Research Bulletin 21/8 | The Cost of Doing Business in Northern Ireland

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Summary

In 2019 the Department for the Economy published a research bulletin on "*The Cost of Doing Business in NI*", which provided an update to a report on the same subject covered in a report by the former Department for Enterprise, Trade and Investment. Much has happened in the two years since its publication and so this research bulletin aims to provide an update on four main business costs: labour, energy, property and transport. Northern Ireland's performance on a number of metrics will be analysed and benchmarked against the rest of the UK, the Republic of Ireland and other economies. The analysis shows that cost competitiveness still exists for Northern Ireland on a number of cost categories; 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.

The data suggests that labour costs in Northern Ireland have increased, but private sector wages are the lowest of the UK regions. However, higher electricity prices than the UK for very small users may drive up business costs here. While the gap between Belfast commercial property costs and that of Dublin has slightly reduced, Londonderry and Belfast still has some of the most affordable office rents, relative to many major UK and Republic of Ireland cities. Transport fuel costs have risen sharply in recent months across the board, but are more favourable in comparison with the rest of the UK, with Northern Ireland currently having the lowest petrol and diesel prices in the UK.

Introduction

The cost of doing business in Northern Ireland (NI) was the topic of discussion in a research bulletin carried out by the Department in April 2019.[i] The purpose of the bulletin was to provide an update to a report published by the Department of Enterprise, Trade and Investment (DETI) in 2015[ii], which provided an in-depth analysis of the main costs businesses faced when operating in Northern Ireland. The report and bulletin identified the following costs to be of the highest importance to businesses:

- Labour
- Energy
- Property; and
- Transport costs (petrol & diesel)

This research bulletin aims to provide an update to the one conducted in 2019 and will therefore use a similar methodology, however, it will not be as detailed as the DETI report from 2015. It should be noted however, in addition to the aforementioned cost categories, other business costs have emerged in recent times; in particular, the cost of keeping a business Covid-19 secure in the current pandemic.

NI's performance compared to rest of the UK, Republic of Ireland (RoI) and other economies will be reassessed in light of new data on labour, energy, property and transport costs, with findings laid out below.

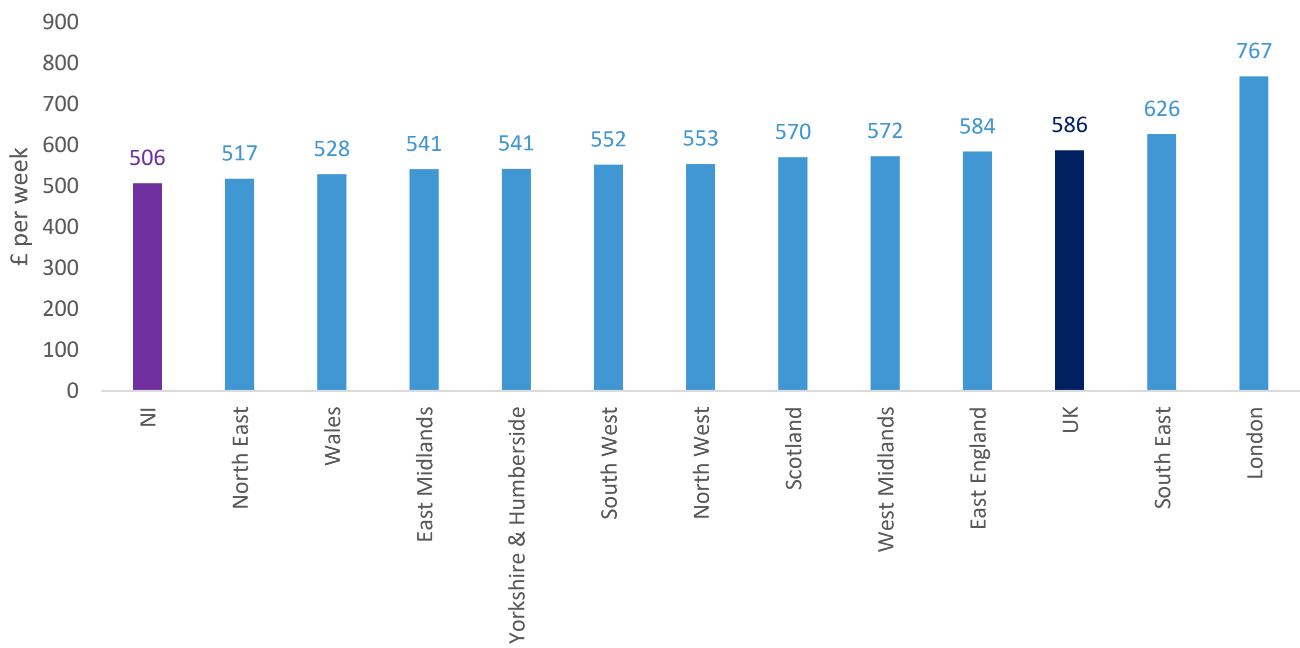
Labour Costs

The following section focuses on NI's private sector wages and how they compare to that of the UK and RoI. It should be noted that while like-for-like comparisons can be made between Northern Ireland and other UK regions on wage levels, international comparisons are more difficult. The section does not take into account other labour costs such as minimum wage levels or social security contributions to be made by businesses.

UK Labour Costs

Figure 1 shows that in 2021 the median full-time (FT) private sector weekly wage was £506[iii] – an increase of around 10% when compared to the 2020 figure (£460).[iv] NI places last, but has had a significant uplift in comparison with the 2020 figures, and is comparable to regions such as the North East and Wales. The NI figure represents 86% of the UK median. [v]

Figure 1: Median Gross Weekly Private Sector Earnings for FT Employees, UK Regions, 2021



Sources: NISRA and ONS Annual Survey of Hours and Earnings.

Note: 2021 figures are provisional.

Care must be taken when benchmarking NI against the UK national level. This will inevitably lead to NI being seen as "lagging behind" the UK average, but the calculation includes wages from London, which are generally considered somewhat of an outlier.

International Labour Costs

It can sometimes be difficult to ensure like-for-like comparisons of wages internationally. However, we can provide an illustrative comparison, which may provide a useful general reference point. According to the Central Statistics Office, in Q2 2021 average private sector weekly earnings in the Republic of Ireland were €791,[vi] equivalent to around £680. Northern Ireland's average private sector gross weekly pay was £486 in 2021.[vii] This works out as 71% of RoI levels. Private sector wages may be lower in Northern Ireland, but also can be seen as having a lower cost of living, particularly with rent, as Dublin is the fifth most expensive city in Europe[viii].

It should be noted however, 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.

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.

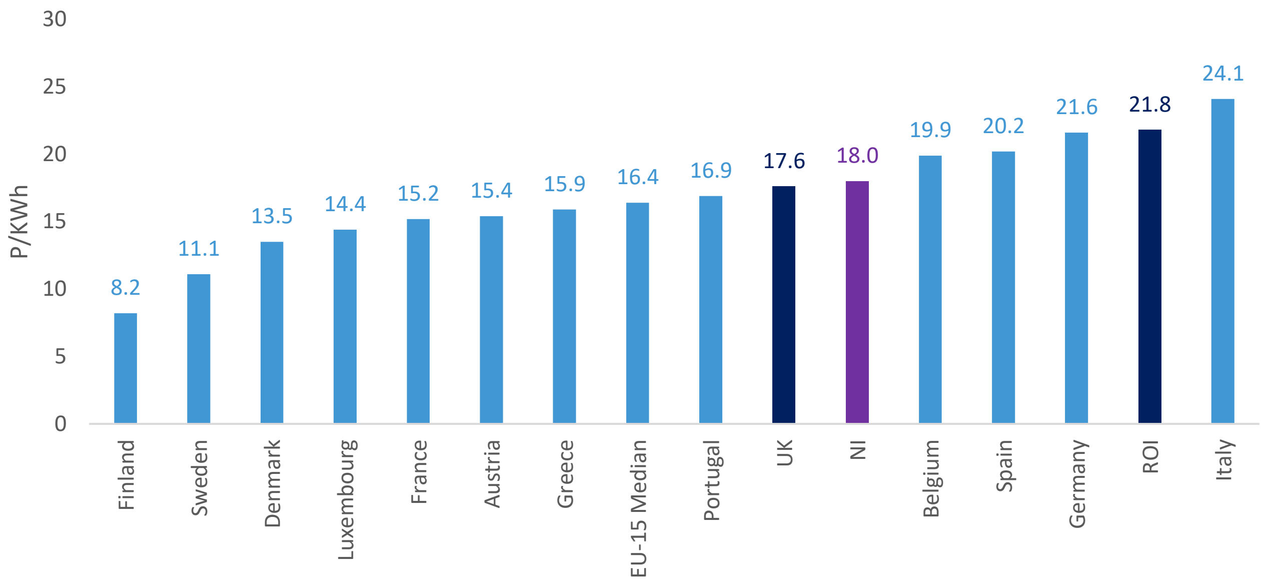
Electricity Prices

Around 72% of industrial and commercial (I&C) electricity connections in Northern Ireland are defined as "very small" (<20MWh)[ix]. Figure 2 shows that during Q2 2021, the average electricity price for these very small connections was 18p/KWh. NI has electricity costs for very small users that are above the EU median and UK price, but lower than the Republic of Ireland.

According to Utility Regulator data, the unit price of electricity in Northern Ireland (for small users) has trended upwards over the past few years.

By way of technical notes - the pricing data from the Utility Regulator relates to the period ending Q2 2021 (Semester 1: January – June 2021). The graphs show I&C electricity prices in various EU countries (converted to GBP) and in Northern Ireland and for UK, per consumption size bands (following standard EU categorisation). The I&C graphs use unit prices which include Climate Change Levy (CCL) but exclude VAT, as VAT is a refundable expense for many businesses. Care should taken when comparing unit prices between countries at specific points in time as energy costs can fluctuate considerably.

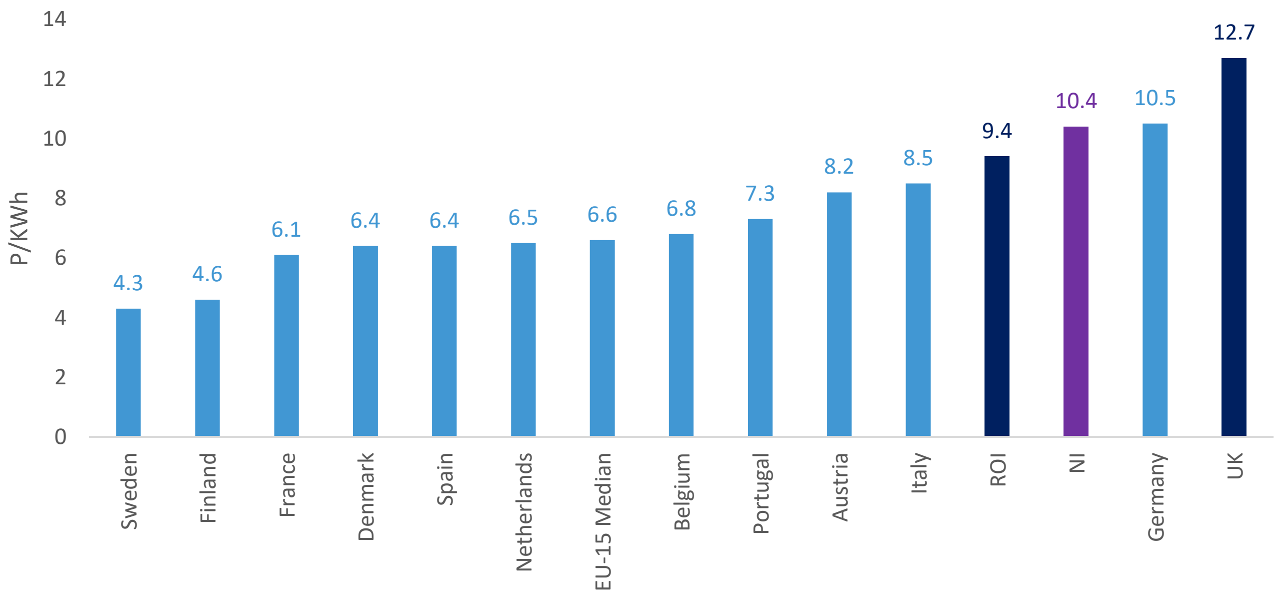
Figure 2: Non-Domestic Electricity Prices, Very Small Users, End of Q2 2021



Source: Utility Regulator Retail Energy Market Monitoring Report Q3 2021 (November 2021).

For large & very large users, Figure 3 highlights that the average electricity price in Q2 2021, was 10.4 p/kWh for NI. These larger users therefore pay considerably less per unit than very small users, due to the greater influence they have when negotiating prices with suppliers. However, 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 that of the UK by 18%, and more expensive than RoI by 11%.

Figure 3: Non-Domestic Electricity Prices, Large and Very Large Users, End of Q2 2021



Source: Utility Regulator Retail Energy Market Monitoring Report Q3 2021 (November 2021).

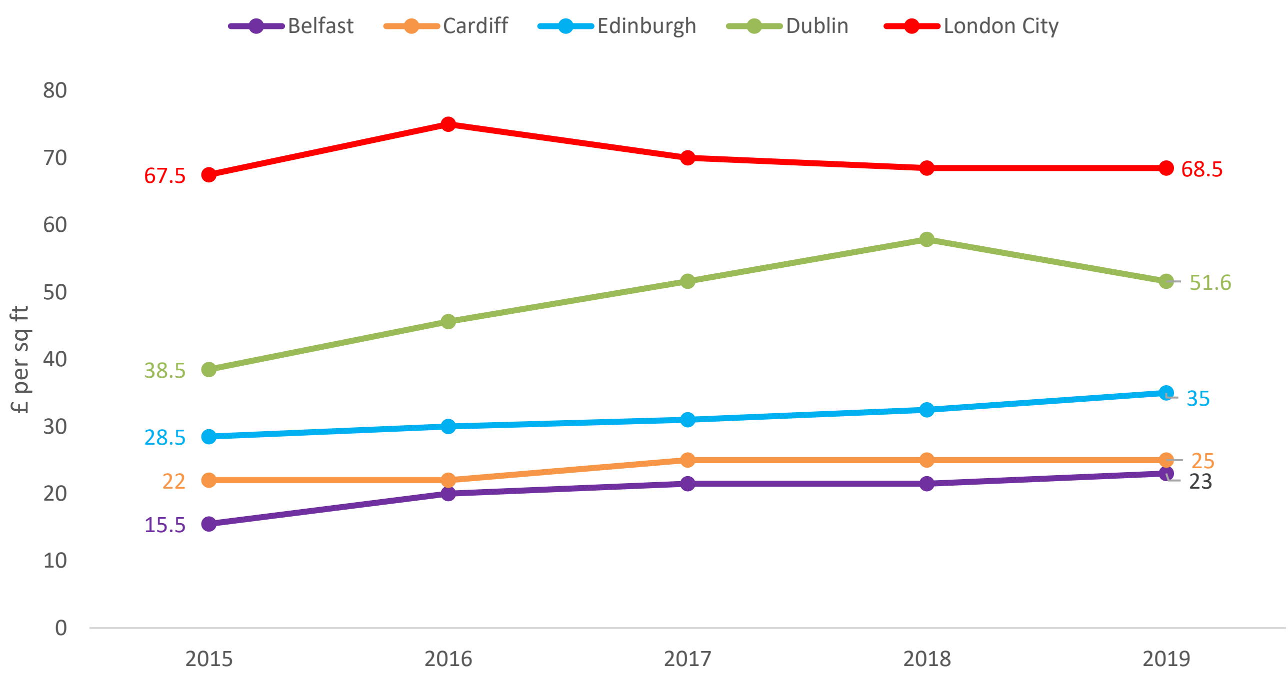
Property Costs

This third section, on property costs, will examine the Grade A office rental prices in cities across the UK and RoI. Other factors such as business rates and industrial land values are not taken into consideration, but remain important when setting up business in a region.

Grade A Office Rental Prices

The average Grade A office rental prices for Belfast, Dublin, Edinburgh, Cardiff and London City from 2015-2019 are represented in Figure 4. Not much has changed since the previous analysis as London continues to have the most expensive rents, nearly three times that of Belfast, which continues to have the cheapest rents of the five cities. The gap between Dublin and Belfast has narrowed though, from Belfast rents being 37.6% of the Dublin average in 2018 to 44.6% in 2019[x]. This is due to a decline in rent prices for Dublin and a slight increase in rent prices for Belfast during 2019.

Figure 4: Grade A Office Rental Prices, 2015-2019



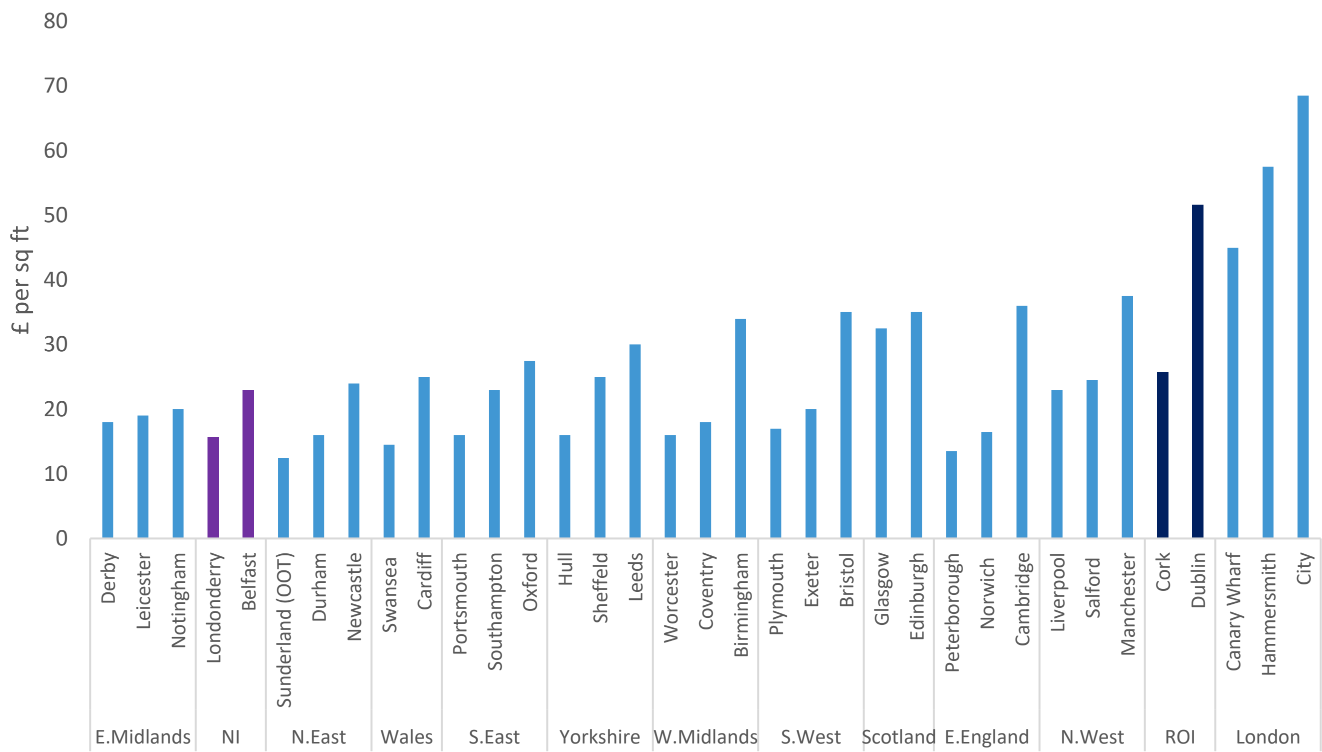
Source: Colliers.

Note: Dublin figures converted at the average annual euro-gbp exchange rate for each year.

Expanding our analysis to include more regions reinforces this competitive advantage. Figure 5 shows the average Grade A office rental price for various cities across the UK and RoI. Londonderry is among the cheapest cities in the UK to rent offices, with the average price at £15.75 per square foot. These results are not surprising as low office costs compared to other European cities has often been highlighted to attract FDI to NI[xi]. It was reported in 2019 that

Belfast's office market was one of the strongest performers across the UK, with a heftier return for investors than other UK cities[xii].

Figure 5: Grade A Office Rental Values, Selected Cities by Region, 2019



Source: Colliers.

Note: RoI figures converted at a rate of €1= £0.86. Regions ranked by value from 'main' city in each region.

The increased use of remote working as a result of the pandemic may mean some businesses will adopt a hybrid working environment or even allow employees to work remotely full time moving forwards[xiii]. A fall in demand for office space could lead to a weakening in rental prices. It has been reported that office space take-up in the second half of 2020 in Belfast was the lowest on record - work from home guidelines obviously played a part in this decline[xiv].

Transport Costs (Petrol & Diesel)

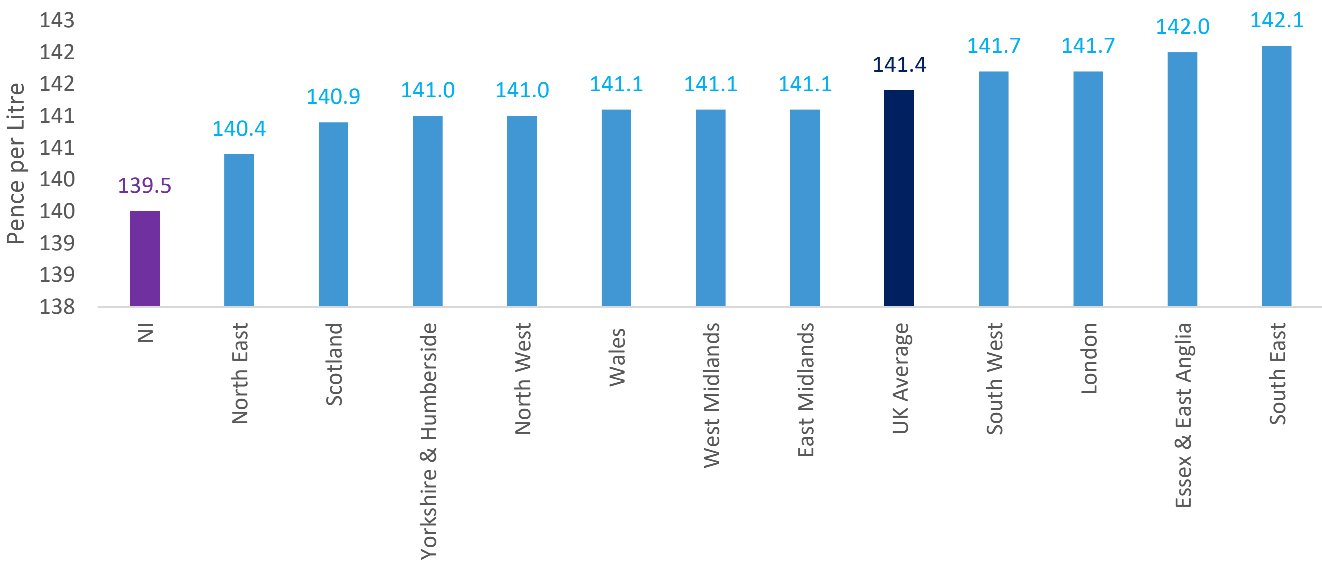
The last section will focus on transport costs to businesses, specifically that of fuel prices. It is important to note though that Northern Ireland businesses can face additional transport costs compared to the rest of the UK, due to its location.

UK Fuel Prices

Prices for petrol and diesel fell dramatically during the initial months of lockdown, where some petrol stations in NI were selling petrol for under £1 per litre in March 2020[xv]. Over a year on and we see that prices have risen sharply, with higher petrol and diesel costs fuelling inflation throughout 2021[xvi].

In October 2021, petrol prices in NI were 139.5 pence, 1.9 pence cheaper than the UK average. There has been a noticeable rise in prices across all regions when compared to the November 2018 prices examined in the previous bulletin. Figure 6 below shows that Northern Ireland had the lowest petrol prices across the UK regions in October 2021[xvii].

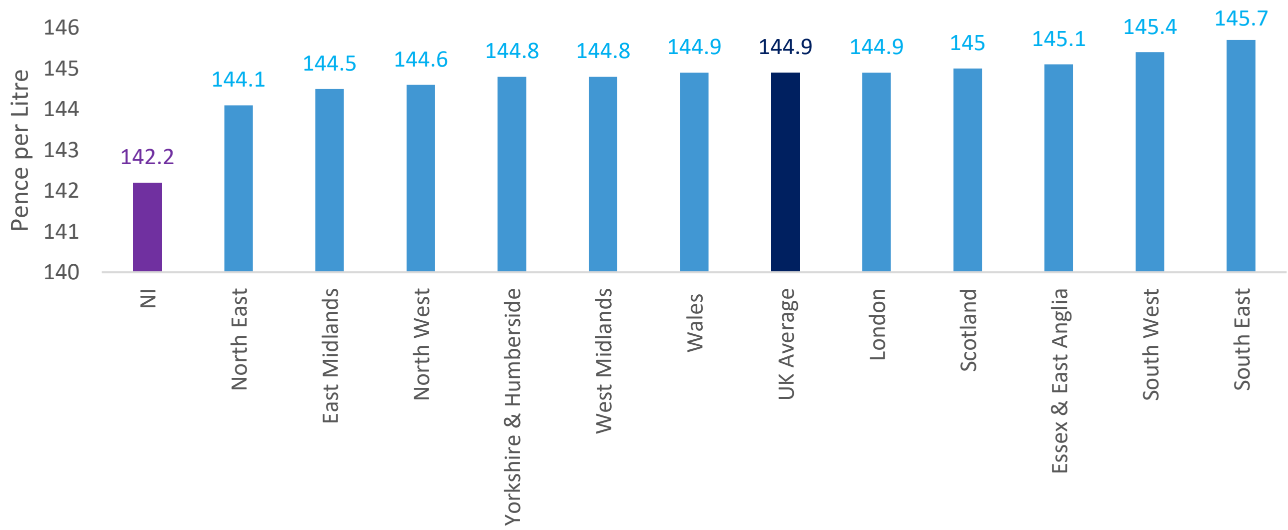
Figure 6: UK Petrol Prices, October 2021



Source: AA Fuel Report October 2021.

Figure 7 shows that in October 2021, NI had lower diesel prices compared to the rest of the UK. However, despite this marginal price advantage NI currently has, 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 7: UK Diesel Prices, October 2021

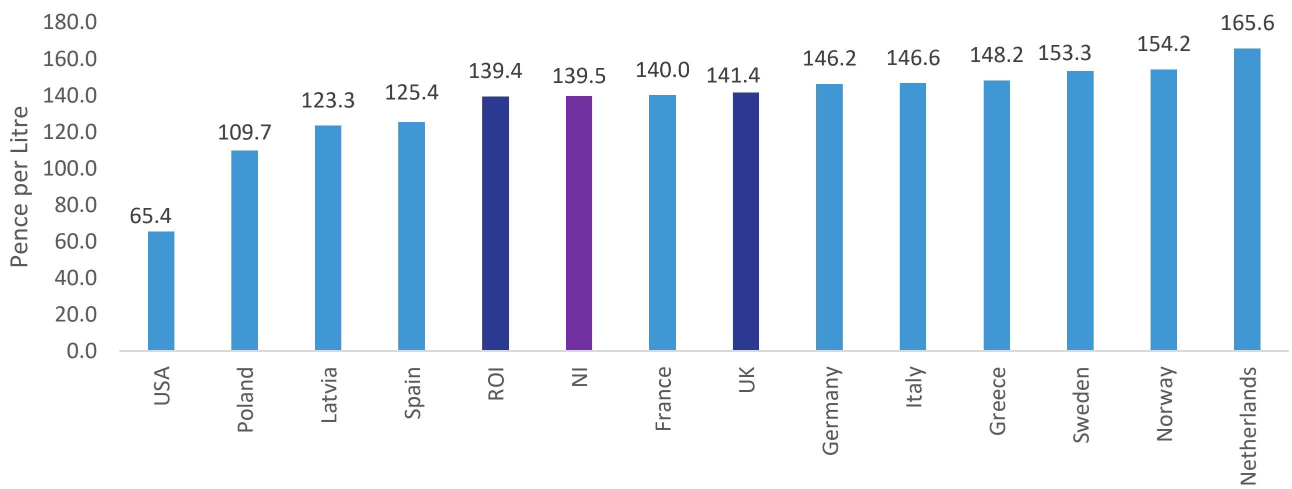


Source: AA Fuel Report October 2021.

International Fuel Prices

Looking at fuel prices internationally, Figure 8 shows that while NI had the 6th cheapest petrol prices out of the 14 countries examined in October 2021, with prices similar to the Republic of Ireland.

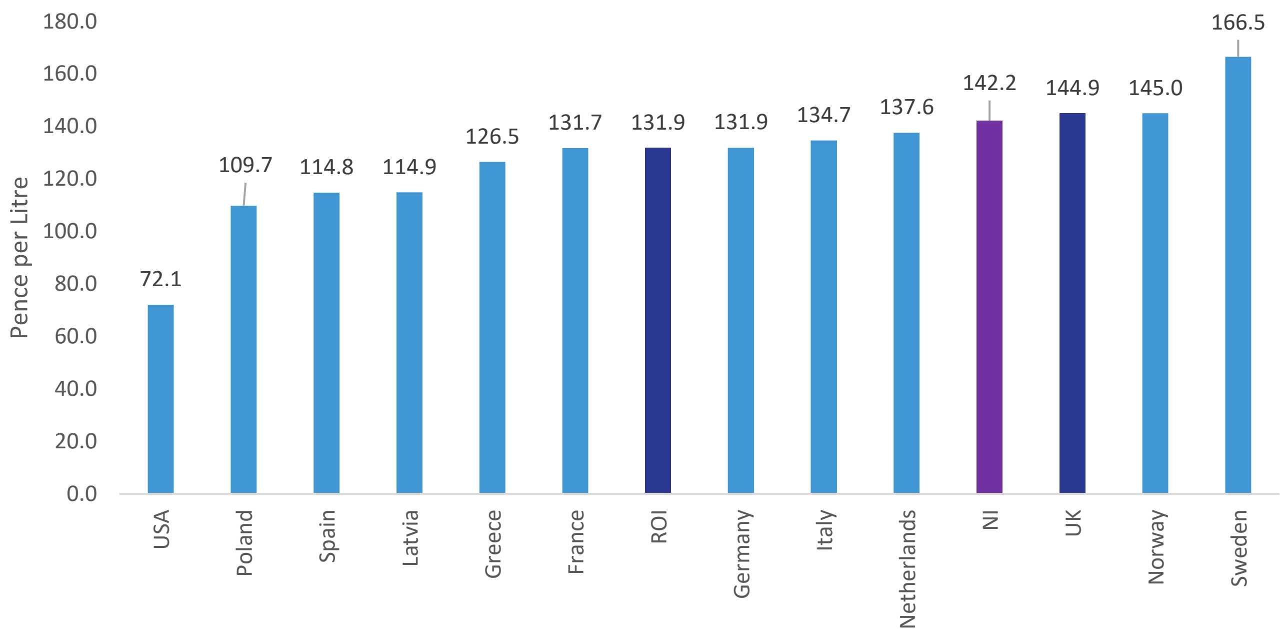
Figure 8: International Petrol Prices, October 2021



Source: AA Fuel Report October 2021.

The UK, Sweden and Norway had higher diesel prices than Northern Ireland in October 2021. In that month, RoI diesel prices were noticeably cheaper compared to NI. The USA continues to have by far the lowest fuel prices out of the countries examined, due to lower taxes on fuel. The UK (and by default NI) has the joint highest (along with Italy) diesel tax burden, with over half of the price of a litre of diesel attributed to fuel duty and VAT[xviii].

Figure 9: International Diesel Prices, October 2021



Source: AA Fuel Report October 2021.

Conclusion

As many businesses recover from the Covid-19 pandemic; competitive operating costs are needed to ensure the recovery can be realised. As noted above, reviewing all four areas leads to the conclusion that cost competitiveness still exists for Northern Ireland for some cost categories. It should be noted however that not only do businesses consider the relative cost of each area, but also the quantum/availability and quality of each. At an international level, competitive advantage can be a factor in attracting FDI into a region.

Northern Ireland has lower private sector wages, when compared to the rest of the UK and to the Republic of Ireland. Electricity costs have trended upwards in recent years; for very small users, who make up 72% of connections, Northern Ireland has prices above that of many European countries. For very large users, costs per KWh are among the highest in Europe, but lower than the UK as a whole.

Grade A office rental costs are among the lowest in the UK, with Belfast rent being around a third of London City's rent, with Londonderry lower than this again. Transport costs (petrol and diesel) are the lowest in the UK. Internationally however, diesel prices are less competitive.

Table 1: Summary of NI Costs Relative to UK/RoI (=100%)[xix]

	UK	RoI
Labour		
Private Sector Wages *	86%	71%
Energy		
Very Small Users (electricity)	102%	83%
Large and Very Large Users (electricity)	82%	111%
Property**		
Capital City Office Rents	34%	45%
Transport		
Petrol	99%	100%
Diesel	98%	108%

Note: Figures rounded to whole percentages.

* Note that comparing wages internationally can be difficult / problematic, but an attempted comparison with Republic of Ireland is shown, as may provide a useful general reference point.

** 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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[i] Research-Bulletin-19-1-The-Cost-of-Doing-Business-in-NI_0.pdf (economy-ni.gov.uk)
[ii] The cost of doing business in Northern Ireland | Department for the Economy (economy-ni.gov.uk)
[iii] Employee earnings in Northern Ireland 2021 (nisra.gov.uk)
[iv] Employee earnings in Northern Ireland 2020 (nisra.gov.uk)
[v] Earnings and hours worked, UK region by public and private sector: ASHE Table 25 - Office for National Statistics (ons.gov.uk)
[vi] Earnings and Labour Costs Q2 2021(Final) Q3 2021 (Preliminary Estimates) - CSO - Central Statistics Office
[vii] ASHE Public/Private Earnings NI 2021 (nisra.gov.uk)
[viii] Revealed: How Dublin rents rank in Europe - Independent.ie
[ix] Q3 Electricity Prices
[x] Colliers National Offices Rent Map 2019
[xi] Competitive operating costs | Invest Northern Ireland (investni.com)
[xii] Belfast office market streets ahead of other cities: report - BelfastTelegraph.co.uk
[xiii] Nationwide to allow all office-based employees to 'work anywhere' | Financial Times (ft.com)
[xiv] Belfast office space take-up 'lowest on record' - BBC News
[xv] Coronavirus: Northern Ireland petrol prices fall below £1 as lockdown keeps drivers at home - BelfastTelegraph.co.uk
[xvi] Higher petrol and clothes prices fuel inflation | This is Money
[xvii] The AA Fuel Report – October 2021
[xviii] Petrol and diesel prices - House of Commons Library (parliament.uk)
[xix] Summary Table Inputs:

Labour Costs
Weekly private sector wages (2021) – NISRA, ONS and CSO
NI Median = £506, UK Median = £586; NI Average = £486, RoI Average = £680

Energy Costs
Pence per kWh (Q2 2021) – Utility Regulator Retail Energy Market Monitoring Report Q3 2021 (November 2021)
Very Small Users: NI = 18.0p, UK = 17.6p, ROI = 21.8p
Large & Very Large Users: NI = 10.4p, UK = 12.7p, RoI = 9.4p

Property Costs
Grade A office rental values, £ per sq ft (2019) - Colliers
Capital cities: Belfast = £23.00, London City = £68.50, Dublin = £51.60

Transport Costs
Pence per litre (October 2021) - AA Report
Petrol prices: NI = 139.5p, UK = 141.4p, RoI = 139.4p
Diesel prices: NI = 142.2p, UK = 144.9p, RoI = 131.9p