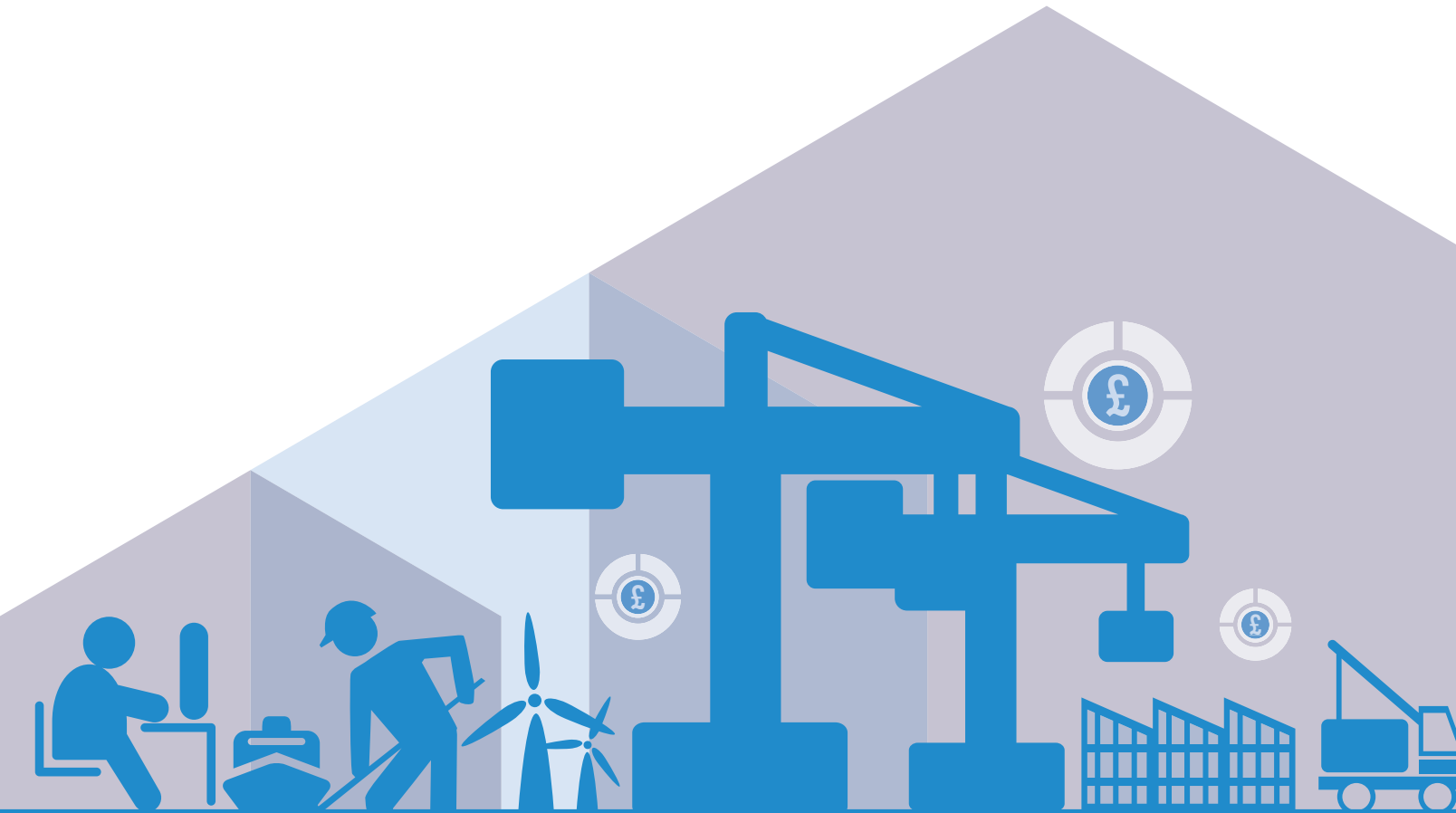




Department of
**Enterprise, Trade
and Investment**
www.detini.gov.uk



THE COST OF DOING **BUSINESS** IN NORTHERN IRELAND

DETI ANALYTICAL SERVICES UNIT
SEPTEMBER 2015

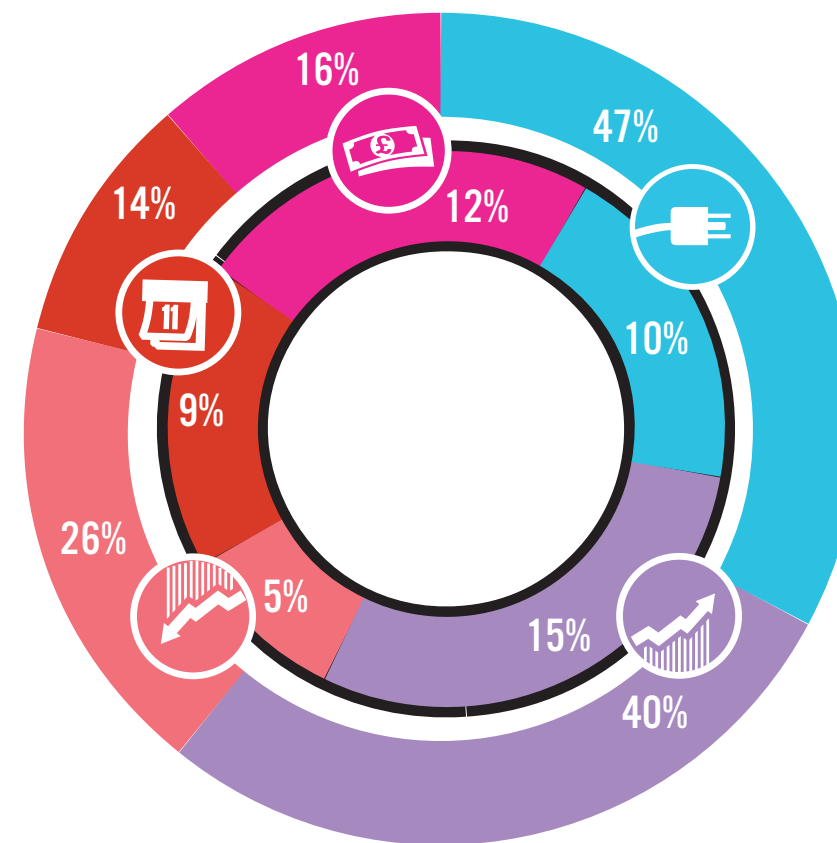
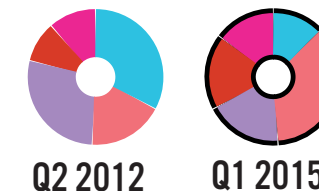


INTRODUCTION

Competitiveness is core to any successful economy, and the Northern Ireland (NI) Economic Strategy has recognised this by placing competitiveness as its overarching goal. Costs are a core part of competitiveness for businesses. Lower costs enable firms to be more price competitive when selling their goods and services in export markets, and make NI a more attractive proposition for attracting inward investment.

Costs were identified as a key issue for businesses during the economic downturn, with an increased cost base alongside difficult market conditions placing local businesses under real pressures. However, the latest evidence suggests that these costs pressures have now eased substantially (Figure 1).

FIGURE 1 - TOP FIVE BUSINESS ISSUES IN Q2 2012, THEN AND NOW AS % OF NI COMPANIES
 Source: InterTradeIreland Quarterly Business Monitor



- 
RISING ENERGY COSTS
- 
RISING COSTS OF OTHER OVERHEADS (APART FROM ENERGY COSTS)
- 
REDUCTION OF DEMAND
- 
LATE PAYMENTS FROM CUSTOMERS
- 
CASH FLOW

With less emphasis needed on immediate measures to ease business cost pressures, this allows for a greater focus on looking at NI's cost base relative to elsewhere, which is most important from a competitiveness perspective. The overall purpose of this study is to analyse key businesses cost areas locally against other economies, in particular the United Kingdom (UK) and Republic of Ireland (ROI). The methodology has included:



This research has been produced by DETI Analytical Services Unit (ASU), with InterTradelreland and the Ulster University Economic Policy Centre both playing an important role as part of the steering group and, in particular, through the use of the InterTradelreland Quarterly Business Monitor for the survey. This Executive Summary is supplemented by a Full Report with a series of Appendices that provide a fully comprehensive cost analysis.

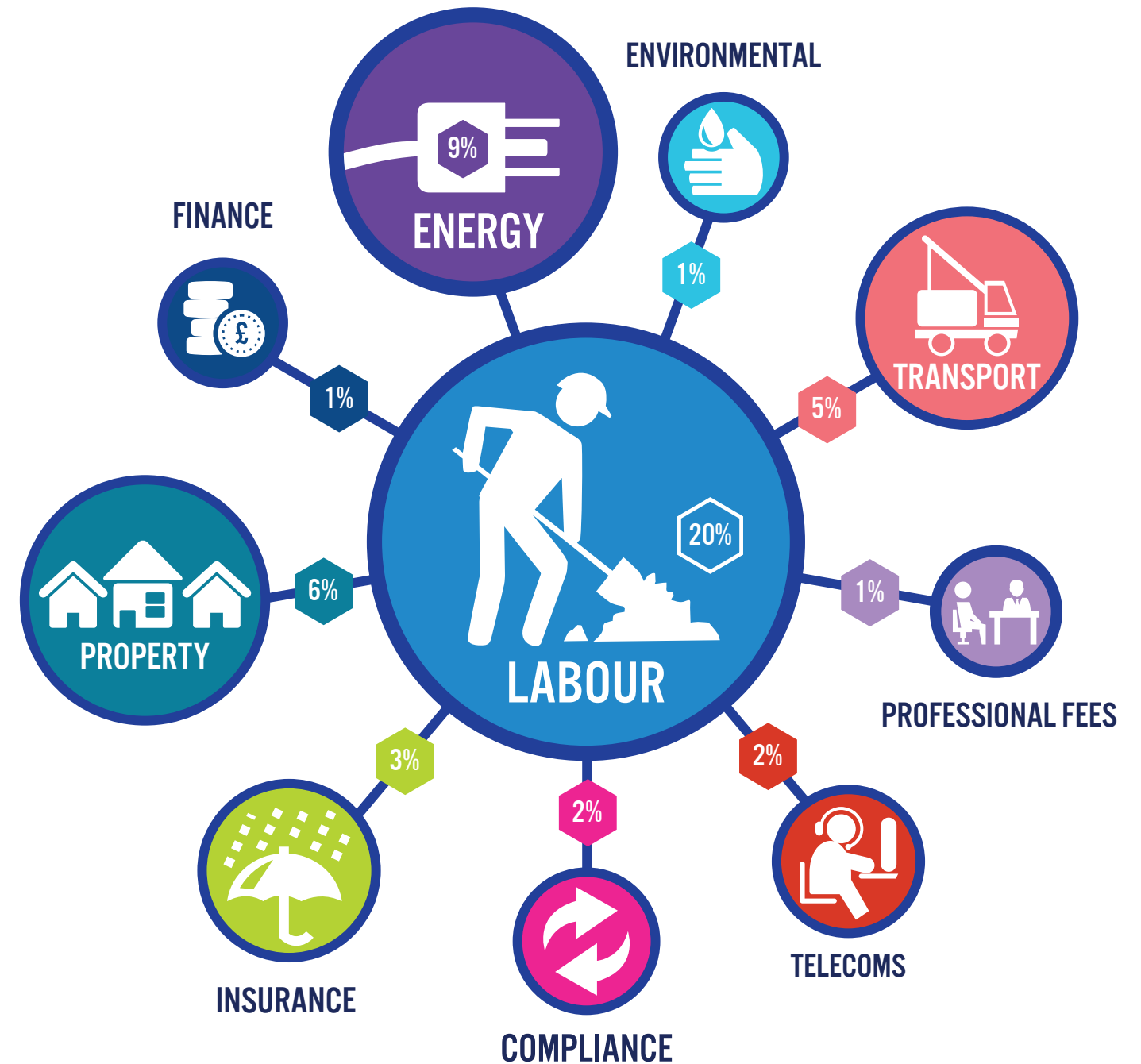
PROFILING BUSINESS COSTS

The starting point for this research has been to understand which costs are most important for businesses to ensure the focus is on the right areas. A key source here was the business survey, although further analysis has also been carried out on other available sources of information.

Out of the ten location-sensitive costs that this study is looking at, labour costs are found to be consistently the most important for businesses (Figure 2). Three other costs (energy, property and transport) are also shown to be important for businesses cost base. The Executive Summary focuses only on these four main costs, although further information on the remaining cost areas can be found in the accompanying reports.

FIGURE 2 – BREAKDOWN OF BUSINESS COSTS AS % OF TURNOVER

Source: InterTradelreland Quarterly Business Monitor



LABOUR COSTS

Labour is an area where most firms have not reported significant cost increases in recent years, with the challenging economic conditions constraining wage inflation. Increases in labour costs tend to have been associated with growth; firms that are expanding need to take on new staff or pay higher wages to attract and retain the best talent.

NI is shown to be a highly cost competitive location in relation to private sector wages. Compared with the UK and ROI, private sector wages are shown to be significantly lower in NI (Figure 3). Further analysis by sector and region reinforces this across a wide range of areas.

FIGURE 3 – NI PRIVATE SECTOR WAGES RELATIVE TO UK AND ROI, 2014, £ PER WEEK (FULL TIME)
Source: ONS; NISRA; CSO

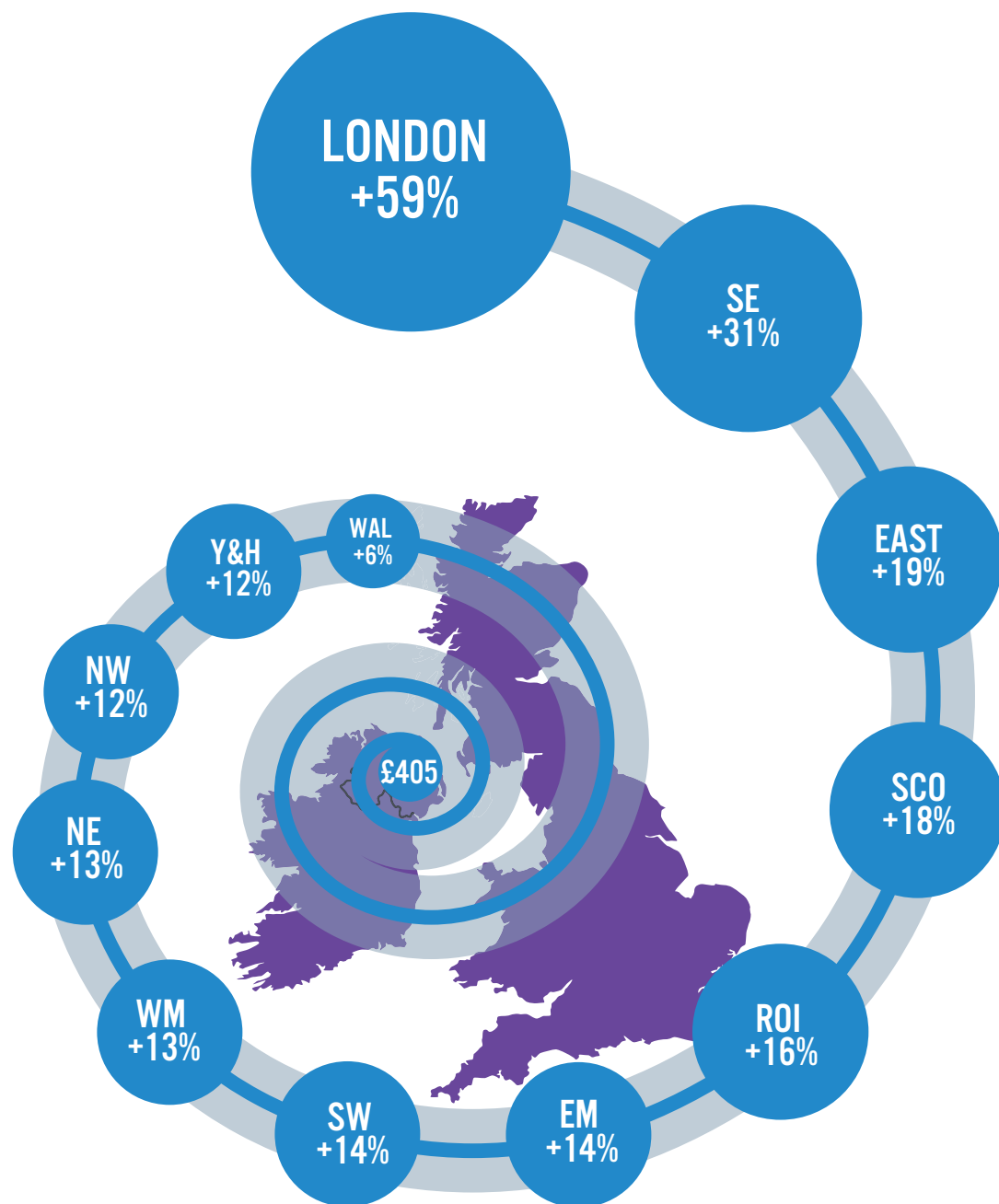


FIGURE 4 - FDI SALARIES OF NI VS SELECTED COMPETITORS, 2014 £ ANNUAL SALARY, AVERAGE ACROSS KEY JOB ROLES
Source: fDi Intelligence



Analysis has also been carried out on average FDI salaries spanning 51 different job roles in key FDI sectors against 59 other international benchmarks. NI is shown to be the most cost competitive location for FDI salaries amongst Western Europe comparators chosen, although many developing economies can still offer lower wages (Figure 4).

Whilst NI can offer highly competitive labour costs, the availability of skills and the need to ensure a steady supply of labour into key growth sectors will be vital for businesses. This feeds back into labour costs as a lack of sufficient skilled labour can lead to wage inflation in areas that might be experiencing skills shortages.

ENERGY COSTS

Energy prices are subject to significant volatility as much of the price paid by businesses is determined by wholesale costs determined in global commodity markets. This has been shown through the large rises in 2011-13, which caused significant cost pressures for many businesses, and subsequent falls more recently.

Focusing on electricity prices, most businesses in NI tend to be very small users. At the end of 2014, these businesses tended to pay prices that are around the average of EU15 comparators, which is above the UK average but below the ROI (Figure 5). Since then, there have been widespread reductions in tariffs for SME electricity users in 2015. The large majority of businesses are not at a significant cost disadvantage from doing business in NI.

FIGURE 5 - NON DOMESTIC ELECTRICITY PRICES FOR VERY SMALL USERS, JUL - DEC 2014, P/KWH

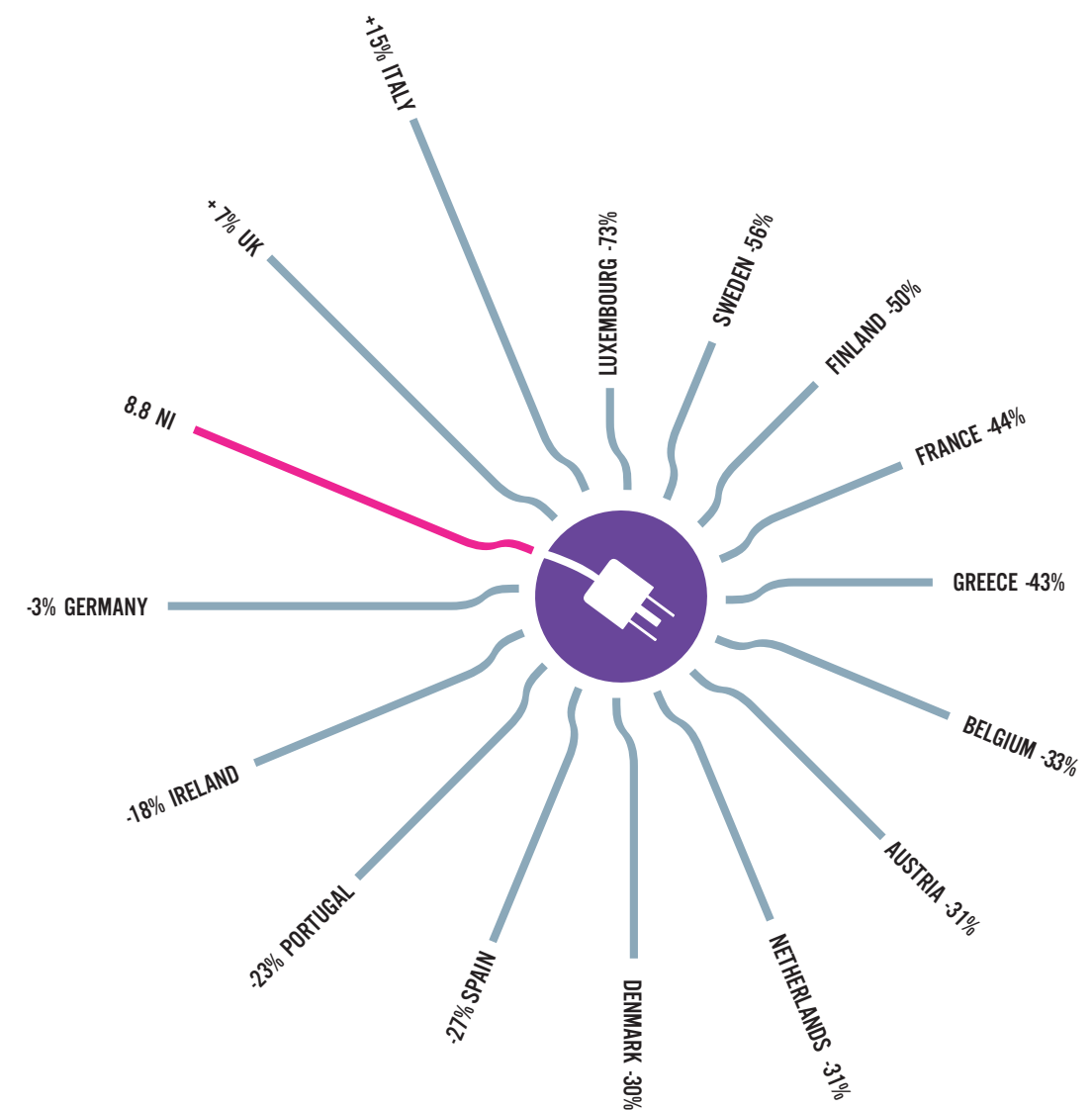
Source: Utility Regulator Quarterly Transparency Report, June 2015



A small number of companies are large and very large electricity users and account for a disproportionately large amount of electricity consumption. These users have comparatively high energy prices against other EU comparators, although this group of companies have benefited the most from recent declines with their price having fallen by 14% up to the of 2014.

FIGURE 6 - NON DOMESTIC ELECTRICITY PRICES FOR LARGE/VERY LARGE USERS, JUL - DEC 2014 P/KWH

Source: Utility Regulator Quarterly Transparency Report, June 2015



PROPERTY COSTS

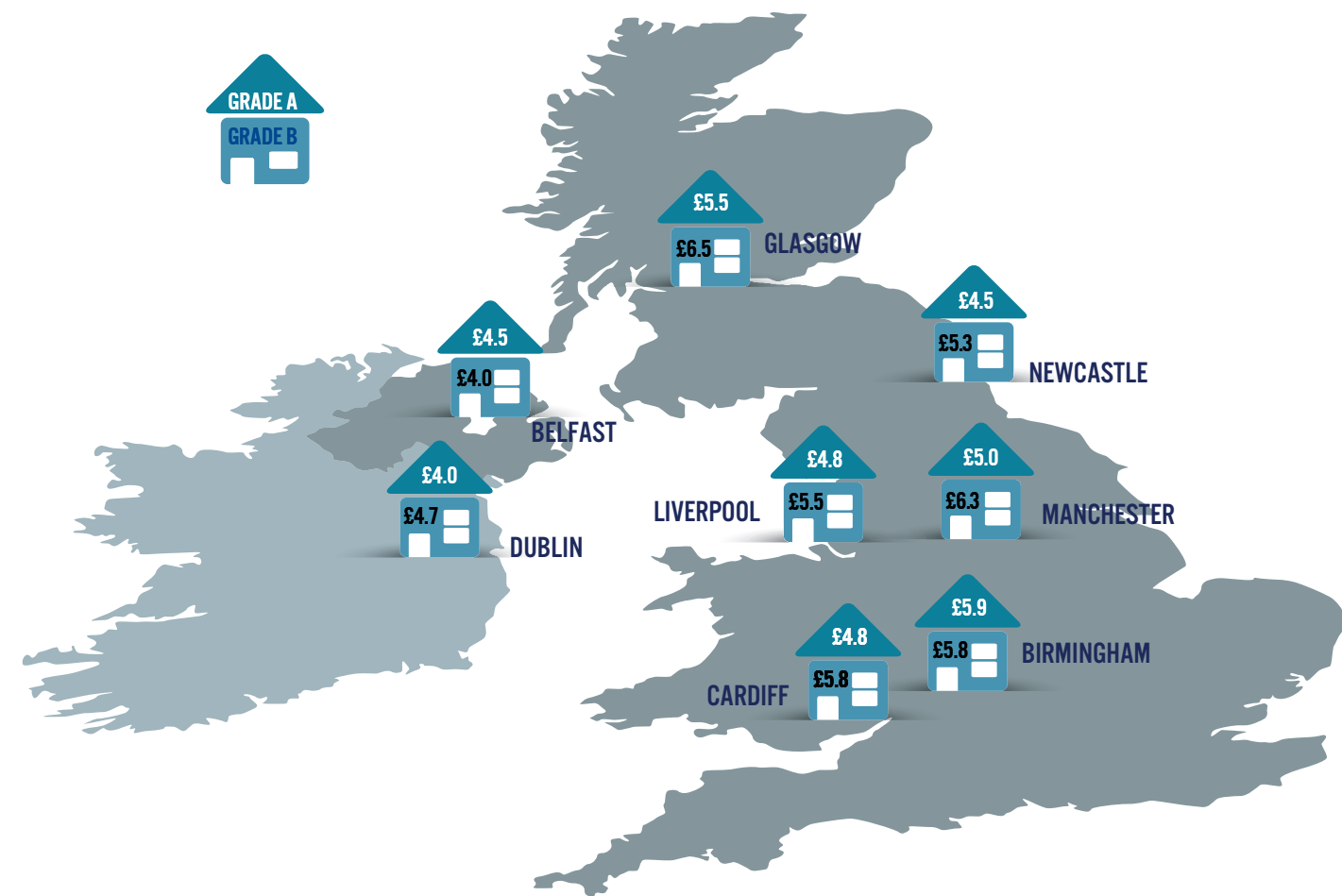
Property appears to have fed through into cost pressures for businesses via business rates rather than buying or renting properties. Comparative information on business rates is not available with elsewhere with which to benchmark rates costs. However, NI is the only part of the UK which benefits from industrial de-rating which gives a significant competitive advantage to local manufacturers. Wider reliefs, such as the Small Business Rate Relief, will also have helped to ease pressures in this area.

In terms of other property costs, NI is shown to be a highly cost competitive location for both office and industrial space. Belfast offers significantly lower office rental prices compared with other UK and ROI cities, particularly Dublin, Manchester and London (Figure 7). Industrial rental prices are closer but Belfast still benefits from comparatively low prices (Figure 8).

FIGURE 7 – OFFICE RENTAL PRICES, 2014
 £ PER SQUARE FOOT
 Source: Colliers



FIGURE 8 - PRIME INDUSTRIAL RENTAL VALUES, 2015
 £ PER SQUARE FOOT
 Source: Colliers



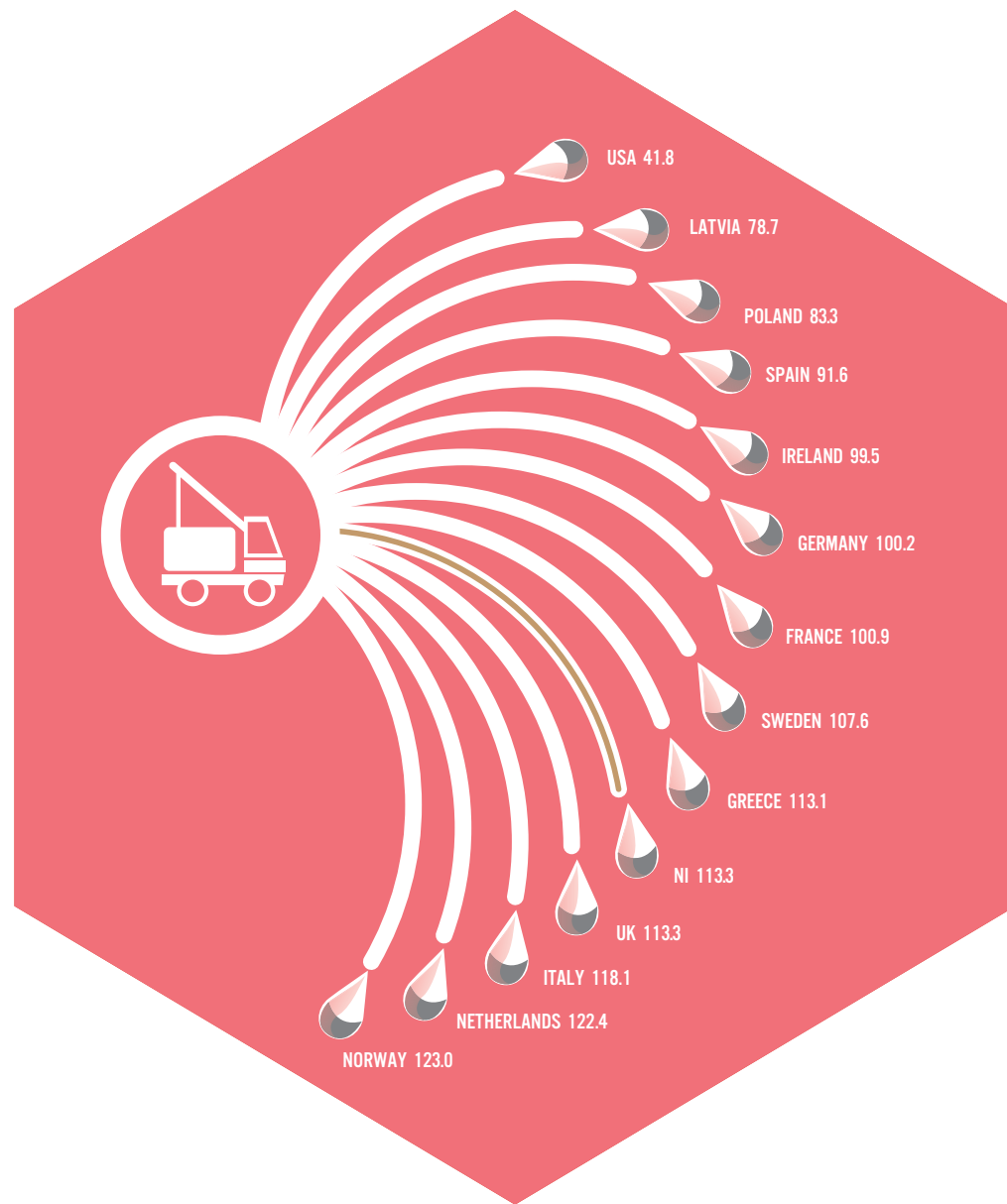
Although NI can offer a cost competitive location in terms of property, a more pressing issue appears to be the need to ensure the development of new Grade A office space to support the expansion of existing employers and new investors. There are signs that prices are now starting to rise to help make the development of new properties commercially viable, and Invest NI have announced a proposed scheme to help support the development of new Grade A office space.

TRANSPORT COSTS

Transport costs are most important for sectors which need to move large quantities of goods, such as manufacturing, construction and distribution, although air transport costs are also important for services companies to access their customers. NI has a natural disadvantage in transport costs compared with businesses in Great Britain (GB) due to the additional distance from these customers.

Petrol prices in NI are shown to be similar to the UK average and closer to the higher end of comparators, although still significantly below the highest priced countries (Figure 9). Diesel prices are shown to be less competitive, with NI having low prices in an UK context but still very high prices compared with other benchmarks.

FIGURE 9 – INTERNATIONAL PETROL PRICES, APRIL 2015
PENCE PER LITRE
 Source: AA

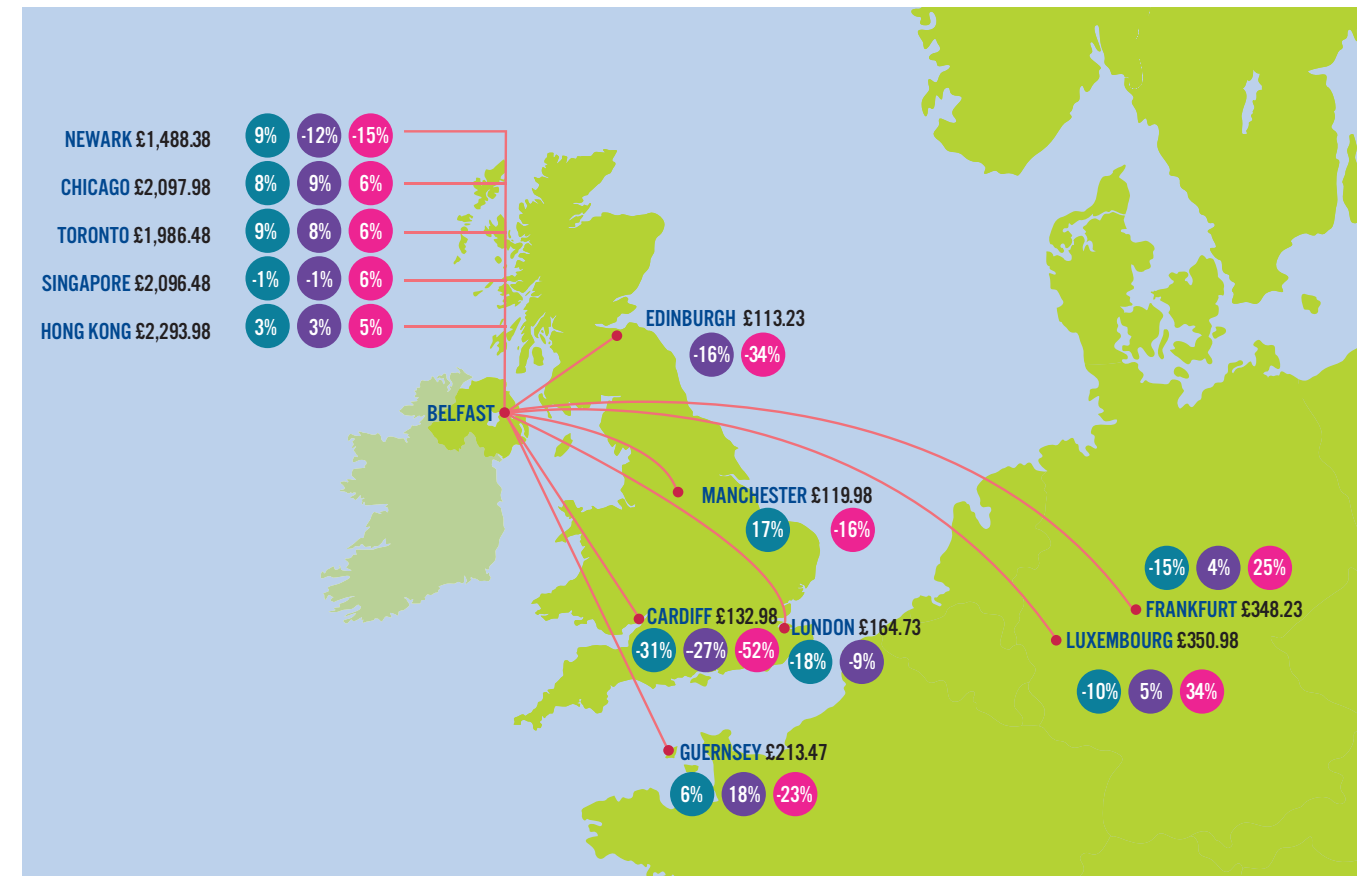


Analysis has been carried out to assess travel costs for business based in Belfast compared with those based in four other UK cities (London, Manchester, Edinburgh and Cardiff) to key business destinations. This highlights that NI travel costs are relatively competitive against elsewhere in the UK (Figure 10), even though there is a greater reliance on flying with no options for train travel to access GB destinations which often would be cheaper than air travel. Businesses cite that connectivity is just as important, if not more so, than costs and NI benefits here from direct access to Heathrow as a key "hub" airport.

Air Passenger Duty (APD) could have on the economy. It finds that although it could help to deliver an additional £1.1 million from businesses after two years, widening the analysis to incorporate both the total benefits (including tourism and multiplier effects) and total costs (imposed by HMT on the NI Executive) suggests that any overall economic benefit would be minimal and, as such, APD would not be a high priority to devolve compared with other higher impact taxes such as Corporation Tax.

In relation to air travel, DETI research has looked at the impact that a reduction or removal of short-haul

FIGURE 10 – UK CITY TRAVEL COSTS TO KEY MARKET, 2015
£ RETURN JOURNEY
 Source: DETI analysis



● BELFAST COMPARED TO EDINBURGH ● BELFAST COMPARED TO MANCHESTER ● BELFAST COMPARED TO LONDON

OVERALL COST COMPETITIVENESS

Looking at each cost area individually highlights that NI benefits from lower prices in some areas and higher prices in others. In order to make an overall cost assessment, this study has developed a methodology to compile and weight available price indicators based on their relative importance for business into an overall cost index (Figures 11 and 12). This highlights the NI is a more competitive location than both the UK and ROI.

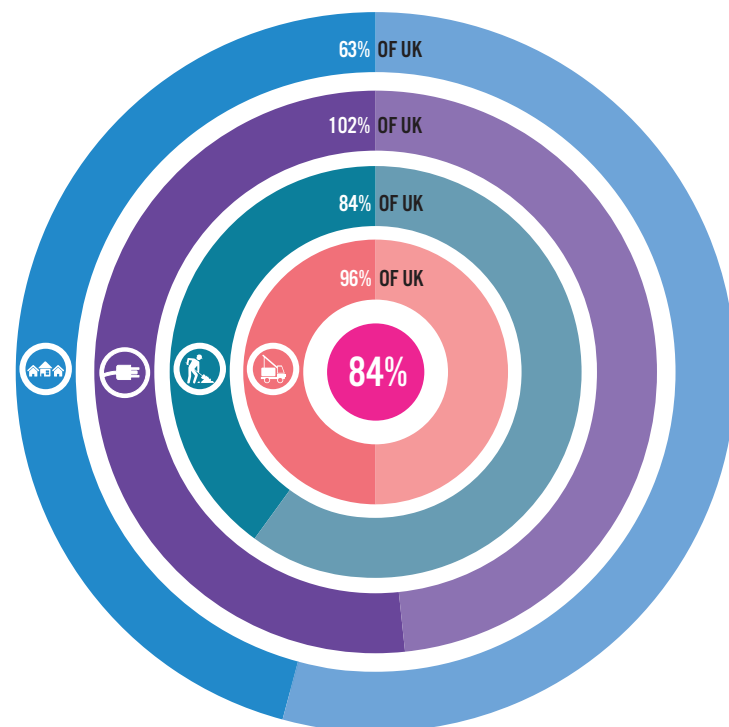


FIGURE 11 – NI OVERALL COSTS COMPARED WITH UK
UK=100
Source: DETI analysis

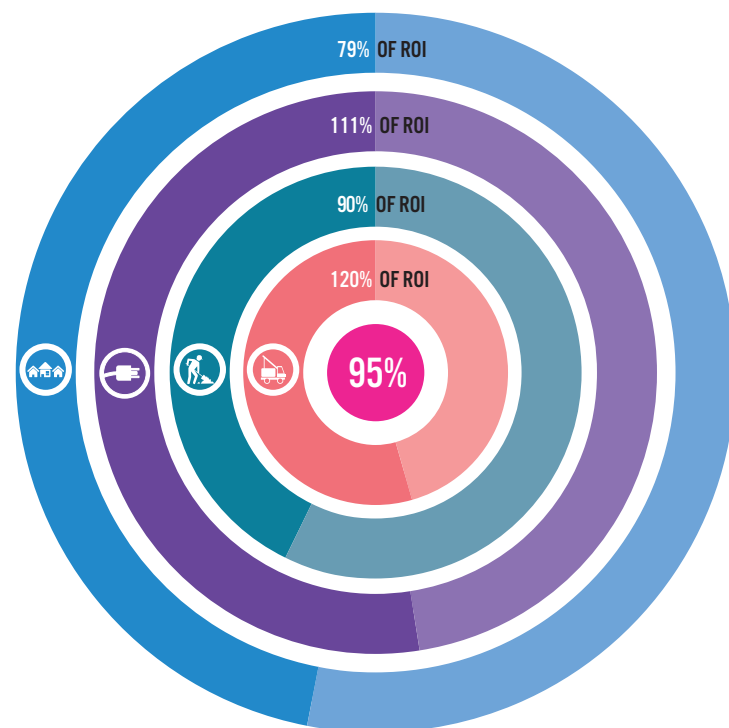


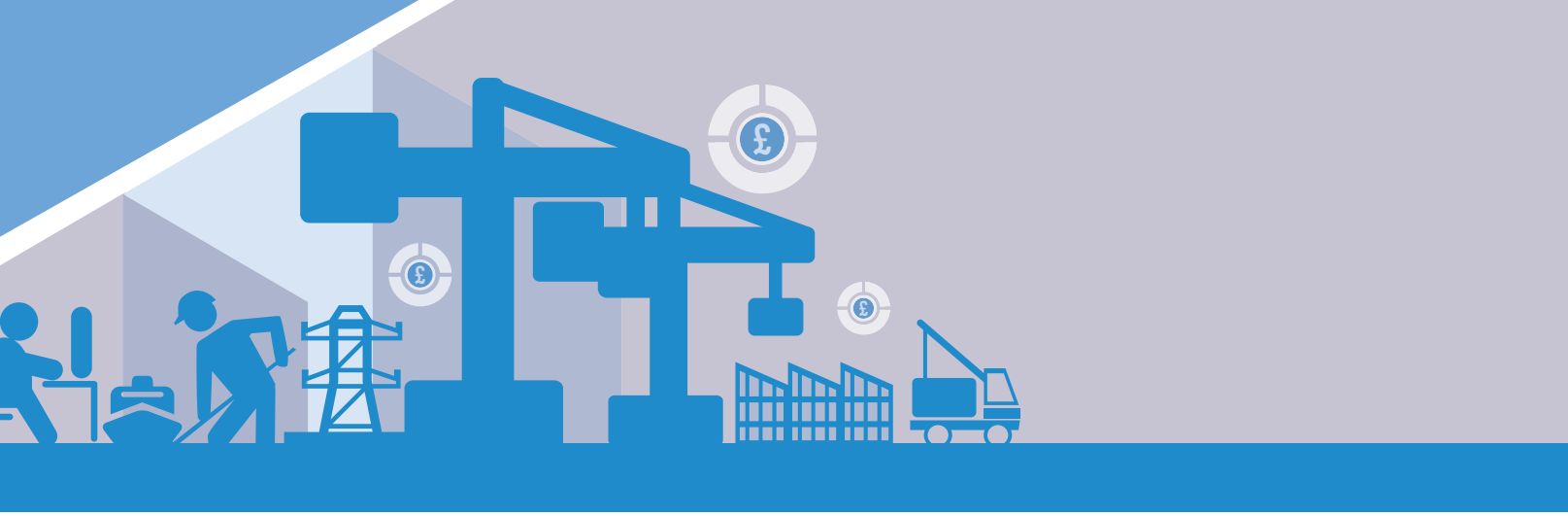
FIGURE 12 – NI OVERALL COSTS COMPARED WITH ROI
ROI=100
Source: DETI analysis

CONCLUSIONS

This report marks the first comprehensive assessment of NI's business cost base since the previous work by ERINI in 2005. It highlights that, even taking into account some areas where NI has higher prices, it is overall a highly cost competitive location compared with both the UK and ROI. This is mainly due to lower labour and property costs.

Much of the work that has gone into this report has been to establish baseline information and analysis as a 'building block' from which any future studies might be conducted. It also supplements ongoing work by the Economic Advisory Group (EAG) in developing an overall Competitiveness Report for NI (due in Autumn 2015). Potential future avenues for work on this area could include:

- **A regular assessment of cost changes** via the InterTradelreland Quarterly Business Monitor, replicating the questions asked for this study but released in a much shorter timeframe as the results become available;
- **Comparative cost benchmarking** against international benchmarks either annually or biannually, which could include updating and refining the cost index developed for this study; and
- **Focused cost studies** looking at either specific cost areas in isolation (perhaps outside of the four main costs looked at in this study) or targeting key sectors in the local economy.



**For further information on this report
please contact:**

Thomas Byrne
thomas.byrne@detini.gov.uk

Nicola Laverty
nicola.laverty@detini.gov.uk

**To be added to the distribution list for updates
on DETI research projects please contact:**

Analytical Services Unit
Dept of Enterprise, Trade and Investment
Netherleigh
Massey Avenue
Belfast, BT4 2JP
Email: asu@detini.gov.uk