



FINAL REPORT

**Office of the First Minister and Deputy
First Minister**

**Review of the Economic
Research Institute of Northern
Ireland**

October 2007

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Glossary of Terms

CPPR	Centre for Public Policy and the Regions
CSR	Comprehensive Spending Review
DEL	Department for Employment and Learning
DETI	Department of Enterprise, Trade and Investment
DFP	Department of Finance and Personnel
DP	Deputy Principal
EAU	Economic Advice Unit
EOI / EOII	Executive Officer Grade One / Grade Two
EPU	Economic Policy Unit
ERINI	Economic Research Institute of Northern Ireland
ERSI	Economic and Social Research Institute, Ireland
ESRC	Economic and Social Research Council
IFS	Institute for Fiscal Studies
MBO	Management Buy-Out
MSFM	Management Statement and Financial Memorandum
NDPB	Non-Departmental Public Body
NICCY	Northern Ireland Commissioner for Children and Young People
NICS	Northern Ireland Civil Service
NIESR	National Institute of Economic and Social Research
OFMDFM	Office of the First Minister & Deputy First Minister
PfG	Programme for Government
PSA	Public Service Agreement
PSU	Priority Skills Unit
QUB	Queen's University Belfast
RAG	Research Advisory Group
RPA	Review of Public Administration
SEUPB	Special European Union Programmes Body
SCS	Senior Civil Service
SO	Staff Officer
TUPE	Transfer of Undertakings – Protected Employment
TUS	Trade Union Side
UK	United Kingdom
VFM	Value for Money
WTE	Whole Time Equivalent

1 Introduction

1.1 Background

KPMG was commissioned by the Office of the First Minister and Deputy First Minister (OFMDFM) to undertake a review of the Economic Research Institute of Northern Ireland (ERINI).

ERINI was established as a new independent economic research body through the merger of the Northern Ireland Economic Council (NIEC) and the Northern Ireland Economic Research Centre (NIERC) and became operational on 12 January 2004.

ERINI was established as a Company Limited by Guarantee with a Board comprising of representatives from academic, business, trade union and other interests.

ERINI has two primary functions:

- The provision of economic research (primary and secondary) and analyses and advice aimed at challenging and developing policy-making and strategic thinking in Northern Ireland
- The provision of an economic research consultancy service on a commissioned basis to Government Departments, the Northern Ireland Assembly and others.

ERINI is a Non-Departmental Public Body (NDPB) whose performance and role is required to be formally reviewed, in line with a requirement of the organisation's Management Statement and Financial Memorandum (MSFM).

1.2 Terms of Reference

The aim of the review was to consider the effectiveness of the existing arrangements in delivering the required functions of ERINI. The review examined whether the current structure of resources and staffing is appropriate to ensure the effective delivery of the required functions. The review examined and took into account ERINI's performance to date; its organisational structure(s); the appropriateness of its resources and methods of delivery. Specifically, the terms of reference for the assignment stipulated that the evaluation was to examine and investigate:

Performance

- Taking due account of the resource base and staffing structure, consider how well ERINI has performed against its aims, objectives, key targets and quality standards (including benchmarking against similar organisations if possible)
- Identify areas of under performance, if any, and the associated reasons
- Confirm, or otherwise, if the current aims, objectives, targets and standards are sufficiently focused, stretching, and consistent with Government needs
- Provide an assessment as to what extent ERINI contributes to the delivery of wider Government objectives
- Take, and consider, the views of ERINI's stakeholders.

Organisational Structure

- Assess the current organisational structure and staffing in regard to its suitability for delivering current ERINI functions and consider a possible revised structure and staffing for the body required to deliver any proposed changes arising out of the review
- Consider and evaluate the current corporate governance and reporting arrangements and possible changes
- Consider the scale and nature of the current funding arrangements and possible changes.

Method of Delivery of Service

- Consider ERINI's role in, and suitability for, delivering the required service(s); and make appropriate recommendations
- Consider possible changes which could improve ERINI effectiveness, and possible alternative delivery options.

1.3 Methodology

Our methodology to this evaluation was based on the following approach.

- **Stage 1 – Project Initiation**

The purpose of Stage One was to formally initiate the project. We met with OFMDFM at the outset of the assignment to discuss the scope and any key issues associated with the evaluation. A formal progress update was provided and we met with representatives from OFMDFM at an interim stage to provide feedback on findings to date.

- **Stage 2 –Review**

We undertook a comprehensive desktop review of all relevant strategic documents and other relevant literature to establish a complete picture of ERINI's aims and objectives. We also undertook a review of governance, financial arrangements, controls and effectiveness to ensure both ERINI and OFMDFM were satisfied with the current governance arrangements and the financial framework which operates between them. We also considered the financial resources expended to establish the current VfM status of resources committed to ERINI and the effectiveness of these resources.

As part of the review, we undertook extensive stakeholder consultation, with ERINI staff and its Chair and Board, external stakeholders including representatives from the main government departments such as OFMDFM, Department for Employment and Learning (DEL) and Department for Enterprise, Trade and Investment (DETI), as well as from Invest NI (INI) and we met with the Trade Union Sides (TUS – NIPSA and Amicus). We also consulted with similar organisations such as the Economic and Social Research Institute (ESRI) in Dublin and the Institute for Fiscal Studies (IFS) in England to determine their aims, resource base, structures and associated issues.

- **Stage 3 – Assessment of Fit and Analysis of Options**

We undertook an analysis of the ‘fit’ of the current service delivery mechanism with the needs of customers and the changing environment in which the services operate. We also analysed other potential delivery mechanisms for ERINI’s activities and these were shaped by our earlier review findings and our assessment of fit.

- **Stage 4 – Analysis and Reporting**

We held an internal KPMG team workshop where we reviewed all data and findings. We have produced and issued a final report to the Steering Group. This final report includes all of the findings from the review process to date. It provides a factual overview of the strategic and operational context in which ERINI operates as well as an assessment of the organisation to date, its performance, and financial assessment and VfM considerations.

We have considered a series of sequential options which would determine whether ERINI should continue to exist as at present, or whether other, (in some cases much more radical), methods exist to obtain the same services, but without the need for ERINI.

This final report presents an assessment on the status of ERINI and determines whether NDPB status is required and then draws a number of conclusions together with their implications and associated issues.

1.4 Report Structure

Section 2	Strategic Context	Provides an overview of the strategic context surrounding ERINI, including an outline of government policies as well as the strategic remit of OFMDFM and its key aims and programmes as well as broader changes in the political landscape.
Section 3	ERINI	Provides an overview of the organisational context of ERINI including its history, its key aims, staffing and funding.
Section 4	Performance	Provides an assessment of ERINI’s organisational performance to date and its contribution to wider government objectives.
Section 5	Organisational Structure	Provides an assessment of the current structure and staffing allocation as well as governance and funding arrangements.
Section 6	VfM	Considers the efficiency, effectiveness and economy of ERINI to date and assesses if it has offered value for money (VfM).
Section 7	Method of Delivery	Addresses the fundamental questions regarding the need for ERINI’s functions and its required status.
Section 8	Conclusions	Conclude on the Performance, Organisational Structure and Method of Delivery of Service.

1.5 Acknowledgements

We would like to thank the staff of the Economic Research Institute of Northern Ireland for their assistance in undertaking this review and in particular Victor Hewitt, Director. We would also like to thank all those officials within Northern Ireland Departments who contributed to the review including government economists, members of the political parties and senior personnel in other economic research institutes.

2 Strategic Context

2.1 Overview

In order to fully consider the role and performance of ERINI it is necessary to consider the strategic context within which the organisation operates. This section of the report provides a brief overview of the strategic context relating to economic research in Northern Ireland as well as the current political environment which is expected to have an impact on regional policy making in Northern Ireland.

2.2 Strategic Direction, Policies and Targets

2.2.1 Programme for Government

Priorities and Budget 2005-2008 set out proposals aimed at achieving the key objectives of economic competitiveness; building equality and community cohesion; providing better public services; and, identifies a Public Service Agreement (PSA) for each. These PSAs identify the planned outcomes that departments are seeking to deliver and are supported by operational business plans setting out in greater detail the actions that departments intend to take to ensure delivery of their respective targets. Priorities and Budget 2006-08 retained these key objectives with an added commitment to carry out a significant programme of public service reform to improve efficiency and effectiveness.

2.2.2 Investment Strategy for Northern Ireland

The Investment Strategy for Northern Ireland (ISNI) published in December 2006 sets out a major sustained capital investment programme for Northern Ireland for the next ten years. It represents a very significant boost to net investment in public services aligned with Government policy priorities and also provides significant opportunities for the private sector to become involved in the delivery of projects.

Resource Position

Public expenditure plans for Northern Ireland show that by 2008 total spending on regional public services here will exceed £16 billion. Over the last two years, current expenditure on public services has increased by 12.6% in real terms and will have increased by a further 3.4% in real terms by 2007-08. By 2007-08 current expenditure on Health will have increased by more than 14% and on Education by 7%, compared to last year. Planned capital investment will have similarly increased by more than 52.1% between 2002-03 and 2007-08, to around £1.3 billion annually.

2.2.3 Comprehensive Spending Review 2007

The objective of the Northern Ireland Comprehensive Spending Review (CSR) process is ultimately to enable the Executive to determine, within the resources available, the expenditure plans and priorities for Northern Ireland over the period 2008-09 to 2010-11. This process is due to be completed by December 2007 when the Executive will confirm the key strategic objectives and the Budget allocations, in association with the efficiency savings to be delivered

over the three year period through the publication of a Programme for Government with an accompanying Budget document and a revised Investment Strategy for Northern Ireland.

2.2.4 Economic Vision for Northern Ireland

The economic vision for Northern Ireland, as set out in DETI's Economic Vision for Northern Ireland, seeks to establish Northern Ireland as a high value added, highly skilled, innovative and enterprising economy which enables us to compete globally leading to greater wealth creation and better employment opportunities for all.

The vision highlights there are a number of fundamental challenges facing Government and its economic partners. These are to:

- Grow the private sector
- Reform the public sector
- Utilise public expenditure
- Enhance the appeal of Northern Ireland (tourism destination / investment location)
- Support sustainable development.

This vision emphasises the need to measure Northern Ireland's progress on the path to economic prosperity and part of this will entail a comprehensive review of the existing Northern Ireland economic development policy instruments to consider issues such as, amongst other, implementation, appropriateness and consistency across policies

2.3 Northern Ireland Assembly and Executive

The Northern Ireland Assembly and its Executive were established as part of the Belfast Agreement and were first elected on 25 June 1998 and first met on 1 July of that year; however, they existed only in "shadow" form until 2 December 1999 when full powers were devolved to the Assembly. The Assembly was then suspended on four occasions: 11 February – 30 May 2000; 10 August 2001 (24 hour suspension); 22 September 2001 (24 hour suspension); 14 October 2002 – 7 May 2007.

The St Andrew's Agreement was reached following multi-party talks held in St Andrews, Fife, Scotland from 11 October to 13 October 2006, between the two governments and all the major parties in Northern Ireland. This resulted in the formal dissolution of the Assembly in January 2007 and, following elections in March 2007, the restoration of the Northern Ireland Assembly and formation (on 8 May 2007) of a new Northern Ireland Executive. The Assembly is the prime source of authority for all devolved responsibilities and has full legislative and executive authority.

Devolution may lead to greater scope for policy development and differentiation in Northern Ireland. This in turn may lead to closer examination of the policy making process and requirements.

2.3.1 ERINI

ERINI was established at a point in time when it was anticipated that the Assembly would be shortly restored and there was an expectation that Devolution would expand the demand, from government departments, for independent economic advice and that ERINI would act as a lead resource for policy challenge and research. The return of Devolution may lead to an increased focus on policy challenge in the context of developing specific NI priorities and policies. An additional issue may be the changing pattern and practice of economic research in Northern Ireland with a greater focus on north / south collaboration.

2.4 Office of the First Minister and Deputy First Minister

OFMDFM was established in 1999 to support the work of the Executive (during devolution) and collective decision making by Ministers under direct rule and to undertake a wide range of departmental functions allocable to the First and Deputy First Ministers. It also provides a range of services to other government departments.

The Economic Policy Unit (EPU) within OFMDFM has a central lead responsibility in providing advice to the Northern Ireland Ministers and departments on issues including Budget, Programme for Government, Sustainable Development, excellence in policy and legislation making, and improving the economy.

EPU is the sponsoring Division for ERINI and responsible for the management and oversight of ERINI as an NDPB. EPU has a key role in negotiating the annual grant-in-aid budget allocation for ERINI, agreeing with ERINI an appropriate framework of objectives and targets (Corporate and Business Plans), and monitoring its performance.

The Economic Advice Unit (EAU), within EPU, was established to ensure a coordinated approach across the Northern Ireland administration to the range of economic policies aimed at addressing key challenges facing the Northern Ireland economy.

This unit is responsible for:

- Co-ordinating the administration's economic policies and monitoring and evaluating the effectiveness of public spending in achieving the administration's economic goals (this remit also covers EU expenditure)
- Enhancing the local evidence base for economic policy making by commissioning and undertaking economic research, in conjunction with the Department of Finance and Personnel (DFP)
- Liaising with providers of external independent economic advice, including monitoring the research programme of the Economic Research Institute of Northern Ireland
- Providing economic briefing and advice, including advice on economic appraisals, strategic audit/futures work and sustainable development.

2.4.1 Government Departments

Within government departments there are almost 100 economists representing a significant resource base providing a wide range of economic advice. A significant amount of this resource is focused on economic appraisals, policy evaluation and also on policy development.

A devolved Assembly and its Executive may now give greater scope for Northern Ireland to establish regional policies and may increase the need for sound economic research to ensure that policy decisions are truly evidence based.

While economists in government have a role to play providing the evidence base for policy, undertaking independent challenge, for example, giving economic advice on policy proposals, assessing economic appraisals, commissioning and/or undertaking research to help develop policy and assisting policy development, their role within government is very broad and constrained by work pressures and due to time constraints, are usually not able to undertake more in depth/detailed economic research on a project basis. They may also not be perceived by the public to be sufficiently independent of government.

3 Economic Research Institute of Northern Ireland

This section provides an introduction to ERINI and the work which it undertakes.

3.1 Overview of ERINI

ERINI was set up to provide high-grade economic research, policy analysis and economic consultancy services for the benefit of policymakers in Northern Ireland. ERINI was established as a company in June 2003 following the decision by the Northern Ireland Executive to merge the Northern Ireland Economic Research Centre (NIERC) and the Northern Ireland Economic Council (NIEC). The merger took effect in January 2004 when staff from the two legacy organisations transferred to ERINI.

ERINI is a Company Limited by Guarantee and is a Non-Departmental Public Body (NDPB) sponsored by OFMDFM. It has a Board of 14 directors, all appointed by ministers, and comprising representatives from academic, business, trade union and other interests. The Board meets five times a year and meetings are agreed at the beginning of each year. The meetings follow a set agenda and incorporate a range of administrative discussions and any director's business.

3.2 Aims and Functions / Key Activities

ERINI's mission statement is "to provide, for the public benefit, good quality, independent economic research and analyses and advice aimed at challenging and developing public policy making and strategic thinking on the issues facing Northern Ireland society."

ERINI was set up with the core aims and objectives of the following to:

- Provide, for the public benefit, good quality independent economic research (primary and secondary) and analyses, and advice aimed at challenging and developing public policy making and strategic thinking on the issues facing Northern Ireland society
- Provide a research consultancy on a commissioned basis to Government Departments the Northern Ireland Assembly and others
- Encourage, in conjunction with Government Departments, an increase in the capacity for research of local policy relevance within local universities, and to initiate and lead an informed debate among the wider policy community.

As an NDPB, it is required to produce strategic Corporate and Business plans and an Annual Report. Since its inception, the organisation has produced a rolling series of three-year corporate plans setting out its vision, strategic objectives and details of its work programme. The Corporate Plan is then supported with an annual business plan which sets out in some detail a proposed research programme and an Annual Report which reviews its key activities and achievements and sets out its financial accounts.

ERINI has three core business areas:

- Economic research
- Policy challenge and analysis
- Sponsored research.

ERINI's economic research is based around a core research programme agreed with OFMDFM which is directed towards meeting the needs of policy makers. The work programme is built around the following key themes:

- 1 Competitiveness
- 2 Enterprise
- 3 Labour Market and Skills (now called Health, Deprivation Welfare and the Labour Market)
- 4 The Public Sector and Economic Performance
- 5 Energy
- 6 Building Research Capacity.

Its sponsored research has consisted of work on behalf of DEL as well as specifically contracted research with individual organisations. Current work is being undertaken for the Northern Ireland Commissioner for Children and Young People (NICCY) and for the Special EU Programmes Body (SEUPB). ERINI was also commissioned by the Industrial Taskforce Force to examine the implications for the Northern Ireland economy of equalising corporation tax rates with those applying in the Republic of Ireland.

The policy challenge and analysis has been to date mainly focused on responses to public consultations although some specific core research and commissioned assignments have overlapped across the policy challenge function, i.e. the assignment to look at R&D tax credits and its commissioned work for NICCY has challenged educational spending in Northern Ireland.

3.3 Staffing

ERINI today is based in new premises at Floral Buildings in East Bridge Street. Its current staffing complement of almost 16 Whole Time Equivalents (WTE) encompasses:

- 1 x Director
- 1 x Head of Research
- 4.6 x Senior Researchers

- 6.8 x Administration Staff
- 2 x Placement Students.

3.4 Funding

ERINI is unique in terms of independent research institutions in that it receives almost its entire funds as core funds from government. It currently receives core funding from OFMDFM which amounted to £1,144,000 in 2005/06. It also obtains a limited income from commissioned research amounting to approximately £153,974 in the same year. Chapter 5.4 provides further details on the scale and nature of current funding.

4 ERINI's Performance

4.1 Overview

This Section provides an assessment of ERINI's performance over the period of the review measured against the strategic aims and objectives and work programme agreed with OFMDFM. It also considers qualitative aspects associated with ERINI's remit and its relationship with OFMDFM. It is specifically focused on the following key issues as set out in the terms of reference.

- Taking due account of the resource base and staffing structure, consider how well ERINI has performed against its aims, objectives, key targets and quality standards (including benchmarking against similar organisations if possible)
- Identify areas of under performance, if any, and the associated reasons
- Confirm, or otherwise, if the current aims, objectives, targets and standards are sufficiently focused, stretching, and consistent with Government needs
- Provide an assessment as to what extent ERINI contributes to the delivery of wider Government objectives
- Take, and consider, the views of ERINI's stakeholders.

4.2 Aims, Objectives, Key Targets and Quality Standards

As part of the Management Statement and Financial Memorandum (MSFM) between OFMDFM and ERINI, ERINI's objectives and key targets are agreed and set out in its corporate and business planning process. As part of this Memorandum, ERINI is required to produce quarterly reports to OFMDFM setting out its operations and key activities, a financial report of outturn against forecasted expenditure and income, monthly request of grant drawdown and a report on items covered by the MSFM.

In its Corporate Plan 2005-2008, ERINI set out its vision statement as well as the following two strategic objectives over the three-year period:

- To establish ERINI as a recognised centre of excellence for research in regional economic analysis with a track record of published work
- To develop the reputation of ERINI as an independent source of policy analysis and advice based on high quality research evidence.

The Corporate Plan 2005-2008, recognised that translating this vision into reality would require a focus on two specific actions:

- Service development
- Service delivery.

The Corporate Plan 2005-2008 set out the three main business areas and associated targets as indicated:

Business Areas		
<ul style="list-style-type: none"> • Promotion of high quality and published research on the performance of the Northern Ireland economy (economic research). • The actual research programme is organised around the following small number of themes considered critical for understanding how the local economy works and might be developed. These are: <ol style="list-style-type: none"> 1 Competitiveness 2 Enterprise 3 Labour Market 4 Public Sector & Economic Performance 5 Energy 6 Building Research Capability 	<ul style="list-style-type: none"> • Production of policy analysis for Northern Ireland (policy analysis and challenge). • Policy reports on <ul style="list-style-type: none"> - public expenditure priorities - energy policy - responses to 4 key consultation documents - 6 policy workshops (Scott Policy Seminars programme) - Annual Sir Charles Carter lecture series 	<ul style="list-style-type: none"> • Provision of sponsored research for Northern Ireland departments and other bodies (sponsored research). <ul style="list-style-type: none"> - DEL Skills Taskforce on workforce and skills forecasts (previous NIERC/PSU contract) to August 2005 Future possible work areas with DEL: <ul style="list-style-type: none"> - skills requirements in the creative industries - assessment of current trends within skills research
Business Targets		
<ul style="list-style-type: none"> • Maintaining a research programme across at least six key themes that will produce at least 10 core economic research reports per year and four commissioned reports. • In addition, the Institute will produce at least two policy reports and organise at least six policy relevant seminars during the year. 		

4.3 2004/05 Performance

ERINI's annual report for 2004-2005 indicated that its main activities in its first year of operation were focused on the following activities:

- Undertaking major tasks associated with the completion of the merger, for example, the relocation to new premises
- Working with OFMDFM to put in place all necessary systems for financial reporting
- Completion of NIERC and NIEC research contracts.

In addition, a settled research programme with government departments was agreed with ERINI through OFMDFM.

A trawl of OFMDFM files identified concerns over a number of administrative and personnel issues falling out of the merger and which it considered ERINI did not conclude in a timely manner, despite having a dedicated project officer / support for the initial six months post merger in addition to a relatively large administrative resource (6.8 WTE). These included necessities such as setting up an ERINI bank account (causing OFMDFM to put in place special arrangements to issue ERINI's grant) as well as agreeing key core documents such as the MSFM, and final agreement and signoff on corporate plans, business plans and annual reports which have all been delivered late and, in the case of corporate and business plans, tended to be finally agreed retrospectively.

OFMDFM also formulated the initial draft of the core work programme in conjunction with government departments and this was subsequently tailored by ERINI to match its resources and skills sets. OFMDFM considers it had to have considerable initial input into developing the core work programme and facilitating consultation with the departments.

There were also considerable delays in setting up inter Departmental / ERINI Research Advisory Groups (RAGs) which were to steer ERINI's core work programme. These were to be established in 2005 but were not established until 2006, following intervention from OFMDFM, and first met in May 2006, almost two and a half years after ERINI's formation. Additional difficulties were highlighted with the late delivery of core programme work.

4.3.1 Assessment of Performance

In assessing ERINI's performance in its initial year, we have taken cognisance of the operational context. For example, we acknowledge that ERINI staff reported that this was a period of very uncomfortable adaptation and compromise in the organisation where some staff accepted their new terms and conditions in January 2004 while others did not, and many staff raised objections to their new office location. We also acknowledge that during this period ERINI completed 20 research projects which consisted of 14 NIERC and one NIEC legacy assignments in addition to commencing and completing five commissioned/core assignments for government. It also commenced two core/commissioned assignments on the cost of business benchmarking, and a study on R&D tax credits with the Centre for Public Policy and the Regions (CPPR).

Despite this, we consider that ERINI's lack of ability or focus to put in place the necessary organisational infrastructure and to set out its corporate and business objectives from the very outset and in a timely manner, and to engage with government departments from the outset would indicate significant weaknesses in its performance and subsequently hampered its ability to perform effectively.

4.4 2005-2007 Performance - Output to Date

ERINI's total output to date (as published on its website) comprises the following (further details on each separate piece of work are shown in Appendix A):

- 2 x **Research Reports** which disseminate the results of primary research at greater length and depth than is possible in other formats, and promote discussion on topical issues.

- 8 x **Working Papers** which present results of ongoing primary research and are generally prepared with a view to submission for publication in an academic journal
- 15 x **Monographs** which comprise commissioned research reports by ERINI staff and externally commissioned reports where leading experts are asked to apply their knowledge to the Northern Ireland economy.
- 13 x separate **responses to public consultation** documents
- 7 x **journal articles**
- 20 x **conference papers** on topics
- 9 x **other publications** on enterprise and the labour market
- **Annual Scott Seminars** - ERINI has organised the annual Scott Policy Seminars which bring together leading academics, policy makers and non-specialists interested in economic and social development in Northern Ireland. Seminars are held each autumn and spring. ERINI views the seminars as contributing to its objective of leading an informed debate among the wider policy community.

4.4.1 Assessment of Performance and Output and Delivery of Wider Government Objectives

While the above list identifies ERINI's total output to date, it is necessary to assess this output in terms of policy relevance and its contribution to government / departmental objectives.

Our analysis of ERINI's outputs and our consultation with economists in the key government departments who are the commissioners/recipients of ERINI's reports demonstrates the following:

- While Appendix A indicates a range of reports, working papers, articles etc it is necessary to highlight that only a limited number of the research outputs relate to ERINI's core work programme and are considered by government to be of direct and significant policy relevance; and that within this, these outputs have focused on only three themes of Competitiveness, Enterprise and on Health, Deprivation Welfare and the Labour Market (and health as a research issue has not been addressed directly, but only indirectly through research on the labour market).
- The key outputs here include two reports on competitiveness; reports on skills shortages in the construction and high-tec industries for the Priority Skills Unit (PSU) within DEL; a series of reports on global enterprise for DETI based on the Global Entrepreneurship Monitor survey; and a report on drivers of productivity. There has been significantly less or no focus on public sector and economic performance, energy and on building research capability (three of the core programme themes).
- ERINI was commissioned to undertake research on R&D tax credits although this was primarily undertaken by an academic within CPPR in Scotland with quality assurance provided by both ERINI and EPU personnel. It would have been possible for government to commission this directly with CPPR, without recourse to ERINI.

- Evidence and discussions with economists within Government indicate they have been less than satisfied with ERINI's output to date, citing delays in delivering assignments and issues over the quality of specific assignments. They consider that the core programme reports / outputs have had a mixed impact, and while specific reports were considered to be very policy relevant, their impact was limited as they were not delivered on time and / or there were gaps or omissions in the information. A key issue has been the ability of ERINI to respond on a timely basis and it has been criticised that research undertaken is too late to influence policy development and so its work has not made any measurable contribution to wider Government objectives.
- Public analysis work has been almost exclusively focused on responses to public consultations and has involved substantially direct input from the Director. Although the Assembly was in suspension for the first three and a half years of ERINI's existence, there has been a range of significant and strategic policy initiatives, for example on industrial derating and on water reform, which should have given ERINI scope to challenge and develop policy in a substantially more robust manner than public consultation responses. Other significant policy issues were the single electricity market, health service review/efficiency, the anti-poverty strategy, review of public administration (RPA) all of which offered scope for robust policy research and challenge. ERINI has provided support to the sub-group on Economic Issues of the Transitional Assembly, including on the issue of Corporation Tax, and the sub-group has put on record its acknowledgement of the contribution of ERINI's Director, again emphasising the Director's direct role in undertaking policy work.
- There has been a heavy focus on research work which has been peer reviewed and published which reiterates the academic research slant from the NIERC model. The quantum and range of this output leads us to question if dedicated research work has been undertaken at the cost of displacing elements of the core work programme.

While the purpose of this report is not to dwell on the merger per se, we have taken account of the operational context surrounding ERINI i.e. the merger of two distinct organisations which were primarily opposed to a merger and an inherited staffing structure; and that ERINI did not start with a blank sheet and there have been considerable legacy issues associated with the merger.

Specifically, ERINI has faced significant staffing issues regarding the loss of key experienced research staff as a fallout of the merger, and this has impacted on the delivery of specific core programme assignments. However, we consider that the quantum and range of activities and outputs which are not directly related or relevant to the core work programme themes, the lack of progress / outputs across specific core work programme themes and the lack of specific policy challenge outputs would suggest that ERINI has not allocated or utilised its existing staffing resources effectively to ensure a focus on service delivery (as identified in its 2005-2008 Corporate Plan).

A key question is to what extent ERINI management critically assessed all staff work activities and outputs and made strategic / operational decisions to discontinue certain research work not specifically requested by government in order to focus on the core work programme. The limited number of the research outputs which relate directly to ERINI's core work programme and which are considered by government to be of direct and significant policy relevance would suggest that this did not happen. An additional question relates to the level of proactivity within

the Board to ensure attainability of targets. Our assessment of performance and consultation with key stakeholders would indicate this did not occur.

We have also considered that ERINI came about with the merger of NIEC and NIERC to create a stronger research organisation covering a wider policy area and meeting wider policy needs. At this time NIERC was considered to be unable to provide, at short notice, analysis and advice in areas outside of a narrow range of topics and had little policy relevance, while it was considered that the impact of NIEC reports could be improved by aligning their publication timing more closely to periods in which policy decisions were being made. There is little evidence that ERINI, as a new organisation, sought to address and overcome these weaknesses. In many respects, ERINI is merely an umbrella and the former function and research focused culture of NIERC continues but is considered by government departments not to be particularly policy relevant, while the work of NIEC has been downgraded to responses to public consultations which fall short of policy challenge.

ERINI considers that its targets have been challenging, especially with a reduced research base, and acknowledges it has made little progress on energy, public sector and economic performance and on building research capability. It is also aware that its contribution to policy challenge falls short of what is required and has made recent attempts to develop relevant skills with specific staff, although it has not allocated dedicated staff resources to this area.

In making an overall assessment of ERINI's performance against its aims and objectives, and taking account of its staffing structure and staff retention issues we would conclude that the organisation has been less than successful. Furthermore, in looking at the quantum and range of outputs produced, and considering issues associated with key core research outputs, together with the lack of demonstrable and direct relevance to the core work programme and the needs of government to much of ERINI's output, leads us to conclude that this work has been undertaken at the cost of displacing elements of the core work programme and indicates that ERINI has not allocated or utilised its staffing resources to ensure a focus on service delivery (as identified in its 2005-2008 Corporate Plan).

In assessing ERINI's performance, it is necessary to highlight the responsibilities of EPU as the sponsored Division for ERINI and its key role in assessing how well ERINI was achieving its strategic objectives and whether it was delivering value for money. EPU has been in receipt of quarterly monitoring returns as per the MSFM setting out key activities and outputs.

EPU's attention was focused on two key areas: ensuring ERINI had put in place the necessary administrative and operational infrastructure e.g. delivery of corporate plans, agreement on a core research programme etc, and the delivery of key strategic assignments.

Concerns at the delays in ERINI in putting in place the necessary organisational, administrative and planning infrastructure have led EPU to adopt an approach of what could be described as 'micro management'. While EPU feels this approach was necessary, especially in initiating the core research programme and ensuring core assignments were delivered to the respective government departments, it is clear that this detailed involvement and focus on core operational matters and specific core research reports has hampered it in taking a more strategic overview of ERINI and proactively managing the complexity and totality of outputs of ERINI to ensure it was delivering an efficient and customer led service to government departments which focused on challenging and developing policy making and strategic thinking in Northern Ireland.

4.4.2 Focus, Stretch and Consistency of Current ERINI Aims

In considering ERINI's performance, it is necessary to consider if the original aims, objectives, targets and standards are sufficiently focused, stretching, and consistent with Government needs.

Original Aims and Objectives	Commentary
<ul style="list-style-type: none"> To provide good quality independent economic research (primary and secondary) and analyses and advice aimed at challenging and developing public policy making and strategic thinking on the issues facing Northern Ireland society 	<p>This is a stretching objective and is entirely consistent with government needs. It would require ERINI to adopt a strategic approach in considering what is required i.e. in selecting key themes / policy areas and considering how it can best deliver on these through the most effective use of its staffing resources, and by strategic partnerships with other research organisations.</p> <p>ERINI has tended to focus on primary research focused on its existing skills mix without sufficient focus on analysis and advice aimed at challenging and developing public policy.</p> <p>ERINI has focused almost exclusively on its internal skills set in tailoring the core work programme rather than adopting a strategic approach to core government priorities.</p>
<ul style="list-style-type: none"> To provide a research consultancy on a commissioned basis to Government Departments, the Northern Ireland Assembly and others 	<p>This objective has offered an opportunity for ERINI to undertake policy relevant work e.g. DEL PSU however there may be potential conflict with this aim as ERINI may undertake commissioned work which does not have strong policy relevance especially if there is a financial incentive / need to generate income.</p>
<ul style="list-style-type: none"> To encourage, in conjunction with Government Departments, an increase in the capacity for research of local policy relevance within local universities, and to initiate and lead an informed debate among the wider policy community 	<p>Capacity building with local universities has taken the form of employing placement students. The Scott Seminars have been an attempt to lead an informed debate among the wider policy community.</p>
Targets	Commentary
<ul style="list-style-type: none"> Maintaining a research programme across at least six key themes that will produce at least 10 core economic research reports per year and four commissioned reports In addition, the Institute will produce at least two policy reports and organise at least six policy relevant seminars during the year 	<p>Producing 16 reports per year would not seem unreasonable for the current research staffing complement but providing this across six separate themes could present difficulties in developing specialist knowledge.</p> <p>Targets are quantifiable but do not measure quality, relevance or impact. A robust series of performance indicators with a focus on policy relevance and quality should have been developed.</p> <p>The need to provide robust policy analysis and challenge was highlighted across all stakeholders and this was a fundamental function of ERINI. Current targets minimise this focus.</p>

4.5 Relationship between OFMDFM and ERINI

The relationship between OFMDFM and ERINI is formally laid out in a Management Statement and Financial Memorandum (MSFM) which sets out the responsibilities and accountability of both parties and sets out the framework within which ERINI operates.

The reporting arrangements between ERINI and OFMDFM are set out in a separate document, the Management and Reporting Regime for ERINI, which specifies a business calendar of reports to be provided by ERINI, including a template for a quarterly report on an agreed basis on progress towards the key targets agreed with the Department in meeting its objectives.

A significant consideration for OFMDFM is its need to ensure that ERINI, as an NDPB, demonstrates its efficiency and effectiveness through meeting its performance targets and that there is proper accountability in place and ultimately that ERINI demonstrates value for money (VfM).

In our analysis, the relationship between OFMDFM and ERINI could be characterised as formal, functional and focused on ensuring that ERINI has put in place the necessary organisational infrastructure and processes to ensure programme delivery, accountability and demonstrate value for money. While the status, structures and accountability mechanisms between NDPBs and their sponsoring departments often lead to tensions, it is our assessment that the relationship between OFMDFM, the sponsoring department and ERINI is more tense than should be necessary and it is not one of collaborative partnership.

This may be in part tied up with the challenge function of ERINI; ERINI's main function is to provide economic research and analyses and advice aimed at challenging and developing policy-making and strategic thinking in Northern Ireland. Such a function could see it not only not supporting government policy but also being out rightly critical of government policy and potentially putting it at odds with government. Paradoxically, OFMDFM's concern has not been that ERINI has been too independent and challenging but that it has not performed this challenge function. In reality, there is concern from OFMDFM that there has been less focus on policy analysis and core work that challenges and develops public policy making and strategic thinking on pertinent issues facing Northern Ireland, such as the Skills Strategy, Regional Innovation Strategy etc, and there has been a correspondingly greater focus on primary research activities without any associated policy analysis, and much of this work has not been policy relevant.

It is also in part due to the challenges and issues associated with the creation of ERINI. The range of issues associated with the merger of NIERC and NIEC, and the contracted timescale to resolve these, have led OFMDFM to be cautious and to ensure that ERINI has put in place proper processes and procedures to ensure the effectiveness and efficiency of its operations. OFMDFM has been concerned that ERINI has not ensured proper systems, processes etc were in place on a timely basis and its inability to deliver and agree its business calendar of reports on a timely basis has reinforced this behaviour. OFMDFM has had to undertake considerable formal communication with ERINI to ensure processes were actioned.

A third factor which has potentially influenced the relationship has been OFMDFM's lack of confidence on ERINI's ability to deliver especially given the issues of policy relevance and timeliness on core work programme outputs.

The inability of ERINI to deliver on its core remit, and its lack of progress on addressing its internal organisational issues in a timely fashion has ultimately led the Department to view ERINI as a concern rather than a strategic and valued partner.

We would suggest that relationships could have been more successful if there had been a more interactive engagement between both OFMDFM and all levels in ERINI in the strategic planning process, greater clarification of OFMDFM's expectations and use for ERINI within the policy challenge arena, and a more proactive and accountable approach to its organisational development and core outputs by ERINI.

5 ERINI's Organisational Structure

5.1 Overview

This Section provides an assessment of ERINI's organisational structure, corporate governance and funding arrangements and is specifically focused on the following key issues as set out in the terms of reference. It also provides an overview of the significant issues arising from stakeholder consultation and which are pertinent to this review of ERINI and must be taken into account in reviewing the appropriateness of the current delivery model and in any subsequent delivery options and / or changes and recommendations.

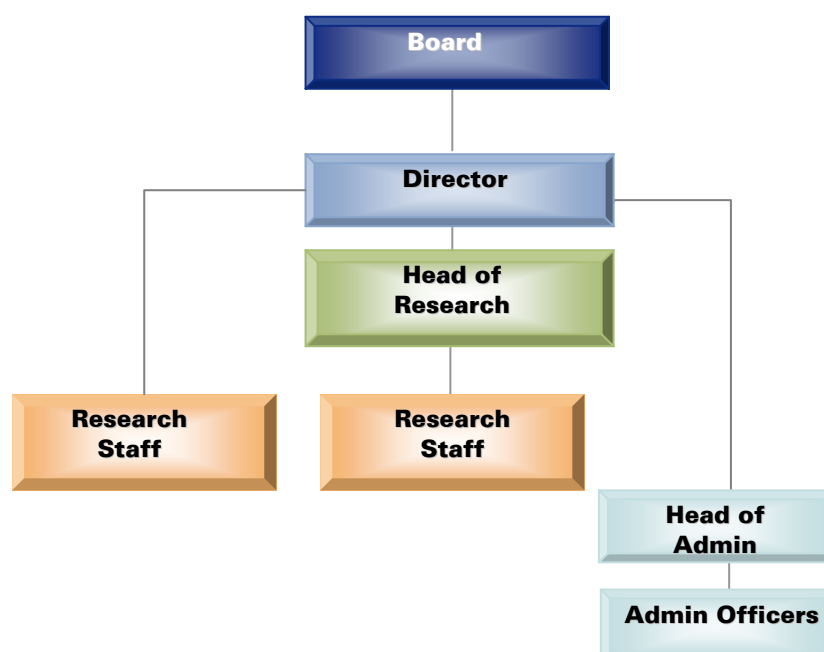
Organisational Structure

- Assess the current organisational structure and staffing in regard to its suitability for delivering current ERINI functions and consider a possible revised structure and staffing for the body required to deliver any proposed changes arising out of the review
- Consider and evaluate the current corporate governance and reporting arrangements and possible changes
- Consider the scale and nature of the current funding arrangements and possible changes.

5.2 Organisational Structure

When we speak of a structure, we are referring to the allocation of tasks and responsibilities to individuals and groups within the organisation. This includes any 'official' rules and regulations specifying how relationships between posts or departments should be conducted. 'Official' here means explicitly promulgated by those within the organisation with authority to make such allocations and rules, i.e. the director.

The current structure of ERINI consists of a Management Board and Chairperson, a Director, a Head of Research, a body of research and administrative staff. The structure and reporting arrangements are as indicated below.



5.2.1 Key Issues

There are two issues and difficulties with the current structure and staffing. These are:

- Staffing complements and grading (and the related salary costs)
- Reporting arrangements.

These are considered in turn [issues associated with the Board are contained in Chapter 5].

Staffing complements and grading

A fundamental issue with the current structure and staffing relates to the staffing complement of administrative staff vis a vis the size and nature of the organisation and its administrative requirements and associated with this is the related issue of administrative salary costs and grades. The administrative staff consists of the following WTE:

- 1 x Head of Admin
- 1 x PA to the Director
- 4.8 x Administrative Officers.

Admin personnel represent 44% of the total staffing complement (when including student placements) representing a significant resource allocation. Information from comparable research institutes suggests the administration complement represents between 21-28% of staffing resource. It is clear that the administration resource for the organisation is too large given that its primary focus is economic research and policy challenge and furthermore represents a significant fixed financial overhead for ERINI. In addition, administrative staff reported lack of clarity on their roles and responsibilities.

The size of the administrative resource arose following the merger of NIERC and NIEC and because of TUPE prevailing which protected staff numbers and terms and conditions. In addition, four administrative staff are graded at Staff Officer (SO), and of these, three have salaries which extend beyond SO pay bands. Three further staff are graded at Executive Officer levels and their associated salaries extend beyond EO salary bands. The size and grades of the admin resource results in ERINI expenditure on admin resources being greater than that spent on its senior researchers for the financial period 2006/07 i.e. £175,758 against £170,822.

The merger of NIERC and NIEC has not and did not appear to be set up to facilitate any economies of scale in the administrative resource. In effect, admin staff are very well paid commensurate to their roles and so are disinclined to move out of the organisation.

The MSFM between OFMDFM and ERINI sets out the broad framework within which ERINI operates. This stipulates that ERINI shall ensure that the level and structure of its staffing, including grading and numbers of staff, is appropriate to its functions and its requirements of efficiency, effectiveness and economy.

ERINI has previously offered voluntary redundancy to administrative staff and this was explored by two staff but subsequently rejected, as the redundancy package was not deemed sufficiently financially attractive.

We reviewed staff salaries and grades for all staff and, while it is outside the scope of this review to undertake a detailed job analysis, a cursory assessment of job descriptions would indicate that salaries for administration staff appear out of line with the roles and levels of responsibility. Management salaries also appear high and would appear to be out of line with the level of responsibility and accountability in this NDPB. We would advise salaries are benchmarked with similar salaries elsewhere and an independent job evaluation should be conducted.

The size of the admin staff complement contrasts with ERINI's research complement i.e. 4.6 senior researchers (excluding management and placement students). The significant imbalance of staffing resource between administrative staff and research staff was commented on frequently by external commentators. It is incongruous with a research organisation that the financial cost of admin support is greater than that spent on the research resource.

The initial research complement following the merger was 8.6 staff but since then a number of senior and experienced staff have left ERINI to take up senior positions elsewhere e.g. university posts in Northern Ireland or overseas. The organisation has abandoned subsequent recruitment campaigns as it felt its financial constraints prevented it from offering permanent and secure employment and would compromise the quality and calibre of applicants.

It is clear that on its current staffing model, ERINI cannot meet its requirements of efficiency, effectiveness and economy and, in the event that the ERINI model is considered suitable for delivering an independent research and challenge function, there would need to be a significant reduction in administrative staff and a potential investment in research staff.

Reporting arrangements

There is no problem free way of structuring an organisation and every structure will have its own built-in problems. In the case of ERINI, the relatively modest size of its staffing resource and the marked skills complement within this and its core function/remit should make its structure and reporting lines very straightforward and very clear i.e. researchers should report to the Head of Research and administrative staff to the Head of Administration. The Head of Research and Head of Administration should each report to the Director who in turn is accountable to the Board. This is the structure / arrangements as agreed at the time of the merger.

From our consultation with ERINI staff, it was made clear that the current reporting lines specifically with regard to research staff have arisen primarily because of personalities rather than any specific business or operational rationale. Furthermore, the current reporting lines have in effect reinforced the concept of "two organisations within one", replicating a NIERC / NIEC split across research staff, rather than help to consolidate the merger and to bed down the new organisation. We would also suggest that this reporting arrangement potentially results in the Director becoming too involved in operational and staffing issues and may not represent best use of his time, while at the same time does not ensure the Head of Research's role and responsibilities are executed fully and that overall the resources expended on management salaries represent value for money.

5.2.2 Additional Issues

There are a number of additional issues associated with the current delivery model which are not directly related to the organisational structure but which were evident from consultation with internal and external stakeholders. Some of these issues are significant in themselves

while others may have less significance when considered in isolation but, in combination, they add to concerns regarding ERINI's performance and effectiveness.

- Although this report does not wish to dwell on the merger of NIERC and NIEC, it is important to highlight that the legacy of the merger continues to exert a strong influence on the organisation. There is no sense of an ERINI culture i.e. a set of common views and values shared by all staff and this is something that should have been addressed as part of the merger process through for example, involving all staff in the business planning process, arranging dedicated team building sessions etc and by taking more controversial decisions such as recognising one trade union, allocating dedicated staffing resources to policy work. Staff are quite demoralised and spoke of a 'them and us' culture still being maintained. In many senses ERINI represents 'two organisations in one' as exemplified explicitly in reporting arrangements and the type and range of work undertaken by specific staff and more implicitly in minor incidents such as what staff go on tea break with whom and when.
- Decisive leadership and strong management are essential components in any organisation and more so in merger situations. Both external and internal stakeholders commented on tensions and difficulties between senior management in ERINI. The lack of decisive leadership and strong management is also manifest in staff reporting arrangements, and by the continuance of the old NIERC and NIEC divisions in the organisation which, as reported by staff, manifest on a frequent and often trivial basis but which result in a lack of team or corporate identify in the organisation.
- There was a sense that the purpose and vision of the new organisation has not been clearly articulated and is not shared by all. Some staff are very focused on pursuing an academic / research agenda and other staff feel that this has resulted in the policy challenge side being undermined. Equally, staff are concerned that some research is necessarily long term and hence does not meet the needs of government currently.

5.3 Corporate Governance

5.3.1 The ERINI Board

The ERINI Board has corporate responsibility for ensuring that ERINI fulfils its aims and objectives as set out in the Memorandum and Articles of Association and the agreed annual Business Plan, and for promoting the efficient and effective use of staff and other resources by ERINI and that ERINI complies with any statutory or administrative requirements for the use of public funds.

As per its MSFM, the Board should:

- Ensure high standards of corporate government
- Establish the overall strategic direction of ERINI
- Ensure it operates within its statutory limits
- Take account of guidance from OFMDFM in reaching decisions

- Distinguish between strategic planning and management (Board responsibility) and management issues (Director responsibility)
- Keep OFMDFM informed regarding ERINI's strategic direction, or attainability of targets
- Receive regular financial information on the management of ERINI.

There are 14 members on the ERINI Board representing social partners, academia and private business. All members are appointed for a period of three years and all indicated they were clear on their role. The Board meets at least five times per year (this is agreed at the start of each year). One Board Member did not have his appointment renewed because of frequent absence from Board meetings. One member of the Board resigned, and in our consultation with him, he cited concerns with the strategic direction of ERINI, governance and management issues. We note there was no independent investigation to determine the validity of his complaints, which we would have expected as part of good practice governance arrangements.

Members of the Board indicated that a significant proportion of their time was spent on operational/management issues and this was impacting on the time available to discharge their strategic remit. A review of the minutes indicates that there is no significant discussion on the strategic role or future objectives of ERINI. The Business Plan is discussed when it is formulated and the Board has input into the targets but there is then little discussion at Board level on the progress of the organisation towards the attainment of those targets. Corporate Plans and Business Plans are not agreed and submitted to OFMDFM on a timely basis.

We consider that the financial reporting to the Board is not to the standard required. The management accounts produced do not highlight variances from the budgeted spend. There is no commentary on the items of expenditure and, in some cases, expenses which were separated and explained in the notes to the statement did not equal the total which was reported. The Board members who were consulted, expressed the desire to receive more detailed financial information including cash flow projections and commentary on actual spend. In an organisation such as ERINI, which receives more than 90% of its funding in the form of grant aid, it is paramount that the Board exercise strong control over the finances and in order to do so there must be the necessary and accurate information available.

In looking at the size and make-up of the Board, we consider that the current social partnership model is outdated and the Board of an organisation such as ERINI should be one of strong governance rather than representation with a specific remit to promote greater accountability and ensure best use of public money.

We also consider that the geographical spread of Board Members and the fact they did not meet monthly prohibited the strategic development and management of ERINI, and given ERINI's origins, its legacy issues and its strategic remit, the Board should have recognised the importance of more regular meetings to provide this strategic input.

5.3.2 Committees

ERINI established three specific sub committees. Consultation with members of the Audit Committee and Remuneration Committee indicated each of these committees has specific remits and members are clear on their roles and responsibilities. A Research Committee was established and held its inaugural meeting in May 2005. A subsequent Board meeting in December determined that the Research Committee remain in place and meet on an ad hoc

basis. A review of board minutes indicates this committee has not met since May 2005. Given the remit of ERINI, and Board comments that full Board meetings can be dominated by management issues, we consider it a significant concern that this sub committee has become effectively defunct.

Audit Committee

The Audit Committee of ERINI deals specifically with the external and internal auditors' reports. The members are of a calibre to ensure robust scrutiny is applied to all issues. The Committee has recently developed a risk register for the organisation (at the time of the review this was still in draft). The register has taken into account all the major business risks of ERINI and the members of the Committee are fully aware of the need to keep this under constant review. The committee fulfils an important role in ensuring the probity of the distribution public funds.

Remuneration Committee

The Remuneration Committee specifically deals with the pay and performance of the two senior ERINI staff members - the Director and the Head of Research. The Director provides feedback to the committee on the performance of the Head of Research (which is as a result of a performance appraisal). The Chair subsequently provides feedback to the Committee on the performance of the Director. The performance appraisal is based on the programme of work and the attainment of targets which were agreed in the previous year.

This Committee has sat twice and minutes of the first meeting were available to us. We note that pay awards, including a bonus, were made despite the absence of critical components (forward job plans).

A member of OFMDFM sits as a member on this committee and we would consider this to be out of keeping with best practice and mitigates against the arms length arrangement inherent in an NDPB arrangement.

In conclusion, whilst we recognise that the Board has a formal MSFM in place and has ensured member training, attendance and participation at meetings etc, we have concerns that the Board has not executed its governance function fully as per the MSFM.

5.4 Scale and Nature of Current Funding

ERINI is unique in terms of an independent research institution in that it receives almost its entire funds as core funds from government.

Table 1 overleaf shows funding income since inception.

Table 1: Total Income

	March 2007***	March 2006**	March 2005*	Jan/March 2004*
Type of income	£ Budget	£ Actual	£ Actual	£ Actual
Incoming Resources from Generated Funds				
Grant (inc accruals)	840,000	1,223,638	989,829	206,236
Commissioned Research	175,000	153,974	200,983	24,944
Total Income	1,015,000	1,377,612	1,190,372	231,180

(Source: *Audited Accounts; ** Draft Accounts; ***ERINI)

Table 1 above shows:

- Core funding is expected to account for approximately 83% of funding in 2007
- Commissioned research is expected to generate 17% of funding.

ERINI was exempt from efficiency savings in 2005/06 but in 2006/07 and 2007/08 efficiency savings of 3% and 4% respectively were applied, similar to all NDPBs. In addition, ERINI was subject to further options for reductions of 7.5% and 10% although these were subsequently partially reinstated back to a standard reduction of 3% and 5% respectively, representing total savings of 6% in 2006/07 and 9% in 2007/08. Table 2 below shows funding, savings and reinstatements as agreed by the Minister.

Table 2: Funding vs. Savings

	07/08	06/07
Type of income / savings	£ Actual	£ Actual
Incoming Resources from OFMDFM		
Grant	1,000,000	1,000,000
Efficiency Savings imposed on ERINI	(40,000)	(30,000)
Options for Reductions imposed on ERINI	(100,000)	(75,000)
Sub-total	860,000	895,000
Partial Reinstatement	50,000	45,000
Total Income from OFMDFM	910,000	940,000

(Source OFMDFM)

ERINI's funding arrangements contrast with other economic research institutes where core government funding, if any, represents a significantly smaller amount. Comparable research organisations (IFS, NIESR) do not tend to be core funded directly by government and are dependent on charitable grants. Many research institutions in the UK access Economic and Social Research Council (ESRC) funds and are dependent on commissioned work. ESRI in

Dublin receives 30% of its income as government grant-in-aid and the remaining income is through commissioned research; ESRI's dependence on government grant in aid has significantly decreased from 90% in the mid 1960s to 30% since the mid 1990s.

While the different funding bases of other research organisations would suggest that consideration could be given to a different funding mechanism for ERINI e.g. one consideration could be less direct funding and a greater requirement to generate funds from commissioned research, it is necessary to critically assess how viable any alternative would be for ERINI currently. Specifically ERINI is a relatively young organisation and has not established a solid reputation and more importantly, an assessment of its current performance and staff overheads would indicate it would not be financially viable if dependent on commissioned work - assuming in such a model ERINI's outputs would need to be on a fully costed basis and payment would be on completion of a satisfactory outputs.

Table 3 below shows expenditure in 2007 and 2006 and that the main use of ERINI's funds is for the provision of staffing costs.

Table 3: Expenditure in 2007 and 2006

Expenditure	Mar 07**	Mar 06*
	Budget	Actual
Staffing Costs		
Staff Salaries	670,478	737,663
Staff Travel & Training	16,024	19,719
ERINI Board (incl Travel & Subsistence)	84,537	67,660
Total	771,039	825,042
Accommodation and Other Costs	152,437	226,783
Estimated Operational Costs	119,265	163,139
Total	271,702	389,922
Capital Costs	10,300	-
Total Expenditure	1,053,041	1,214,964
Income		
Contract Research	175,000	153,974
Grant in Aid Allocation	840,000	1,223,638
Total	1,015,000	1,377,612

(Source: *Draft Accounts; **ERINI budget)

The above Table shows:

- Almost 68% of expenditure was on staff costs in 2006, although the budget figures for 2007 show an increase to 73% (even though there is a reduction in staffing complement)
- Accommodation costs are estimated at 14% of expenditure in 2007; these were 16% in 2006

- The majority of expenditure relates to salaries and accommodation overheads. This gives ERINI little scope to use funds in a different way.

5.5 Financial Controls and Processes

We have relied on the Internal Audit report produced for ERINI by their appointed internal auditors and we have not conducted any other detailed review of the internal financial processes of the organisation. This report made a total of 22 recommendations on a range of issues. None of the 22 recommendations were rejected, and where ERINI considered it was not possible to fully accept a recommendation (not operationally possible) it was acknowledged as reasonable.

The organisation has a financial procedures manual which governs its internal operations and this is being applied by all staff. The organisation also has a robust fixed asset register which lists all the assets of ERINI, and, for the size of the organisation, this document is reasonable.

ERINI uses the SAGE accounting package. The Internal Audit review of the organisation highlighted training and access to the system as the real issues relating to the use of IT. These recommendations were accepted.

There has been one issue of significance which has been raised as a result of the external financial audit of the organisation - the transfer of assets from NIERC to ERINI. This matter, whilst we understand has now been resolved, was still outstanding at March 2006, resulting in the 2006 accounts not being signed off and the likely requirement of a restatement of the previous year's accounts, in March 2007. No other items of note have been raised by the external financial audit.

6 Value for Money

6.1 Value for Money Considerations

In considering an overall assessment of Value for Money, we have considered the following three evaluation criteria and results:

- **Effectiveness** – the extent to which the ERINI has met its objectives; and how it contributes to the delivery of wider government objectives
- **Economy** – an assessment of whether the most appropriate inputs have been secured and used on a least cost basis
- **Efficiency** – has the maximum output been achieved from the given set of inputs i.e. has the expenditure achieved the maximum possible levels of output and impact?

6.2 Effectiveness

Chapter 4 has discussed ERINI's performance in detail and has concluded that the organisation has focused on research work across only three of its agreed six core work themes and this work has had limited impact on policy development. The policy challenge work has been primarily restricted to responses to public consultation and this falls short of policy challenge and policy development especially when there were significant policy decisions made, e.g. water rates, Entrepreneurship Strategy, academic selection.

Consultation with key government stakeholders would indicate that its output to date has had a limited impact on challenging and developing public policy making and strategic thinking on the issues facing Northern Ireland society. While we acknowledge that ERINI has been operating through a period of Direct Rule, this has also coincided with some significant and strategic policy decisions on a range of issues such as rates, water charges etc providing scope for ERINI to make a significant contribution to challenging and developing these policies.

It has provided a research consultancy practice on a commissioned basis to Government Departments, the Northern Ireland Assembly and others such as NICCY, SEUPB etc but, given its staffing model and associated costs, there is a possibility that such work is subvented with core funds.

We would conclude ERINI has not been effective in meeting its core aims and objectives on the basis that its focus to date has been on primary research at the expense of secondary research and at the expense of any significant analyses and advice aimed at challenging and developing policy-making and strategic thinking in Northern Ireland.

6.3 Economy

Section 5.4 indicates that the majority of funding is apportioned to staff costs (68%) while Section 4 has highlighted structuring and resourcing issues associated with the administrative staffing complement. This has been as a direct consequence of the merger and, as an NDPB, ERINI has been restricted in mitigating against this.

While it is outside the scope of this review to consider a formal job evaluation, we have considered ERINI's staff salaries and looked at how they compare elsewhere. And we consider:

- the salary scales for research staff are in line with salaries for comparable positions in government or in academia
- that a significant number of administrative salaries are out of scale for the role and level of responsibility. Furthermore, the numbers of staff is disproportionate to the size of the organisation given its remit and budget
- that the salaries for the Head of Research and Director are out of scale for the level of responsibility and accountability, although we have not undertaken a formal job evaluation

In summary, we must conclude that the most appropriate inputs have not been secured and used on a least cost basis. However, it is necessary to highlight ERINI inherited this set-up and has been significantly hampered in addressing this issue.

6.4 Efficiency

In assessing if the maximum output (i.e. research and policy challenge) has been achieved from the given set of inputs, we consider that ERINI has not been efficient. While we acknowledge that the organisation has had staffing and structural issues we conclude that a significant proportion of its output has focused on academic research with a focus on publication and this has been at the expense of secondary research and policy analysis and challenge.

Although the organisation has inherent staffing issues, it did have scope to use its existing research staff in a different manner i.e. allocating more staff to policy work, and has not done so to the extent that was necessary.

6.5 Value for Money

From the outset it must be made clear that any organisation that receives a block grant/funding and then does not perform against its key aims and objectives cannot offer value for money.

ERINI's performance against its key aims and original remit has been disappointing and the organisation has not made the necessary transition from the NIERC research focus to one where delivery is more focused on policy relevance and there is a clear focus on policy challenge and on meeting the needs of government.

ERINI does not explicitly measure or report on VfM considerations, nor to date, has OFMDFM asked for such information. However, based on the above findings we would query if the organisation can demonstrate VfM given its significant administrative staffing overheads and associated costs and given its lack of focus on policy development and policy challenge work. Furthermore, we would query if commissioned research, particularly for external customers (outside government) has been costed on a full costing basis or if the core grant from OFMDFM has subvented such work.

It is our overall assessment that, given its core funding and that it is not performing effectively against its key aims and targets, ERINI cannot be said to provide value for money to OFMDFM or indeed the wider public purse.

7 Method of Delivery of Service

7.1 Overview

The preceding chapters have reviewed the performance, organisational structure and overall value for money delivered by ERINI. We identified that, given its core funding and that it is not performing effectively against its key aims and targets, ERINI cannot be said to provide value for money to OFMDFM.

This section concentrates on the remaining aspect of the terms of reference, the method of delivery of service. The following questions are considered:

- 1 Are the services currently being delivered by ERINI required in the future?
And if so,
- 2 Is there a requirement for NDBP status to be maintained or are there alternative organisational options?

7.2 Requirement for the Services

In assessing if ERINI's services are required in the future we have considered the following:

- Is it essential to Government and Departmental policy objectives?
- Is there sufficient demand from customers?
- Would providing the service be a justifiable use of taxpayers' money?
- What would be the costs and other effects of not providing the service?

ERINI was established with the primary functions of:

- Providing economic research (primary and secondary) and analyses and advice aimed at challenging and developing policy-making and strategic thinking in Northern Ireland
- Providing an economic research consultancy service on a commissioned basis to Government Departments, the Northern Ireland Assembly and others.

Its key aims and expected outputs were:

- Core work programme consisting of six themes
- Production of policy analysis for Northern Ireland (policy analysis and challenge) to include policy reports on public expenditure priorities
- Provision of sponsored research for Northern Ireland departments and other bodies (sponsored research) including the DEL skills forecast research.

Throughout this review the view was expressed by key stakeholders that there was a need and a value in economic research and in providing a policy challenge function and this was particularly so in light of the reconstituted Assembly.

ERINI agreed a core work programme with some government departments to undertake policy relevant research and it undertook commissioned work for DEL and for, amongst others NICCY and SEUPB. This would support or provide evidence of need for the research function currently delivered by ERINI and would lead us to consider that the research activity should not be abolished.

However, a number of significant issues remain to be considered:

- One key issue is the extent and nature of this need, from the Assembly and its Executive. An analysis of ERINI's research outputs for the core programme indicates much of this is focused on a small number of themes for a small number of government departments i.e. in the main on competitiveness and enterprise and on the labour market for DETI and for DEL. It is noteworthy that most government departments are not served by or using ERINI.
- A second issue is ERINI's performance to date and the evidence that it is essential to Government and Departmental policy objectives. In our assessment of ERINI's performance to date we found that only a limited number of ERINI's research outputs have directly related to its agreed core work programme and were considered by government to be of direct and significant policy relevance; but the research undertaken is too late to influence policy development and so ERINI's work has not made any measurable contribution to wider Government objectives. It is clear that on its current performance, the existence of ERINI is not a justifiable use of taxpayers' money.

The issue of policy challenge is less clear. While there is broad agreement on the need for evidence based policy and for an independent and robust challenge function, ERINI has not delivered on this. The fact it has not undertaken any robust policy challenge makes it difficult to determine the costs and other effects of not doing so as, by inference, there is no evidence. The lack of policy challenge being provided, and the lack of evidence of the impact of this, makes it less clear-cut to determine if this aspect of ERINI's function can be abolished.

Based on the evidence of the need for an economic research function as currently delivered by ERINI, we assume this as a proxy for need going forward. Correspondingly there appears to be an assumed need for policy challenge. However, a significant issue remains the nature and extent of this challenge and government should consider undertaking a robust review of this need to determine the nature and extent of this, what is required and how this could be delivered.

7.3 Requirement for NDPB status

The more fundamental question is whether the services provided by ERINI need to be delivered by an NDPB.

In answering this question, we have considered the following two key factors:

- Government intervention should only take place where there is clear evidence of market failure
- An NDPB should only exist where it can be demonstrated that this is the most appropriate and cost-effective means of carrying out the given function.

We also make the distinction between the current services which have been provided by ERINI i.e. services focused on primary research, and on the policy challenge function which has not been provided by ERINI.

With regards to primary economic research we have revisited ERINI's main research outputs and note the following:

- Not all government departments utilise ERINI. In the main, ERINI appears to be a research arm for DEL and for DETI, and at the same time DEL and DETI commission economic research outside of ERINI
- Commissioned work has often been a collaborative effort with another research institute; for example the assignment for NICCY on expenditure on children in Northern Ireland was a collaboration between ERINI and IFS; the commissioned work on R&D tax credits was completed by CPPR and reviewed by ERINI and EPU; commissioned evaluation work for SEUPB is a joint collaboration between ERINI, ESRI in Dublin and Regional Forecasts, an independent research house in Northern Ireland
- ERINI's current staffing model and associated costs would indicate that it does not offer the most cost-effective means of carrying out the given functions. Its output and performance to date does not offer value for money.

7.3.1 Conclusion on Primary Research

We conclude that while it is unclear what the level of demand for primary research will be, there is evidence that the primary research function currently performed by ERINI is required but there is no need for an organisation with NDPB status to deliver this as it is clear such services can and are delivered by other organisations. Significantly, we find that ERINI is not unique with respect to its provision or its target market.

We therefore conclude that NDPB status is no longer required as a delivery mechanism for primary research and on this basis, alternative options of merger or rationalisation with another NDPB or a move to Agency status are automatically discarded.

7.3.2 Conclusion on Policy Challenge

With regards to policy challenge, this function has not been delivered by ERINI and so in order to determine the need for an NDPB we have considered what exists elsewhere in the wider UK and in Ireland and we have examined whether an alternative delivery option is viable.

In England and in Scotland no dedicated NDPBs exist for economic policy research / policy development but such activities are developed and delivered primarily through research institutes, for example, IFS and NIESC in England, CPPR in Scotland, which are dependent on charitable grants and / or commissioned work. In Ireland economic research and policy development is undertaken primarily by ESRI which exists as a private limited company although it is in receipt of government core funding which has progressively fallen to 30% of the ESRI's total revenue.

In addition, evidence from ESRI suggests that, within Ireland, the pool of expertise capable of undertaking commissioned economic and social research has grown enormously, resulting in intensified competition. ESRI also indicates that there is a continuum of bodies both in the

public and private domains undertaking economic and social research and that the boundaries between them are not as rigid. ESRI itself collaborates with both leading research institutes in other countries as well as commercial consultancy companies.

During this consultation process, views were expressed supporting the concept of an NDPB. This was in part based on the idea that there would be an increased need for robust, consistent and reliable policy challenge especially in light of a new Assembly and its Executive and that there may be a limited number of organisations with the necessary economic research skills and interest in regional economics which would be willing to undertake policy challenge as this could potentially put them in conflict with government and be seen to potentially jeopardise future contracts. However, there is no substantive evidence to support this view.

Rather the evidence from ESRI would suggest otherwise and ERINI’s partnership and collaboration with others would suggest a changing practice in economic research where the complexity of the research, or the range of issues to be considered requires greater collaboration and partnership.

In theory it would appear feasible for alternative research houses / institutes to be commissioned to undertake policy challenge research, and doing so on a, for example, a three year rolling programme basis, which would allow an alternative organisation to invest in the necessary time and skills in regional economic analysis. This approach has worked in practice for the leading research institutes in England.

It is clear that the NDPB model is not the only or most effective model to meet the policy and research needs of government departments, the Assembly and others.

Without a more detailed assessment of the nature and extent of need it is difficult to conclude on what the most appropriate and cost effective vehicle would be. Whilst recognising the need for independent review, in the absence of any robust evidence, and given how economic policy challenge is undertaken elsewhere, we cannot conclude that a NDPB is the required mechanism in Northern Ireland for a policy challenge function.

7.4 Alternative Delivery Methods

Having established that the rationale still exists for the future delivery of services that ERINI was set up to provide and that NDPB status is not required for the primary research component but may be required for the policy challenge function, the next stage of this review is to determine the organisational option that is best suited to delivering research and delivering policy challenge, and to determine the way forward for ERINI.

The following organisational options were considered:

Organisational Options for Research	Organisational Options for Policy Challenge
Option 1 – Privatisation / sale	Option 4 – Continuation of NDPB status with improved performance
Option 2 – Market testing	
Option 3 – Strategic contracting out	

The key considerations against which the three options were considered were:

- Commercial viability and ‘attractiveness’ in the private sector

- Government policy on procuring research and independent advice
- Value for money
- Impact on current programme delivery and policy challenge
- The current state and structure of the economic research market.

7.4.1 Option 1: Removal of NDPB Status and Privatisation / Sale of the Primary Research Function

Removal of NDPB Status and privatisation or a sale option for ERINI, either in full or in part, would involve removal of the NDPB status and sale to another entity or potentially the management team in the form of a management buy-out (MBO). This option has been sifted out as an option for delivering core research and as an option for the way forward for ERINI for the following reasons:

- ERINI's staff terms and conditions and pay and TUPE conditions may make it unattractive to other organisations
- It is unclear if staff relationships within ERINI would facilitate an MBO
- On its current performance and output, ERINI would not be attractive to another company / business
- DEL has previously commissioned PSU work through NIERC and subsequently ERINI; it is currently reviewing its annual work programme and considering what will be required and how this will be delivered. It cannot be assumed that ERINI will be asked to undertake some, or any of this work.

7.4.2 Option 2: Removal of NDPB Status and Market Testing of the Primary Research Function

This option would entail holding a competition with an in-house ERINI team competing against external bidders. If an external bidder was successful, the work would be contracted out. If the in-house team was to win, it should be awarded a Service Level Agreement – which should be essentially the same as a private sector contract to ensure fairness during the bidding process. OFMDFM would continue to provide a level of financial support to ERINI to enable it to bid for the contract.

This option is a feasible option for delivering core research if an external bidder was successful but is not an option for the way forward for ERINI for the following reasons:

- It is unlikely ERINI would be in a position to make a viable bid and this would create considerable staff uncertainty during the market-testing period
- There is a high risk that ERINI would not be awarded a contract in a competitive situation based on its current overheads and / or previous performance
- OFMDFM would be unable to offer preferential terms or guarantee the size and nature of research contracts to ERINI in the future

- OFMDFM would have difficulties in defending a decision to provide an organisation with a financial subsidy in order to allow it to bid for a contract; this would be criticised on the grounds of principle, financial efficiency and open competition grounds.

7.4.3 Option 3: Removal of NDPB Status and Strategic Contracting Out of the Primary Research Function

This would entail a competition between external bidders (generally this would be the private sector, but there could be bids from, for example, the voluntary/charitable sector, universities, or others) for work previously done by ERINI. In this case, the in-house team cannot compete to provide the service. Government would need to ensure effective contract management were in place should this option be chosen.

This option is a feasible option for delivering core research through strategic contracting out to one supplier and by its very nature it is not an option for the way forward for ERINI. It is very unlikely an external bidder would wish to acquire ERINI's staff as their terms and conditions and pay could make them unattractive to other organisations and this would almost certainly be the case if TUPE applied.

7.4.4 Conclusion on Organisational Options for Research

It is clear that option 1 (privatisation / sale) is not feasible either as an option for a delivery mechanism for research or as a way forward for ERINI. Options 2 and 3 (market testing and strategic contracting) are possible options for delivering research to government departments but are not viable options for the future of ERINI. These options would require OFMDFM to undertake a detailed assessment of the nature and extent of the need for research.

This leads us to conclude that the only option for ERINI is removal of its NDPB status and cessation of its research function. At a high level, this option would entail the completion of existing research assignments, the removal of ERINI's NDPB status, staff redundancies, and the ultimate closure of the organisation. This has emerged as the preferred option for the primary research function for the following reasons:

- It reflects the conclusion that NDPB status is not required per se for the delivery of the primary research function
- It reflects government / departments practice to commission economic research work from other providers, both locally and the wider UK.

7.4.5 Option 4: Continuation of NDPB Status for the Policy Challenge Function with Improved Performance

At a high level, this option would entail significant change for ERINI. Changes would include:

- A requirement for the Board to meet on a monthly basis and to undertake a more strategic input into planning the overall strategic direction of ERINI and its policy challenge function and in monitoring its financial position and performance related matters
- More effective leadership and senior management commitment

- A review of the research skills base and research staffing compliment to determine the optimal resource allocation
- A reduction in the administrative resource and corresponding redundancies
- A major and significant cultural change within the organisation to reflect its policy challenge function and its focus on service delivery which meets the needs of government and which would eradicate previous / current NIERC and NIEC divisions and associated behaviours.

There are significant issues associated with this option.

- The scale and extent of change would be vast and impact at every level in the organisation and would have a negative impact on morale and motivation
- The scale and extent of change could be costly
- Such change could not happen overnight, would take time to bed down and in the intervening period would impact negatively on any policy outputs and hence on offering value for money
- ERINI has not demonstrated any ability in the previous three years to develop an organisational cultural focused on service delivery which meets the needs of government nor has it managed to eradicate previous NIERC and NIEC divisions and associated behaviours.

This option would only arise if OFMDFM undertakes a detailed assessment of the nature and extent of the need for policy challenge requirements and determines that an NDPB is the most appropriate and cost effective vehicle.

In the event OFMDFM decided an NDPB was not the most effective vehicle then the alternative options of sale, market test or strategic contracting out would be considered for the policy challenge function, and, similar to the rationale associated with the primary research function, the sale or privatisation options would be sifted out while strategic contracting out would be a feasible option for delivering policy challenge and, by default, would see the removal of ERINI's NDPB status and cessation of the policy challenge function.

8 Summary and Conclusions

8.1 Strategic Context

ERINI has operated at a time of enormous change in Northern Ireland when there has been a sustained focus on economic matters and on developing Northern Ireland's economy.

The broad strategic direction of government as set out in Priorities and Budget 2005-08 is focused on achieving the key objectives of economic competitiveness; building equality and community cohesion; and providing better public services through a significant programme of public service reform to improve efficiency and effectiveness. Alongside this, the Investment Strategy for Northern Ireland (ISNI) sets out a major sustained capital investment programme for Northern Ireland for the next ten years.

Current expenditure on public services has increased in real terms over the last two years and will exceed £16 billion while planned capital investment will have similarly increased and amounts to around £1.3 billion annually. A Comprehensive Spending Review is underway to enable the Executive to determine, within the resources available, the expenditure plans and priorities for Northern Ireland over the period 2008-09 to 2010-11. There are also a number of fundamental challenges facing Government and its economic partners as recognised in DETI's Economic Vision for Northern Ireland which highlights the need to grow the private sector, reform the public sector and utilise public expenditure.

The Northern Ireland Assembly was restored in May 2007 with the formation of a new Northern Ireland Executive and is the prime source of authority for all devolved responsibilities having full legislative and executive authority. Devolution may lead to greater scope for policy development and differentiation in Northern Ireland and this in turn may lead to closer examination of the policy making process and requirements.

While economists in government have a role to play providing the evidence base for policy, their role within government is very broad and constrained by work pressures. They may also not be perceived by the public to be sufficiently independent of government.

8.2 ERINI

ERINI was established as a new independent economic research body through the merger of the Northern Ireland Economic Council (NIEC) and the Northern Ireland Economic Research Centre (NIERC) with the primary functions of providing:

- Economic research (primary and secondary) and analyses and advice aimed at challenging and developing policy-making and strategic thinking in Northern Ireland
- An economic research consultancy service on a commissioned basis to Government Departments, the Northern Ireland Assembly and others.

ERINI is unique in terms of independent research institutions in that it is a Non-Departmental Public Body (NDPB) sponsored by OFMDFM and receives almost its entire funds as core funds from OFMDFM. This amounted to £1,144,000 in 2005/06.

Its current staffing complement of almost 16 Whole Time Equivalents (WTE) encompasses a Director and Head of Research; 4.6 Senior Researchers; 6.8 Administration Staff; and 2 Placement Students.

ERINI's three core business areas are focused on economic research, on policy challenge and analysis and on sponsored research. ERINI's economic research is based around a core research programme built around six key themes and agreed with OFMDFM which is directed towards meeting the needs of policy makers.

8.3 Assessment of ERINI

8.3.1 Performance

ERINI's main activities in its first year of operation were focused on completion of legacy NIERC and NIEC contracts as well as putting in place the necessary systems, structures and procedures of the new organisation and in developing a core work programme in conjunction with government departments.

While it completed all legacy assignments there were significant issues and difficulties in putting in place the necessary organisational infrastructure and processes to support the new organisation going forward. These ranged from delays in implementing relatively straightforward administrative activities such as establishing an ERINI bank account to delays in establishing more strategic activities such as setting up inter Departmental / ERINI Research Advisory Groups (RAGs) which were to steer ERINI's core work programme.

ERINI's activities in its second and third years focused on a range of reports, journal articles, conference papers, and responses to public consultation as well as the annual Scott Seminars which have brought together leading academics, policy makers and non-specialists interested in economic and social development in Northern Ireland.

Our assessment of performance for 2005-07 highlighted the following:

- Only a limited number of ERINI's research outputs relate to the core work programme, and only then across three of the six themes, and are considered by government to be of direct and significant policy relevance. A key issue has been the ability of ERINI to respond on a timely basis and it has been criticised that research undertaken is too late to influence policy development and so its work has not made any measurable contribution to wider Government objectives
- Public analysis work has been almost exclusively focused on responses to public consultations despite this being a time of significant and strategic policy initiatives thus giving ERINI considerable scope to comment on in a robust and in depth manner
- There has been a heavy focus on research work and associated outputs which have lead us to question if dedicated research work has been undertaken at the cost of displacing elements of the core work programme.

8.3.2 Organisational Structure

There are various issues with ERINI's current structure and staffing. These are:

- Admin personnel represent 44% of the total staffing complement in comparison to 21-28% of staffing resources in comparable bodies and are disproportionate to the size and remit of ERINI
- Administrative staff roles and salaries and management salaries would appear out of line with roles and levels of responsibility in this NDPB
- Current reporting arrangements have arisen primarily because of personalities rather than any specific business or operational rationale and do not consolidate the merger process
- The legacy of the merger continues to exert a strong influence on the organisation.

8.3.3 Value for Money

Any organisation that receives a block grant / funding and then does not perform against its key aims and objectives cannot offer value for money.

ERINI has not been effective in meeting its key aims and objectives across its core work programme and its policy challenge function and has not deployed its staffing resource effectively to ensure it met these key aims. Dedicated research work would appear to be undertaken at the expense of core programme work and this, and other commissioned research, may be subvented by core government grant.

While we acknowledge the staffing structure and pay scales are a legacy of the merger, it is necessary to highlight that the administrative resource is disproportionate to the size and remit of the organisation. Salaries for many staff appear out of scale for the role and level of responsibility. As the majority of funding is apportioned to staff costs, the organisation cannot be economical with its resources.

ERINI's performance against its key aims and original remit has been disappointing and the organisation has not made the necessary transition from the NIERC research focus to one where delivery is more focused on policy relevance and there is a clear focus on policy challenge and on meeting the needs of government.

It is our overall assessment that, given its core funding and that it is not performing effectively against its key aims and targets, ERINI cannot be said to provide value for money to OFMDFM or indeed the wider public purse.

8.3.4 Delivery Methods

Based on the evidence of the need for an economic research function as currently delivered by ERINI, we assume this as a proxy for need going forward. Correspondingly, there appears to be an assumed need for policy challenge.

However, there does not appear to be a need for an organisation with NDPB status to deliver core research as such services can and are delivered by other organisations to government departments and we consider that NDPB status is no longer required as a delivery mechanism for primary research.

The policy challenge function has not been delivered by ERINI but alternative delivery models for such a function exist elsewhere in the wider UK and in Ireland which would suggest that an NDPB model is not the only or most effective model to meet the policy and research needs of government departments, the Assembly and others.

We have then considered the following organisational options for delivering research and delivering policy challenge, and for determining the way forward for ERINI:

Organisational Options for Research	Commentary
Option 1 – Privatisation / sale	This option is not viable based on current performance. Also current staffing and pay levels make it unattractive (TUPE could apply)
Option 2 – Market testing	This option is a feasible option for delivering core research if an external bidder was successful but is not an option for the way forward for ERINI as it is unlikely ERINI would be in a position to make a viable bid
Option 3 – Strategic contracting out	This option is a feasible option for delivering core research through strategic contracting out to one supplier and by its very nature it is not an option for the way forward for ERINI
Final Conclusions	
Removal of ERINI's NDPB status and cessation of its research function	

Organisational Options for Policy Challenge	Commentary
Option 4 – Continuation of NDPB status with improved performance	This option presents significant and potentially costly challenges to ERINI as it would entail significant change that would impact at every level in the organisation and there is no evidence to date that the organisation could undertake this change successfully
Final Conclusions	
Undertake a detailed assessment of the nature and extent of the need for policy challenge requirements	
Determine if an NDPB is the most appropriate and cost effective vehicle	
Determine if ERINI could undertake the extensive changes necessary in a cost effective manner	

8.4 Way Forward / Next Steps

8.4.1 Need for Research / Policy Challenge

One key issue is the extent, nature and level of the need for primary research and for policy challenge from the Assembly and its Executive. It is essential that prior to committing public expenditure, there is a clear rationale and requirement to do so.

We recommend that OFMDFM establishes clearly and in detail, the extent and nature and level of the need for primary research and for policy challenge from the Assembly and its Executive and develops a clear business case. This will entail a detailed and prolonged series of consultation with key stakeholders across government and within departments.

It is essential that this is done in order to then determine the best delivery mechanism especially for the policy challenge function.

8.4.2 **Impact on ERINI**

Based on the assessment provided in the preceding options appraisal, the preferred option for research is the removal of ERINI's NDPB status and the cessation of that function of the organisation.

The preferred option for policy challenge could be continuation of NDPB status with improved performance but only if OFMDFM undertakes a detailed assessment of the nature and extent of the need for policy challenge requirements, determines that an NDPB is the most appropriate and cost effective vehicle and determines that ERINI could undertake the extensive changes necessary in a cost effective manner.

If OFMDFM decides an NDPB is not the most effective vehicle or that ERINI could not undertake the necessary changes then the net result would be the removal of ERINI's NDPB status and cessation of the policy challenge function.

OFMDFM is advised to consider this report and seek a timely decision on this matter.

APPENDIX 1

ERINI RESEARCH REPORTS	
ERINI Research Reports disseminate the results of primary research at greater length and depth than is possible in other formats, and promote discussion on topical issues.	
DATE	RESEARCH REPORT
ERINI Research Reports - No. 1 - Dec 2005	Measurement and Benchmarking of Competitiveness – The Cost of Doing Business in Northern Ireland
ERINI Research Reports - No. 2 – Oct 2006	The Measurement and Benchmarking of the Competitiveness of Northern Ireland: Scoping Study & Composite Index
ERINI WORKING PAPERS	
ERINI Working Papers present results of ongoing primary research and are generally prepared with a view to submission for publication in an academic journal.	
DATE	WORKING PAPER
ERINI Working Papers - No. 1 - Oct-04	Overeducation and the Graduate Labour Market: A Quantile Regression Approach
ERINI Working Papers - No. 2 - Oct-04	Overeducation in the Labour Market: Reality or Fiction?
ERINI Working Papers - No. 3 - June 2005	Examining the Link Between Skill Shortages, Training Composition and Productivity Levels in the Northern Ireland Construction Industry
ERINI Working Papers - No. 4 - October 2005	Assessing the Impact of Marketing Assistance on the Export Performance of Northern Ireland SMEs
ERINI Working Papers - No. 5 - October	Assessing the Impact of Skill Shortages On the Productivity Performance of High-Tech Firms in Northern Ireland

2005	
ERINI Working Papers - No. 6 - October 2005	Intra and Inter-Generational Changes in the Returns to Schooling 1991-2002
ERINI Working Papers - No. 7 - October 2005	How Biased are The Estimated Wage Impacts of Overeducation? A Propensity Score Matching Approach
ERINI Working Papers - No. 8 - March 2006	Service Sector SMEs and Essential Skill Provision in the 16-25 year old Labour Market: Evidence from Northern Ireland

ERINI BOARD STATEMENTS

Statements of the ERINI Board on ERINI research publications, or general policy issues.

DATE	BOARD STATEMENT
ERINI Board Statements - No. 1 - July 2006	Assessing the Case for a Higher Rate of R&D Tax Credit in Northern Ireland

ERINI MONOGRAPHS

ERINI Monographs comprises commissioned research reports by ERINI staff, and externally commissioned reports where leading experts are asked to apply their knowledge to the Northern Ireland economy.

DATE	MONOGRAPHS
ERINI Monographs - No. 12 - December 2004 (added Oct 2006)	The Position of Women in the Economy: A Baseline Analysis. Final Report
ERINI Monographs - No. 1 - Mar-05	The Quality of Life

ERINI Monographs - No. 2 - Mar-05	Global Entrepreneurship Monitor Northern Ireland 2004
ERINI Monographs - No. 3 - Apr-05	A Study of the Northern Ireland Labour Market for Construction Skills: A Report Presented by the Priority Skills Unit
ERINI Monographs - No. 13 - July 2005 (added Oct 2006)	Women and Entrepreneurship In Northern Ireland
ERINI Monographs - No. 4 - October 2005	we are content...we are not content: Investigating SMEs in the Digital Content Industries on the Island of Ireland
ERINI Monographs - No. 5 - November 2005	Entrepreneurship on the Island of Ireland in 2004: Based on the Research Findings of the Global Entrepreneurship Monitor (GEM) 2004
ERINI Monographs - No. 6 - December 2005	Labour Productivity, Gross Value Added and Employment by Industry in Northern Ireland. A Structural and Shift-Share Analysis
ERINI Monographs - No. 7 - January 2006	Decomposition of regional GVA per capita gap by UK region
ERINI Monographs - No. 10 - January 2006	Assessing the Case for a Higher Rate of R&D Tax Credit in Northern Ireland
ERINI Monographs - No. 8 - March 2006	Global Entrepreneurship Monitor United Kingdom 2005
ERINI Monographs - No. 11 - May 2006	Who Exports? A Firm-Level Study of the Characteristics of Exporters and the Determinants of Export Performance for Northern Ireland and the Republic of Ireland
ERINI Monographs - No. 9 - June 2006	Cycles in Regional Labour Productivity in the UK

ERINI Monographs - No. 15 - August 2006	Global Entrepreneurship Monitor Northern Ireland 2005. Full Report
ERINI Monographs - No. 14 - September 2006	The Five Drivers of Productivity. How much does each one contribute? Causal Analysis of Regional Labour Productivity in the UK.
ERINI Monographs - No. 16 - November 2006	Global Entrepreneurship Monitor Northern Ireland 2005 Summary Report

ERINI ADVICE AND COMMENTS

DATE	ADVICE AND COMMENTS
ERINI Advice & Comment - No. 1 - Mar-04	A Response by ERINI to : 'The Review of Public Administration in Northern Ireland'
ERINI Advice & Comment - No. 2 - May-04	A Response by ERINI to: Department of Enterprise, Trade and Investment 'Developing a Successful Social Economy: NI Government's Three-Year Strategic Plan 2004-2007, Including Action Plan for 2004-05. Consultation Document January 2004
ERINI Advice & Comment - No. 3 - Jul-04	A Response by ERINI to: 'Further Education Means Business for People, Communities and the Economy in Northern Ireland'
ERINI Advice & Comment - No. 4 - Jul-04	A Response by ERINI to: 'Higher Education in Northern Ireland: A Consultation on Proposals to Introduce Variable Deferred Fees, Access Agreements and a Review of the Student Complaints System'
ERINI Advice & Comment - No. 5 - Oct-04	A Response by ERINI to: 'Towards an anti-Poverty Strategy. New TSN – The Way Forward. A Consultation Document'
ERINI Advice & Comment - No. 6 - Dec-04	A Response by ERINI to: 'Reform of the Domestic Rating System in Northern Ireland'
ERINI Advice & Comment - No. 7 - Dec-04	A Response by ERINI to: 'A Draft Economic Vision for Northern Ireland'

ERINI Advice & Comment - No. 8 - Dec-04	A Response by ERINI to: 'The Consultation on the Draft Priorities and Budget 2005–08'
ERINI Advice & Comment - No. 9 - Apr-05	A Response by ERINI to: 'The Integrated Impact Assessment (IIA) on the Proposals for Water Reform in Northern Ireland'
ERINI Advice & Comment - No. 10 - June 2005	A Response by ERINI to 'NIAER Consultation on: The Proposed Acquisition of East Surrey Holdings plc by Kellen Acquisitions Limited – Implications for Phoenix Natural Gas Limited'
ERINI Advice & Comment - No. 11 - July 2005	A Response by ERINI to 'Review of Rating Policy Rate Reliefs for Business
ERINI Advice & Comment - No. 12 - December 2005	A Response by ERINI to 'Draft Priorities and Budget 2006-08'
ERINI Advice & Comment - No. 13 - April 2007	A Response by ERINI to 'A Consultation on Schools for the Future: A Policy for Sustainable Schools'

JOURNAL ARTICLES

Journal Articles by ERINI Staff

DATE	JOURNAL ARTICLES
Journal Articles by ERINI Staff - No. 2 - Feb-04	The Real North-South Divide? Regional Gradients in UK Male Non-Employment
Journal Articles by ERINI Staff - No. 1 - Dec-04	Mixing the Grant Cocktail: Towards an Understanding of the Outcomes of Financial Support to Small Firms
Journal Articles by ERINI Staff - No. 3 - Jan-05	Knowledge Transfers from Multinational Plants in Ireland: a Cross-Border Comparison of Supply-Chain Linkages

Journal Articles by ERINI Staff - No. 4 - Apr-05	Selling Global, Buying Local? What Determines the Sourcing Patterns of Multinational Plants in Ireland
Journal Articles by ERINI Staff - No. 5 - June 2005	You'll Never Walk Alone: Childhood Influences and Male Career Path Clusters
Journal Articles by ERINI Staff - No. 6 - Nov 2005	Watch that Space! The County Hierarchy in Firm Births and Deaths in the UK 1980-1999
Journal Articles by ERINI Staff - No. 7 - Jan 2006	Examining the Link Between Skill Shortages, Training Composition and Productivity Levels in the Construction Industry: Evidence From Northern Ireland

CONFERENCE PAPERS

Conference Papers by ERINI Staff

DATE	CONFERENCE PAPERS
Conference Papers by ERINI Staff - No. 2 - Apr-04	The Geography of Britain's Knowledge Economy: The 'Regional Problem', Regional Industrial Policy and the Spatial Distribution of Knowledge-intensive Business Service
Conference Papers by ERINI Staff - No. 1 - Aug-04	Is Sickness Catching? An Analysis of 'Permanent Sickness and Disability' Data from the 2001 Census for Local Authority in England and Wales
Conference Papers by ERINI Staff - No. 3 - Sep-04	Using Bayesian Networks to Explore the Transition from School to Work
Conference Papers by ERINI Staff - No. 4 - Nov-04	Business Vital Rates in the UK: Plain Tales of VAT in 3D
Conference Papers by ERINI Staff - No. 5 - Nov-04	Celtic Tiger Cubs: Ireland's VC-Funded Software Start-up
Conference Papers by ERINI Staff - No. 6 -	Spatial Differences in Entrepreneurship: A Comparison of Prime Age and Third Age Cohorts

Nov-04	
Conference Papers by ERINI Staff - No. 7 - Jan-05	Entrenched uneven development: exploring the (un)changing geography of the UK software and computer services sector since 1995
Conference Papers by ERINI Staff - No. 8 - Jan-05	Some Labour Market Dimensions of Disability in Regional Perspective: What can we learn from the Labour Force Survey?
Conference Papers by ERINI Staff - No. 9 - Mar-05	Overeducation and the Graduate Labour Market: a Quantile Regression Approach
Conference Papers by ERINI Staff - No. 10 - Mar-05	My Brilliant Career: Characterising the Labour Market Trajectories of British Women of Generation X
Conference Papers by ERINI Staff - No. 11 - May 2005	It's the Service Economy Stupid! UK Regional Policy and the Geography of Sectoral Employment Change since the Mid 1990s
Conference Papers by ERINI Staff - No. 14 - August 2005	It's all Downhill from Bracknell Forest! The Extraordinary Spatial Concentration of Britain's Business Services
Conference Papers by ERINI Staff - No. 12 - Oct 2005	Taking the Temperature of the Labour Market: Using Spatial Variations in the Qualifications Employment Relationship as a 'Health' Indicator
Conference Papers by ERINI Staff - No. 15 - March 2006	What's in a place? Continuity and change in the spatial distribution of deprivation in Northern Ireland, 1971 to 2001
Conference Papers by ERINI Staff - No. 16 - April 2006	Taking the Temperature of the Labour Market: Using Local Variations in the Qualifications Employment Relationship as a 'Health' Indicator (Revised)
Conference Papers by ERINI Staff - No. 17 - June 2006	Heartbeat of the Celtic Tiger? Business Vital Rates in the Republic of Ireland, 1988-2004
Conference Papers by ERINI Staff - No. 18 - June 2006	Paths to understanding the Relationship between Regulation and Small Firm Growth

<p>Conference Papers by ERINI Staff - No. 19 - October 2006 (Version One). This is the first of two papers - the second paper is a revised paper presented in Nov 2006 and is published as ERINI Conference Paper 20.</p>	<p>Has Migration Worsened Geographical Inequalities in Health in Northern Ireland over the Last Decade?</p>
<p>Conference Papers by ERINI Staff - No. 20 - November 2006. (Version Two - Final). This is the second of two papers - the first paper is published in Oct 2006 as ERINI Conference Paper 19</p>	<p>Has Migration Worsened Geographical Inequalities in Health in Northern Ireland over the Last Decade?</p>

OTHER PUBLICATIONS

DATE	CONFERENCE PAPERS
<p>Other Publications by ERINI Staff - No. 1 - Jun-04</p>	<p>Northern Ireland: Demographic Facts And Statistics, Northern Ireland: Economic Facts And Statistics</p>
<p>Other Publications by ERINI Staff - No. 2 - Nov-04</p>	<p>Distribution of IT employment</p>
<p>Other Publications by ERINI Staff - No. 3 - Nov-04</p>	<p>Construction Industry Forecasts</p>
<p>Other Publications by ERINI Staff - No. 6 - June 2005</p>	<p>Competing in the Global Economy: How Competitive is the NI Business Environment</p>
<p>Other Publications by ERINI Staff - No. 7 - June 2005</p>	<p>Global Entrepreneurship Monitor 2004: NI Summary Results</p>
<p>Other Publications by ERINI Staff - No. 8 - June 2006</p>	<p>The Productivity Gap in Northern Ireland</p>

Other Publications by ERINI Staff - No. 9 - June 2006	Drivers of Regional Entrepreneurial Performance in the UK: A Gender Perspective
Other Publications by ERINI Staff - No. 4 - December 2005 (Revised Conference Paper)	Regional Variations in Labour Market Outcomes for the Disabled: What can we learn from the Labour Force Survey?
Other Publications by ERINI Staff - No. 5 - December 2005	Recent Trends in ICT Employment: Benchmarking NI