Northern Ireland Chamber of Commerce and Industry

NON-DOMESTIC RATES CONSULTATION

Response from the Northern Ireland Chamber

February 2024

Non-Domestic Rates Consultation

About NI Chamber

With 1,000 members, representing over 105,000 employees, Northern Ireland Chamber of Commerce and Industry (NI Chamber), has supported the development of the economy for almost 240 years and is 100% funded by the private sector. We work across all of Northern Ireland, helping SMEs to grow and export and larger firms to thrive.

Our membership spans businesses across key sectors including manufacturing, construction, professional services, and a broad range of wider services. NI Chamber consults with these members on a regular basis, around all issues/concerns that they face in doing business locally, nationally, and internationally.

Introduction and Background

NI Chamber welcomes the opportunity to respond to this consultation. As a cross sector business organisation that represents businesses, of all sizes and sectors operating throughout the region, we are uniquely placed to provide a perspective on the importance of the industrial de-rating relief and freight transport relief, amongst others. We see firsthand the opportunities it provides to the economy including regional balance~~,~~ and to the competitive position of Northern Ireland as a region of the UK, on the island of Ireland, Europe and on the world stage.

Principle of Revenue Raising and Non-domestic Rates

Ever since the publication of the Northern Ireland Fiscal Council's report[1] confirming that Northern Ireland is underfunded based on need, NI Chamber, representing the broad interests of the business community, has been advocating publicly for a revision of the Barnett Formula to reflect need.

[1] NI Fiscal Council, Sustainability Report 2022, 7 September 2022

We have cautiously welcomed that the UK government has accepted the principle, however, we recognise that the current one off £3.3 billion package on offer leaves a significant in year funding gap and does not significantly contribute to the longer term path towards a stable, sustainable funding model for the Executive. What is more, it is further understood that the UK government requires the Executive to demonstrate a commitment to raise revenue using its existing powers to address the deficit, and this forms the basis for this consultation, amongst others.

NI Chamber accepts that revenue raising may be required to form part of the exercise in revenue raising and would draw attention to super parity measures such as water and waste in the first instance. However, as we have consistently articulated, it is our view that revenue raising is fraught with political difficulty in a coalition government and, on its own, it will not meet the financial gap or provide the government with the ability to transform itself and the economy of NI. That is not to say that there are not some opportunities with the less controversial suggestions, but we need to be realistic and look to a new long-term fiscal model for NI.

In addition, we believe there is a critical preliminary step that must be carried out at pace prior to the consideration of the broad subject of revenue raising. It has long been identified that whilst resources across Executive Departments are invariably constrained, it is also the case that there are clear examples of cultural challenges, duplication, inefficiency, and ineffectiveness.

As a case in point, the 2023 NI Audit Office Report on Public Procurement identifies,
"Undue risk aversion also drives the application of complex procurement processes and a strict emphasis on compliance. This contributes to slower decision making by public sector buyers and/or commissioners and imposes unnecessary red tape and bureaucracy on suppliers. These processes are inherently inefficient, designed to provide confidence to officials they are doing the right thing rather than to deliver an efficient process."[2]

As a further example, the Northern Ireland Fiscal Council commissioned Nuffield Trust to look at the sustainability of our health service in 2022. Nuffield found that hospital costs for in-patients, out-

[2] Northern Ireland Audit Office, Public Procurement in Northern Ireland Report, 25 April 2023

patients and day cases were 36% (£410 million) higher than in England (where meaningful comparisons could be made), and the average unit cost of patients admitted to hospital has increased by 28% in NI 2016-22, compared to an 8% increase in England over the same period.[3]

It therefore follows that any further revenue raising must be on the premise that further funding is needed for efficient, lean, and effective public services. The starting point for that must be a swift, independent review of public services to underpin confidence and ensure that in an inflationary, high-cost environment, businesses of any kind are not burdened with additional costs to fund inefficient services that do not deliver value for money.

NI Chamber's most recent Quarterly Economic Survey underlines manufacturing continues to face challenges with weak domestic and export balances and confidence around growth against an increasingly testing competitive environment. An inflationary environment continues to persist affecting affect around 3 in 5 manufacturers in our membership at the end of Q4 2023. Rising labour costs is now the dominant pressure driving pressure to raise prices, affecting 92% of manufacturers over the same period. It is worth noting in the wider debate on revenue raising through the rates system that in the services sector the pressure to raise prices is also coming from rising labour costs with 91% of services firms telling us that is the key pressure point. In the context of National Living Wage rising by almost 10% with effect from 1 April 2024, any additional cost pressures would be most untimely.

For these reasons, an independent review of public spending must be carried out as a pre-condition to any revenue raising measures, including raising the regional rate, and/or reducing or eliminating any of the existing reliefs subject to this consultation, with a particular emphasis on those that deliver value for the Northern Ireland economy and its competitiveness. This is also noted in the context of more substantial reliefs being made available in England in respect retail, hospitality and leisure properties in 2024/25 that will not automatically be available in Northern Ireland.

Raising the non-domestic regional rate and/or the reduction of corresponding effective reliefs should not be opened for debate as and until a short, sharp exercise is undertaken in respect of public spending.

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[3] Nuffield Trust, Future funding and current productivity in Northern Ireland's health and social care system, September 2022

It is also the case that for over a decade Northern Ireland has not had an agreed Programme for Government with Executive-led strategic priorities. If it is the case that Northern Ireland is to have a new fiscal framework, all strategic decision making, including revenue raising, should be tested against the strategic priorities for Northern Ireland. This again needs to be advanced at pace, before measures that risk having a material adverse effect on our economy are considered. For avoidance of doubt this includes all non-domestic reliefs subject to this consultation, including but by no means limited to industrial de-rating and freight transport relief.

The Value of the Manufacturing Sector

The retention of Industrial de- Rating in particular would be consistent with the intended promotion, growth and protection of advanced manufacturing as a key growth sector as identified in the 10x economic vision from the Department for the Economy.

Manufacturing has been a key driver for the Northern Ireland economy for generations. Accounting for 11% of employment and over 15% of GVA. In doing so it has a wider “ripple affect” on the economy. In terms of exports, manufacturing accounts for almost 2 out of 3 three export sales with a further £10.5bn in external sales to the rest of the UK.

It does however operate as a sector that is highly sensitive to cost. For example, whilst there were several underlying factors contributing to the significant 2,700 job losses in manufacturing in Mid and East Antrim through the closure of JTI Gallagher and Michelin over the last number of years, sharp rises in costs, particularly energy were identified as principal causes.

Given the protracted inflationary environment over the past 18 months and the increasingly tight labour market, Northern Ireland’s manufacturing sector would be particularly vulnerable to any sharp increases in cost, including but not limited to either an overall rise in the regional rate or the reduction or removal of industrial de-rating.

Critically, manufacturing is also one of the most important drivers of regional balance across Northern Ireland. For example, Mid Ulster produces 7.3% of Northern Ireland’s economic output – that’s

£2.075 billion in gross value added – and 12% of Northern Ireland's exports. With the area supporting a world leading cluster of high-growth advanced manufacturing and engineering firms that produces over 40% of the world's mobile crushing and screening equipment, it contributes 20% of the region's manufacturing employment.

Sustaining and retaining Northern Ireland's world leading role in many manufacturing sub sectors will require substantial investment in innovation and decarbonisation in the next decade to keep pace with global competitors. Any further cost pressures, including wage and energy related pressures will only risk slower growth, with limited resources and capacity to invest as required to remain competitive and energy efficient.

Industry is broadly supportive of decarbonisation and there is a material opportunity to present Northern Ireland as a destination for "greenshoring" if we are to make substantive progress in the next 6 years towards our ambitious 2030 targets. However, significant investment will be required to drive the necessary changes.

According to the UK Committee on Climate Change's most recent advisory report on Northern Ireland[4], *"Industry in Northern Ireland should cut fossil fuel use by 45% by 2030. Achieving this will require a coordinated combination of resource efficiency, energy efficiency and fuel switching. By 2030 it is unlikely that sites in Northern Ireland will have direct access to carbon storage and hydrogen networks, suggesting a greater role for electrification. This sector will need strong support to make the required changes and ensure that production is not transferred overseas."*

The indications are already clear that large industrial firms will have to carry a significant proportion of the energy transition costs. For example, under the draft determination of NIE Networks' RP7 Business Plan, large business users would see an 11%-19% increase in the network element of their electricity bills.[5] This is in addition to any additional input costs arising from the roll out of the – as yet unclear - UK's equivalent to the EU's Carbon Border Adjustment Mechanism, all with the intention of supporting the challenging decarbonisation of the energy intensive sector.

[4] UK Committee on Climate Change, Advice report: The path to a Net Zero Northern Ireland, March 2023
[5] Utility Regulator, RP7 Price Control Draft Determination for NIE Networks, November 2023

When it comes to innovation, Northern Ireland has historically lagged behind other parts of the UK on innovation spend. However, there is an opportunity with the vision of a 10X Economy set out by the Department of Economy to foster innovation to retain our competitiveness. Its aim is to focus on innovation in areas of competitive advantage, including in advanced manufacturing, to deliver fundamental change resulting in a 'ten times better economy', which benefits all people, businesses and places. The aim is admirable and undoubtedly there is an improving base from which to work.

In addition, a number of the Growth Deal investments will help to boost innovation in the industrial sector, provided that the financial conditions enable their buy-in. It must be stressed that further cost pressures-will hamper the ability of the innovation ecosystems to flourish as the 10x vision would demand.

Post-Brexit Trading Arrangements

A key argument behind retaining the de-rating relief and freight transport relief was to take account of the additional costs involved in trading in Northern Ireland with the rest of the UK because of geography and scale, putting Northern Ireland at a competitive disadvantage.

The Post Brexit trading arrangements in goods for Northern Ireland have added both opportunity and challenge for large scale industry depending on the sub-sector and nature of supply chains. As a result of the "at risk" test as applied under both "the Revised Northern Ireland Protocol, and subsequent Windsor Framework" goods entering Northern Ireland for commercial processing of any kind are by default deemed "at risk" of entering the EU subject to a number of clearly defined exceptions, and as a result, such goods are subject to the full rigors of customs and regulatory processes at the point of entry. Notably, almost 1 in 3 respondents to a recent Northern Ireland/Invest NI survey indicated that they found purchasing goods from Great Britain as "difficult" under the arrangements as they stood at the end of last year[6].

[6] NI Chamber Invest NI Trade Survey, December 2023 (Caveat, this survey attracted a response rate of 83, and was circulated to an NI Chamber membership in excess of 1000)

However, 71% of respondents to the same survey[7] indicated that barrier free market access to the EU and GB markets was good for business and economic growth. Such dual market access has broad cross sector support and with a unique definition for qualifying food and feed business operations in NI now applying to avail of unfettered access to GB, there is scope to develop further opportunities. Current official trade statistics would indicate that this unique market access has delivered positive results to date in absence of an Executive strategy.

There is a material opportunity to use this unique trading position as a competitive advantage for Northern Ireland in key 10x sectors like life sciences, agrifood and advanced manufacturing. However, it requires the presentation of a proposition made up of many constituent parts, which at present includes the de-rating relief. Again, any move to undermine this proposition would be ill timed, and perhaps create more challenges than it is intending to solve.

It is worth noting that NI Chamber's Q4 2023 QES survey revealed that the number of manufacturers concerned about increased competition had doubled over a 12-month period. It therefore follows that in addition to mounting inflationary cost pressures and trying to compete with more favourable migration and corporation tax rates in the Republic of Ireland in particular, removing industrial de-rating would be a step too far for our manufacturing sector in such challenging times.

It is important that manufacturers are supported effectively as they adapt to the changes presented by the trading arrangements. They should not be subjected to a sharp increase in additional costs at the same time, which could have a very negative impact. Additionally, those that can benefit significantly from thee trading arrangements need to be supported to expand and increase their investment.

It is vital that Northern Ireland has a series of distinct competitive advantages if it is to become more sustainable and conducive to private investment. Removing industrial de-rating would undermine one of these unique advantages at a time when industry needs this support to thrive.

[7] *Ibid.*

EU Competition Approval

AS regards Industrial de-rating in particular, it worth noting that it operated as a relief in the UK prior to accession to the EU and accordingly was classified as an ‘existing aid’. Such existing aids do not need to be notified, however there was always the possibility that the European Commission (EC) could challenge this.

Notwithstanding EU Exit, EU Competition law continues to apply in Northern Ireland under the scope of Article 10.1 of the Windsor Framework which provides,
“EU State aid rules will continue to apply to the UK in respect of measures which affect trade in goods or the electricity market between NI and the European Union (“EU”).”

The risk therefore in any swift move to reduce or eliminate the relief is that if the decision was to be reversed, there is a question over whether it would require notification to the European Commission, creating further unnecessary uncertainty for trade and investment in the sector.

Concluding Remarks

As the new Executive begins to discuss and agree its priorities, it is imperative that an agreed ambitious economic vision is at the centre of any new programme for government, and any difficult decisions should be addressed through the prism of that vision.

In respect of industrial de-rating NI Chamber acknowledges the progress that has been made by the Department for the Economy to date in identifying key sectors for growth in its 10z vision, which notably includes advanced manufacturing.

It is important to underline the beneficiaries of Industrial de-rating in our past and economic future, and the value it plays in regional balance and this should not be undermined. Particularly as it is a sector under considerable inflationary and competitive challenges at present.

To remain competitive and unlock economic opportunities in 2024, investment must be focused principally on rapid decarbonisation and investment in innovation as we approach challenging 2030 climate change targets. Any step to increase an already significant burden on business as a means of revenue raising would be ill timed and cut across these key objectives.

The widely reported fiscal challenges, and debate on revenue raising is a discussion that NI Chamber is ready, willing and able to engage in with the benefit of our cross sector regional focus. However, we would strongly underline that public services must deliver value for money, and with numerous examples of an inefficient and unduly costly system at present, a short sharp independent review of public spending must be a pre-requisite to any discussion about using non-domestic rates levers as a means of revenue raising.

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