliance and telecommunications costs were found to be similar on average between NI and GB.
140. While Northern Irish freight costs and fuel prices were higher than in Great Britain, the unique position of NI on the border of the Eurozone has kept transport costs lower than would otherwise be the case for some NI businesses. In addition, the high density of NI transport companies has resulted in downward pressure on prices through competition.
141. It should be noted that, similar to other regions, a number of NI business costs are expected to rise in the near future (such as energy and utility charges and the cost of transport and property).

Access and the Environment

Natural and Built Heritage

142. NI has a rich and varied natural heritage, which includes habitats and species of international, national and local significance.
143. In recent years, a combination of factors have resulted in major changes to the landscape and wildlife resources of the UK with much of the original natural habitats and wildlife in many areas destroyed. Within NI the loss of natural sites has not been as dramatic as in Great Britain, however certain habitats, particularly wetlands and peatlands, have been considerably reduced. There have also been dramatic losses in some species, for example, the Corncrake.
144. The Nature Conservation and Amenity Lands (NI) Order 1985 (NCALO), now superseded by The Environment (NI) Order 2002, was implemented to address the issue of loss of natural resources. This mandated Environment and Heritage Service to declare all areas of land as an Area of Special Scientific Interest (ASSI) where they need protection 'by reason of their flora, fauna or geological, physiographical or other features'.
145. Within NI, around 6% of land surface is currently designated as ASSI (see Chart 2). This is against a projected estimate of 10% of NI's land surface.

Comparisons with the other regions of the UK indicate that NI currently has a lower percentage of land surface designated as ASSI. Currently, 9.9%, 12.7% and 7.7% of Wales, Scotland and England land surface is designated as ASSI.

Chart 2



NB. Although ASSIs on the map are indicated by dots, some of these, in particular rivers and loughs, will cover quite an extensive geographical area, examples would be Lough Neagh which takes in the whole expanse of the lough and it's shoreline and the River Foyle and it's tributaries which stretches from Magheramason to Killeter Forest.

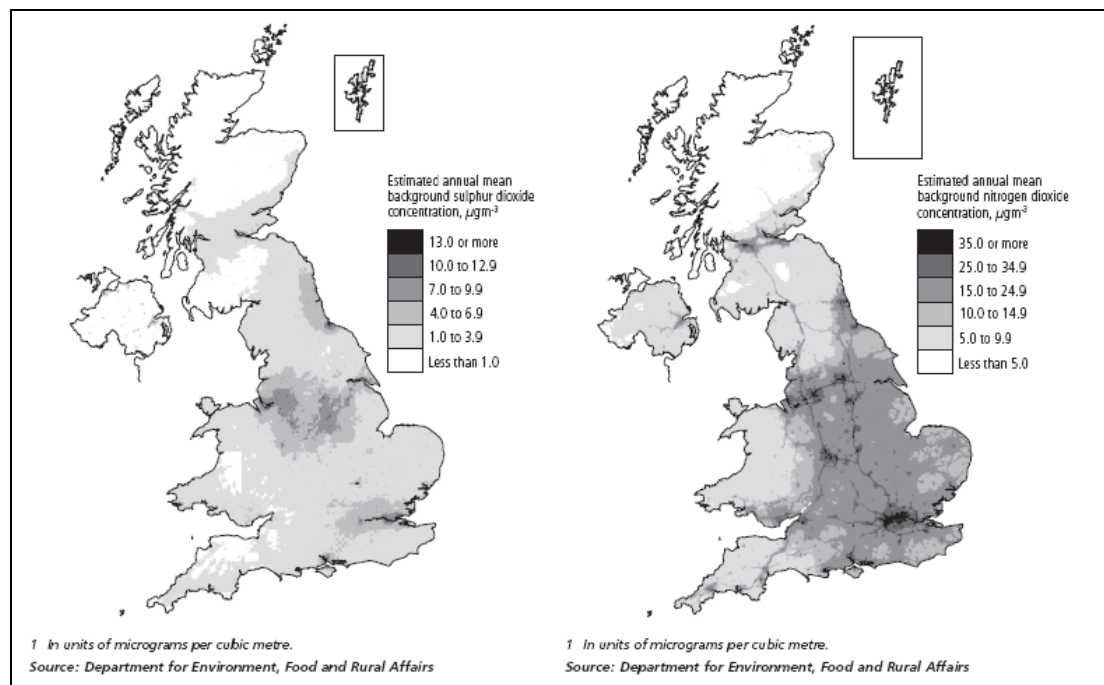
Atmospheric Pollution

146. NI has low levels of atmospheric pollution relative to other parts of the UK. It has a low concentration in sulphur dioxide and nitrogen dioxide emissions (see chart 3). The greatest concentrations of sulphur dioxide are in regions where manufacturing industries are more common. One of the main sources of nitrogen dioxide is road traffic, hence higher concentrations are found in heavily congested areas or major road networks.

Chart 3

Sulphur Dioxide Concentration¹ Concentration¹ across the UK, 2003

Nitrogen Dioxide across the UK, 2003



Land

147. In 2003, 51% of land in the UK was used as “grass and rough grazing”, ranging from 36% in England to 76% in NI. As a percentage of “all land” in 2003, “inland water” was greatest in NI (5%) and lowest in England and Wales (0.6%). Table 18 illustrates designated areas in 2005 across UK regions. There are no National Parks in NI, but it has the highest percentage (20%) of land area designated as of outstanding natural beauty. NI also has a relatively high percentage of green belt land (16%) that is well above the UK percentage (8%).

Table 21 - Designated areas, 2005¹, Percentage of total area in region

	National Parks	Areas of Outstanding Natural Beauty ²	Green Belt Land ¹
UK	8	14	8
North East	13	17	6
North West	18	11	18
Yorks & Humber	21	6	17
East Midlands	6	3	5
West Midlands	2	10	21
East	2	6	12
London	-	-	22
South East	-	31	19

South West	7	30	4
England	7	16	13
Wales	20	4	-
Scotland	6	13	2
NI	-	20	16

Note 1 – At March 2005, except for Green Belt land which relates to 1 January 1997.

Note 2 – National scenic Areas in Scotland. The South East includes London.

Source: Department for Environment, Food and Rural Affairs

Bio-diversity

148. Bio-diversity refers to the variety of life on Earth, from coral reefs to the Arctic. Biological diversity is important because of the way these interactions can combine to provide yet more variation in the living world. Any human activity that diminishes this 'bio-diversity' could therefore impoverish our own quality of life, reduce the resources available to us and ultimately jeopardise the survival of our descendants.
149. Within NI, latest figures indicate that 9.8% of NI's land area is designated as protected areas for bio-diversity. Comparable figures highlight that NI has much lower percentage of areas protected by bio-diversity relative to the EU25, EU15 and the RoI, although, NI's figure is significantly higher than the UK as a whole (Table 22).

Table 22 - % of land protected for bio-diversity

EU25	12.1
EU15	12.7
Republic of Ireland	10.2
UK	6.5
NI	9.8

Source: Eurostat

Municipal Waste

150. Historically the UK has depended on landfill as its main form of waste disposal. Gradually this is beginning to change and the latest figures for municipal waste show that 74% was placed in landfill, 18% recycled and 8% incinerated.
151. Within NI, latest figures indicate that the proportion of municipal waste recycled and composted has increased from 12.2% in 2003 to 18.2% in 2004-05, an increase of 6% in the recycling rate.
152. With regard to household waste recycling, comparisons across NI district councils show that considerable variation exists (Table 23). Banbridge District Council ranks the top in terms of recycling with 39.2% of household waste recycled. This compares with Belfast City Council where only 8.9% of household waste was recycled in 2004-05. Overall, 18.9% of household waste was collected in NI for recycling and composting, an increase from 12.5% in 2003.

Table 23 – District Council Household Waste Recycling Rates, 2004-05

	Household Waste Recycled (%)
Banbridge District Council	39.2
Antrim Borough Council	38.4
Magherafelt District Council	31.4
Limavady Borough Council	17.3
Ballymoney Borough Council	24
Ballymena Borough Council	23.4
Armagh City & District Council	23.3
Craigavon Borough Council	23.4
Castlereagh Borough Council	22.2
Fermanagh District Council	21
Ards Borough Council	20.4
Cookstown District Council	20.6
Dungannon & South Tyrone Borough Council	20.1
Newry & Mourne District Council	20
Newtownabbey Borough Council	19.9
Omagh District Council	19.6
Down District Council	19.2
Coleraine Borough Council	18.6
Strabane District Council	17.3
Carrickfergus Borough Council	17.2
North Down Borough Council	17.2
Larne Borough Council	16.5
Derry City Council	13.7
Lisburn City Council	12.3
Moyle District Council	11.3
Belfast City Council	8.9
NI	18.9

Source: Department of Environment, Environmental Heritage Service

153. It is clear that a considerable number of district councils are failing to meet the 2005 targets set by the Department of the Environment to recover 25% of household waste by 2005 and 40% by 2010, of which 25% will be recycled/composted. Only Banbridge, Antrim and Magherafelt district councils have exceeded these targets for 2005.
154. Within the wider context, comparable figures for the EU15 highlight that both the UK and NI have low household waste recycling rates relative to the other EU countries, with NI only having higher rates compared to Greece and Portugal (Table 24).

Table 24 – Household Waste Recycling Rates for the EU15, 2001

	Household Recycling Rates (%)
Netherlands	59%
Austria	58%
Germany	53%
Belgium	39%
Sweden	39%
Luxembourg	36%
Denmark	32%
Spain	28%
Finland	25%
France	25%
Italy	24%
Ireland	13%
UK ¹	17%
Greece	9%
Portugal	4%
NI²	18.9%

Source: www.foe.co.uk; www.letsrecycle.com

Note 1: This figure relates to 2003-04

Note 2: This figure relates to 2004-05

The NI Waste Management Strategy 2006-2020

155. Since the publication of the first Waste Management Strategy, significant progress has been made in improving waste management in NI. For example:
- i. The number of materials recycling facilities for household and commercial and industrial waste has increased considerably;
 - ii. NI's infrastructure capacity (over 600,000 tonnes) currently outstrips the amount of waste being collected;
 - iii. Household waste recycling has risen from 5% in 1999 to 19% in 2005; and
 - iv. Public awareness of waste management issues has increased through the *Wake up to Waste* media campaign and through education programmes in Schools.
156. However, independent reviews of the first Strategy highlighted a number of areas that need to be strengthened. These include:
- i. New focus on resource management and waste prevention;
 - ii. Effective leadership by Government to set an example to all sectors;
 - iii. Provision of an integrated network of waste management facilities;
 - iv. Consideration of all types of waste; and
 - v. New measures to combat illegal waste activities.

Water Quality

157. Table 25 presents a comparison of water quality in terms of river length for the countries of the UK. As the table highlights, NI is underperforming relative to the other UK regions in terms of both biological and chemical river water quality³⁵.

Table 25 – Percentage of classified river length of good quality, 2005

	Biological	Chemical
England	71%	64%
Wales	80%	95%
Scotland	87%	87%
NI	56%	63%

Source: DEFRA – The Environment in Your Pocket, 2006

158. Phosphorus and nitrogen are found naturally in water, and plants require these nutrients to grow. However, elevated levels of phosphorus in water from sewerage inputs can lead to excessive algae growth in freshwater.

159. As table 26 highlights, NI, although lower than England, has high concentrations of phosphate in rivers, with 23% of rivers in NI having average phosphate concentrations greater than the guideline value of 0.1mgP/l.

Table 26 – Percentage of river length with average phosphate concentrations greater than 0.1 mgP/l and average nitrate concentrations greater than 30 mgNO₃/l, 2005

	Phosphate	Nitrate
England	58%	32%
Wales	8%	0%
Scotland	4%	3%
NI	23%	0%

Source: DEFRA – The Environment in Your Pocket, 2005

160. In addition, high levels of nitrates can lead to excessive growth of algae in the sea and are of concern in relation to drinking water abstractions. Table 26 illustrates that NI compares favourably with other UK countries with regard to nitrate concentrations, with no rivers in NI exceeding the average concentration of 30 mgNO₃/l.

161. Water undertakers in the UK are required to supply wholesome water and are responsible for assessing the quality of water through regular sampling of water treatment works, service reservoirs and discrete water supply zones. Table 27 highlights that NI was the second poorest performing of all the UK regions, after Scotland (0.53%) in terms of drinking water quality, with 0.28% failing to meet standards in 2004.

³⁵ Note: The Scottish classification system and criteria for determining which river lengths should be monitored is different from the other countries. Comparisons between Scotland and other countries should therefore be treated with caution. Also, as a result a UK total cannot be produced.

Table 27 – Drinking Water Quality, 2004

	% failing to meet standards
England and Wales	0.06%
Scotland	0.43%
NI	0.28%

Source: DEFRA – The Environment in Your Pocket, 2006

Renewable Energy

162. Looking at renewable energy sources, comparable figures show that NI has the lowest percentage share of electricity produced from renewable energy sources (Table 28) relative to the EU25 and EU15.

Table 28 – Share of Electricity produced from renewable energy sources in total electricity consumption, 2003

	% electricity produced from renewable resources
EU25	12.8%
EU15	13.7%
RoI	4.3%
UK	2.8%
NI¹	1.9%

Source: Eurostat; www.restats.org.uk/statistics_regional

Note 1: This figure relates to 2004

163. Currently NI is some distance away from its 2012 target of 12% of electricity consumption being supplied from indigenous renewable energy sources. However, a study by Action Renewables put NI potential for Renewable Electricity generation at some 1133MW of installed capacity – a level that is equivalent to around two-thirds of NI’s peak electricity demand (Table 29).

164. There are a number of undeveloped renewable energy resources in NI. These include:

- i. Onshore & offshore wind;
- ii. Biomass;
- iii. Hydro-electricity;
- iv. Tidal stream;
- v. Municipal & agricultural wastes; and
- vi. Landfill & sewage gas.

Table 29 – Summary of feasible renewable energy resource in each county in NI

County	Potential installed capacity, MW	Energy production per year, GWh	Potential savings in CO ₂ emissions per year, tonnes ¹	Estimated number of jobs created ²
Antrim	227	894	544,000	48
Armagh	18	81	50,000	3
Down	301	1070	649,000	13
Fermanagh	95	340	207,000	10
Londonderry	279	993	603,000	9
Tyrone	213	735	446,000	26
Total	1133	4113	2,499,000	109

Note 1: From DTI data stating an emission factor for electricity in NI of 0.608kg CO₂ per kWh.

Note 2: No. of people employed full-time in the operation and maintenance of the projects (i.e. not including jobs during the development and construction phases, or “jobs supported”).

Experience from Previous Programmes

Building Sustainable Prosperity (BSP) 2000-2006 Operational Programme

164. Achievement for the Programme as a whole has been generally good. The main objectives of priorities 1, 2 and 3 (Economic Growth, Employment and Urban Revitalisation respectively), and the infrastructure element of Priority 5 (Environment) are likely to be met. Difficulties remain for Priority 4 (Rural Development) and significant progress is required for the sustainable environment element of Priority 5. Significant progress has been made under the Environmental Sustainability and Equal Opportunities Horizontal Principles.
165. However, it has been suggested that there is a need to move away from grant-led activity to more innovative, entrepreneurial and global activity, as well as a need to build capacity to enable more small organisations to participate in larger strategies.

Community Support Framework (CSF) for NI 2000 - 2006

166. The economic effects of the CSF have been relatively modest. At the time of the mid-term evaluation, payment to projects of EU funds have amounted to just under one per cent of regional GVA, and will remain at a relatively modest level over the remaining years of the CSF. Beyond the mid-term stage, the CSF will concentrate on balanced regional, urban and rural development (which has suffered from implementation difficulties up to the mid-term stage) and less focused on economic growth and renewal.

167. Economic trends have not been sufficient to alter the overall economic development needs of NI. While there has been a steady convergence in employment and unemployment rates on the UK average, relative productivity has not been improving. The key challenges facing the NI economy still remain. GVA per head ranks near the bottom of the UK regional ranking. Business formation rate is 11th out of the 12 UK regions. There remains a need to increase innovation and R&TD as well as export performance.
168. The peace process has made less progress than might have been anticipated at the outset of the CSF. External developments facing the Peace Priority enhance the need for peace-building and more directly addressing the reconciliation objective of the Priority.

NI EQUAL Community Initiative 2000-2006

169. Overall, analysis suggests that the fundamental issues facing the NI labour market have not changed since the EQUAL Programme was initiated. The need remains to facilitate access to employment for those who have difficulty in being integrated or re-integrated into the labour market. This has reinforced the relevance of the EQUAL Programme over the period.
170. In addition, the rationale for the Equal Opportunities theme remains valid, as the labour market is still characterised by a significant gender gap with respect to full-time and self-employment, economic activity, progression and pay.
171. Across the Programme, the level of partnership achieved has been very high. It is also evident that there are high levels of innovation within EQUAL. At the individual level, the Programme has made a positive impact by helping beneficiaries move along the pathway to training, education and employment.

North/South Co-operation

172. The two economies on the island of Ireland face common external threats from globalisation, which, by working together, can be overcome. NI can have a relative advantage by being part of a strong UK economy and by maximising the trading opportunities within the island of Ireland. The proximity to the RoI and its position within the Eurozone means that many NI businesses are already trading successfully with their neighbours. The British and Irish Governments have placed a renewed focus on increased North South cooperation, which will deliver mutual benefits, particularly around the areas of trade and investment, energy, telecommunications, R&TD and skills. However, we also need to acknowledge that in areas such as FDI, for example, the RoI is in fact a competitor region. The following sub-sections expand on some recent initiatives and identified benefits of increased all-island cooperation.

Enterprise Promotion

173. InterTradeIreland will take forward the promotion of cross border cooperation on enterprise in liaison with Invest NI and the Industrial Development Agency Ireland. One example of this type of cooperation can be seen in the proposed development of a Virtual Cross Border Technology Park situated in the North West. A joint MicroTrade programme aimed at helping small businesses build contacts, markets and partnerships across the island of Ireland will also be taken forward.

Science, Technology and Innovation

174. Cross border collaboration in research can bring benefits by promoting excellence, driving frontier research, addressing local priorities in an effective manner and by avoiding duplication. Collaboration in specific sectors has been in place for many years. Policy level interaction between the North and the South has begun, which will further enhance cooperation in this area.

Human Capital

175. Investment in education and training is key to remaining competitive in an increasingly knowledge based economy. Several all-island initiatives in this area are being taken forward. Expert skills groups have been established on both sides of the border, which will work together to ensure that policies are underpinned by sound evidence. DEL will work with the FAS on a number of joint education and training projects and joint investment in new facilities in border areas.

Infrastructure

176. A modern infrastructure is crucial to economic growth and competitiveness. NI needs high standard ports and airports to trade with the outside world; high quality roads and public transport network; modern communications systems and an environmentally sustainable energy supply. Cross border cooperation can significantly contribute to the development of all types of high quality infrastructure. The two Governments have agreed to work on both joint planning and joint project delivery. For example, work is already underway to upgrade the Belfast – Dublin road corridor as well as the Belfast to Dublin Enterprise rail service. Looking to the future there will be particular emphasis on the North-West Gateway with plans for improved roads provision for Derry - Letterkenny. Energy cooperation will be advanced with the creation of the Single Electricity Market in 2007, with similar work being taken forward on an all-island gas network.

National Development Plan

177. The National Development Plan (NDP) for RoI sets out in detail the full range of current and planned initiatives for North/South co-operation and also contains proposals for significant Irish Government investment in North/South

projects. The proposed new investment package identifies specific joint projects with NI and shows specific growth opportunities for the NI economy.

178. Possible joint projects include:

- Completion of a high quality road network on inter-urban routes linking the major population centres of Dublin, Belfast and the North West;
- Future development of the Dublin-Belfast rail line as part on an integrated rail network;
- Improved access for tourism along the Eastern corridor;
- Upgrading higher education capacity in the North West and the border region through strategic alliances between educational institutions; and
- Examining the possibility of restoring the Ulster Canal.

Conclusion

179. The main challenges for the NI Administration are therefore to improve upon innovation and enterprise levels, build on the current infrastructure, increase the employment rate for all groups in the labour market, reduce the high numbers of economically inactive and improve the skill and qualifications levels of existing employees as well as those seeking to enter employment, whether young people or those who are unemployed.
180. The key local programmes and initiatives addressing these challenges include New Deal, the integrated Jobs and Benefits Offices, 'Pathways to Work' pilots, Jobskills, Essential Skills, and the Building Sustainable Prosperity and EQUAL Structural Funds programmes.
181. EU funding should be prioritised towards promoting R&TD expenditure by local businesses, improving enterprise performance to catch up with the best performing countries in Europe, raising the skills of the current workforce and encouraging take-up of recent advances in technological infrastructure. Improving the four key drivers of productivity will enable NI to become a more productive region and close the large differential that exists between NI and the UK.

Abbreviations and Acronyms

ASHE	Annual Survey of Hours and Earnings
BSP	Building Sustainable Prosperity
C & E	Competitiveness & Employment
DARD	Department of Agriculture and Rural Development
DCMNR	Department of Communication, Marine & Natural Resources
DE	Department of Education
DEL	Department for Employment and Learning
DETI	Department for Enterprise, Trade and Investment
DFP	Department of Finance and Personnel
DOE	Department of Environment
DPA	Development Path Analysis
DRD	Department for Regional Development
DSD	Department for Social Development
EAFRD	European Agricultural Fund for Rural Development
EC	European Community
EIB	European Investment Bank
EIF	European Investment Fund
EQIA	Equality Impact Assessment
ERDF	European Regional Development Fund
ERINI	Economic Research Institute NI
ESF	European Social Fund
EU	European Union
EU15	15 Member States which joined the EU before 2004
EU25	The 25 member states of the European Union
FDI	Foreign Direct Investment
FE	Further Education
GB	Great Britain
GCE	General Certificate of Education
GCSE	General Certificate of Secondary Education
GEM	Global Entrepreneurship Monitor
GDP	Gross Domestic Product
GVA	Gross Value Added
HE	Higher Education
HERD	Higher Education Research & Development
ICT	Information and Communications Technology
IDB	Intermediate Delivery Body
IT	Information Technology
JEREMIE	Joint European Resources for Micro to Medium Enterprises
JESSICA	Joint European Support for Sustainable Investment in City Areas
LTU	Long Term Unemployed
NISIP	NI Science-Industry Panel
NISRA	NI Statistics and Research Agency
NITB	NI Tourist Board
NSRF	National Strategic Reference Framework
NTHSPs	Niche Technology Horizon Scanning Panels
NTSN	New Targeting Social Needs
ONS	Office of National Statistics
PE	Public Expenditure

PMC	Programme Monitoring Committee
R&D	Research and Development
R&TD	Research & Technology Development
RIS	Regional Innovation Strategy
Rol	Republic of Ireland
SEA	Strategic Environmental Assessment
SME	Small and Medium Sized Enterprise
SWOT	Strengths, Weaknesses, Opportunities, Threats
TENS	Trans European Networks
UK	United Kingdom