Response to Department of Finance consultation on non-domestic rating measures to support budget sustainability by raising additional revenue.

13 February 2024

Summary

The Northern Ireland transport and storage sector added £1.4 billion to the economy in 2021. There are over 6,000 logistics businesses and over 65,000 people employed in logistics roles across the north. The logistics industry is essential for the movement of goods within, to, and from Northern Ireland.

Given the critical role logistics plays in underpinning the economy, and the uniqueness of Northern Ireland, not least given its geographical location, we welcome the opportunity to respond to this consultation specifically in respect of the Non-Domestic Rating Measures. On behalf of our members we have set our reasoned opposition to any removal of industrial derating, non-domestic vacant rating relief and freight transport relief given the detrimental impact it would have on NI's strategic industries, of which logistics is one, and on NI's economic competitiveness and at a time when businesses are facing significant local and international challenge.

About Logistics UK

Logistics UK is one of the UK's largest business groups, representing the entire logistics industry and supporting, shaping and standing up for safe and efficient logistics. Our membership of more than 20,000 includes global, national and regional businesses and SMEs spanning road, rail, inland waterways, sea and air as well as the buyers of freight services, such as retailers and manufacturers. As an organisation, we deliver services, representation and thought leadership, helping members and policy makers to seize new opportunities for the sector and the economy as a whole, right across the country.

What we represent

Logistics is a sector delivering an increasingly safe, sustainable and efficient system of national infrastructure – creating opportunities across the UK and linking the UK to the global trade network. Spanning land, water and air, it delivers for everyone, everywhere, every day.

- Logistics delivers big public value on small margins, ensuring the availability of the products households, businesses and public services rely on. It moves goods more than 200 billion tonne-km within the UK per year and enables the trade of more than £1 trillion of goods, while working hard to avoid adding pressure to the cost of living. This is a challenge with fuel and energy costs at a historic high and restrictions on logistics growing.

- The sector delivers smart, green, resilient growth and jobs. It contributes £163 billion to the economy each year (12% of UK non-financial GVA), employs 2.7 million people (8.2% of the UK workforce), pays £5 billion in revenue to Treasury through Vehicle Excise Duty (VED) and Fuel Duty, in addition to other taxes. It is becoming ever more innovative and integrated – within businesses and between logistics sites and transport modes. Its key hubs provide a catalyst for further growth and investment, helping places to thrive.

- Logistics delivers for the future, as an essential system for growth. It underpins the whole economy, with an economic footprint three times larger than its direct GVA contribution, with the public sector and other private sector businesses spending 15% of their total input-related spending on logistics services per year.

Consultation response

The Northern Ireland transport and storage sector added £1.4 billion to the economy in 2021. 50% of this output is delivered by the land transport industry, 9% by the water transport industry, 4% by the air transport industry, 22% by the warehousing industry, and 14% by the postal and courier industry (*Source: Office for National Statistics, 2023. Regional gross value added (balanced) by industry: all ITL regions)*. There are over 6,000 logistics businesses and over 65,000 people employed in logistics roles across the north. The logistics industry drives trade and the local economy. Our sector is essential for the movement of goods within, to, and from Northern Ireland. Given the critical role logistics plays in underpinning the NI economy, we welcome the opportunity to respond to this consultation specifically in respect of the Non-Domestic Rating Measures, and set our reasoned opposition to any removal of industrial derating, non-domestic vacant rating relief and freight transport relief given the detrimental impact it would have on our members and NI's economic competitiveness, and at a time when businesses are facing significant local and international challenges.

Removal of Industrial Derating from the rating system

Q1 Should Industrial Derating be removed?

Q2 What, in your view, would be the impact of removing this support?

Logistics UK is opposed to the removal of Industrial Derating. Industrial derating incentivises inward investment, and demonstrates both a recognition and commitment by the NI Executive to support the manufacturing sector and the logistics industry which is critical to the supply chain of manufactured products.

Manufacturing is a key sector in the NI economy, and there is a close relationship between manufacturing and logistics. Manufacturing represents approximately 89,540 jobs and over 1 in 10 employees (Source: *NISRA, Quarterly Employment Survey, December 2023*). As set out by Manufacturing NI in the previous Department of Finance consultation on Business Rates Review in 2019, manufacturing via direct, indirect and induced economic inputs contributes over £10bn to the NI economy. It leads NI's external sales to GB and export sales which the logistics industry facilitates. As an energy intensive industry, it has had to absorb high energy costs, and logistics businesses servicing the sector have had to absorb high fuel costs as well as new post Brexit costs of doing business. Industrial derating in some way offsets NI's higher energy costs.

Any additional increase in costs created by the removal of this relief would put manufacturing, and by association the logistics sector in Northern Ireland, at a further disadvantage compared with competitors in GB and the Republic of Ireland. It would result in job losses, would reduce economic growth and drive companies to relocate away from Northern Ireland to places like the Republic of Ireland where rates are typically one third of the level in Northern Ireland. This additional, significant cost on the manufacturing industry would also severely constrain investment by the manufacturing and logistics sectors to adopt innovative and sustainable practices and processes as they strive to meet ambitious net zero targets set by the NI Executive. It would also prevent them from playing a role in maximising NI's economic potential from having unique access to both the UK and EU markets.

The NI Executive should be supporting the creation of more industrial space and the economic multiplier effect this will have, not incentivising its removal. To continue to support and grow this strategically important sector, which is underpinned by the logistics industry, industrial derating should be retained.

Removal of NDVR

Q3 Should Non-Domestic Vacant Rating relief be removed?

Q4 What, in your view, would be the impact of removing this support?

Logistics UK's members are not in favour of removing Non-Domestic Vacant Rate (NDVR) relief of 50% from the rating system. Accelerated by the move to online shopping and home working from Covid, our high streets are in need of urgent revitalisation. NDVR is a measure to help with efforts to fill and/or repurpose vacant property as local councils and the NI Executive focus on making towns and city centres more attractive places to live, work and visit. Many of the current vacant properties have become so due to economic circumstances. It would be unfair for Government to "tax" vacant property that has befallen this fate and at a time when there are significant challenges selling retail property when consumer demand and footfall is low. Additional rating liabilities for vacant properties may also introduce more risk and cost to the development process resulting in less new supply being created speculatively.

In respect of the industrial and logistics sector, there is a significant challenge in securing high quality property stock and modern facilities to meet the changing requirements and advances of these industries, particularly in areas such as port hinterlands. The removal of industrial derating, non-domestic vacant rating relief and freight transport relief would add additional barriers to the development of new facilities by investors.

Removal of Freight Transport Relief

Q5 Should Freight Transport relief be removed?

Q6 What, in your view, would be the impact of removing this support?

Logistics UK is firmly of the view that Freight Transport relief must continue. It provides 75% rate relief to premises, mainly associated with harbours and ferry terminals that are occupied for the purpose of handling and shipment of goods.

Northern Ireland is at a distinct disadvantage relative to the rest of the UK given its geographical location. It is the only part of the UK which requires use of shipping to access its core market – GB. NI logistics businesses moving goods to and from GB, and the main European market, incur additional transport costs compared with their counterparts in GB. Many operate under very tight profit margins and cite the cost of doing business as a key concern. These businesses could not absorb any additional cost which would result from increased port charges following the removal of Freight Transport Relief. Removal of this relief would add further costs into the supply chain for NI exporters, importers and logistics providers. It would lead to a reduction in sales to external markets and result in higher prices for consumers in NI who already have the lowest disposable income compared to other parts of the UK and at a time when inflation remains persistently high.

A thriving NI economy requires highly competitive and connected international gateways. Competitive ports are critical to connecting businesses and consumers with the external markets in GB, Europe and Rest of the World. Our members are users of port facilities which benefit from Freight Transport relief. In addition to the detrimental impact this would have on individual logistics businesses, removal of this relief could also result in changes in operator routes with routes to/from NI via the Republic of Ireland becoming more attractive from a cost perspective. It would also reduce NI's attractiveness as a place to invest, grow and innovate in from the perspective of ship operators such as Stena Line which is currently making significant investment in its services.

The logistics industry in NI has had to deal with major disruptions and challenges including Brexit, Covid, impacts from the war in Ukraine, energy price shocks, labour shortages, increasing insurance costs and rising shipping costs from trade diversion and disruption as a result of ongoing attacks in the Red Sea. Logistics businesses here also continue to incur additional costs in meeting trading requirements in a post-Brexit environment. This is all occurring at the same time as the sector is seeking to make significant investment to decarbonise its operations and meet the Executive's ambitious net zero targets. To further increase transport and supply chain costs by removing Freight Transport Relief would be counterproductive and detrimental to the logistics sector, the many people it employs and the NI economy. It would push NI exporting and logistics businesses to defer any investment, innovation, growth and decarbonisation plans, and result in importers passing on costs to consumers, increasing the cost differential of goods in NI to GB. It would also constrain NI's ability to prosper and maximise its unique dual market access.

Freight Transport Relief recognises the north's remoteness from its key market. This remoteness remains and it is important that this relief is retained.

Conclusion

Logistics UK notes the reference to a lack of parity with the rest of the UK with regards to these rates relief measures. However, as set out above, NI is a distinct and unique part of the UK due to its geography. Be it the Apprenticeship Levy or charges to customers for connection to the grid, there are many areas where parity has not been maintained.

NI logistics businesses already face additional costs compared to businesses in GB. They are also at a competitive disadvantage compared with logistics operators in the Republic of Ireland which continue to receive support from the government as they transition to net zero. Many are operating under very tight margins and the combined impact of any removal of industrial derating and freight transport relief in particular would have a severely negative impact on NI's supply chains and the logistics sector which keeps NI trading.

Northern Ireland has a considerably higher non-domestic annual poundage rate relative to the rest of the UK. We are further disadvantaged by the permanent increase in the headline rate of corporation tax in the UK from 19 to 25 per cent for firms with profits over £250,000, which has made it more difficult to compete for international investment given the Republic of Ireland's offering of 15 percent Corporation Tax to investors. Against this backdrop, removal of industrial derating, non-domestic vacant rating relief and freight transport relief would result in relocations, job losses across the north and an overall adverse impact on the rates base.

Logistics UK very much welcomes restoration of devolved government in Northern Ireland. Political stability is important in creating a more certain context and attractive environment for investors. The business community is eager to work in partnership with the newly formed NI Executive to maximise opportunities, grow the economy and improve the lives of all of our citizens. To remove relief support from NI's strategic industries at this juncture, for all of the reasons set out above, would be completely counterproductive.

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