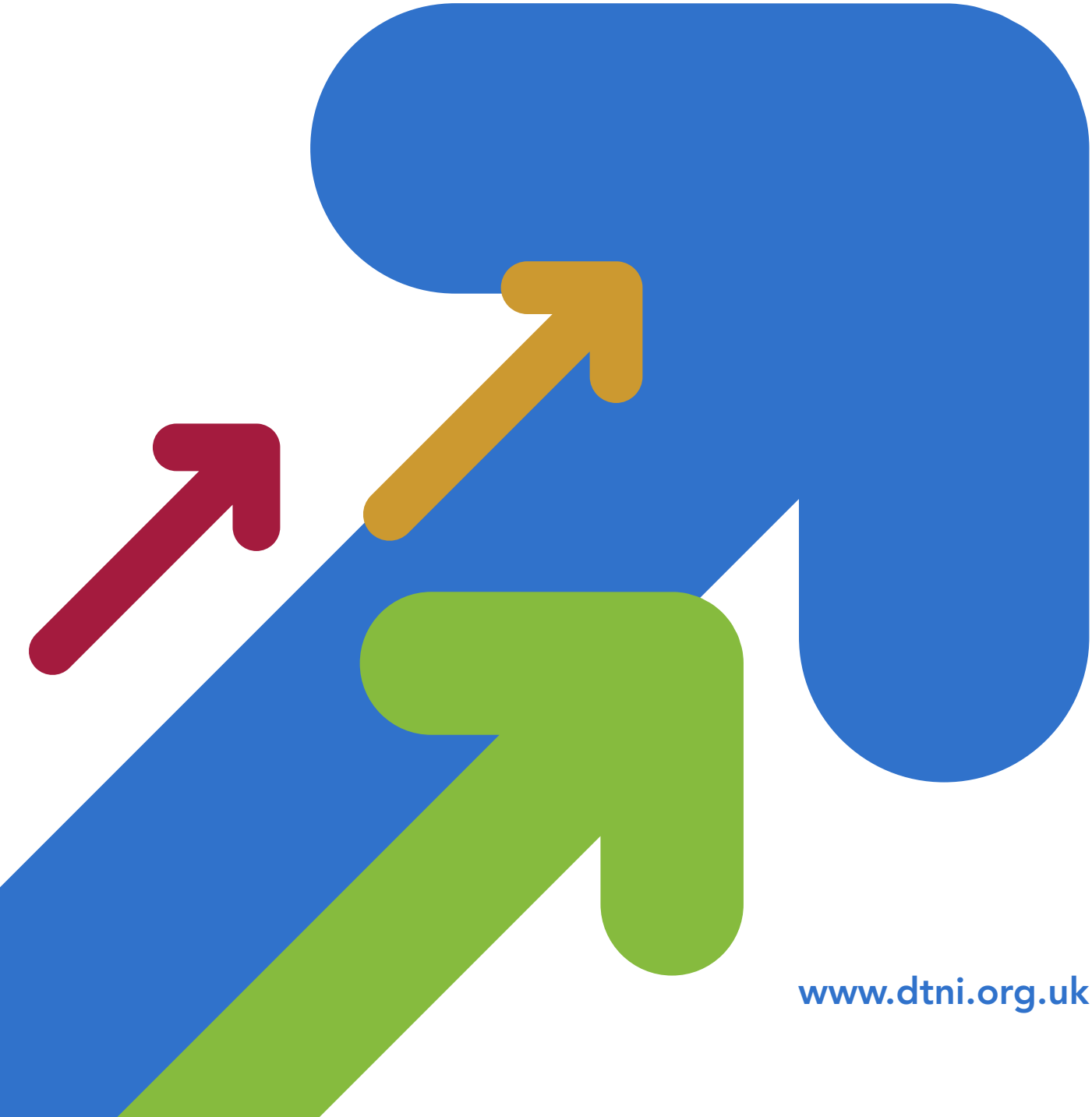
DTNI
Empowering Communities

Northern Ireland Assembly

DTNI round table response to a micro inquiry by the Committee for the Economy into the macro-economic picture in Northern Ireland November 2020



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What do you see as the most significant structural and infrastructural deficits holding our economy back?

At the macro level, one of the most significant structural issues holding the NI economy back is the lack of control by Stormont to raise its own revenue. Unlike the other devolved regions of Scotland and Wales who gained tax and revenue raising powers through legislation, control of taxation has enabled those regions to raise earnings from employment, pensions, and property income to address structural imbalances and deficits in their economies.

The Skills Barometer will continue to be relevant for informing policy and acting as a driver of skills provision for current and future labour market opportunities. However, to rigidly pursue a strategy that focuses predominantly on higher level skills for a corporate market, fails to address the needs of other sectors such as those in the social economy and community enterprise sector that is worth £625 million to the NI economy and supports 24,860 jobs and generates £581 million in wages annually.[1]

All too often major public sector contracts are awarded to overseas companies who extract wealth from the public purse. Locational tax incentives, outsourcing and public private partnerships wastes billions to subsidise the extraction of profit to multinational corporations whose loyalty is to distant shareholders not local economies. We need to make public money work harder for those it proposes to support by measuring and publishing where and how the public purse is spent.

The right policy framework that demands a whole systems approach to the economy and forces government departments and its agencies to measure and report on social value could be transformational. Future long-term budgetary pressures for NI – for spending commitments on pensions, health care, education and skills, tackling climate change to achieve "net zero carbon" by 2050 and an ageing population will, without a doubt, create a greater structural deficit problem as NI moves forward from COVID19 to a position of restoring, to revitalising and rebuilding the economy.

In contrast to the traditional physical infrastructure we automatically think about as essential we also need to consider digital infrastructure and access to basic digital services as essential infrastructure too. It is no longer a luxury in a modern economy. Digital is ubiquitous. It needs a constant review as well as strong policies to ensure it is well regulated, but not so much it is curtailed and stifles innovation in the sectors it enables.

Research and development (R&D) is vital to help reduce the structural and infrastructural deficits. Support schemes (not just Covid-19 related schemes) that offer support in research and innovation to profit generating businesses should not discriminate against social enterprises who may have alternative models of ownership. More focus and investment is needed for these organisations as they also form part of the NI economic eco system.

Infrastructure is vital to economic development, as it is key to achieving stable economic growth. Well-developed infrastructure not only reduces the distance between regions but also integrates markets and connects them at lower costs to other economies. A lack of or bad infrastructure due to poor economic policy focus and system design, as well as unhealthy planning decisions results in a poor standard of living for citizens. It creates economic deficits, deep inequality, and increased poverty for those sectors of the community who are already severely disadvantaged.

Finally, structural deficits preserve "poverty". Poverty entails more than the lack of income and productive resources to ensure sustainable livelihoods. Its manifestations include hunger, poor mental wellbeing, limited access to education and other basic services, social discrimination, and exclusion as well as the lack of participation in decision-making.[2] The most recent statistics for NI published on 14 May 2020 are for the period April 2018 to March 2019. At that time around 350,000 (19%) people in Northern Ireland lived in relative income poverty (before housing costs) including approximately 107,000 (24%) children. People are considered to be living in relative income poverty if the income of their household is less than 60% of the UK median household income.[3] That is why social value needs to be embedded into all economic policy decisions.

[1] *Re-balancing the Northern Ireland Economy. 2019 report on Social Enterprises*

[2] *Poverty Eradication*

[3] *Poverty policy - Department For Communities NI*

What are the changes to our economic model, brought about by the COVID crisis, that are irreversible?

There is a growing realisation that we will not be returning to the status quo. *'The truth is that we will not see a return to all of the normal ways of living we had before the pandemic'* [4] notes the NI Executive. The economy in NI has not been working well for either people or place for a long time. Productivity has been stagnant. Poverty and inequality have remained stubbornly entrenched and we have the highest rate of economic inactivity across the UK (27%) – an unenviable record we have held for over 30 years. Analysis of current local unemployment figures since the coronavirus crisis began has already revealed that there will be a significant contraction in the economy anywhere between 7.5% and 12.7%.

In DTNI's report From *Coronavirus to Community Wealth* we identify two scenarios for consideration as the catalysts for change to the existing economic model – Entrenchment or Unravelling. In the entrenchment scenario NI could continue as before. Investment will be centred on the Belfast City region and macroeconomic strategy will be primarily focused on attracting inward investment while unemployment rises. In short, we will have the economy we have now but with an even deeper entrenching of corporate influence, while communities are further disempowered and shut out of decision-making processes.

Or, hastened by the COVID-19 situation we can adopt a new blended hybrid economic model unravelling old ways and looking at economic development through a different lens. The principles of Community Wealth Building which is a people centred approach to economic development that directs wealth back into the local economy makes sense. Through this approach local economies are reorganised, to use existing resources to create wealth. It is best understood as a partnership between state and business for the benefit of community.

Enlightened economic thinking will build a far greater consideration for social, environmental and cultural value into accounting processes, instead of a narrow priority of profit over labour. As a result of the COVID-19 crisis there has been a realisation that local enterprise and the community and voluntary sector are not merely consumers of public services, they are leaders and an equally important economic driver in the local economy ideally positioned to react to a crisis. Their presence builds resilience and protects local economy in tough times, and therefore they should be invested in and included in policy decisions about the economy.

[4] *https://www.executiveoffice-ni.gov.uk/sites/default/files/publications/execoffice/execuitveour-approach-to-decision-making.pdf*

What measures should the Executive / Economy Minister take in the short, medium and long term to support the recovery and rebuilding of our economy (3 points for each duration)

Northern Ireland's economic performance needs to be tested by various measurements, both as to how its own economy has changed overtime and how it compares to other areas.

Short term - Commission and Procure for Social Value

1. Procure for the common good Procurement

The purchasing of goods and services - is a vital cog in the local economic development process. Public procurement delivers approximately £2.7 billion to the Northern Ireland economy. Through a progressive community wealth building approach to procurement, key anchor institutions should seek to spend with local, generative businesses, such as co-operatives, social enterprises, and community businesses. Innovative procurement practice is vital in ensuring businesses stay solvent.

Procurement should be recognised, now and in future, as a key tool for an equitable and resilient recovery in NI with the public pound supporting generative business types. Key to this is mapping public sector procurement expenditure and supply chain providers across the eleven local government authorities and their respective community planning partners.

2. Expand public sector recruitment

As well as, and through, the buying of goods and services, the public sector has a key role in labour markets. When the furlough scheme tapers off, the public sector needs to step in for as long as it takes to fully recover.

There is work that needs to be done across Northern Ireland, from the retrofitting and renewing of land and assets, to the planting of trees, to the building of bicycle lanes. We are also facing high levels of unemployment. We need bold, expansionary public policy to tackle these issues, with a hiring spree linked around catalysing a green transition, caring for our communities, and building much-needed infrastructure.

3. Deliver social value at scale

The public pound can be used to deliver not just goods and services, but also economic, environmental, and social value. This is through purchasing with, for example, firms that promise to pay the living wage, hire locally, or offer apprenticeship opportunities or volunteering hours.

Whilst the Buy Social NI stipulations go some way towards achieving this, the high thresholds mean the fullest social value is not being obtained across Northern Ireland. We need to ensure all instances of public spend deliver these benefits. This progressive approach should be formalised through an advancement of frameworks and measures around social value.

At a bare minimum, Stormont should legislate to ensure parity regarding social value legislation with the United Kingdom. Looking at the context we are in, we arguably need to be more ambitious than this. We should be looking at implementing social licences where access to public procurement opportunities is contingent on certain terms and conditions and advancing wellbeing.

Under social licensing, providers can only enter certain markets if they have changed their business practices and guaranteed the provision of social benefits to communities and stakeholders. Social licensing would change the rules governing social value, giving companies or sectors the right to trade in public sector markets while placing them under reciprocal obligations to offer social returns, such as being a living wage employer that offers decent progression and training routes for its staff.

Medium term – Building Local Community Wealth

1. Encourage direct community control of common assets

Ownership is key to all economies. It is vital, as we seek to rebuild, that ownership is advanced and progressed amongst local people and communities.

Where private markets are failing to meet basic needs, the development of governance and management structures should enable communities to take direct control of some common assets, to stimulate alternative approaches to delivering those needs. It should be made simpler for community enterprises and community groups to bid for and take ownership of underutilised public assets, allowing them to benefit the entirety of the community.

Underutilised assets could also be managed via joint public-community partnership models, and there should be scope for the development of community wealth hubs within these properties. To progress this work, exemplar proof of concept projects should be progressed, looking to utilise these assets as hubs through which and out of which community development trusts and local enterprise agencies could operate. This would help broaden the scope of the community sector within the commercial economy at the same time as it ensures assets are kept under common, community control.

2. Trial jobs guarantee schemes

All projections indicate that the COVID-19 crisis will result in a significant increase in unemployment across Northern Ireland. Without specific intervention to support those with more limited capacity to re-enter the labour market, as well as those already furthest from the labour market, inequalities will entrench and widen.

Providing a bridge in employability capacity will also help facilitate a shift towards the sectors of the future such as green industrial and digital sectors. This plan ties into existing ministerial statements from Stormont, noting that innovative green infrastructure is key to recovery. Green jobs should be promoted as high wage skilled jobs that contribute to preserve or restore the environment, be they in traditional sectors such as manufacturing and construction, or in new, emerging green sectors such as renewable energy and energy efficiency.

A job guarantee scheme should be implemented for Northern Ireland, ensuring that those without or who lose their jobs across all age groups and from all educational backgrounds are offered a role in the rebuilding of Northern Ireland to ensure they do not suffer the 'scarring' associated with employment loss during a recession. This work could be tied into existing Buy Social NI objectives and outcomes for larger public sector contracts.

3. Advance our independent community enterprise sector

We need to support and resource social and community enterprises to experiment, develop and strengthen their capacity to adapt to changing circumstances and environments.

More powers to support community enterprise practice is needed at the local level. There also needs to be a fair and comprehensive funding scheme set in place which delivers for communities over the long-term. The untapped potential of community planning – particularly around commissioning, procurement, and land and asset disposal – needs to be realised through strengthened collaborative working.

With the economic fallout from the pandemic, we face a massive prospective ownership transition on the back of a wave of business closures for small and medium-size enterprises (SMEs). To counter this threat, the Northern Ireland Executive should consider and debate the merit of creating a state holding company to acquire and hold distressed business assets during the crisis until such time as they can be relaunched. Such state holding companies are commonplace around the world. Indeed, Translink is one such example (under the ownership of the Northern Ireland Transport Holding Company).

Long Term - Developing Finance to Support Local Economies

1. Establish mutual credit networks and local public banks, support credit unions

We need to build a financial architecture that by its nature supports and develops inclusive economies. Our credit unions need to be supported through this crisis and then freed up to invest savings in local areas, or with new financial institutions such as public or community banks, whose remit should be focused on financing local economic development.

Public banks are publicly owned financial institutions organised at the local, regional, or national level. Public banks exist throughout the world, including the highly successful Sparkassen network of local public banks in Germany, which supported the recovery after the financial crisis.

There is scope for an NI public or mutual bank, as an intermediary to provide the much-needed financing necessary for us to build back better. With democratic decision-making rather than a relentless focus on returns, this could be a source of patient capital for firms and projects across NI.

Work has already begun to explore the possibility of a regional mutual bank in Northern Ireland. The aim of the "Our Money" campaign is to establish a regional mutual bank in NI using the banking model provided by the Community Savings Bank Association (CSBA). A business plan is being worked up and should be ready for a public launch in early 2021.

Mutual credit networks should also be investigated as a way to support businesses now and in future. Mutual credit is a simple, legal mechanism whereby businesses can trade with each other without needing cash. By using mutual credit, businesses that trade primarily business-to-business can continue trading and will be more likely to survive the recovery period.

2. Fund the new economy

Most economic development activity is funded and driven by central government departments and Invest NI. We need to be bold and creative in both utilising and advocating for alternative financing instruments such as community shares and green or municipal bonds.

In addition to this, we also need dedicated funding streams to nurture and support local and community businesses, as part of an expansionary recovery package. Outside of the state, NI already has well capitalised credit unions, and these too should be supported and encouraged to invest locally as part of this rebuilding effort.

3. Commit to long-term funding of key community enterprises

In this period of intense uncertainty, it is vital that commitments are made to ensure long-term financing and that funding is in place to support local economies. Communities need the certainty of knowing they will be supported so they can make the decisions for the inclusive rebuilding of their local economies.

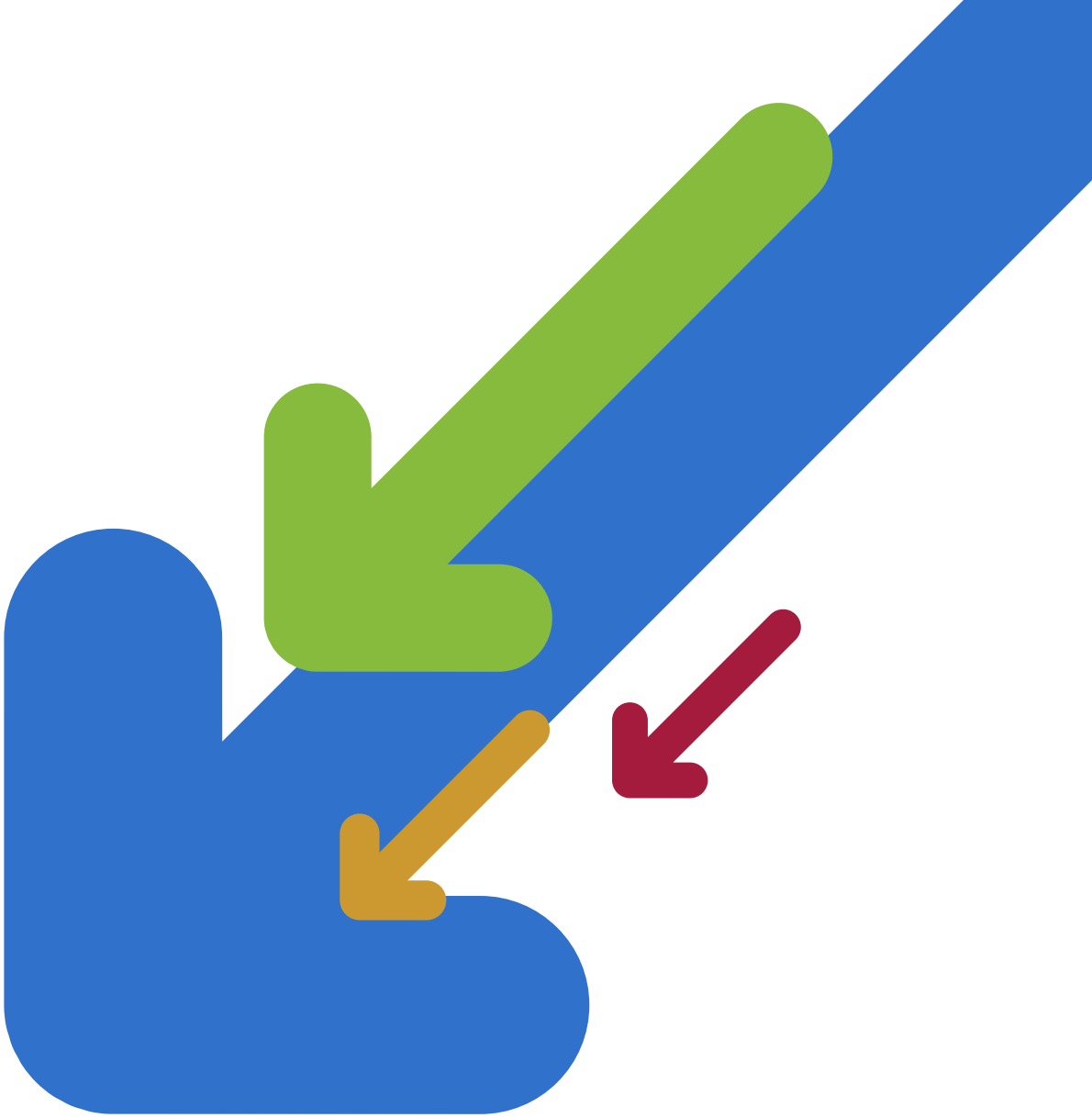
Where does our economy currently sit – survival/stabilising, recovery or rebuilding phase – and where should we be at this point?

The economy is still very much in the survival/stabilising phase and it continues to face more uncertain times as talk looms of a full lock down pre-Christmas after the current 4-week restriction is lifted mid-November. Some businesses and sectors are hanging in there and are yet to realise the full impact of the crisis. The longer we sit in a survival/stabilising phase, the greater the negative impact will be felt long term with the prospect of a deep recession with a tougher recovery.

While the pandemic is primarily a public health emergency, the economic risks are real. Sectors such as hospitality, tourism, the arts and transport are the most exposed sectors and have been hit the worst. For them, it probably seems like they have been in survival for the majority of the crisis, bar the eat out to help out recovery phase during the summer months. However, the gains achieved by that initiative are proving to be short lived due to the current situation.

It is hard to predict as an economy where we should be at this point. Ideally the recovery and rebuilding phase, which could be the case for some sectors whose workforce can work at home or visit the office on a rota basis. They may have workable systems and procedures in place that will see them through the next few months and early next year supporting a recovery phase.

Economic disruption looks set to continue for a few months yet. However, nine months into the crisis and with hindsight, we can look back and learn from what has worked well and adapt good policies and procedures accordingly. And so optimistically, we should continue to push forward to the recovery phase, directed by with a realistic plan specific to our needs to start rebuilding back better as we prepare for our next challenge of Brexit.



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