MANUFACTURING
NORTHERN IRELAND

Reponses to the Consultation on

#Rates: Rethink

Spurring Economic Growth

16 February 2017

Introduction

Manufacturing NI represent some 550 manufacturing businesses across every constituency represented in the NI Assembly.

Manufacturing represents around 13% of local GDP and approximately 10% of total employment. With around 70% of manufacturing taking place outside of Belfast, it's 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 direct manufacturing job with a further 1.2 jobs per job supported in indirect and induced markets.

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.

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, 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

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:

http://www.manufacturingni.org/media/uploads/Manufacturing%20and%20NI%20Economy.pdf

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.

Manufacturers already pay more per business

Even after the application of reliefs, 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:

Sector	**Average Bill per business**
Industrial	**£ 34,605**
Pubs	**£ 20,849**
Retail	**£ 20,638**
Offices	**£ 16,479**
Warehouses	**£ 11,823**

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. There are, of course, some very large and very small businesses in other sectors such too, so, the comparison is relevant.

#Rates: Rethink Proposals – Response

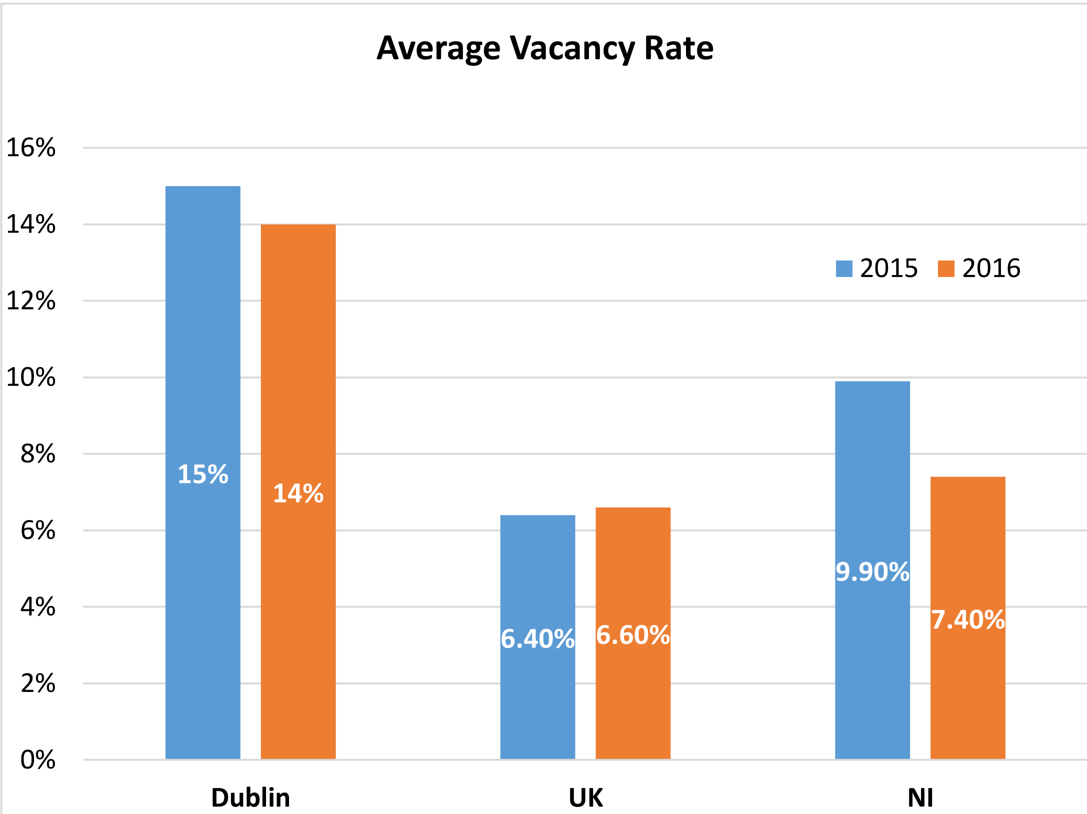
We have concentrated on the areas upon which the proposals will impact upon our manufacturing economy. We are not responding on areas within the consultation such as charity shops, domestic caps and others.

"Do you agree that the rating system should be used to incentivise behaviour?

Do you agree that this proposal will help demand for these properties? "

Primarily the market drives demand and behaviour. Of course, government policy decisions impact on the overall attractiveness of a particular property in any particular geographic location (the Rates Reval has proven that), but ultimately where supply outstrips demand, then any government policy decision may have the opposite effect to what government is attempting to incentivise.

Successive analysis from commercial property agencies show that vacancy rates in industrial property continue to decline. Indeed the most recent study from Lisney shows that vacancy is now down to 7.4%. The market is doing the work and there is no requirement to incentivise as suggested in the consultation paper.



Source: Lisney Quarter 4 2016 and 2017 Outlook.

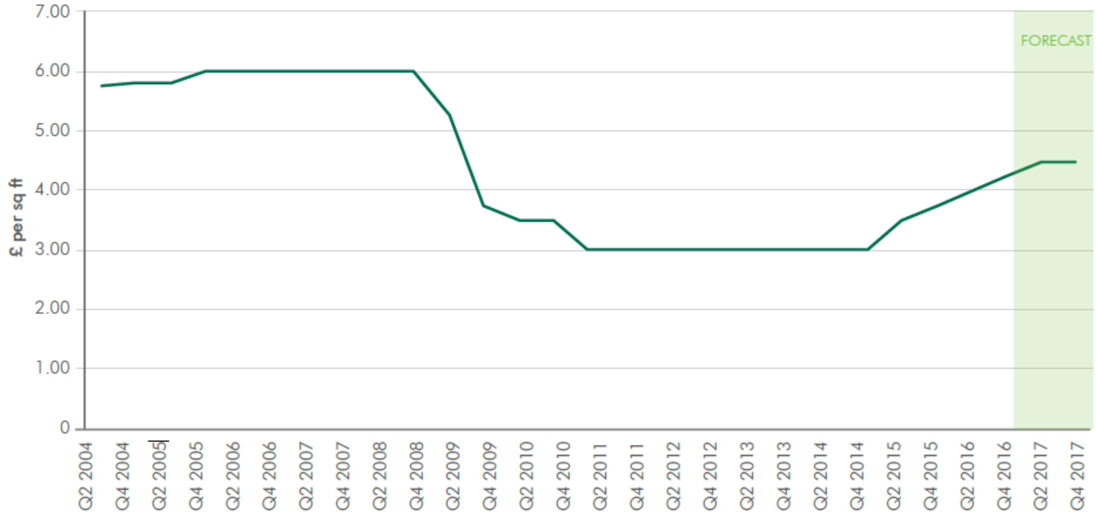
It is important to note that Lisney confirm that for speculative building to be delivered, rental incomes need to secure in excess of £5 sq. ft., yet rents are not breaking £4 sq ft and not forecast to do so in the near future. This represents 20% less than the rental incomes required to secure funding to speculatively build.

CBRE's Industrial Outlook for 2017 goes further:

> *"A number of design and build options are being marketed at the present time with rents in excess of £6 per sq. ft. in order to make the projects viable. Despite anticipated rental increases in 2016, industrial rents will not rise to the point where speculative development is viable and so for this reason we are not expecting to see any significant new industrial accommodation emerging other than specific expansion and 'design & build' projects."*

Rental rates continue to be significantly below this £6 per sq. ft. rate required to meet lending expectations to deliver speculative build. Indeed, this £6 per sq. ft. rate has not been seen since 2008 and not forecast to return.

FIGURE 5: PRIME INDUSTRIAL RENTS NORTHERN IRELAND 2004 – 2017 (F)

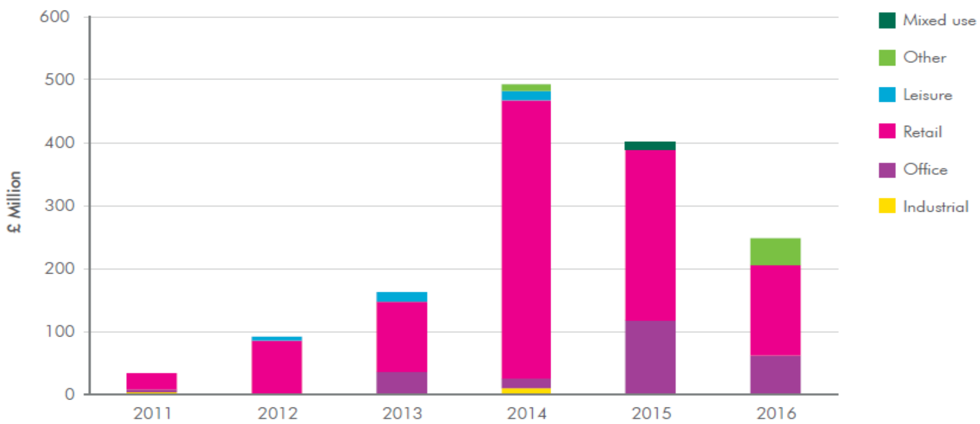


Source: CBRE Research

It is important to note, the rental values are based on both manufacturing and warehousing. Commercial agents confirm that warehousing achieves the upper end of this scale with manufacturing units achieving significantly less. We are aware of some units on the market for £1.50 per sq. foot with additional enhancements being offered to try to secure a tenancy.

In addition, CBRE make it clear that this lack of value has resulted in a little investment in new speculative industrial property. Adding costs to vacant industrial property will not create a market which does not exist.

FIGURE 7: INVESTMENT SPEND NI 2011 – 2016



Source: CBRE Research

The consultation proposals will come at a time when there is no logical likelihood that demolition would result in new stock being funded and built in its place. Instead, reasonably good property will not be available to let, sub-divide or sell limiting the opportunity for new businesses to emerge, as temporary space to meet manufacturing expansion and for others to grow.

Are there other reasons why empty factories should not incur a vacant rating charge?

> ***We believe that this proposal will penalise rather than incentive bringing vacant factory properties more quickly into economic use resulting in damage to our economy, jeopardising jobs throughout NI and undermine efforts to rebuild the NI economy.***

When asking this question, it is important to understand why factories may still be vacant and the impact that any decision to change policy will have.

Much of the available vacant properties are within sites designed and built for a specific manufacturing need and location (including access to resources, skills and supply chain as well as historic economic development support from the NI Government and its agencies). The Department's consultation concedes this:

> *"The Department recognises that there will be various reasons why these factories are lying vacant. This may include the fact that they are in 'hard to let' locations, are unsuitable for alternative purposes e.g. sub division/storage or have been abandoned for many years are and are now derelict."*

In addition to your comments, MNI are aware of a number of properties, former bespoke factories, which are currently sub-divided but have space which cannot be developed, used nor indeed demolished. **Indeed in some instances, to demolish would in turn require already unusable economic space to be demolished and with it the loss of jobs.** Should this unusable vacant space on these sites be liable for rates, then this would add significantly to costs making these businesses uncompetitive and putting jobs in jeopardy.

One example is the use of the old Hoechst factory in Limavady. Built specifically for Hoechst's needs, the closure resulted in almost 450 jobs lost. No suitable replacement had been found. Instead, the space is now sub-divided and is home to number of smaller manufacturers and businesses thanks to the efforts and enterprise of local owners. This has taken time particularly in a difficult business environment. The developers of the site tell us:

> *It has been a difficult journey to bring this space back into use and to try to replace the 450 jobs which used to be here as well as the 1,000 lost when Seagate closed. The economy is the North West is well behind the rest of NI and the UK and Ireland. Much of the useable space is now utilised. What's left is space which worked OK for Hoechst, but simply not adaptable for any other tenant. It is space which we cannot let and indeed we cannot remove without putting the businesses here creating value and jobs out. The proposal would essentially mean what we have created here would be jeopardised and put jobs at risk – jobs the North West and Limavady in particular cannot afford to lose.*

Invariably these large sites, designed and built for a specific process, have been brought back to life through sub-division. The creation of space for micro and small manufacturers some of which are beginning their business life. 99% of manufacturing firms are SME's (less than 250 employees). One aim of the new Economy 2030 plan is to nurture and grow these firms to make bigger contribution to the economy and jobs. Adding significantly to costs would have a strangling effect on this ambition. Instead of incentivising investment it will strip away available funding to invest in plant and machinery (critical to improving productivity and sustaining jobs), new property, market development, R&D and creating jobs.

It should also be noted that due to other government incentives, notably support for renewable energy projects, many vacancy sites do not and cannot currently receive a suitable power supply to meet the heavy needs of manufacturing. There is much commentary on the current usefulness of our electricity grid. NIE Networks are unable to provide a supply (or increase a supply) to many sites, particularly in the West. This is due to rapid growth in renewable energy generators (mostly wind) and not to an increase in demand (which has continually declined over the past 10 years).

Many sites may be currently unoccupied as their energy supply has been removed and are awaiting suitable supply being made available in the area once again. The proposal would encourage these sites to be removed and the opportunity to create jobs lost.

The commercial property agents have the best, contemporary understanding of supply and demand. In its latest report and outlook for 2017, leading property firm Lisney make it clear that the proposal to remove the 100% vacant relief will be counter-productive.

Lisney's view is that this proposal rather than incentivise would instead penalise and result in negative outcomes:

> *It could also be argued that the introduction of substantially increased holding costs in the form of vacant rates and/or a derelict land levy further diminishes the prospect of development.*
>
> *Speculative industrial development is often not feasible in established commercial locations let alone secondary/tertiary commercial sites where a large proportion of long term vacant industrial space currently exists and due to the scale of industrial properties these proposals have the potential to create vacant holding costs in the tens if not hundreds of thousands of pounds.*
>
> *It is unlikely that further incentives for Landlords of long term vacant properties will result in increased tenancies as, in the majority of instances there simply isn't the occupier demand.*

Rather than create an incentive to use, demolish and replace, which will the market suggests that support rather than penalty is required. In its report for Invest NI in 2014, consultants RSM McClure Watters suggested that:

> *"Commercial agents and developers were strongly of the view that a new supply of industrial units will only be made available with the assistance of property interventions. Agents and developers suggest that were industrial occupiers are seeking new buildings, the pricing of these buildings would have to reflect construction costs, site values and other development costs rather than market values. A potential government intervention may be to provide gap funding for developers. The current Property Assistance Scheme is only available to Invest NI qualifying businesses as part of a larger economic aid package. One developer*

suggested the Private Developer Agreement (PDA) scheme previously run by the IDB could provide a suitable model. The PDA scheme provided gap funding between development costs and market values, with the developer working in conjunction with an Invest NI qualifying business to provide the required accommodation."

Our own experience and evidence from commercial property agents and indeed from the research produced for Invest NI demonstrates that there is demand for new build properties in excess of 50,000 sq. ft.

They also confirm that demand for properties less than 20,000 sq. ft. remains strong. This demand is being met from sub-division of available useable space in existing property.

Demolition is not an option

The consultation also confirms that:

"The Department recognises that this may lead to a number of properties being demolished in order for them to be removed from the valuation list, however it should be noted that such sites, if not redeveloped, could fall within the framework of a derelict land levy that is currently being assessed by the Ulster University's Economic Policy Centre."

As outlined above, demolishing with the aim to redevelop as new build industrial units is subject to tenant demand and rental values with are not achievable.

Demolishing with the aim to develop for alternative uses is again not viable given the proposed Derelict Land Tax Levy. This option is further restricted by our planning system. Planning Policy Statement 4 (PPS4) and PED 7 restricts the ability of zoned employment land or land previously used for employment uses being converted to alternative uses.

Experience tells us that torn down factories converted to derelict land is returned to industrial use. This proposal effectively does double damage our re-industrialisation potential and ambition.

Manufacturing Costs

The latest, January 2017, report from the Office of National Statistics spells out the significant cost inflation pressures being endured by manufacturers in the UK.

UK, August 2016 to January 2017

Percentage change

		All materials and fuels purchased		Imported materials and fuels purchased	
		1 month	12 months	1 month	12 month
2016	Aug	0.3	7.8	0.3	9.2
	Sep	0.4	7.6	0.2	8.9
	Oct	4.4	12.4	4.5	14.0
	Nov	-0.6	13.5	-1.4	14.7
	Dec	2.7	17.0	1.8	17.6
2017	Jan	1.7	20.5	2.1	20.2

Source: Office for National Statistics

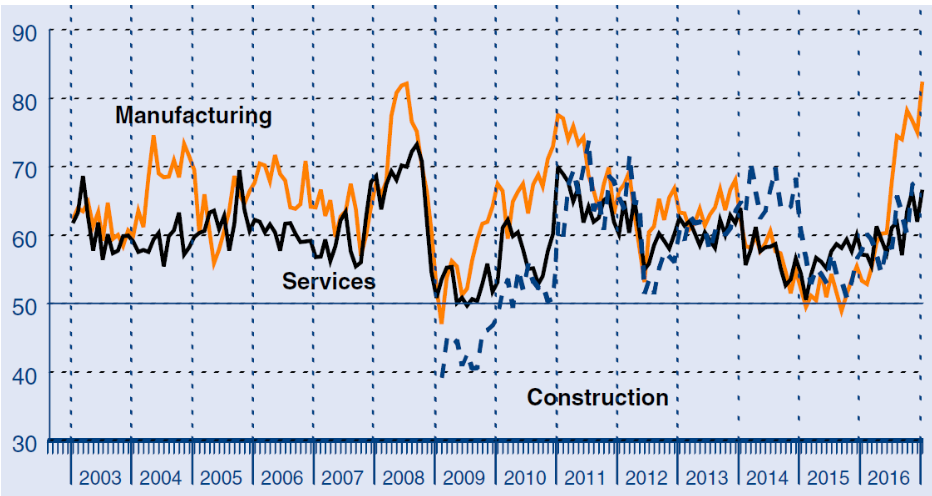
These costs are not being reflected in output prices which saw just a 3.5% rise in the 12 months to January 2017.

Northern Ireland's manufacturers are already a significant cost disadvantage over and above cost pressures endured by the UK as a whole – our geography alone means they are at the physical end and the beginning of the supply chain which brings costs others do not face.

The latest Northern Ireland PMI figures below (from Ulster Bank and Markit) also demonstrate the significant cost inflation being endured by the sector here (see table and chart below). Firms are already in a cost crisis with consumer and customer prices rising at a rate up to 6 times less than the rise in input costs.

Inflicting an additional rates burden now in particular will put some out of business.

	Construction	**Manufacturing**	**Services**
November 2016	52.0	**60.6**	51.3
December 2016	56.5	**58.4**	51.2
January 2017	58.0	**63.1**	52.5



The Department should also note that, as uncovered by Oxford Economics for MNI in 2016, Northern Ireland already has the fastest growing business rates in the UK with an increase of 13% since 2008/09, compared to average growth of just 3% across the other countries in the UK.

With the Regional Rate being subject to an inflationary rise only, it is clear that the District Rate is driving this rise. The anticipated and promised savings from the Review of Public Administration have not materialised.

It takes time to secure a tenant

Marketing a vacant factory property in the hope of attracting an occupier with similar accommodation needs is a lengthy process. For instance a 130,000sqft property in Castlereagh was vacant 5 years and a 60,000sqft factory in Springtown, Derry vacant 9 years.

Vacant rates proposals will compound this lengthy process, restrict the ability in invest in both the property and in attracting new occupiers and will possibly push owners towards demolition, thus withdrawing the opportunity of these buildings being of use to business occupiers later.

Sub-dividing the premises into smaller incubator manufacturing space is again time consuming as works are subject to statutory approvals. Vacant rates proposals will again restrict the ability to invest in the property or alternatively push up non-achievable rental levels to compensate which will only further stifle business growth.

Insurances and Site Costs

Empty properties already endure ongoing significant costs. Vacant sites are viewed as a risk and require hefty insurance cover as well as securing the sites. These costs alone ensure that there is active efforts to secure tenancy and use.

This is confirmed by Andrew Stevenson, Managing Partner of insurer Caulfield Corporate:

> *Commercial Property Insurance for the Manufacturing sector already commands higher rates than that for other Commercial premises, including Retail and Offices. Depending on the occupancy of the Manufacturing Plant insurers will apply rates that can be at least double.*
>
> *To further compound matters, when a Manufacturing unit becomes unoccupied it can present difficulties when trying to obtain Insurance cover. Not only will the rates charged be a multiple of an occupied premises rate, it is likely that Insurers' will only offer limited coverage and impose additional terms and conditions, particularly in relation to housekeeping and fire and security requirements, all adding to expense of maintaining the premises.*
>
> *Insurers are concerned about the increased exposure to Malicious Damage, Fire and Theft. There is also an increased exposure to Property Owners Liability, as the unoccupied premises attracts trespassers.*

Michelin Broughshane

The Department will be aware of plans by Michelin to close their facility in Broughshane in the next 18 months. Hopefully the Department are also aware of the offer made by the company to effectively 'gift' the site to a manufacturing company prepared to create 400 jobs on the site. Invest NI are actively marketing this opportunity to firms at home and abroad. MNI have also facilitated visits from Northern Ireland firms.

Should the Department's proposal be advanced, then this increased the likelihood that Michelin will demolish buildings on the site (they are exiting NI after all) and with it remove the opportunity for 400 jobs to be created.

Impact of the UK's decision to leave the EU

The decision by the UK to leave the EU has had a profound impact on business investment. The Bank of England's latest forecast suggests that the UK economy in 2019 will still be 1.5% smaller than it could have been if the UK had decided to remain in the EU. They expect business investment continue to fall. Sir Jon Cunliffe said "Business investment is expected to remain very weak. Business investment had flagged in the years after the financial crisis, averaging at 1.5% annually compared to 3% in the 40 years to 2007. This is despite the improved availability of credit in the past number of years.

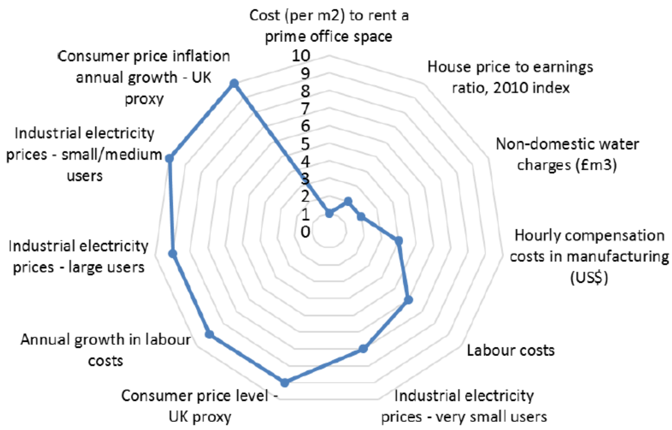
NI's economy continues to lag significantly behind the UK as a whole and 'Brexit' brings very particular local difficulties given our location, dependence on EU funding and the border.

If NI is to compete in a post-Brexit economy, then competitiveness needs to be significantly improved rather than damaged.

NI Executive Economy 2030

The ambition of the new Economy 2030 plan is to have one of the top 3 most competitive small economies in the world. Further, it seeks to ensure that jobs are shared across Northern Ireland.

The Plan outlines that "Economic competitiveness can be defined as 'the set of institutions, policies and factors that determine the level of productivity of a country'". It further points to the work of the EAG's report on competitiveness. Prices and costs are regard as "Essential Conditions" for making NI work better. Our manufacturer are in the wrong scale (even using these limited measures of input costs) and drifting further out.



Source: UUEPC

It is difficult to see how the proposals presented in the consultation will assist in meeting the aims on this plan for the NI economy.

Additional Comments on the Consultation Proposals

The Importance of the Retail and Leisure in the Rural Economy

As uncovered by the Oxford Economics study (above), manufacturing is largely concentrated outside of the cities. Local jobs for people wishing to contribute to their local economy and local community.

For these jobs to be filled and remain attractive, then the towns, villages and townlands need to remain attractive places to live.

Additionally, particularly for our (large and small) food and hospitality manufacturers, small retail and leisure businesses provide loyal and local market access.

On that basis, MNI support the proposals to provide enhanced relief to retail and leisure properties with valuations below £25,000. This will help retain these important services in towns, villages and townlands maintaining their attractiveness as places to live, be educated and find employment.

Empty Property Rates - Are there reasons as to why vacant property should be treated differently to other regions?

NI has the smallest population and the smallest economy of the 12 regions of the United Kingdom and still suffers from economic, social, legacy and geographic difficulties not present in the rest of the UK.

We are not aware of anyone who deliberately holds property after losing a tenant with no intention to develop – adding costs will penalise rather than incentivise development.

Should a 75% charge apply?

We believe the 50% rates for vacant commercial properties after 3 months offers a fair incentive to develop and let.

For many, the existing 50% empty rates charge as already regarded as a significant cost given the rise and fall in the local property and rental values in the commercial property sector in particular and more than anywhere else in the UK.

Increasing it to 75% could cause significant hardships for many commercial landlords and limit capital available for refurbishment and redevelopment.

Summary

We are content with the ambitions to us the rating system to encourage economic rejuvenation. Many of the proposals outlined in the consultation would have our support. However, the proposal to apply 100% rates to empty factory space has the potential to cause real harm our economic development ambitions including jeopardising jobs.

- Rather than incentivising owners of vacant factory space to bring some spaces into economic use, we believe that the proposals will be detrimental to achieving the consultations aim.
- When former factory space falls vacant it exceptionally difficult to re-let given their specialised/bespoke build. The proposal will simply penalise owners and tenants undermining competitiveness.
- Vacant sites already have ongoing costs which drives efforts to secure tenancy.
- Many properties are in geographic areas of limited demand, but within TSN areas and areas of focus for the new Economy 2030 plan.
- Inflicting rates will encourage widespread demolition but market values do not exist to replace with useable space. However, the proposals will penalise investors for retaining factories and presenting the opportunity for economic business growth while on the other hand current planning policy acts to restrict the ability of property owners from converting factory sites, which are beyond their economic life, to more financially viable uses.
- Elsewhere in the UK, landlords can reduce rents to encourage demand. However, locally rents are already significantly lower and cannot feasibly be reduced further on older stock so imposing a cost would only encourage demolition of building further reducing the available stock.
- However, rental value are considerably lower than the level needed to justify building new replacement premises.
- Demolition of these spaces would jeopardise the existing jobs on these sites, mostly in provincial areas.
- Much of the old space meet the demand from those looking for spaces less than 20,000 sq. ft. These spaces provide opportunities for business starts and meet temporary space needs. Adding rates to currently empty spaces risks losing these altogether.
- If the proposals are accepted the sector will become unattractive for property investment resulting in manufacturers being pushed into owner occupation. With more capital tied up in bricks and mortar, manufacturers will have less opportunity to finance R&D and business growth
- MNI believe the whole of Government should be on encouraging the manufacturing by maintaining important reliefs and not adding cost to a sector already over-burdened.

As Oxford Economics report in their 2016 research on the manufacturing sector in Northern Ireland…

> *"… when manufacturing grows, the whole economy grows with it."*

However, they also offer some caution…

> *"… reduced competitiveness of the sector puts at risk the thousands of jobs and livelihoods that the manufacturing sector supports in communities across the region."*

If we are to capture the growth of manufacturing forecast by Oxford Economics and envisioned by both the UK and NI Government's 'industrial policy' then we should be encouraging more industrial space, not providing incentives to remove space.

It is our view that this proposal to apply rates on unused factory space would be completely counter to the stated aims of the Consultation by removing space providing economic value and jobs (and indeed rates income).

MNI would advise that a full analysis, including site visits, be conducted before proceeding. This should include a contemporary market analysis of demand and supply, rental and capital values versus construction costs and lending appetite for speculative build.

Manufacturing NI are happy for this response to be published.

Stephen Kelly
Chief Executive
Manufacturing NI
16 February 2017