

Research Bulletin 19/1 | The Cost of Doing Business in NI

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Summary

In 2015 the Department for Enterprise, Trade and Investment produced a report on the *“Cost of Doing Business in Northern Ireland,”* which measured performance across a range of key costs. This research bulletin will provide an updated snapshot of the four main business cost areas; labour, energy, property and transport by analysing a small number of indicators relating to each area and benchmarking these indicators against different economies.

What can be inferred from the data, if no weightings are attached, is that the overall cost base has not changed significantly. Labour and property costs continue to be lower than the majority of UK regions and the Republic of Ireland, meaning that Northern Ireland presents itself as an attractive region for potential business investment. It should be considered however that these “cost advantages” taken in isolation are not automatically conducive for attracting new businesses. Transport costs are competitive across UK regions, but in an international context Northern Ireland has expensive diesel prices and cheaper petrol prices, compared to the Republic of Ireland. Very small industrial and commercial electric users, which cover the two-thirds of businesses in NI, pay prices at the lower range compared to elsewhere in the EU, and similar to the UK. However, large and very large users incur electricity prices that are lower than the UK, but higher than the ROI and many other European competitors.

Reviewing all four areas leads to the conclusion that cost competitiveness does exist for Northern Ireland; however, it should be noted that not only do businesses consider the relative cost of each area, but also the quantum/availability and quality of each.

Introduction

A comprehensive assessment of overall business cost bases was last carried out and published by (the then) Department of Enterprise, Trade and Investment (DETI), in October 2015ⁱ. This report was guided by the findings of an InterTradeIreland survey,ⁱⁱ which identified amongst others that the following costs were of the highest burden to Northern Ireland (NI) businesses:

- labour;
- energy;
- property; and
- transport costs.

This research bulletin will follow a similar methodology used in the DETI report, however it will not provide analysis of all indicators to the same extent - such as sectoral or occupational analysis. In addition, since the publication of this report InterTradelreland business surveys have not specifically carried out questioning regarding the same business costs across NI & Republic of Ireland (RoI). Consequently, we are unable to determine if these four costs remain the key burdensⁱⁱⁱ, hence why the same weightings as used in 2015 would not be applicable here.

Therefore, this bulletin will take the four main areas identified in 2015 'as given', and proceed to solely analyse indicators relating to them.^{iv} The bulletin will show how the main costs relating to each area currently stand, in order to better gauge the current business cost bases in NI. The purpose of looking at cost competitiveness is because of its importance to FDI, exports and fundamentally, having a successful economy. To note, UK average prices in 2018 are 6% higher than 2015^v, meaning many of the price increases will significantly impact on businesses input costs.

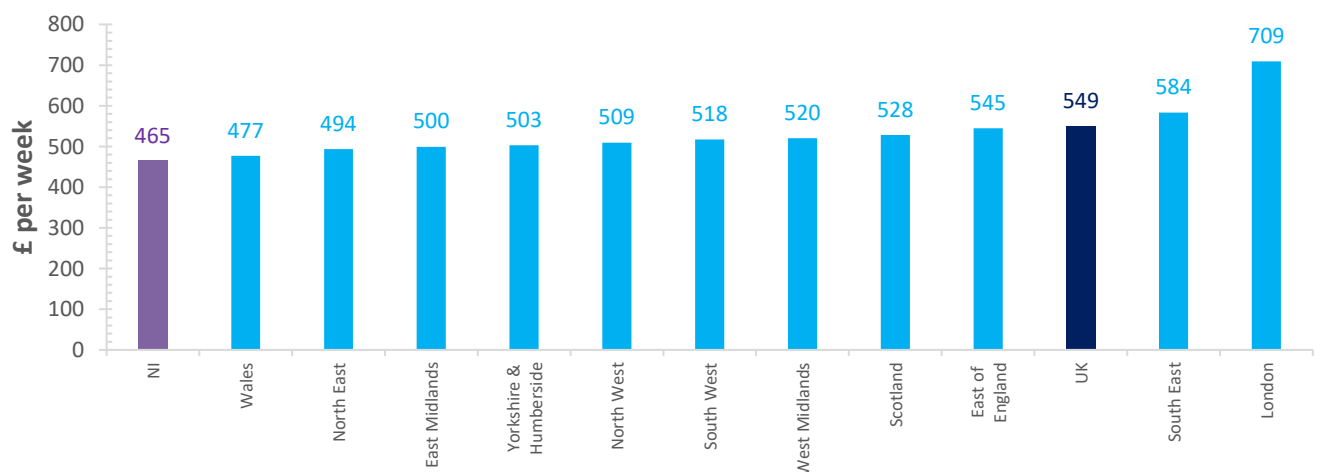
Labour Costs

This section will concentrate on median/average weekly private sector wages compared against the UK and RoI (at a headline level). Median earnings is the preferred comparative measurement used, however for RoI only data relating to 'average wages' was available^{vi}. It should be noted that when analysing labour costs, it would be prudent to consider not only full-time weekly wages relating to the private sector, but also social security contributions and minimum and living wage changes – in order to understand the full, broad picture of labour costs for NI. This research bulletin has focused on comparing earnings.

UK Labour Costs

In 2018, the full-time (FT) private sector NI median wage was approx. £465 per week – shown in Figure 1- which is a significant increase from 2015 (£405), in nominal terms. This 2018 figure represents 84.7% of the UK median, which is broadly similar to the 82.2% recorded in 2015 report, and again below all other regions in the UK.

Figure 1: Median gross weekly private sector earnings for FT employees, UK Regions, 2018^{vii}



Sources: NISRA and ONS Annual Survey of Hours and Earnings

Throughout the time series 1998-2018, the NI wage average relative to the UK has fluctuated between 80-85%, highlighting consistent competitiveness. However, this also implies that NI could improve in creating more high value, high productivity and subsequently high wage jobs.^{viii} The closest NI FT average private sector wages have come to the UK median is 85.19% in 2015 (closely followed by 2006, 85.11%), with the differential dipping slightly in the following years. Of course, it should be noted that the NI median wage has increased since 1998 (£259) in nominal terms, but this growth has not closed the gap with the UK average to any great extent.

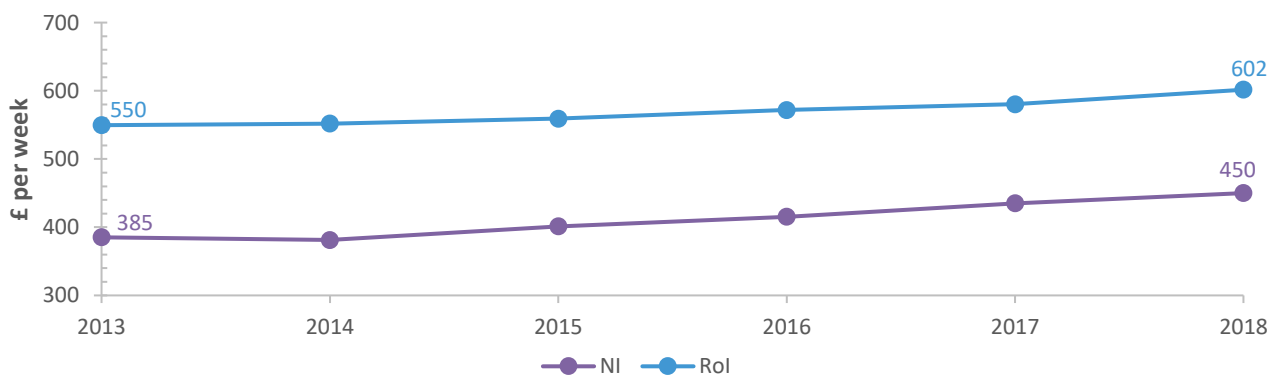
Benchmarking NI against the UK national level will inevitably lead to NI being seen as “lagging behind” the UK average as the calculation includes wages from London, which is generally considered an extreme outlier and results in distorting the findings.

Whilst continued emphasis is placed on wage growth as identified in the (draft) Industrial Strategy, currently NI has a competitive advantage relative to the UK but this differential could be eroded if the policy objective of raising wages come to fruition. However, wage growth need not be a negative impact on competitiveness if productivity growth - which has been a challenge for NI^{ix} - outpaces the rate of wage growth.

International Labour Costs

Insufficient data prevents a full comparison of NI private sector wages (other than at a headline level) with those in the RoI. In 2018, NI’s private sector average wage was £450 compared with £602 for RoI per week, (Figure 2) representing only 74.8% of the RoI average. This may appear to be significant, however when analysing data from 2013, NI wages were only 70.1% of RoI’s, indicating that this advantage was also present beforehand. Whilst this gap has narrowed since 2013, the actual difference between private sector average wages remains large across these two economies. This should be caveated in that the results can change depending on what exchange rate is used to convert Euro (EUR) to Great British Pound (GBP). For simplicity, the average annual exchange rate for EUR-GBP in 2018 was used to calculate the values displayed in Figure 2.

Figure 2: NI and RoI Private Sector Average Wages, 2013-2018



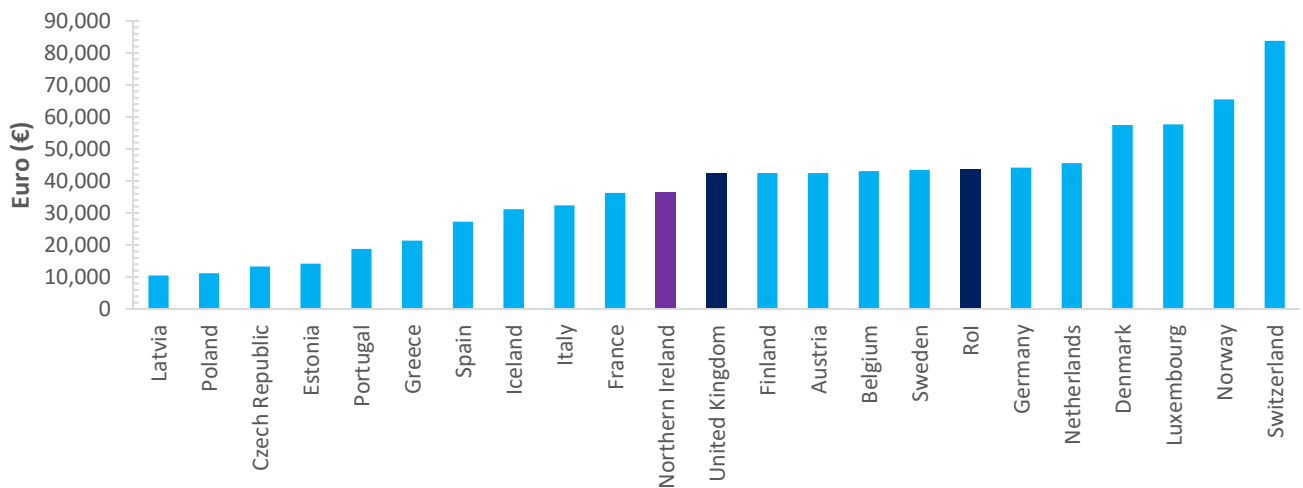
Source: NISRA Annual Survey of Hours and Earnings; CSO Earnings, Hours and Employment Costs Survey

Note: RoI figures converted at a rate of €1= £0.88

Looking at NI’s labour costs and attaching no weighting towards the importance of this particular cost, it can be concluded that NI has a competitive advantage, by a large margin, in labour costs relative to RoI. Indeed, RoI’s minimum wage is now the second highest of all EU countries.^x Invest NI conclude that NI salary costs are approximately 30% lower than London, Dublin and Paris.^{xi}

It can be seen in Figure 3, that NI at €36,384 ranks 11th out of 23 countries analysed, for annual average wages across Europe, showing that NI is not the lowest cost location. By way of contrast, RoI’s average wage per Full Time Equivalent (FTE) employee is €43,642. Of course, it should be noted that businesses do not make decisions on location based solely on wages and salary costs, but consider things such as latent ability of workers and availability of technology, which are linked to productivity. Public sector wages were not examined in this analysis.

Figure 3: Average Wages and Salaries per FTE employee, 2016



Source: Eurostat

Note: Includes Industry, Construction and Services; excludes Public Administration, Defence and Compulsory Social Securities.

Energy Costs

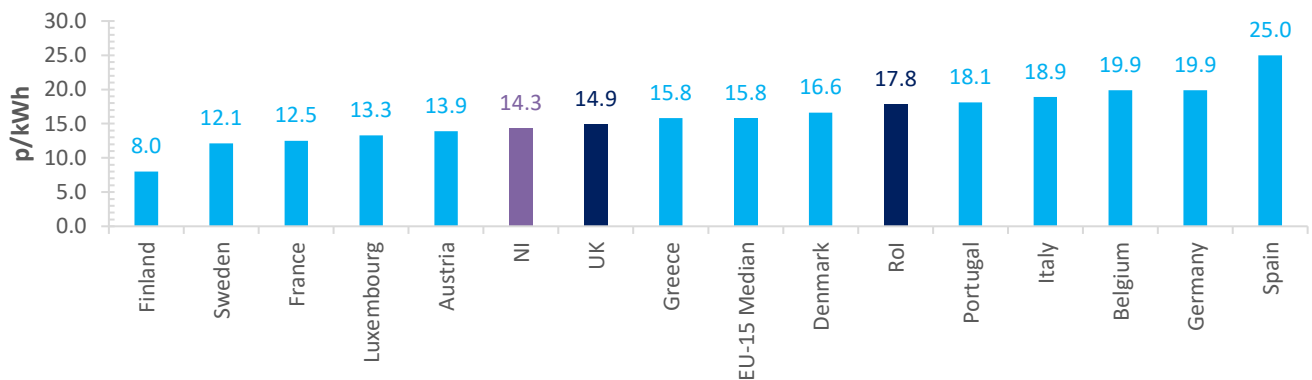
Energy continues to be an important cost for businesses, particularly those in manufacturing and construction. This section will specifically concentrate on electricity prices at a headline level, rather than other energy categories such as natural gas prices etc. Generally, the electricity costs experienced by businesses depend on usage volumes and price.

Electricity Prices

Two thirds of industrial and commercial (I&C) electricity connections in NI are in the “Very Small” category, meaning that their overall cost should be small given they consume low amounts of electricity.^{xii} Figure 4 highlights that average electricity prices for very small I&C consumers in NI was 14.3 p/kWh during Q2 2018. When compared with

other EU countries, NI's price is slightly below the median price of 15.8 p/kWh. NI therefore ranks as having the sixth lowest electricity prices in Europe for this category, 80.3% of the average price in RoI, significantly below Italy and Spain, and similar to the UK. Although NI currently ranks at the lower end of this group, in the 2015 DETI report NI was the 6th most expensive country for this indicator. This change can be attributed to both tariff movements and variation in exchange rates, showing how volatile the market can be.^{xiii}

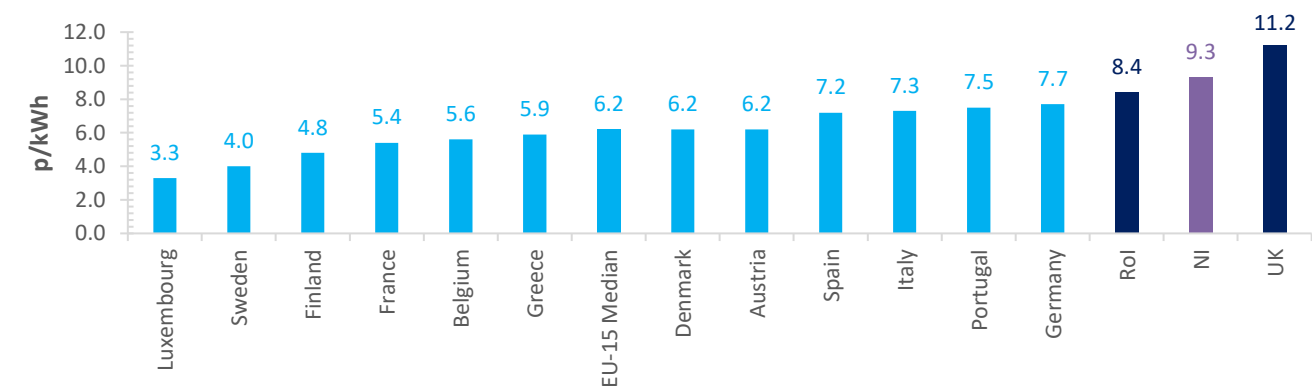
Figure 4: Non-Domestic Electricity Prices, Very Small Users, Q2 2018^{xiv}



Source: Utility Regulator Retail Energy Market Monitoring Report, November 2018

Concentrating on large & very large users, Figure 5 highlights that the average electricity price in Q2 2018, was 9.3 p/kWh for NI. These larger users therefore pay considerably less (35%) per unit than very small users, due to the greater influence they have when negotiating prices with suppliers - whilst price per unit is lower, overall bills will be significantly greater as consumption is higher. Comparing these larger users across other economies shows that the NI average price is below only that of the UK by 17%, and more expensive than RoI by 10.7%.

Figure 5: Non-Domestic Electricity Prices, Large and Very Large Users, Q2 2018



Source: Utility Regulator Retail Energy Market Monitoring Report, November 2018

Focusing on electricity, most businesses in NI tend to be very small energy users. These NI businesses therefore pay prices that are 19.7% below the average of RoI, and currently slightly cheaper (4%) than the UK average. However, prices faced by large and very large I&C businesses are among the highest in the EU.

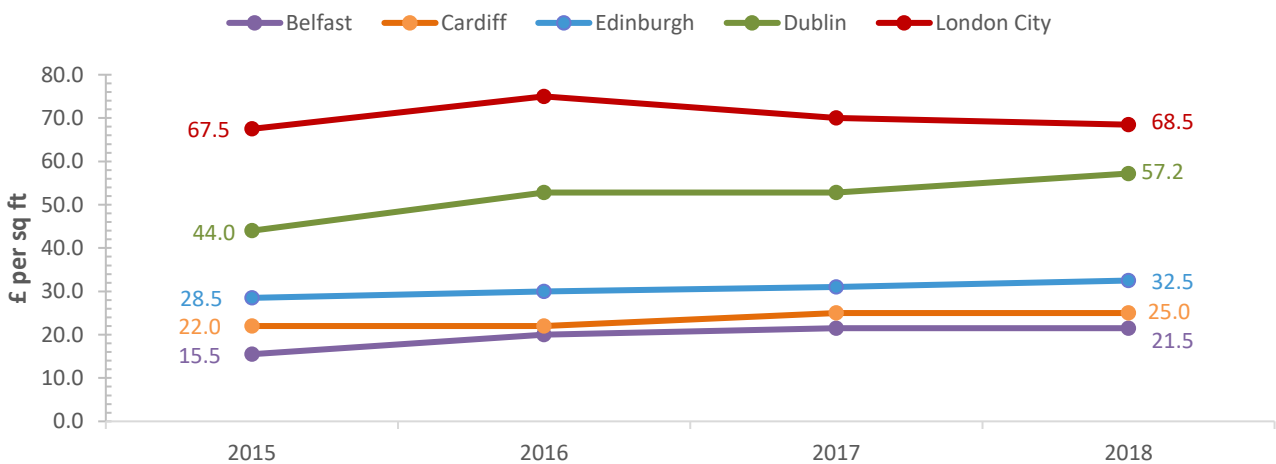
Property Costs

Office rental values will form the core analysis of this section, however further analysis beyond this bulletin should also consider business rates and industrial land values. Figure 6 charts the changes to Grade A office rental prices for UK capital cities and Dublin, to help facilitate a better understanding of property prices in the '5' capital cities across the UK and RoI.

The results displayed below are not surprising, with the global economic powerhouse of London having the most expensive rents relative to the other cities in 2018. Specifically, office rentals are more expensive by over a multiple of 3 in London City compared to Belfast. Dublin rates are the second most expensive office rental location charted, with Grade A rents being in excess of 2.5 times more than Belfast. The Belfast office rental prices are only 31.4% and 37.6% of the averages of London City and Dublin; in 2015 these metrics were 23% and 35.2%, highlighting this enduring advantageous position.

All five locations remained in the same ranking from 2015 to 2018, with Belfast maintaining its highly competitive property costs, increasing by 38.7% during this time. However, it should be noted that it was starting from a low base of £15.50 per square foot.

Figure 6: Grade A Office Rental Prices, 2015-2018

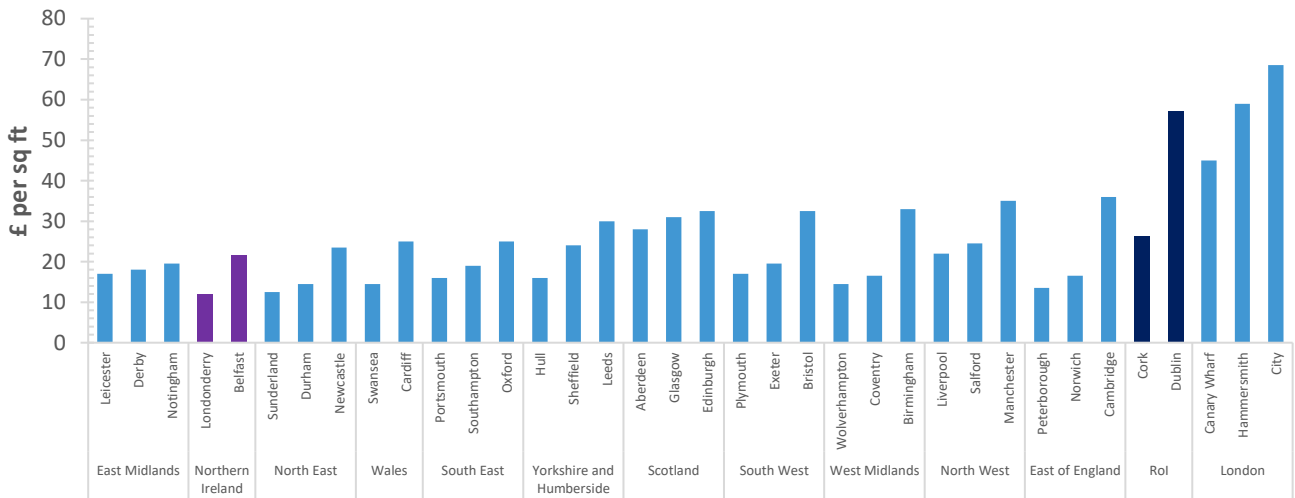


Source: Colliers

Note: Dublin figures converted at a rate of €1= £0.88

These findings are in parallel with those of Invest NI, which determined that NI prime office rents are “among the lowest in Western Europe.”^{xv} This advantageous position can also be seen when encompassing other UK regions (Figure 7). Elsewhere, Colliers’ provide data on offices in Londonderry, and the cost competitive advantage that Belfast and more broadly NI has, can be re-enforced here with Grade A office space just £12.00 per square foot. Indeed, Londonderry office rental charges are only 17.5% of the average price of Grade A office space in London City. Internationally, NI has significantly cheaper office rental values than cities such as Frankfurt, Milan and Paris.^{xvi}

Figure 7: Grade A Office Rental Values, Selected Cities by Region, 2018



Source: Colliers

Note: Rol figures converted at a rate of €1= £0.88. Regions ranked by value from 'main' city in each region.

Therefore, the combined effect of low office rental values in two main locations in NI creates a compelling reason for businesses' to invest or relocate here. In order for NI to benefit from this position, ample office supply is needed. Indeed, according to commercial property agents Lisney, a lack of new office stock in Belfast was a potential issue in latter part of 2018, however Lisney do note that they expect supply levels to grow in the future.^{xvii}

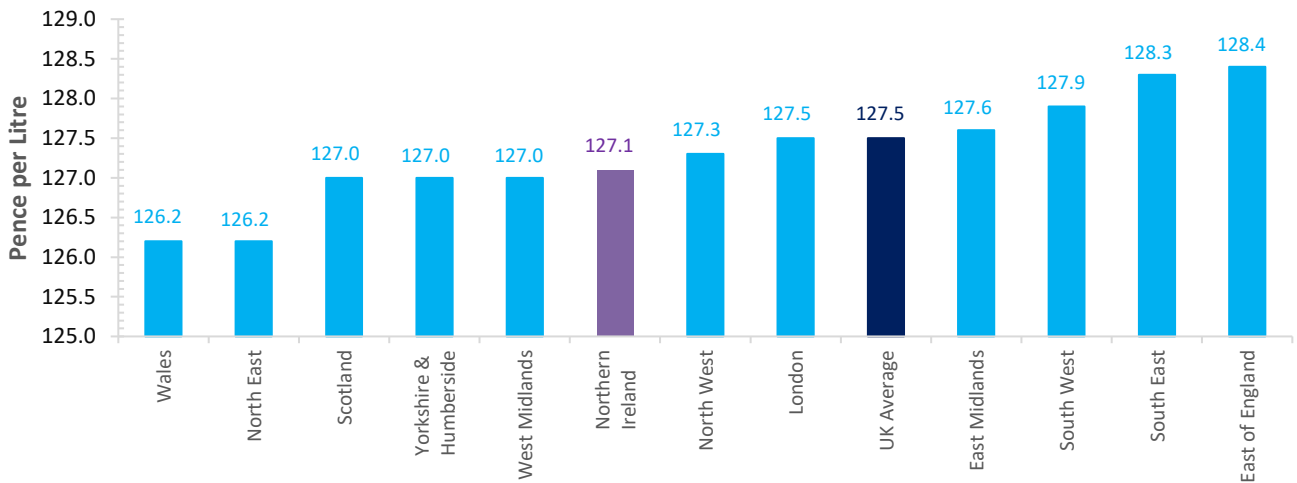
Transport Costs

Transport was considered the fourth most important cost area for businesses on average in 2015. Whilst data exists on fuel prices, both at a regional and national level, it will not reflect the fact that NI as a peripheral region in the UK will have non-quantified, additional transport costs which can eliminate, if any, transport cost competitiveness NI currently experiences.

UK Fuel Prices

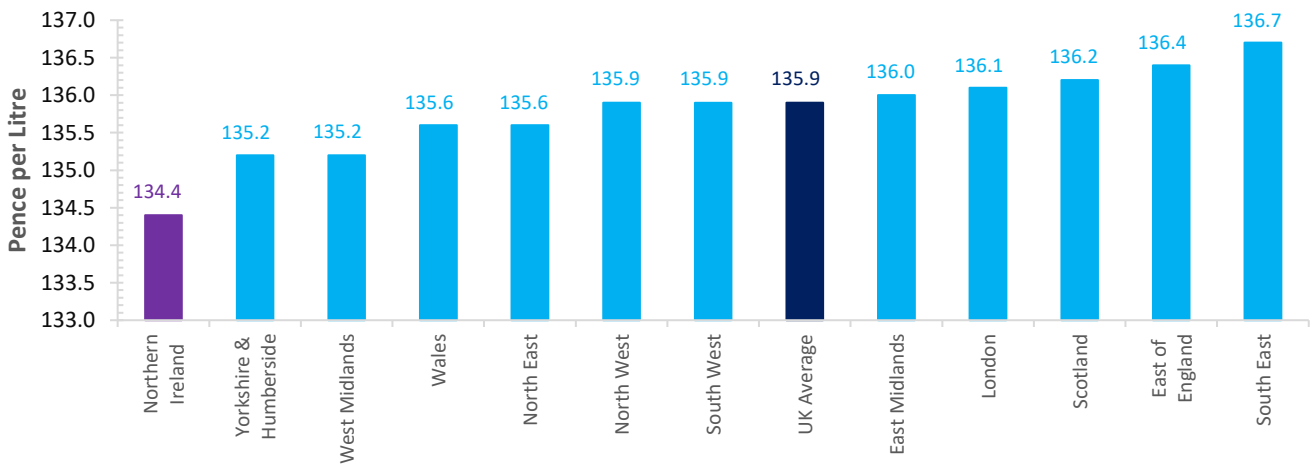
Figure 8 illustrates that petrol prices in NI during November 2018, were 0.4 pence cheaper than the UK average and ranked 6th cheapest across UK regions. However, little significance should be placed on this ranking as across all UK regions prices are similar, i.e. the difference between the lowest price region (Wales) being only 1.7% lower than the highest priced region (East of England). These small variations in regional petrol prices are influenced by local conditions and the objectives of filling station owners.^{xviii}

Figure 8: UK Petrol Prices, November 2018



NI has the lowest diesel prices of all UK regions, shown in Figure 9. Similar variances can be observed in diesel prices as seen in UK petrol prices for November 2018; NI’s price is 1.1% lower than the UK average and 1.7% lower than the highest UK region (South East). Despite this marginal price advantage NI currently has, the cost competitiveness in diesel is likely to be somewhat eroded due to additional transportation costs involved for NI as it is geographically detached from the UK mainland.

Figure 9: UK Diesel Prices, November 2018



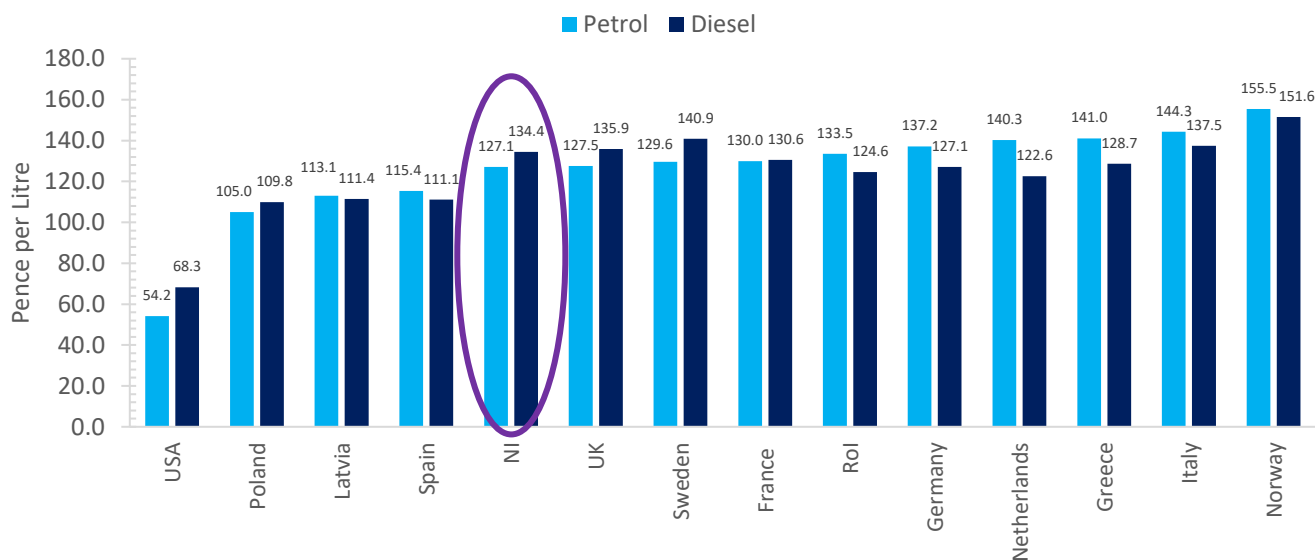
Source: AA November Fuel Report, 2018

International Fuel Prices

Whilst petrol prices across the UK are broadly similar, the same cannot be said when comparing across international boundaries. AA data in Figure 10 demonstrates that across NI, and indeed the UK, petrol prices are relatively high on average compared with other select economies. For example, Norway, Italy and Greece have the highest petrol costs out of those analysed. Indeed, NI has significantly cheaper petrol prices than that of Rol, representing a 4.8% difference. Similar to 2015, the USA has significantly lower petrol prices than any comparator analysed, it is 51.6%

cheaper than its closest competitor Poland, who rank 2nd across those economies analysed. The USA achieves this favourable ranking due to the fact that consumers are levied with relatively low levels taxation on fuel prices. There is an estimate that US consumers, of fuel, pay up to less than a quarter of tax compared to the UK, helping achieve cost competitiveness on this indicator.^{xix}

Figure 10: International Fuel Prices, November 2018



Source: AA November Fuel Report, 2018

Despite competitive fuel prices for NI against other UK regions, the wider international picture displays how NI and UK diesel prices are less competitive. Out of the 29 international locations where data was supplied by the AA (not all appear in Figure 10 above; it merely represents a broad range of countries) all but 5 have higher prices (Norway, UK, Sweden, Italy, Switzerland). Rol's value of 124.6 p/litre is significantly less than NI, a 7.8% difference. Despite this seemingly positive picture for Rol, when encompassing all 29 international locations, 18 countries have cheaper diesel prices than Rol. This point emphasises the challenge NI faces not only against Rol, but other international locations.

The UK (and by default NI) has the joint highest (along with Italy) diesel tax burden out of the current EU28 countries, with an estimated 60% of the price of a litre of diesel attributed to fuel duty and VAT.^{xx}

Conclusion

The availability of consistent and comparable data continues to be a key challenge for this study, when trying to benchmark NI business costs against elsewhere. Costs are a key determinant of an economy's international competitiveness. This competitiveness does exist for NI; it is a question, however, of how NI can best exploit this. Indeed, the advantages of cost competitiveness are twofold: it attracts inward FDI and also makes domestic firms in NI more competitive throughout international markets.

This research bulletin has produced a snapshot of four main cost areas using a range of official government statistics and other sourced data. In summary, the research bulletin highlights:

- Labour costs are a key area of competitive advantage for NI. Private sector wages are shown to be 84.7% of the UK average, and 74.8% of the RoI average, with similar gaps evident from the 2015 report. However, although NI may be viewed as cost competitive relative to the UK and RoI, it might be inaccurate to conclude that this automatically translates to “low-cost”, when compared to other economies internationally.
- Depending on electric usage by businesses, the costs incurred will significantly differ. Very small industrial and commercial electric users, which cover the two-thirds of businesses in NI, pay prices at the lower range compared to elsewhere in the EU, and similar to the UK. However, large and very large users incur electricity prices that are lower than the UK, but higher than the RoI and many other European competitors.
- Office costs are another significant advantage where NI can offer much lower prices than other locations. Rental values for Grade A office space in Belfast and Londonderry are significantly less than the price found in other cities such as Manchester, Dublin, Leeds, Glasgow and Edinburgh.
- Transport costs are relatively competitive in a UK context, but less so when compared internationally. NI had the lowest diesel price across all UK regions during November 2018, but relatively high UK fuel duties mean that prices are lower across some European countries.

Table 1: Summary of NI Costs Relative to UK/RoI (= 100%)^{xxi}

	UK	RoI
Labour		
Private Sector Wages	85%	75%
Energy		
Very Small Users (electricity)	96%	80%
Large and Very Large Users (electricity)	83%	111%
Property*		
Capital City Office Rents	31%	38%
Transport		
Petrol	100%	95%
Diesel	99%	108%

Note: Figures rounded to whole percentages.

* This cost area would typically also include business rates, but these are not shown above. It should therefore be noted that focusing solely on office rents is likely to underestimate NI property costs and could overstate any cost differentials.

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For further information or queries please contact: analyticalservices@economy-ni.gov.uk

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- ⁱ <https://www.economy-ni.gov.uk/sites/default/files/publications/deti/Cost%20of%20Doing%20Business%20report.pdf>
- ⁱⁱ <https://intertradeireland.com/insights/business-monitor/?download=file&file=256>
- ⁱⁱⁱ See Page 13 of DfE Cost Profiles PDF. Other costs include insurance, environmental, telecoms, finance and compliance.
<https://www.economy-ni.gov.uk/publications/cost-doing-business-northern-ireland>
- ^{iv} <https://www.economy-ni.gov.uk/sites/default/files/publications/deti/Cost%20of%20Doing%20Business%20-%20Appendix%20B%20-%28Comparing%20Cost%20Profiles%29.pdf>
- ^v According to the CPI measure: <https://www.ons.gov.uk/economy/inflationandpriceindices>
- ^{vi} Using median earnings per week instead of average earnings per week is a better indicator of typical “average” earnings as the mean will be skewed upwards or downwards for particular countries, reflecting the distribution of earnings. The median records the data value which 50% of data lies above and below it, therefore avoiding this issue.
- ^{vii} <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/regionbypublicandprivatesectorashetable25>
- ^{viii} <https://www.nerinstitute.net/research/a-low-skills-equilibrium-in-northern-ireland/>
- ^{ix} <https://www.pwc.co.uk/who-we-are/regional-sites/northern-ireland/press-releases/northern-ireland-productivity-amongst-lowest-in-the-developed-world.html>
- ^x <https://www.independent.ie/business/irish/on-the-money-irelands-minimum-wage-is-now-the-second-highest-of-all-eu-countries-37810012.html>
- ^{xi} <https://www.investni.com/invest-in-northern-ireland/competitive-operating-costs.html>
- ^{xii} Very small usage category characterised by annual consumption below 20 MWh.
- ^{xiii} <http://www.irishnews.com/business/2017/06/02/news/northern-ireland-s-electricity-prices-amongst-lowest-in-europe-1042386/>
- ^{xiv} <https://www.uregni.gov.uk/sites/uregni/files/media-files/2018-11-30%20Transparency%20Report%20Q3%202018%20FINAL.pdf>
- ^{xv} <https://www.investni.com/invest-in-northern-ireland/competitive-operating-costs.html>
- ^{xvi} https://www.cbre.es/~media/cbre/countryspain/documents/research/golbal/global%20gateway%20cities%20report/global%20gateway%20cities%20report_europe_final.pdf
- ^{xvii} <https://belfast.lisney.com/app/uploads/2019/02/2018-Q4-RESEARCH.pdf>
- ^{xviii} <http://www.ukpia.com/docs/default-source/default-document-library/ukpia-briefing-paper-petrol-vs-diesel-prices-2017.pdf?sfvrsn=0>
- ^{xix} <https://quotingbusiness.co.uk/blog/diesel-petrol-prices-uk-vs-usa/>
- ^{xx} <http://researchbriefings.files.parliament.uk/documents/SN04712/SN04712.pdf>

^{xxi} Summary Table Inputs:

Labour Costs

Weekly private sector wages (2018) – ONS and CSO

NI Median = £465, UK Median = £549; NI Average = £450, RoI = £602

Energy Costs

Pence per kWh (Q2 2018) – Utility Regulator

Small Users: NI = £14.3, UK = £14.9, ROI = £17.8

Large and Very Large Users: NI = £9.3, UK = £11.2, RoI = £8.4

Property Costs

Grade A office rental values, £ per sq ft (2018) - Colliers

Capital cities: Belfast = £21.5, London City = £68.5, Dublin = £57.2

Transport Costs

Pence per litre (November 2018) - AA Report

Petrol prices: NI = 127.1p, UK = 127.5p, RoI = 133.5p

Diesel prices: NI = 134.4p, UK = 135.9p, RoI = 124.6p