

Research Bulletin 23/2 | The Cost of Doing Business in Northern Ireland

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Summary

The last three years has seen price rises across a range of items, putting pressure on local businesses. Energy bills in particular have seen marked increases and many firms in Northern Ireland have struggled as a result. In the last few months input price inflation has moderated, although it must be stressed that this does not mean prices have returned back to previous levels and general inflation is still relatively high for consumers.

This article examines four important categories in the cost base for local businesses – labour, energy, property and transport. The respective costs for Northern Ireland’s businesses have been captured and benchmarked against the rest of the UK, as well as the Republic of Ireland and other economies internationally.

Overall, the analysis shows that cost competitiveness still exists for Northern Ireland on a number of cost categories, relative to the UK average. Grade A office rental costs are among the lowest in the UK, with Belfast’s rent being around a third of London City’s rent. Wages in NI are around 92% of the UK, and Petrol and diesel prices are the lowest in the UK. However, electricity costs here were higher than the UK average, during the time period used for comparison, especially for very small users.

At an international level, comparative advantage can be a factor in attracting Foreign Direct Investment (FDI) into a region. 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.

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 December 2021.ⁱ The purpose of the bulletin was to provide an update to a report published under the same name in 2019ⁱⁱ, which provided an in-depth analysis of the main costs businesses faced when operating in Northern Ireland. This bulletin will focus on the following costs, considered to be of high importance to businesses here:

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

Research published by the Department for the Economy in February 2023 provided figures on business purchases in Northern Ireland. Purchases refer to business' expenditure on energy and water, goods and materials and services that are used up or transformed by the business activity. Overall, Northern Ireland businesses spent £46.6bn in the 2019 year (i.e. pre-Covid-19), with £6.1bn of this spent by microbusinesses (0-9 employees).ⁱⁱⁱ

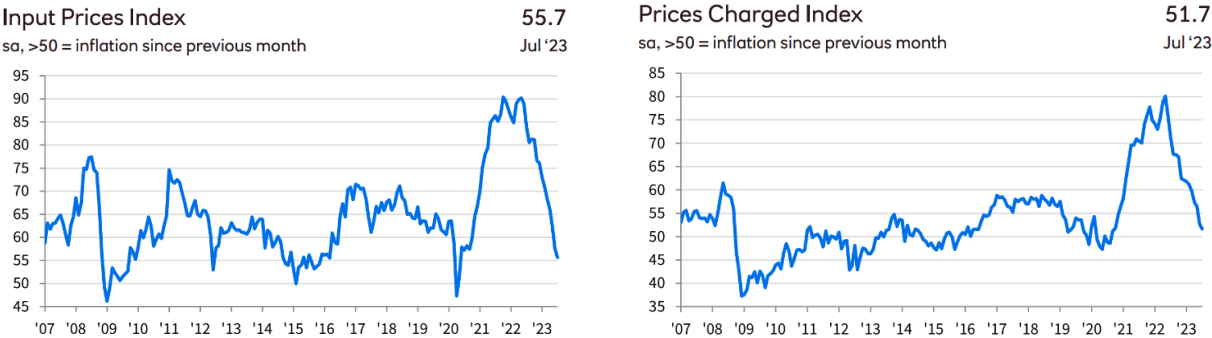
It should be noted that while this article focuses on labour, energy, property and transport costs, businesses in Northern Ireland will also face other expenditures. Both the categories of spend and amounts within this will vary considerably depending on company size, maturity, industry, etc as well as the price of goods / services, which can fluctuate. Other examples of typical business expenditure include materials, vehicular transport, machine hire, equipment, telecommunication services, financial services, legal services, accountancy services, IT, insurance, advertising and marketing, etc.^{iv} Businesses typically face both operating expenditure (day-to-day spend) and capital expenditure (which can be more one-off or lumpy in nature).

The last three years has seen price rises across a range of items, putting pressure on local businesses. Energy bills in particular have seen marked increases and many businesses in Northern Ireland have struggled as a result.^v In the UK, the annual rate of the input Producer Price Index (PPI) recorded a high of 24.4% in June 2022, with the annual rate of output PPI recently peaking at 19.6% in July 2022.^{vi} Both the input PPI and the output PPI have seen annual percentage rates fall from their 2022 peaks, and then turn negative, although it must be stressed that this does not mean prices have returned back to previous levels.^{vii}

While businesses have absorbed costs to some degree, general inflation in the UK economy as measured by the Consumer Prices Index (CPI) rose by 6.8% in the 12 months to July 2023, down from a recent peak of 11.1% in October 2022. Indicative modelled consumer price inflation estimates suggest that the October 2022 peak was the highest annual inflation rate since 1981.^{viii}

Looking at Northern Ireland specifically, according to the Ulster Bank PMI survey, businesses reported marked increases in both input prices and prices charged over the last two and a half years, although the rate of price increases softened in recent months.^{ix}

Figure 1: Northern Ireland Ulster Bank PMI Survey Data Relating to Prices



The impact of these cost increases has been profound, and the current business environment is highly challenging. A consultation of local businesses on this issue by Ulster University Economic Policy Centre (UUEPC) highlighted the sorts of problems that can arise, as well as strategies that firms are employing to try and adapt and mitigate against the impact. Concerningly, there were instances reported in the construction sector where companies were ‘walking away’ from contract awards because they could no longer stand over previously quoted prices, and firms were viewing fixed price long-term contracts as high risk, given volatility in the price of building materials.^x

In terms of strategies employed by a range of sectors to cut expenditure, this can involve various changes to business practices, including moderating day-to-day electricity usage and reducing opening hours, for example. Some firms (particularly in hospitality) have adapted somewhat to the higher costs by reducing opening hours.^{xi} Other actions can include locking in prices, bulk buying, renegotiating terms with suppliers, changing suppliers, and being more energy efficient.^{xii}

This research bulletin aims to provide an update to the one conducted in 2021 and will therefore use a similar methodology. Northern Ireland’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. It uses figures from a particular point in time, and prices can fluctuate considerably.

Labour Costs

The following section focuses on Northern Ireland’s 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.

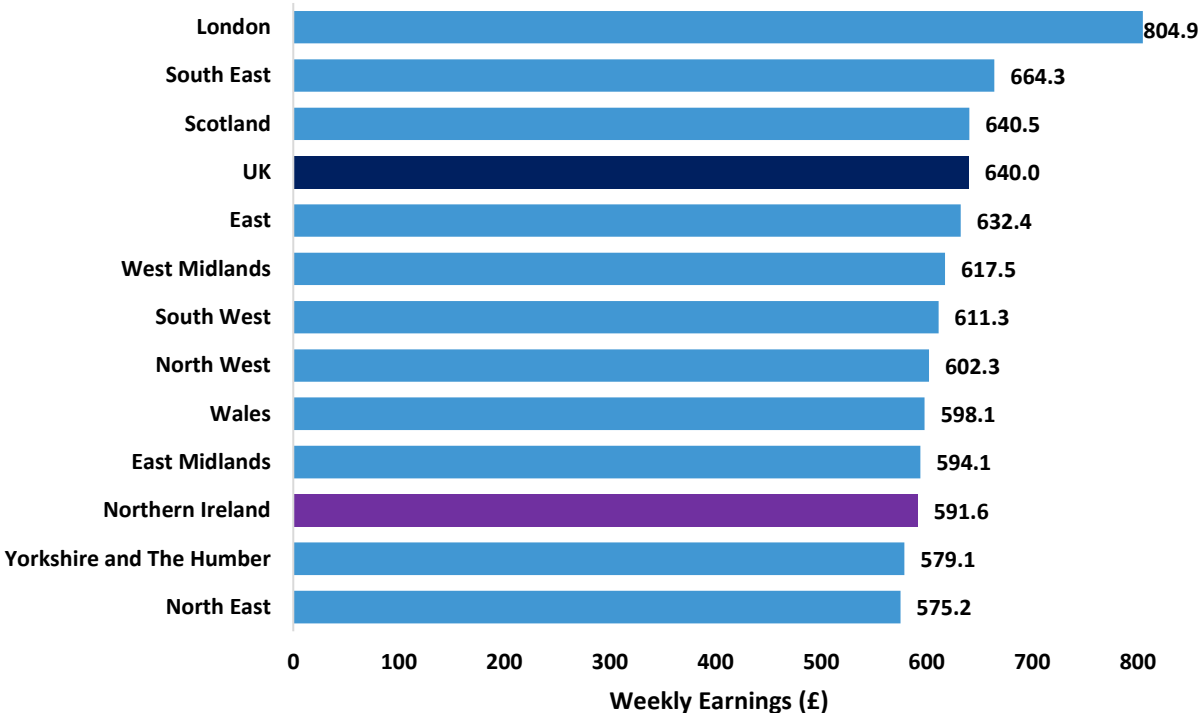
It should be noted however, that businesses do not make decisions on location based solely on wages and salary costs, but consider things such as latent ability of workers and availability of technology, which are linked to productivity.

UK Labour Costs

Figure 2 shows that median gross weekly earnings for full-time employees (“weekly earnings”) in Northern Ireland in April 2022 were £592^{xiii}, an increase of 2.9% from £575 in 2021. This is the second consecutive annual increase in weekly earnings, following the largest annual increase on record (8.7% in the year to April 2021).

Of the 12 UK regions, Northern Ireland is third lowest in terms of median gross weekly earnings when compared to the other regions. London (£805) is the highest and the North East (£575) lowest.^{xiv} The Northern Ireland figure is 92% of the UK median.

Figure 2: Median Gross Weekly Earnings (£) for Full Time Employee Jobs, UK Regions, 2022^{xv}



Source: ONS, Employee earnings in the UK: 2022 (October 2022)

Care must be taken when benchmarking Northern Ireland against the UK national level. This will inevitably lead to Northern Ireland 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 be difficult to ensure like-for-like comparisons of wages internationally. However, a contrast with the Republic of Ireland may provide a useful general reference point. According to Ireland’s Central Statistics Office, average weekly earnings (all employees) in the Republic of Ireland were €872^{xvi} in Q2 2022, equivalent to around £740.^{xvii} A more like-for-like comparison comes from the OECD, who reported average annual wages of \$51,000 in the Republic of Ireland, versus \$50,000 in the UK.^{xviii} With Northern Ireland wages being 92% of the UK median, then this could put Northern Ireland around ~90% of RoI levels, roughly speaking.

Energy Costs

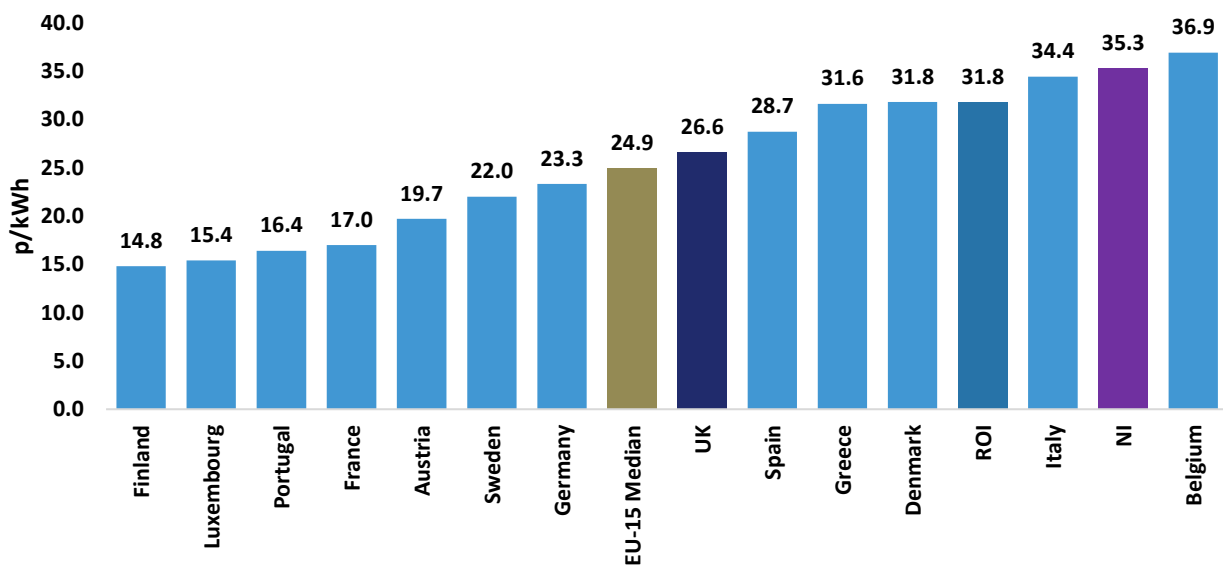
Over the past two to three years energy costs have been a growing concern for businesses, particularly those in energy intensive sectors. The costs experienced by businesses depend on usage volumes and price. For example, food and drink service businesses were more likely than any other industry to say they planned to cut trading by at least two days per week (in November 2022) to reduce energy costs.^{xix} This section will specifically concentrate on electricity prices at a headline level, rather than other energy categories, such as gas and crude oil etc.

Electricity Prices

Around 70% of industrial and commercial (I&C) electricity connections in Northern Ireland are defined as “very small” (<20MWh). Using Utility Regulator data, Figure 3 shows that during the second half of 2022 (Semester 2, or S2 2022), the average electricity price for these very small connections was 35.3p/kWh in Northern Ireland^{xx}. Northern Ireland has electricity costs for very small users that are above the EU-15 median (24.9p), UK price (26.6p), and higher than the Republic of Ireland’s price (31.8p). The Utility Regulator analysis shows that unit price of electricity in Northern Ireland increased sharply from the first half of 2021 for a range of I&C connections.

By way of technical notes - the pricing data from the Utility Regulator relates to the six month period ending 2022 (July to December 2022). The graphs show I&C electricity prices in various EU countries (converted to GBP), Northern Ireland and for UK as a whole, 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 be taken when comparing unit prices between countries at specific points in time as energy costs can fluctuate considerably.

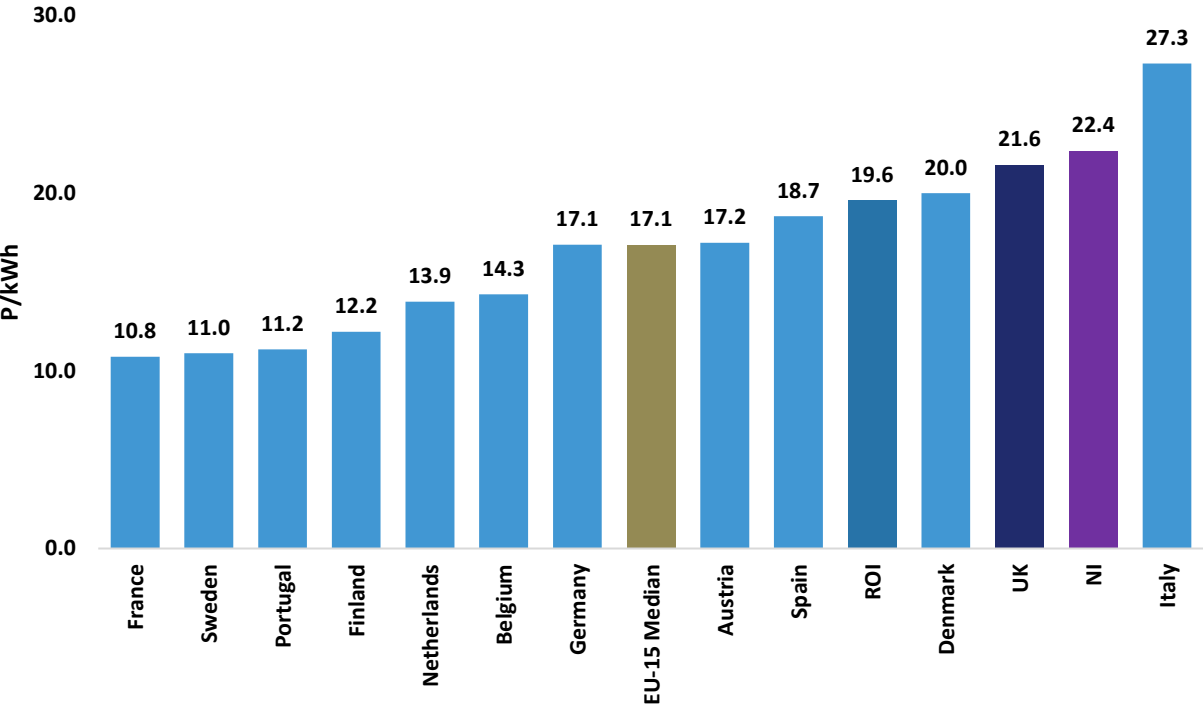
Figure 3: I&C Electricity Prices, Very Small Users, Excl. VAT, Incl. Other Taxes, S2 2022



Source: Utility Regulator Retail Energy Market Monitoring Report (June 2023)

For large and very large users (>20,000 MWh) in Northern Ireland, Figure 4 highlights that the average electricity price in the second half of 2022 (S2 2022) was 21.6 p/kWh. These larger users therefore pay considerably less per unit than very small users, partly due to 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. Northern Ireland’s average price for large and very large users is above that of the UK by 4%, and above that of the Republic of Ireland by 14%.

Figure 4: I&C Electricity Prices, Large & Very Large Users, Excl. VAT, Incl. Other Taxes, S2 2022



Source: Utility Regulator Retail Energy Market Monitoring Report (June 2023)

On 9 January 2023 the UK Government announced a new Energy Bills Discount Scheme (EBDS) from April 2023 to April 2024 for eligible non-domestic consumers in Great Britain and Northern Ireland.^{xxi}

Property Costs

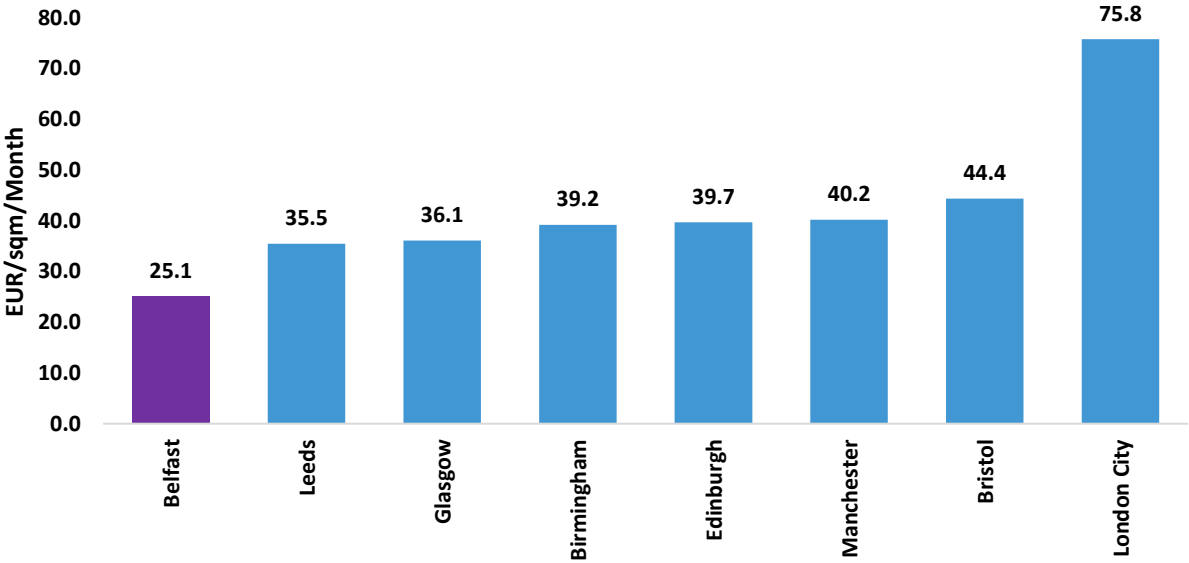
This third section, on property costs, will examine the Grade A office rental prices in cities across the UK and Rol. Other factors such as business rates and industrial land values are not taken into consideration in this measure but remain important when setting up business in a region.

Grade A Office Rental Prices

A Grade A office building is the best rating that can be achieved. This property will be brand new or have undergone a complete redevelopment with a high-specification renovation, it will be well-located with good access and be professionally managed.

The average Grade A office rental prices in Q2 2022 for a number of cities across the UK are represented in Figure 5, expressed in Euros, per square metre, per month, as per the publication the data was taken from. London City has rents costing over three times that of Belfast, which has the cheapest rents of the cities shown. The closest comparative cities are Leeds and Glasgow (with rates of 35.5 and 36.1 Euros a month respectively), but over 10 Euros higher than the square metre rate in Belfast. Not shown on the graph is London West End, with rents of 133.3 Euros, per square metre, per month.

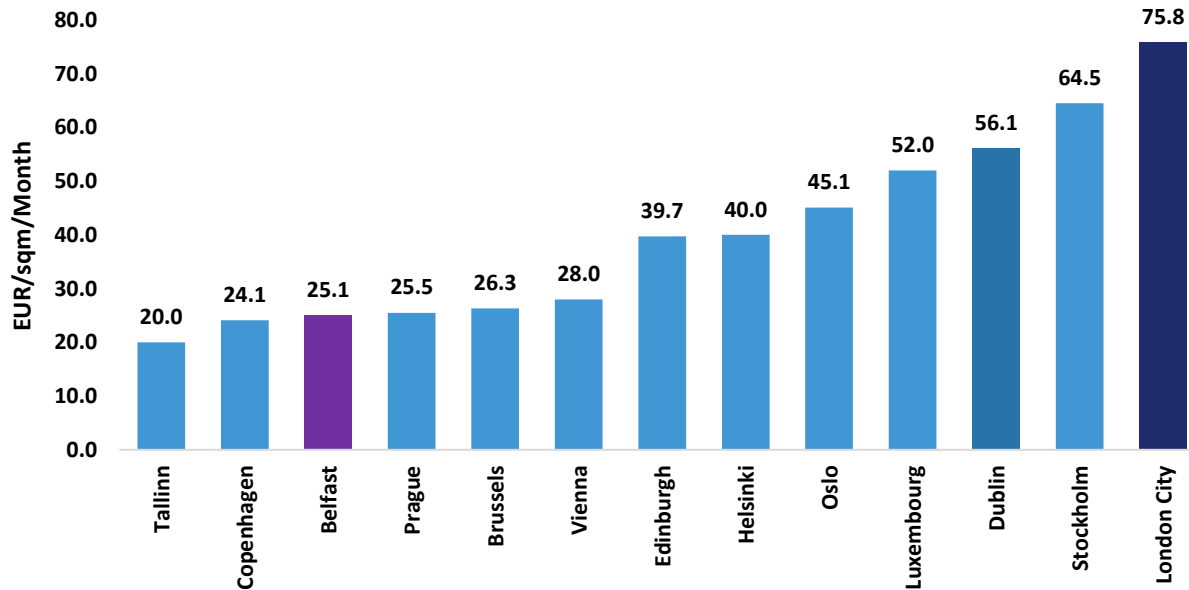
Figure 5: Grade A Office Rental Prices, UK Cities, Q2 2022



Source: Colliers EMEA Office Pricing Map | Q2 2022

Expanding our analysis internationally reinforces this comparative advantage, with Figure 6 showing the average Grade A office rental price for Belfast in comparison to various other cities in small advanced economies across Europe (all capital cities). Note that only those small advanced economies^{xxii} which were included in the Colliers EMEA Office Pricing Map have been shown. According to this data, Belfast is one of the cheapest cities in Europe to rent offices. The gap between Belfast and Dublin is significant, with Dublin’s square metre rate over double the rate of Belfast.^{xxiii} These results are not surprising however, as low office costs compared to other European cities has often been highlighted to attract FDI to Northern Ireland.^{xxiv}

Figure 6: Grade A Office Rental Prices, European Cities, Q2 2022



Source: Colliers EMEA Office Pricing Map | Q2 2022

Transport Costs (Petrol & Diesel)

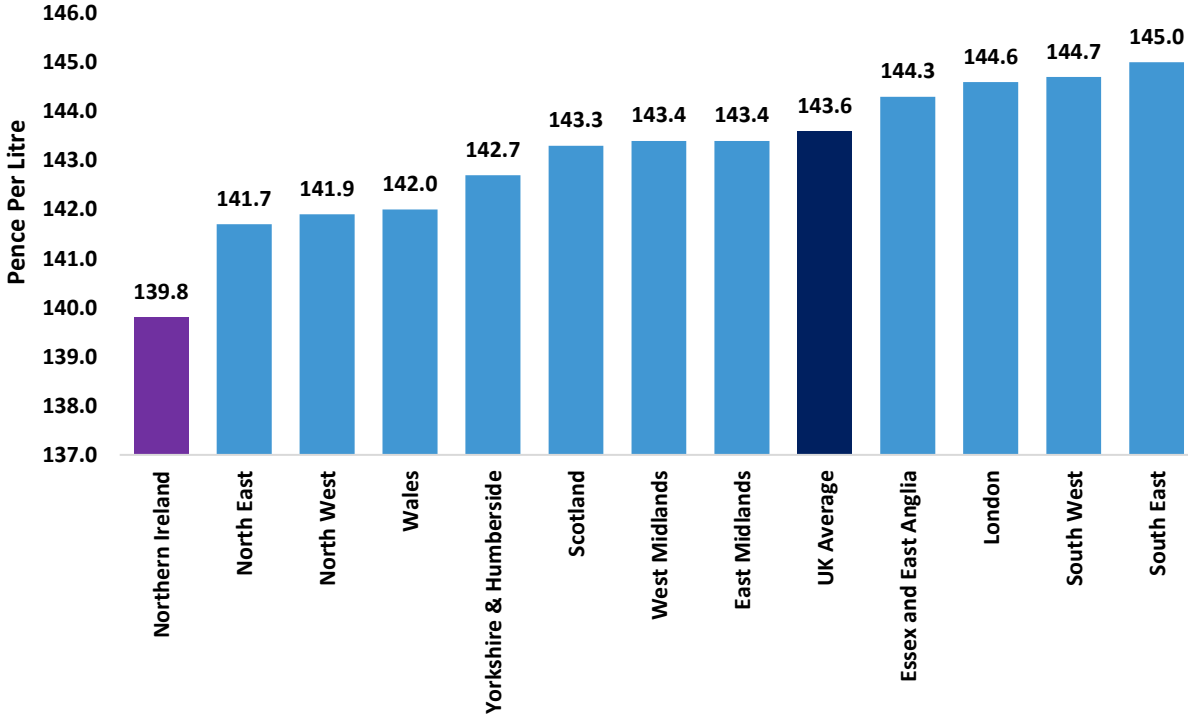
This final section focuses on transport costs to businesses, specifically that of fuel prices. It is important to note that Northern Ireland businesses can face additional transport costs compared to the rest of the UK, due to its geographic location.

UK Fuel Prices

In 2022 global fuel prices increased considerably. In Northern Ireland, the price of petrol increased by 18.2 pence per litre in the month following the beginning of the conflict in Ukraine, while diesel increased by 25.4 pence in the same period.^{xxv} After further increases, fuel prices fell somewhat from the start of 2023.

In June 2023^{xxvi}, petrol prices in Northern Ireland were 139.8 pence per litre, 3.8 pence cheaper than the UK average. Figure 7 below shows that Northern Ireland had the lowest petrol prices across the UK regions in June 2023.

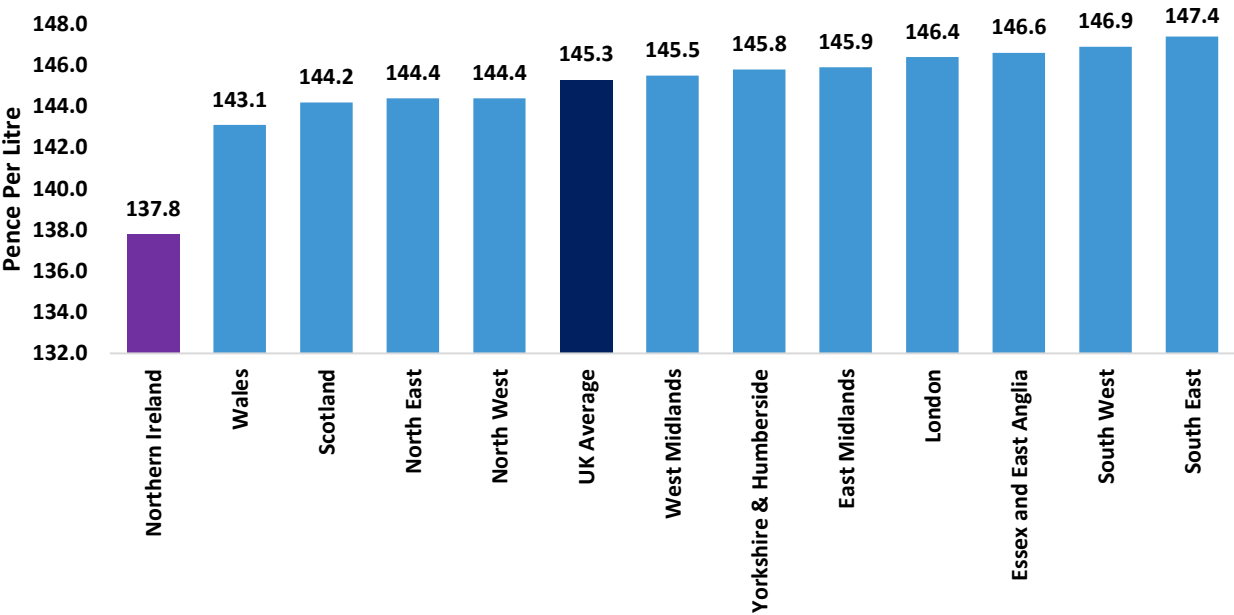
Figure 7: UK Petrol Prices, June 2023



Source: AA Fuel Report June 2023.

Figure 8 (next page) shows that in June 2023, Northern Ireland had lower diesel prices at 137.8p per litre, compared to the UK average of 145.3p. Transportation and logistics businesses for example have a reliance on diesel and as alluded to above, with Northern Ireland being geographically detached from the UK mainland, businesses here may face additional costs, associated with moving goods by ferry, etc.

Figure 8: UK Diesel Prices, June 2023

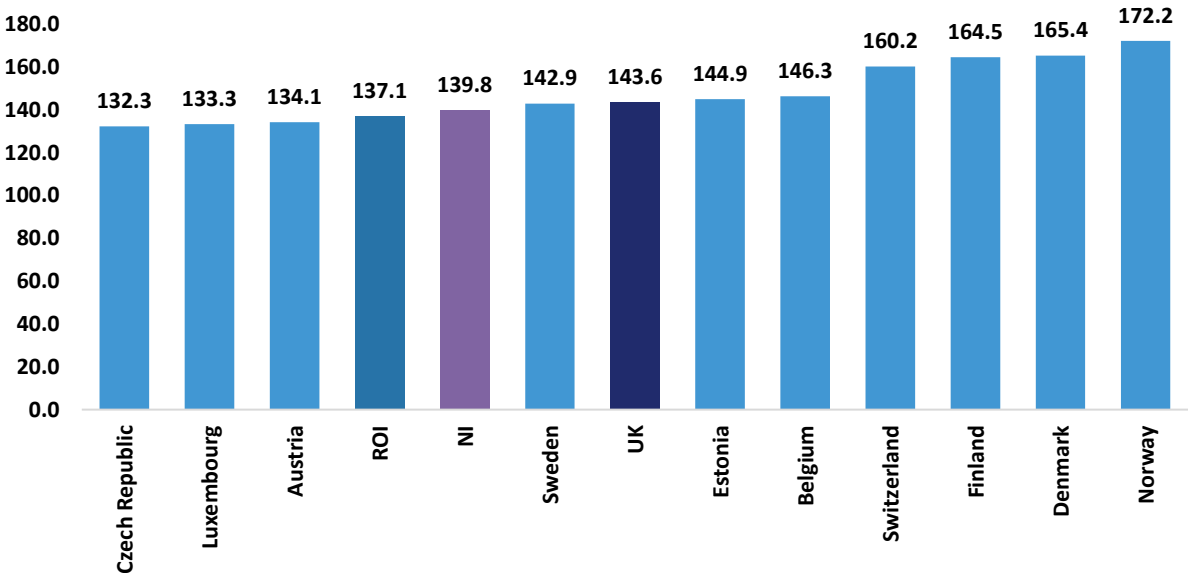


Source: AA Fuel Report June 2023.

International Fuel Prices

Looking at fuel prices internationally, Figure 9 shows that Northern Ireland compares relatively well against other small advanced economies on petrol prices. Note that only those small advanced economies which were included in the AA Fuel Report have been shown.

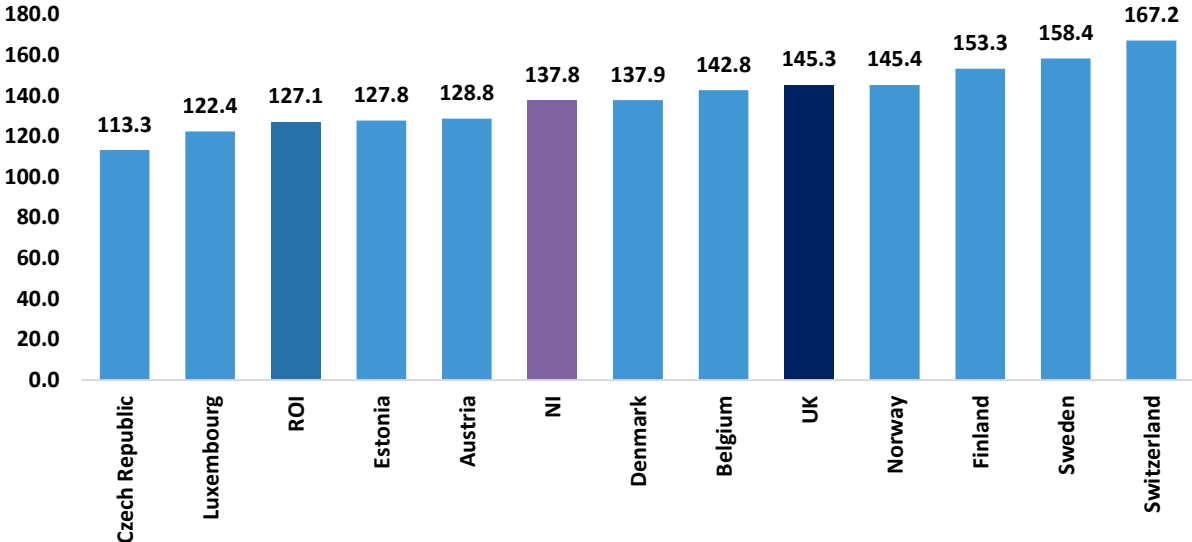
Figure 9: European Petrol Prices, June 2023



Source: AA Fuel Report June 2023

As shown in Figure 10 (next page), in June 2023, ROI diesel prices were noticeably cheaper than Northern Ireland’s by 10.7 pence per litre. The UK (and by default NI) has one of the highest diesel tax burdens in Europe, with over half of the price of a litre of diesel attributed to fuel duty and VAT^{xxvii}.

Figure 10: European Diesel Prices, June 2023



Source: AA Fuel Report June 2023

Conclusion

As summarised in Annex 1 below, despite the rapid increases in business costs, in relative terms Northern Ireland still has a competitive edge on a number of cost categories when compared to the rest of the UK. Grade A office rental costs are among the lowest in the UK, with Belfast’s rent being around a third of London City’s rent. Wages here are around 92% of the UK and Petrol and diesel prices are both the lowest in the UK. However, electricity costs here were higher than the UK average, during the time period compared.

At an international level, comparative advantage can be a factor in attracting FDI into a region (Annex 2 provides a summary of Invest NI conclusions on operating costs here). As shown above, Northern Ireland has some of the lowest wages, when compared to the rest of the UK and to the Republic of Ireland. Property prices are also relatively low, compared to capital cities in European small advanced economies. Diesel prices were similar to other European small advanced economies. Electricity costs have trended upwards in recent years and for very small users, who make up 70% of connections, Northern Ireland has some of the highest prices out of European countries. For very large users, prices are also amongst the highest in Europe.

Increasing the amount of locally-produced renewable energy capacity is a critical step in Northern Ireland’s pathway to net zero and is a key part of reducing our dependence on fossil fuels and exposure to volatile global energy prices. It is also a fundamental part of meeting the Climate Change Act target of at least 80% electricity consumption from renewable sources by 2030.^{xxviii}

Adam McCourt

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

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

	UK	RoI
Labour		
Wages *	92%	~90%
Energy		
Very Small Users (electricity)	133%	111%
Large and Very Large Users (electricity)	104%	114%
Property**		
Capital City Office Rents	33%	45%
Transport		
Petrol	97%	102%
Diesel	95%	108%

Notes: Figures rounded to whole percentages. Not only do businesses consider the relative cost of each area, but also the quantum/availability and quality of each.

* Figures include both public and private sector. 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. It is important to note, while competitive wages may have advantages, the Department for the Economy seeks to create high value jobs. One of the guiding principles of the 10X Vision is to deliver improved outcomes for all including better jobs with better wages for all our people, with a more flexible work environment and a better overall quality of life.

** 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. Recent hybrid working trends may have had an effect on the demand for office space.

Annex 2: Invest NI Conclusions on Operating Costs^{xxx}

Northern Ireland is a very cost-competitive location for business. Operating costs can be, on average, 40% lower than other Western European locations (Source: fDi Benchmark, August 2023. Calculation based on a 100 person Legal Services Centre).

- Prime office rents among lowest in Western Europe and compare very favourably with other regions in the UK and the Republic of Ireland. Grade A office space in Belfast is available from £24/ sq. ft.
- Salary costs can be on average around 35% lower than other Western European locations. (Source: fDi Benchmark, August 2023. Calculation based on a 100 person Legal Services Centre).
- The overall tax burden in Northern Ireland is the lowest of all the major European economies. The UK remains the lowest taxed large economy with: low personal taxation; low social welfare contributions; generous tax allowances; no local taxes on profits or surplus.
- Investors benefit from a myriad of tax incentives to encourage further development, including: corporation tax (25 per cent) is the lowest in the G7; businesses can benefit from R&D tax relief: 20% HMRC R&D expenditure credit; for every £1 spent on R&D, real cost to company can be 41p.

Invest NI also emphasise the quality of the labour supply here, in addition to its low cost. Northern Ireland has a workforce that’s educated, innovative, resilient and results-driven. Labour turnover is also known to be low, which can deliver further cost savings. Northern Ireland has a great communications infrastructure and the region enjoys international connectivity at a very competitive cost. The region was the first in Europe to achieve 100% broadband coverage.

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- i [The cost of doing business in Northern Ireland 2021 Department for the Economy\(economy-ni.gov.uk\)](#)
 - ii [The cost of doing business in Northern Ireland 2019| Department for the Economy \(economy-ni.gov.uk\)](#)
 - iii [Purchases by businesses in Northern Ireland | Department for the Economy \(economy-ni.gov.uk\)](#)
 - iv [The cost of doing business 2022q3 Data from the Small Business Price Index - Enterprise Research Centre](#)
 - v [Cost of living: Businesses forced to cut staff as energy prices rise - BBC News](#)
 - vi [Producer price inflation \(May 2023\), UK - Office for National Statistics \(ons.gov.uk\)](#)
 - vii [Producer price inflation \(July 2023\), UK - Office for National Statistics \(ons.gov.uk\)](#)
 - viii [Consumer price inflation, UK - Office for National Statistics](#)
 - ix [Nlre PMI 2308.pdf \(ulstereconomix.com\)](#)
 - x [UUEPC Cost of Doing Business - PowerPoint Presentation \(ulster.ac.uk\)](#)
 - xi [UUEPC Cost of Doing Business - PowerPoint Presentation \(ulster.ac.uk\)](#)
 - xii [All rise: Actions to take now to counter inflation | Grant Thornton Insights](#)
 - xiii [Employee earnings in the UK: 2022 | ONS \(ons.gov.uk\)](#)
 - xiv [Employee earnings in Northern Ireland \(nisra.gov.uk\)](#)
 - xv <https://www.ons.gov.uk/file?uri=/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/regionbypublicandprivatesectorashetable25/2022provisional/ashetable252022provisional.zip>
 - xvi [Earnings and Labour Costs Q1 2023 \(Final\) Q2 2023 \(Preliminary Estimates\) - Central Statistics Office](#)
 - xvii [ECB reference exchange rate, UK pound sterling/Euro, Quick View - ECB Statistical Data Warehouse](#)
 - xviii [Average wages, Total, US dollars, 2021 or latest available \(oecd.org\)](#)
 - xix [Food and drink service firms are most likely to cut trading to tackle energy costs | \(ons.gov.uk\)](#)
 - xx [Quarterly Retail Energy Market Monitoring \(QREMM\) Report for Q1 2023 | Utility Regulator](#)
 - xxi [Energy Bill Relief Scheme: help for businesses and other non-domestic customers - GOV.UK](#)
 - xxii [Measuring Success - 10X Metrics to achieve a 10X Economy \(economy-ni.gov.uk\)](#)
 - xxiii [Colliers National Offices Rent Map 2022](#)
 - xxiv [Why Northern Ireland | Invest Northern Ireland \(investni.com\)](#)
 - xxv [Fuel price report \(Feb 2022\) | AA \(theaa.com\) & Fuel price report \(Mar 2022\) | AA \(theaa.com\)](#)
 - xxvi [Fuel price report \(June 2023\) | AA \(theaa.com\)](#)
 - xxvii [Gas Taxes in Europe | 2023 Fuel Tax Rates: Gas & Diesel | Tax Foundation](#)
 - xxviii [Energy Strategy Action Plan 2023 | Department for the Economy \(economy-ni.gov.uk\)](#)
 - xxix Summary Table Inputs:

Labour Costs

Median Gross Weekly Earnings for Full Time Employee Jobs 2022 - NISRA and ONS

NI Median = £591.60, UK Median = £640.00

[RoI Annual Average Wage = \$51,000 versus \$50,000 in UK – OECD]

Energy Costs

Pence per kWh in S2 2022: Retail Energy Market Monitoring Report Q1 2023 (June 2023) - Utility Regulator

Very Small Users: NI = 35.3p, UK = 26.6p, RoI = 31.8p

Large & Very Large Users: NI = 22.4p, UK = 21.6p, RoI = 19.6p

Property Costs

Grade A office rental values, EUR/sqm/Month (Q2 2022) - Colliers

Capital cities: Belfast = €25.10, London City = €75.80, Dublin = €56.10

Transport Costs

Pence per litre (June 2023) - AA Report

Petrol prices: NI = 139.8p, UK = 143.6p, RoI = 137.1p

Diesel prices: NI = 137.8p, UK = 145.3p, RoI = 127.1p

xxx [Why Northern Ireland | Invest Northern Ireland \(investni.com\)](#)