Manufacturing NI’s Evidence to NI Assembly Finance Committee Review into the Non-Domestic Rating System in Northern Ireland

8 November, 2016
**Introduction**

Manufacturing NI represent some 550 manufacturing businesses across every constituency represented in the NI Assembly. Manufacturing represents around 12.5% of local GDP and approximately 10% of total employment. With around 70% of manufacturing taking place outside of Belfast, its impact on local economies is more pronounced with, for instance, more than 1 in 4 jobs in the new Mid-Ulster and more than 1 in 5 jobs in the new Mid and East Antrim Council areas being a manufacturing job.

**Background**

**Manufacturing makes a substantial difference to the Northern Ireland economy.** In 2015 the sector directly provided 85,200 jobs and made a Gross Value Added contribution of £4.7 billion to GDP (measured in 2012 prices). This is equivalent to more than 10 percent of all jobs and 14 percent of total economic output in the region. Manufacturing is the third largest employer and the second largest sector in terms of economic output. It accounts for a larger proportion of the economy in Northern Ireland than in the UK as a whole reflecting the strong manufacturing base that has existed there since the nineteenth century.

**Northern Ireland’s manufacturing strengths span both traditional and advanced manufacturing sub-sectors.** These include other non-metallic mineral products; transport equipment and machinery as well as the manufacture of basic pharmaceutical products; and food products. In each of these sub-sectors, the province has a relatively high concentration of employment relative to the UK. As a whole, productivity in Northern Ireland’s manufacturing sector, at £55,700 per job in 2015, is 38 percent higher than the total economy average. This difference is even more pronounced for advanced manufacturing, which is, on average, 27 percent more productive than the more traditional part of the industry.

**Manufacturing supports jobs and economic growth across all Northern Ireland and in rural and urban areas alike.** In Mid Ulster and Mid and East Antrim, manufacturing is the largest employer and accounts for more than a quarter of the economic output. Even in Belfast, which has seen significant economic restructuring in recent decades, the sector provides 11,000 jobs.

**The impact of Northern Ireland’s manufacturing sector is strongly felt throughout the economy.** The contribution that the sector makes extends significantly beyond the jobs, economic activity and wages directly associated with the sector. There is an additional indirect impact which encapsulates the activity and employment supported in the supply chain as a result of the manufacturing sector’s procurement of goods and services from other parts of the Northern Ireland economy. In addition, there is a further induced impact, comprising the economic benefits that arise as the people employed in the manufacturing sector and its supply chain spend their wages in the local consumer economy, for example at retail and leisure establishments.

Including all three channels of economic impact—direct, indirect and induced—the total contribution of manufacturing to the Northern Ireland economy was £9.9 billion in 2015. For every £1 billion of economic output produced by the sector, a further £1.1 billion is created elsewhere in the Northern Ireland economy. In 2015, on top of the £4.7 billion direct GVA contribution that the sector made, it also supported a £3.5 billion contribution to GDP.
through its supply chain activities and a £1.6 billion wage expenditure GVA contribution, spread widely throughout the Northern Ireland economy. In total, we estimate that in 2015 the sector sustained 214,000 jobs; amounting to a quarter of all jobs in the Northern Ireland economy. For every manufacturing job in Northern Ireland, another 1.5 are supported elsewhere in the economy. By sustaining this level of employment, manufacturing directly contributed £2 billion in wages to its own staff, and a further £2.2 billion in wages through jobs supported outside the sector itself.

The manufacturing sector’s impact goes well beyond its immediate or core economic impact. Wide-ranging benefits are created for the Northern Ireland economy as its activities boost economic activity elsewhere in the economy. For example:

- Exports are an important source of income for a small open economy, and manufacturing accounts for almost two-thirds of all of Northern Ireland’s export sales. In 2014 the value of manufactured exports stood at £6 billion.

- The manufacturing sector invested £254 million in R&D in 2014, accounting for over 60 percent of total business investment in the province. This helps to support the development of quality products and processes to keep the sector competitive.

- The sector also attracts a large amount of foreign direct investment (FDI). Between 2010 and 2014 manufacturing attracted just under £900 million in FDI, with food, drink and tobacco; and electrical and optical equipment accounting for almost half of the total.

An Oxford Economics forecast shows that over the next 10 years manufacturing will grow faster in Northern Ireland than in any other region in the UK but it also faces a substantial challenges from competition from abroad and rising costs. Sustaining these levels of growth will be achieved through increased investment into new technologies and processes that will boost productivity and will be a function of the extent to which the cost base of the sector remains stable relative to its competitors. Any further pressure on costs risks exacerbating the challenges the sector already faces, potentially leading to slower growth in the sector, and with a knock-on impact for economic output and jobs all across the Northern Ireland economy.
Submission

The comments below are relevant extracts taken from our response to the Department of Finance and Personnel’s consultation on the Review of the Non-Domestic Rating System which was concluded early in 2016.

Our response was accompanied by a deep economic analysis provided by Oxford Economics. This analysis, alongside our suggestions on ways to improve the economic environment which could lead to increasing wealth and work, is available here:


In addition to the formal response to the consultation, Manufacturing NI participated in the Department’s “Innovation Lab” over a 4 day period in late 2015. This explored, in depth, the current system and other models alongside Rates professionals from the UK, business groups and present and past leaders from within local government.

**Additional criteria that should be used to judge the suitability of the system for raising revenue locally?**

In addition to the principles laid out in the consultation document, we believe that as rebuilding the economy is the first priority of the NI Executive in its Programme for Government, then the criteria could be expanded to give greater weight to economic development at a regional and local council area. This should be focused on areas which add greatest value – the multiplier – creating conditions to create wealth and work through Northern Ireland.

For us, this is about securing Northern Ireland economic competitiveness. It would be about narrowing the gap with GB, RoI and the EU and holding on to advantages which make us attractive to investors whether they be domestic or FDI. As evidenced in the accompanying analysis from Oxford Economics, the cost of doing business in here are increasing at a quicker rate than GB and competitiveness is being lost. This will be further impacted by policy adding compulsory costs on wages – Apprenticeship Levy, National Living Wage – narrowing any cost advantage currently achieved in this area.

Growing our existing manufacturing base should be a priority. In this regard, we need to be looking at other areas secured under a Manufacturing Strategy.

This should be a great place to do business for all. Our ambition should be to grow the private sector to fill the gap in jobs as the public sector contracts, it should be about growing wages and we should not be reliant on local loyalty to secure our economic futures.
More frequent revaluations would lead to a more equitable rating system and improve the current rating system

Despite initial concerns there is growing evidence (shop vacancy levels, interest in new parts of town and city centres etc.) that the last revaluation was a success. More frequent revaluations would not only overcome any shocks but also provide useful economic data for regeneration and economic development decision makers.

We believe these should take place preferably every 5 years given the cost and this commitment should be written into legislation.

Current and/or future rate supports should adhere to clearly defined criteria?

With some qualification.

We agree that reliefs should be closely linked to rebuilding the economy but not simply to the Economic Strategy. For instance, we do not believe the last Economic Strategy was fully representative of the needs of communities across Northern Ireland. Clearly the cities (Belfast in particular) has seen significant benefit but this has not been replicated across NI. Some parts of the economy are more exposed to costs. Manufacturing for instance, and particularly exporters – compete on a cost basis in an international market. They are more exposed to energy, transportation, currency and other costs.

As for ‘time-bound and well defined timescales’ we agree that this is necessary. However we would add that as manufacturing is particularly capital intensive, long term certainty is required in order to release investment – uncertainty is currently holding back decisions. Plant, machinery and premises are usually written off over a 20 year period.

Manufacturers already pay more per business

Despite Industrial De-Rating relief, manufacturers already pay more per business than all other sections of the economy with the exception of energy supply. The following was taken from evidence provided by LPS to the DFP Innovation Lab in 2015:

<table>
<thead>
<tr>
<th>Sector</th>
<th>Average Bill per business</th>
</tr>
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<tbody>
<tr>
<td>Industrial</td>
<td>£ 34,605</td>
</tr>
<tr>
<td>Pubs</td>
<td>£ 20,849</td>
</tr>
<tr>
<td>Retail</td>
<td>£ 20,638</td>
</tr>
<tr>
<td>Offices</td>
<td>£ 16,479</td>
</tr>
<tr>
<td>Warehouses</td>
<td>£ 11,823</td>
</tr>
</tbody>
</table>

There is very good reason for this. Manufacturing requires very large spaces in order to house machinery, stock and equipment and to be able to move these around different processes. Unlike offices, retail and leisure, these spaces cannot be fully commercialised.

There are some very large manufacturers, but as evidence in the Oxford Economics report, 99% are SME’s. Of course, there are some very large and very small businesses in other sectors such as retail too so the comparison is relevant.
Industrial de-rating should be retained in its current form

All existing reliefs under industrial de-rating policy should remain.

As evidenced in the accompanying analysis from Oxford Economics, the loss of industrial derating would have a significant detrimental impact on manufacturing and subsequently manufacturing’s contribution to the economy and jobs throughout Northern Ireland.

The analysis demonstrates that manufacturing’s contribution to the economy outside of Belfast is disproportionately high (particularly so in Mid-Ulster, Mid and East Antrim and Armagh, Banbridge and Craigavon Council areas) so any amendment would have a disproportionate impact on these economies, jobs and wages which would in turn through manufacturing’s impact on indirect and induced GVA and jobs undermine the viability of these local economies.

Additionally, the NI Executives ambitions to grow the economy by setting its own rate of corporation tax would effectively be impotent. For each additional £100k of business rates, an additional £1.3m of profit before tax would need to be achieved in order to simply stand still – no additional funding would be released for capital investment not job creation.

The DEL “Skills Barometer” report signals that 14,000 positions will become available through to 2025, one third of which would be new posts. This analysis is based on the current business tax environment less a reduction in the local Corporation Tax rate. This analysis would be worthless with a change in industrial derating policy.

Two things are of particular significance from the Oxford Economics Report. “The impact of the increase in rates is likely to be greater for smaller firms with lower profits. The ERINI study estimates that the rate to profit proportion for smaller firms was twice that of larger firms”. The vast majority of manufacturers are SMEs and particularly sensitive to any increase in costs.

Fig. 6. Manufacturing businesses by employee bands, Northern Ireland, 2015

<table>
<thead>
<tr>
<th>Business share</th>
<th>Employment share</th>
<th>Turnover share</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-49</td>
<td>92%</td>
<td>27%</td>
</tr>
<tr>
<td>50-249</td>
<td>7%</td>
<td>23%</td>
</tr>
<tr>
<td>260+</td>
<td>1%</td>
<td>49%</td>
</tr>
</tbody>
</table>

Source: Department of Business, Innovation & Skills

Second, almost ¼ of our manufacturing is in food. This sector operates on very low margins in a market where the supermarkets are the price setter.

It is important for the Committee to note that Northern Ireland already has the fastest growing business rates in the UK, and has seen an increase of 13 percent since 2008/09, compared to average growth of just 3 percent across the other countries in the UK.
**Freight and Transport Relief**

We believe that the Freight & Transport relief should not be removed. As a guide, it cost approximately the same amount to bring a container of goods from China to Northern Ireland as it does to send a container of goods from a NI manufacturer to a customer in GB.

As already articulated, we are at a cost disadvantage. This includes the need for the critical export sector to transport goods across the Irish Sea to our main export market in GB (and onwards to Europe) and for most manufacturers to endure this additional cost to import raw materials not produced in NI and in turn transporting back out of NI through our Ports.

Removing this relief would be counterproductive meaning NI Executive targets and strategies on growing exports would be undermined.

It should be noted that Scottish Government commitment to improve road access to Ports has not been achieved yet. Removing Freight and Transport relief would be at a time when there is no improvement to access to counter this increasing cost.

P&O recently announced the cessation to the Larne-Troon route meaning there is now less competition on ferry routes. Increase cost for freight and transport would be an additional blow which would be passed on to customers increase costs in an environment where competition is diminishing.

**Should empty property relief continue at 50%?**

We have a limited understanding of its impact. However, using the rating system to encourage the regeneration of properties would provide a boost for our important construction and building products sector.

**Should charity shops pay some rates?**

Where in the circumstances where there is competition with the private sector, then they should. This could include where there is evidence that rental values are being impacted by an over proliferation of these types of businesses.

**Rural ATM exemption**

We believe there is merit in encouraging services like these in rural areas. Manufacturing, given its locations, tend to be in more rural locations rather than the cities. ATMs ensure that there are services in local areas at a time when banks are closing rural branches. Maintaining services ensures that people set up home and settle in rural areas building strong communities. They are also useful for businesses whose access to banking branches are being removed.
Should the rating system be used to pursue economic development objectives or should its primary function be to simply raise revenue?

MNI would like to see a greater emphasis on the pursuit of economic development aims. For us, this should be on the basis of maintaining existing industrial derating policies in the long term, depressing the rate poundage (regional rate and at local Council level) and seeing local councils (with their new economic development powers) focusing on rating policy on supporting business and geographic areas which add most to local GVA and job creation.

As evidenced by our accompanying Oxford Economics analysis, there is scope for significant growth in jobs (direct, indirect and induced) and GVA through manufacturing for all areas of Northern Ireland but particularly outside of Belfast. This is only achievable with the right cost conditions.

The first priority of the Programme for Government is rebuilding and rebalancing the economy. All levers available should be used to meet this aim.

More powers for District Councils to take on powers for granting reliefs

The ambition of Government is to devolve greater powers at a more local level as evidenced by some of the powers around planning and community and local economic development powers to local Councils. Giving councils the ability to flex rates to encourage economic development in specific geographic areas or concentration on parts of their local economy to match their corporate and indeed industrial and commercial sector needs would be a positive intervention.

Specifically, what was traditionally known as “Enterprise Zones” could be created to encourage capital investment and job creation. This could include reduced rate poundage, rates holidays for start-up businesses or other forms.

We do not believe there has been significant progress in this area from the NI Executive.

Should District Councils have the ability to strike separate domestic and non-domestic rates?

Business already shields domestic ratepayers from the cost of, or instance, the water system leading to NI domestic ratepayers paying the lowest household taxes in the UK. With wage rates rising through the compulsion to pay the Living Wage, the gap in pay with the rest of the UK will be significantly narrowed and so to should be gap in household taxes. The advantages would include both greater GVA and jobs contribution but also increased rates revenue as business, with large space, open or extend properties. The net effect could, in theory, result in lower rates bills for all.

In the meantime, compensation for derating should be continued.
The NAV is the fairest rating model

We believe that there is no other method as transparent or simple. Published evidence from letting agents on the positive impact the Reval has had on retail property vacancies across NI but particularly in Belfast would suggest that it is fair and reasonable.

Should public sector organisations that are funded from central government continue to pay rates?

Yes – like business they should be looking to fully utilise their property in the most efficient way possible. Indeed, we see no reason why so many government properties are located in prime Belfast City Centre areas. This is a blockage to economic development. Better value can be had by decentralising from these areas to regional towns and cities as well as non-prime locations in Belfast.

Other or additional systems for raising revenue within Northern Ireland

Yes. The continued exclusion of domestic consumers not paying direct water charges is increasingly untenable. It reduced the company and NI Executives income and increases the burden on those who do pay.

We believe there is scope in bringing more businesses into the rating system too. For instance, there are thousands of homes (and indeed some businesses) across NI with solar and other renewable technologies which are not in the ownership of the property dweller. These are businesses leasing space on the roof and other locations from the dweller and as such should be contributing to rates.
Conclusion

As previously highlighted, the analysis from Oxford Economics predicts that over the next 10 years manufacturing will grow faster in Northern Ireland provided we can create the right conditions and framework for growth than in any other region in the UK. However, we face a substantial challenges from competition from abroad and rising costs. Sustaining these levels of growth will be achieved through increased investment into new technologies and processes that will boost productivity and will be a function of the extent to which the cost base of the sector remains stable relative to its competitors. Any further pressure on costs risks exacerbating the challenges the sector already faces, potentially leading to slower growth in the sector, and with a knock-on impact for economic output and jobs all across the Northern Ireland economy.

Despite industrial derating policy, manufacturers pay more per business than any other sector apart from Energy due to their need for large spaces much of which can’t be commercialised. However, it is clear that Industrial Derating capping has been a success. It is one small competitive advantage with the UK which will become more pronounced when the gap in wages is narrowed with the introduction of the compulsory Living Wage.

Investment is stalled with uncertainty – long term commitment to industrial de-rating needs confirmed by the NI Executive.

For us, any policy makers instead should consider these questions:

1. How can we create more ratepayers through more businesses?
2. Can we improve rates collection?
3. Why don’t we commit to more regular revals?
4. Where are the promised savings from RPA?
5. Why are Councils not using existing discretions creatively?
6. Can we have long term certainty in rate poundage?
7. Everyone should pay something... if not, why not?

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Manufacturing Northern Ireland
8 November, 2016