POLICY ADVICE FOR MINISTER

Rates Relief Extension beyond March 2021

Briefing Paper

March 2021

FINAL

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Introduction

Introduction

Background

This briefing paper has been produced as a follow-up piece of research to an initial paper completed in May 2020. At that time the NI Executive had agreed to put in place a three month rates holiday for all Northern Ireland non-domestic ratepayers (excluding public sector and utilities). The purpose of the initial paper was to advise the NI Executive on sectors which would be in greatest need of extended relief beyond the initial three month period.

Broadly consistent with the advice in the initial briefing paper, the NI Executive extended the relief to all non-domestic ratepayers for one further month and relief was then targeted at the following sectors for the remainder of the financial year (i.e. to 31 March 2021):

- hospitality, tourism and leisure;
- retail (excluding certain supermarkets and off-licences) and retail services;
- childcare;
- Belfast City Airport, Belfast International Airport and the City of Derry Airport.

Those in receipt of Industrial Derating (i.e. manufacturers) and more recently newspapers were subsequently also granted full relief.

Introduction

Comment on initial research

Although the initial research was completed relatively early in the pandemic, the sectors identified at that time have subsequently proved to be those most impacted and in greatest need of relief.

Furthermore the exclusion of supermarkets in NI was justified by the recent decision by Tesco (and subsequently other supermarkets) to pay back the rates relief they benefitted from across the UK. (In England supermarkets were granted rates relief for the entire 12 month period).

Separately, both the initial paper and this research is based on a relatively broad sectoral analysis because of the availability of data. However, it must be recognised that within some of these broad sectors, a small number of businesses/ sub-sectors may have been either more or less negatively impacted than the broad sector as a whole.

As a result, moving forward there may be some scope for adjustment in the margins in making final determinations.

Also, the consultations undertaken as part of **this research underlined the critical importance of the non-domestic rates relief programme in allowing firms across many sectors to stay in business**.

Introduction

Purpose of this paper

The purpose of this paper is to provide advice to the NI Executive on the targeting of non-domestic rates relief beyond March 2021.

The first paper focused on sectors most impacted by lockdown and COVID related restrictions. This second paper recognises that even with a vaccine roll-out programme now well underway, during 2021 some sectors may still be in ‘survival’ mode and others in need of support to assist in the economic recovery. Therefore the purpose of this rates intervention is to assist with this dual objective of ‘survival’ and ‘recovery’.

As with the previous research the following points hold true:

- **this pack does not make a recommendation in terms of the decision to be taken**, but can inform that decision.
- **rates relief has to be considered alongside the wide range of other interventions in place**.
- The pandemic continues to create an **environment of uncertainty** and therefore decisions have to be taken on evidence where available alongside judgement.
- **All sectors have been impacted** – all parts of the economy have been impacted by this crisis, but some sectors have been impacted more significantly and given the wide range of calls on public funding, there is a need to target any ongoing relief.

Sectoral economic impact analysis

Sectoral analysis

Introduction

The level of data available to accurately quantify the scale of the impact across sectors has increased since this analysis was initially conducted back in May 2020.

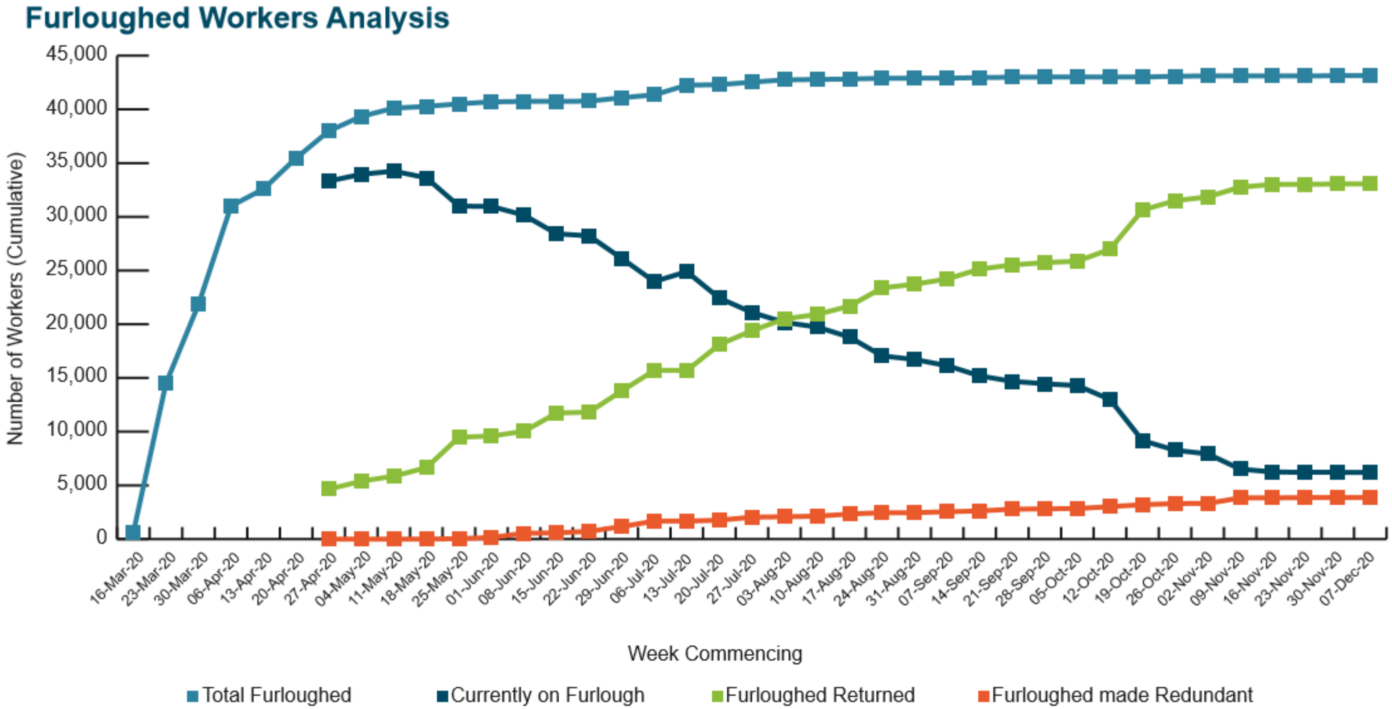
The following quantitative evidence has been used to identify the sectors most impacted and thus in greatest need of on-going support:

- **Invest NI** analysis of the impact on their client companies;
- Research published by the UUEPC since April 2020 on the impacts of COVID-19 on the labour market, businesses and the NI economy generally;
- **Pandemic Unemployment Payments and Temporary Wage Subsidy Scheme** administrative data from the Department of Employment Affairs and Social Protection in RoI.
- HMRC **CJRS** administrative data which has been made available since April 2020 and provides some NI coverage since June.

Sectoral analysis: Job supports

Most Invest NI-supported firms have seen return to work

Number of people on furlough, Invest NI businesses, 16 Mar-7 Dec 2020



- A total 43k staff at 1,100 Invest NI client companies were furloughed.
- By December just 6,200 (14%) were on furlough and a further 3,900 (9%) had subsequently been made redundant.
- Leisure & Tourism sector most significantly impacted with 35% of those jobs still furloughed.

Source: Invest NI

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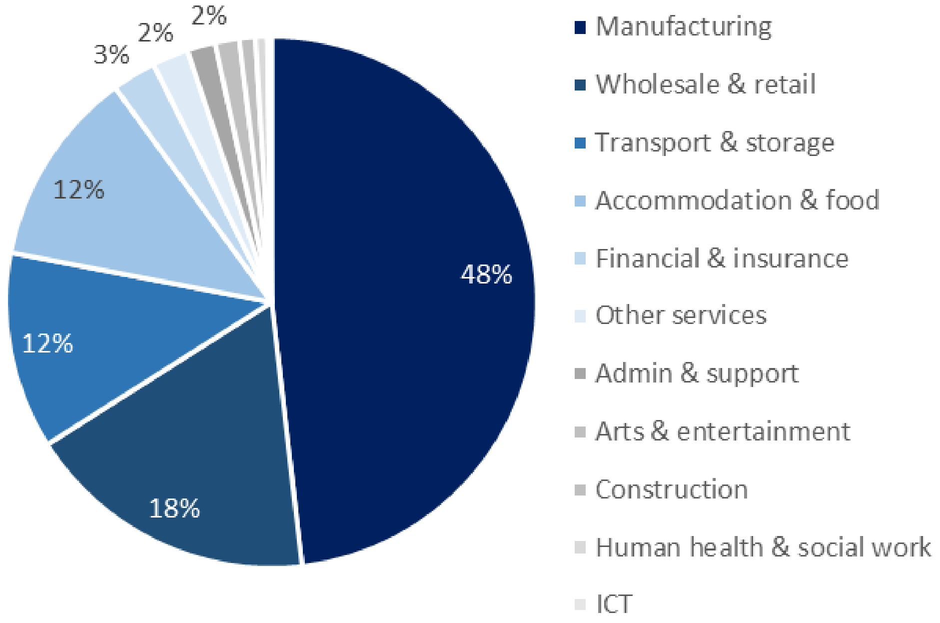
Sectoral analysis: Redundancies

Redundancies reflect structural changes alongside COVID effects

Redundancies by sector, NI, January 2020 – January 2021



- Dominated by Manufacturing (1,970)
- Top four sectors accounted for 90% of total redundancies:
  - Manufacturing;
  - Wholesale & Retail;
  - Transport & Storage; and
  - Accommodation & Food.

Source: NISRA

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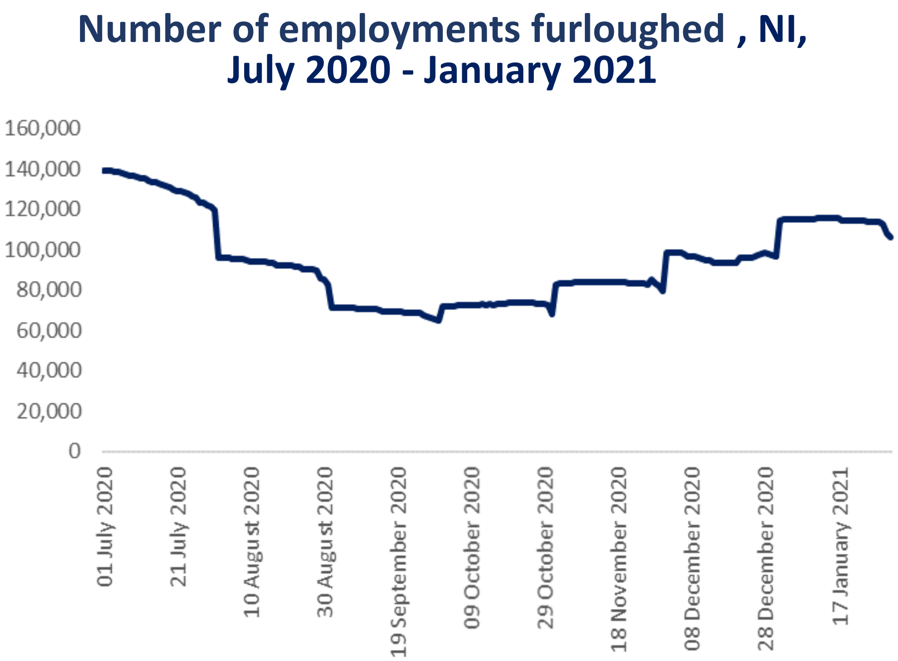
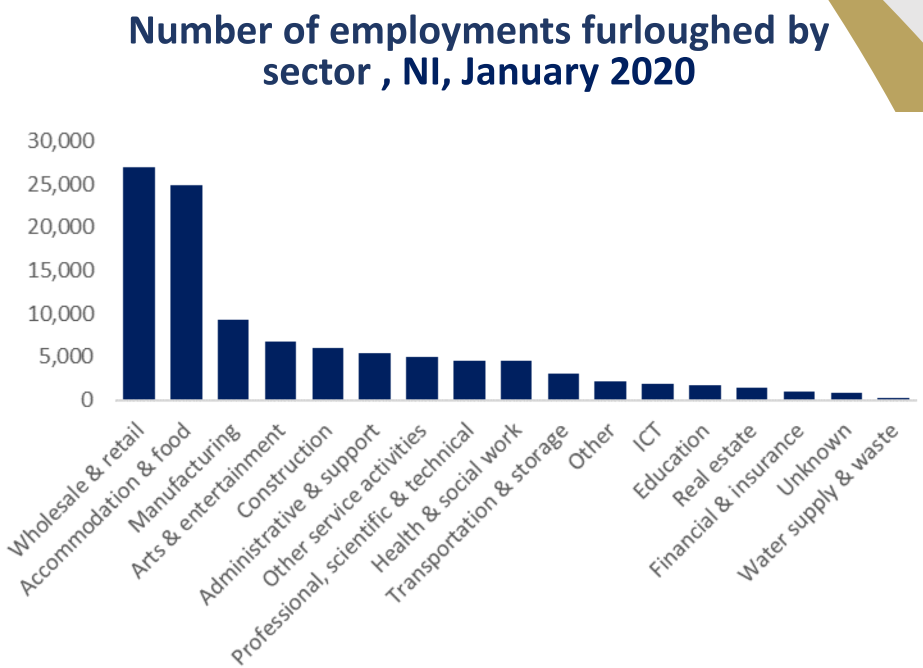
Sectoral analysis: Job support

Those on furlough is increasing again





Source: HMRC

- Furlough numbers fell steadily throughout the summer from 139k in July to 65k in September, but following the introduction of the latest set of restrictions, those on furlough have increased to 106k at the end of January 2021.
- The three sectors with most on furlough are: Retail; Accommodation & Food (Hospitality); and Manufacturing.

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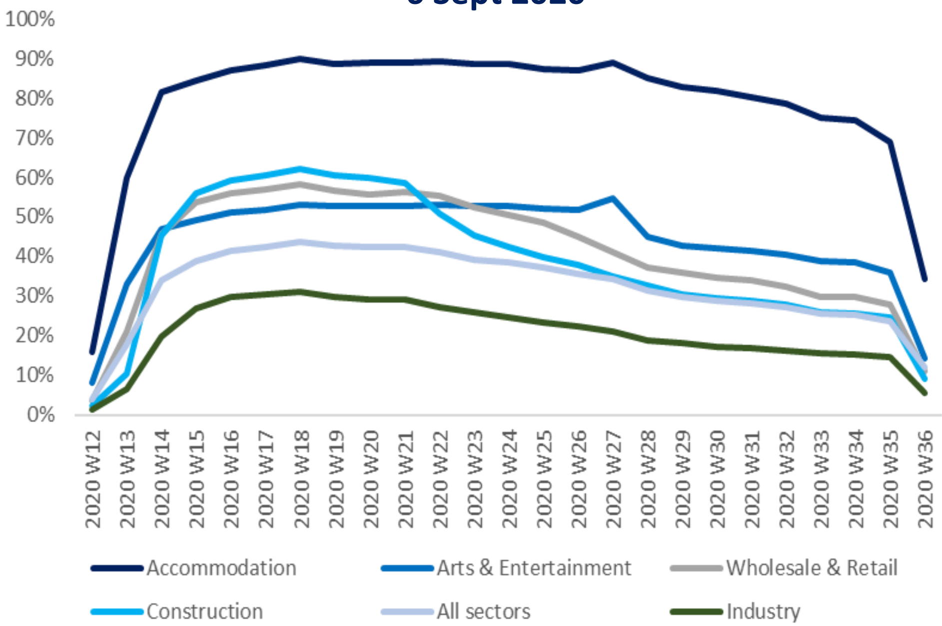
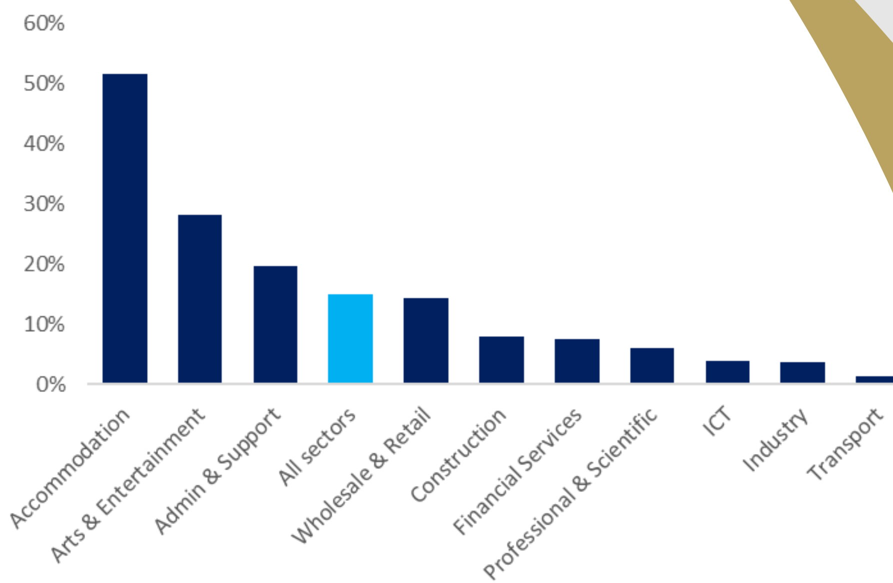
Sectoral analysis: Job supports

70% of those supported in RoI have returned to work

% of jobs by sector taking up TWSS and PUP, 16 Mar - 6 Sept 2020



% of jobs by sector taking up PUP, 8 Dec 2020



TWSS – Temporary COVID-19 Wage Subsidy Scheme, ended on 31 Aug and replaced by the EWSS – Employment Wage Subsidy Scheme
PUP – Pandemic Unemployment Payment

- By December more than 700k people remain on the PUP and EWSS schemes in RoI.
- Three sectors: Accommodation, Arts & Entertainment and Retail significantly impacted – 11% of the total subsidised jobs and 35% of those jobs still subsidised.

Source: CSO and UUEPC analysis

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Sectoral analysis: Vacancies

Vacancies still significantly lower across almost all sectors

Job adverts per sector, UK, August 2019 – February 2021 (2019 average = 100)

	2019					2020												2021	
	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
Manufacturing	127	81	80	73	61	62	58	57	31	20	24	29	57	62	80	82	71	66	83
Energy, oil & gas	93	91	94	103	108	116	109	98	39	27	27	32	50	52	71	78	71	72	82
Construction & trade	103	102	94	87	76	78	86	82	40	23	27	35	69	67	75	83	85	89	108
Wholesale & retail	86	101	122	106	82	81	85	76	36	24	31	33	43	41	59	56	53	48	47
Transport & logistics	95	124	133	133	112	94	83	82	48	32	42	46	112	128	167	170	127	95	110
Travel & tourism	84	115	131	122	110	110	102	96	56	38	42	52	79	87	96	101	92	74	74
Catering & hospitality	95	115	122	116	96	96	101	74	26	16	18	26	36	38	33	30	31	24	25
ICT	87	110	123	118	110	114	123	112	70	48	56	56	62	65	78	89	85	97	120
Accounting & finance	86	91	99	99	95	96	103	100	53	31	37	36	41	40	53	59	57	59	75
Property	107	68	61	63	58	60	68	63	30	19	28	31	49	45	53	54	53	49	61
Engineering	82	110	122	124	115	118	118	111	62	36	39	44	63	66	77	85	82	84	104
Legal	99	95	96	90	83	86	87	86	55	35	40	39	39	39	48	55	52	52	65
Management	94	80	83	78	75	78	79	72	30	16	20	21	28	29	36	42	45	48	62
Marketing	86	95	99	97	90	95	109	97	44	26	31	31	37	38	47	54	57	65	85
Scientific	120	73	80	82	80	77	83	78	52	42	50	50	59	55	65	71	70	72	89
Admin & clerical	92	88	85	81	71	73	78	69	28	15	19	22	29	26	36	41	43	37	50
Customer service	93	97	106	104	88	91	95	88	45	30	46	47	58	60	72	75	73	65	77
Facilities & maintenance	59	178	209	205	185	202	209	188	95	63	78	95	152	159	171	170	161	156	193
HR & recruitment	98	86	93	89	83	87	91	84	34	18	23	24	31	32	42	48	52	54	73
Education	76	84	100	102	101	96	106	108	86	67	72	71	62	60	80	83	83	70	77
Healthcare & social work	95	114	126	125	105	108	116	111	106	98	92	88	96	89	98	100	102	102	114
Creative & design	97	114	92	86	78	77	82	72	43	35	40	40	45	53	57	52	51	52	63
Sales	82	122	131	128	115	121	129	114	48	22	30	36	52	51	66	71	69	68	84

- Sectors experiencing the largest reduction in online job adverts consistently since April 2020 are Retail, Catering & Hospitality, Admin and Creative.
- Transport & Logistics and Facilities Maintenance have seen demand remain higher than a year ago.

Source: ONS, Adzuna

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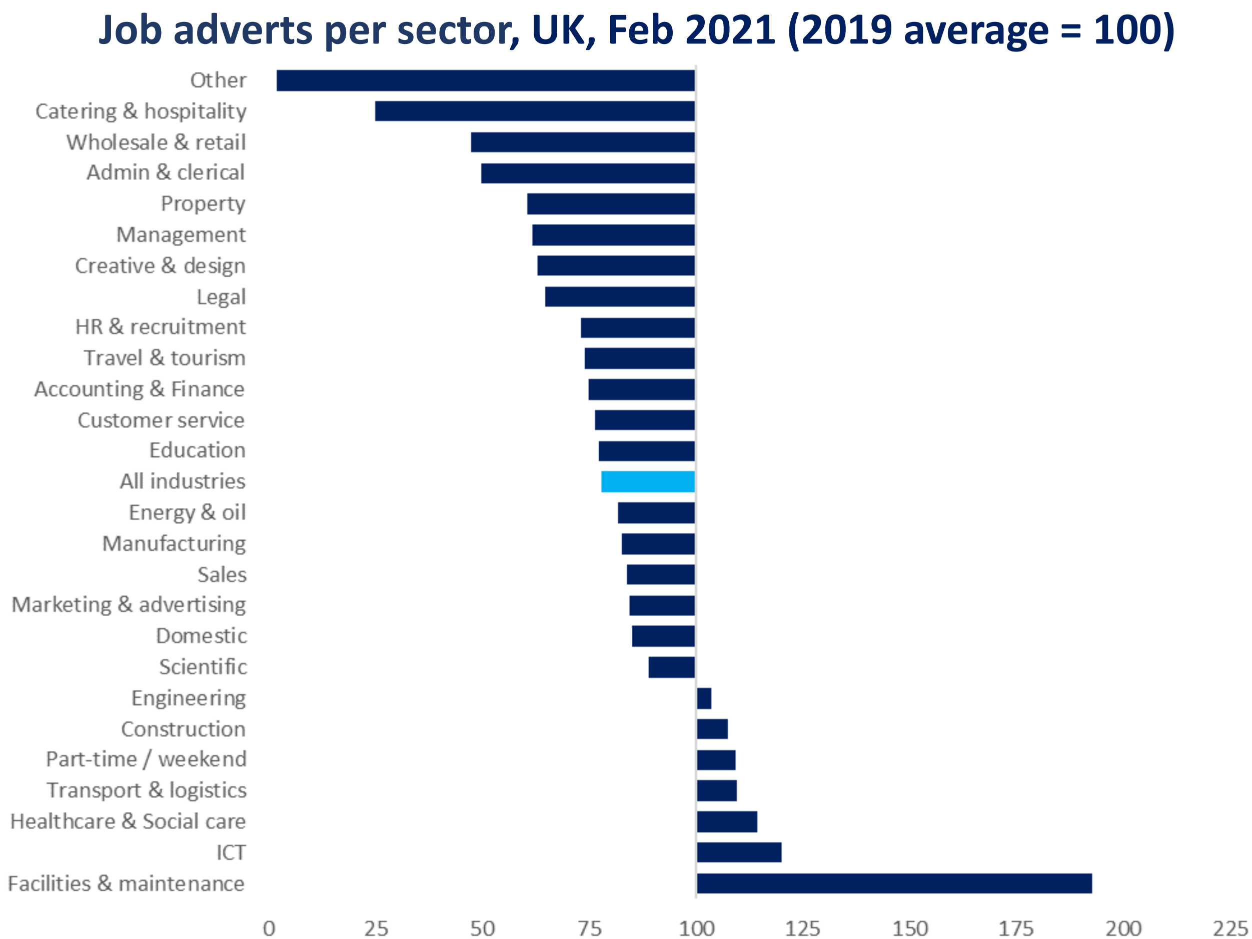
Sectoral analysis: Vacancies

Vacancies in February reflect a very difficult 12 months



- For many sectors vacancies remain 30%+ lower than last year, pointing to an overall weakness in the employment market.

Source: ONS, Adzuna

Economic Impact

Labour market overview – the size of impacted sectors

Total employment, 2020 000s	
Agriculture	29
Mining	2
Manufacturing	93
Elect' & gas	2
Water supply & waste	8
Construction	58
Wholesale & retail	157
Transport & storage	35
Restaurants and hotels	60
Information & comms	24
Finance & insurance	20
Real estate	10
Professional & scientific	44
Admin' & support services	60
Public admin & defence	51
Education	74
Health & social work	133
Arts & entertainment	20
Other service activities	28
Total	**908**

Source: UUEPC analysis

Total employment across impacted sectors:

- Wholesale/ Retail 157k
- Manufacturing 93k
- Accommodation & Food (Rest & Hotels) 60k
- Arts, Entertainment, Leisure 20k

The four sectors account for 36% of the total jobs and self-employed.

Estimated employment in other smaller sub-sectors impacted:

- Childcare/ Nurseries 7,000
- 'Close contact' services 6,000
- Airports 700
- Real Estate 10,000

Sector consultation summaries

Sector comments

Hospitality

	Comments from consultation
Impact on the sector	Staff • Very significant proportions of staff still on furlough (consistently over 50%). • Approx 50% of staff across the sector made redundant, many could be re-hired when the sector re-opens, but only if businesses survive. • Redundancies increased when CJR bonus was pulled. • Reliance on migrant labour, many of whom have now left NI permanently. Firms <table><tr><th>Sub-sector</th><th>Risk of Failure</th></tr><tr><td>Restaurants</td><td>40%</td></tr><tr><td>Pubs</td><td>15%</td></tr><tr><td>Hotels</td><td>12%</td></tr><tr><td colspan="2">Source: Hospitality Ulster</td></tr></table> • Hotel revenue 2019: £650m - £700m 2020: <£200m (70%+ drop) • Cash reserves exhausted • Low level of permanent hotel closures to maintain value of business but this is not sustainable • Reduced productivity when open – more staff required for fewer customers.

Sector comments

Hospitality

	Comments from consultation
Demand side impacts	• Likely phased return of office workers from April to Sept 2021 will impact footfall and hence demand. • Although there is strength in consumer demand (when hospitality businesses are open), for many operating capacity is still limited to 50% of full potential. • Concerns re. demand throughout 2021 due to anticipated reduction in international travel/ overseas visitors, large events, business conferences. Therefore increased reliance on domestic leisure tourism. • Some groups of customers (e.g. older and more vulnerable people) may be more reluctant to come back to the hospitality venues.
Supply-side impacts	• Many businesses have extended credit with their suppliers, this impacts viability of firms in the supply chain • May also result in suppliers wanting payment upfront, further impacting cashflow.
Most useful supports	• NI: Rates relief remains critical • UK: CJRS and VAT deferral and reduction to 5%. Loss of the CJR Bonus has created a debt problem because many businesses had borrowed against that grant.

Sector comments

Food Services Supply Chain

	Comments from consultation
Impact on the sector	Staff • 10% - 15% staff laid off • A further 50% - 80% of staff furloughed at the peak • Some firms were able to move staff into other lines of business, but this would have been a minority. Firms • At peak, turnover down 70% to 80%. Currently still down 50% to 60% • Bad debt provision increased by a factor of 5 as customers (i.e. bars/ cafes/ restaurants) are unable to pay. Financial resilience significantly eroded • Stock loss a major issue, in particular for perishable goods.
Demand side impacts	• Customer base at risk of financial failure. Latest data provided by Hosp. Ulster suggests 40% of restaurants and 12% to 15% of pubs and hotels at potential risk of failure. • Limited scope to pivot sales into retail due to size of products and packaging.
Supply-side impacts	• Wide ranging supply chain, also disrupted by Brexit
Most useful supports	• Consultees claim the only scheme this sub-sector could avail of was CJRS. • Withdrawal of the CJRS Bonus significantly impacted cashflow.

Sector comments

Retail (non-food)

	Comments from consultation
Impact on the sector	Staff and Firms • Businesses currently in survival mode.
Demand side impacts	• Demand throughout 2021 will likely depend on wider economic prospects. A significant slowdown will impact discretionary spend • Independents have pivoted on-line, increased use of click & collect but mainly an aid to survival as the customer service component is still critical
Supply-side impacts	• Just in Time supply chains have been interrupted and this may continue.
Most useful supports	• Rates Relief and the £10k & £25k grant schemes (although multiples issue remains) • Calls for a comprehensive programme to assist recovery of which extending rates relief is one component. • Many food retailers just over threshold currently used to determine relief. • Is there scope to use an enhanced Rates Hardship Fund to assist businesses in greatest need? Perhaps funded by the repayments from large supermarket. • Restoring Empty Rates Relief could assist with start-up activity as part of a recovery package.

Sector comments

Construction

	Comments from consultation

Impact on the sector	Staff
	• Any furloughed staff are now predominantly in support/ admin roles
	• Lay-offs tended to be concentrated in the early stages of the pandemic, less so now. Following reasons:
	  • Sector is heavily self-employed, therefore fewer direct employees.
	  • The extension of CJRS may have delayed lay-off decisions.
	  • Overall there are still many skills shortages across the sector.
	Firms
	• No significant closures but can take time as businesses and financial stress likely to first appear in the supply chain.

Demand side impacts	• Private domestic – remains strong (good for self-employed) • Private commercial – existing projects are being completed but very limited new work (hospitality, retail, office) being commissioned. • Public sector – slowed over the summer, has improved now but concerns over visibility of pipeline. Framework now exists for discussions to provide allowance for additional COVID costs.
Supply-side impacts	• Limited COVID related supply side issues anticipated post March 2021
Most useful supports	• CJRS and CBILS – low level of uptake of other interventions.

Sector comments

Manufacturing

	Comments from consultation
Impact on the sector	Staff • Approx 20% across the sector are either on furlough or made redundant. • 1 job in manufacturing supports another 3 jobs in the supply chain. • Strong desire to retain staff because highly skilled and unlikely they will return if jobs are lost. Firms • Barriers to entry are high in manufacturing, therefore if business collapses unlikely they will return to NI in a recovery. • Aerospace very significantly impacted (80%+ fall in turnover). Critically important we retain top tier companies (Bombardier/ Spirit AeroSystems, Thompson Aerospace, Thales, Rockwell Collins). • Agri-Food split between those in food service (which has experienced very significant drop in demand) and those selling to retail (which has held up). • Engineering being impacted by the constraints on staff mobility in global markets. Staff need to travel to customer premises to commission/ sign-off equipment deliveries. • Medical devices experiencing strong demand.

Sector comments

Manufacturing

	Comments from consultation
Demand side impacts	• Aerospace – 2022/23 before demand likely to return. • Transport equipment manufacturers – significant drop in demand due to reduced movement of goods globally. • 600 manufacturers pivoted in whole or part to help front line, but pivot is temporary and not cost effective in the long term. E.g. local companies producing PPE are not as efficient as the established international suppliers. • There also a lack of understanding across EU countries on the operation of the NI Protocol.
Supply-side impacts	• Very complex supply chains remain significantly impacted. • Closing sections of the economy also impacts the businesses in the supply chain.

Most useful supports	• Non-domestic rates relief.
	• Part (b) scheme only eligible if customer closure was an NI Executive decision, but many businesses impacted by closures in GB.
	• CJRS scheme critically important to retain skilled staff:
	    • For large businesses CJRS saved jobs.
	    • For SMEs CJRS saved the business (because staff would have been made redundant and very difficult to attract them back).
	• Longer term recovery will require a need to retain IDR.

Sector comments

Childcare

	Comments from consultation (Based on surveys conducted by Early Years)
Impact on the sector	Staff • Staff numbers across the sector down 11%. • A further 25% on furlough (October data). Firms • Sector facing significant financial hardship – 76% reporting operating losses are "extremely challenging". • Revenues are still down approx. 25% on pre-COVID levels (Dec 2020). • Average additional operating costs per setting to operate as per guidance £4,800 per month. Average cost of temp. closure per setting £1,800. • The additional staffing burden creates an ongoing sustainability issue for the sector (more staff per child required).
Demand side impacts	• Demand was down by over 30% in September (cf pre-COVID) and still almost 25% by December. • Longer-term demand uncertain and dependent on wider economic circumstances.
Supply-side impacts	• Limited supply side impacts identified.

Sector comments

Childcare

	Comments from consultation (Based on surveys conducted by Early Years)

Most useful supports	• National: CJRS and Business Support Grant Scheme
	• NI:
	    • Rates Relief
	    • COVID Childcare support scheme – difficult to access and had issues re. uptake and allocation
	    • Childcare Recovery Support Scheme (July – Aug 20) – more accessible
	    • Childcare Support Scheme (Sept – Dec 20) – also more accessible

Sector comments

Leisure & entertainment

	Comments from consultation
Impact on the sector	Staff • Almost 100% of staff have been furloughed across the sector and when open, staff are working reduced hours. • Some staff are laid off then re-hired when CJRS rules change. This extreme uncertainty in short and long term is having an impact on staff mental health. • Skilled staff (e.g. chef) have left the industry, in many instances permanently. Firms • Businesses will have been closed for 9 of 12 months in the 20/21 financial year. Even when open, turnover is down by approx 75% and is loss-making. Cinemas down by 90%. • Cash reserves have been exhausted and debt has been taken on to pay fixed costs and stay in business. This raises another issue about the level of debt overhang on individual businesses. • Typically generate high proportion of revenue over the Christmas period, but this is lost at the end of a very challenging year. • Rent also has not been paid in many instances. Where businesses survive, unpaid rent is another creditor. • The cycle of opening and closing is very costly and impacts viability. • Minimum/ Living wage increase from April 21 announced in UK Budget. Leisure and entertainment is a minimum wage industry.

Sector comments

Leisure & entertainment

	Comments from consultation
Demand side impacts	• 2021 likely to be a challenging year as the vaccine roll-out programme will take 6 months+ (before significant proportion of population are vaccinated). • There is also uncertainty around the length of time before customer confidence returns. • Very limited opportunities for the sector to pivot and generate revenues from other areas. Likely to be 2022 at the earliest before business levels return to close to normal.
Supply-side impacts	• Short-term – cost of stock lost due to cycle of opening and closing. • As indicated in previous research, film studios either delaying the release of content or releasing over streaming services instead. This could have longer term consequences for the industry and in turn impacts demand. • No other supply side issues identified.
Most useful supports	• Furlough and rates relief critical. • Localised Restriction Support Scheme helpful, but not nearly sufficient to cover fixed costs, particularly businesses with larger premises . • Many owners at the point of closing the doors and not sure they will be in business in April to take advantage of any potential extension to rates relief. • Sector of SMEs in large premises and therefore many missed out on the £10k and £25k grant schemes.

Issues identified from consultations

New factors emerging

- **Airports**
  - Air travel has been amongst the most significantly impacted sectors by COVID. The following data has been made available to show the scale of impact locally:
    - Passenger nos. are down by 80-90%
    - Revenues fallen by 70% to 85%
    - 70% to 80% of staff furloughed or flexi-furloughed in the last year.

    [*Given there are a limited number of companies operating in NI, there is an extra commercial sensitivity to the business and financial information associated with this sector and therefore approximate ranges are provided to give an estimate of the scale of impact*.]
  - The airports directly employ only a proportion of staff on site. Significant numbers are employed by other business e.g. baggage handling, security, retail etc. who are also entirely dependent on passenger traffic.
  - In addition, the financial health of the airline industry could be a longer term concern for the industry, on which there is a co-dependency with airports. This may require national support packages to be considered. [*contd. overleaf*]

Issues identified from consultations

New factors emerging

- **Airports (contd.)**
  - A full lifting of restrictions for air travel could still be a significant period of time away and may be dependent on a range of factors including global, rather than just national, vaccination efforts.
  - It is anticipated that demand for leisure travel could return reasonably strongly (when restrictions are lifted), although this is dependent on broader economic conditions. However, there is greater concern over the longer term return to pre-COVID levels of business travel as many companies have had to embrace remote working and greater use of telecommunications technology, which may reduce demand for business travel in future.

Issues identified from consultations

New factors emerging

- **Retail**
  - 'Size' vs 'Location' – only food retailers with less than 500m^2 of floor space were eligible for rates relief and overall, there was very limited opposition to the size threshold set. However, some food retailers above that threshold enjoyed high levels of trade, whilst others have experienced a significant reduction. The key issue here is one of location, where convenience stores in residential areas have typically seen strong demand, similar stores in large urban centres, where there is usually high levels of footfall, have had a very challenging time.

    It is not clear if a rates relief policy could assist in this specific circumstance and other support may be required.
  - 'Food' vs 'Clothes' – only stores which are predominantly 'food' are ineligible for relief. Therefore, stores with a relatively small proportion of their total floorspace dedicated to 'food' (which may still be over 500m^2) receive relief.

Issues identified from consultations

New factors emerging

- **Food service supply chain**
  - Not identified in previous research – the previous research identified the very significant impact experienced by the hospitality sector and agri-food (manufacturing) businesses supplying the food service sector and these two sub-sectors were included for targeted rates relief. However, a relatively small but critical element of the food service supply chain was omitted, namely the wholesalers/ distributors.
  - This group purchase from the agri-food manufacturers and then sell to the hospitality businesses and have also been significantly impacted.

Issues identified from consultations

New factors emerging

- **Tenants/ rent and landlords**
  - Tenants/ rent – all consultees noted the critical importance of non-domestic rates relief as part of the suite of measures put in place to support businesses through this 'survival' phase of the pandemic. However, businesses/ tenants across many sectors also noted the increasing issue of unpaid rent. The legal protection from forfeiture, now extended to 31 March 2021 was welcome, but the debt associated with unpaid rent remains and is growing as the length of time in lockdown is extended. A decision on further extension needs to be taken.

    This underlines the need for other support interventions alongside rates relief.
  - Landlords – as business failures increase and other tenants seek to reach deferment and new payment arrangements with landlords, this puts landlord income at risk. Evidence submitted by RICS to DoF also highlighted that not all landlords are large property companies and many local landlords use the income from their property for living costs and pensions.

    This also highlights the need to recognise that one business's cost is another's income.

Issues identified from consultations

New factors emerging

- **Shifting trends in commercial real estate (office vs retail vs leisure vs warehousing etc.)**
  - The lockdown has resulted in very significant changes in working practices across many sectors which could have a longer term impact on the balance of demand for commercial real estate. These changes are currently temporary, but in a post-COVID environment, we may return to a ‘new normal’ which could result in a change in demand for office, retail, leisure, warehousing and residential property.
  - These changes in demand typically build up over time in any event, but the pandemic may have accelerated trends that were already in place. Importantly, the most effective way to resolve these issues is through a much broader revaluation exercise and not a temporary rates relief programme.

Issues identified from consultations

New factors emerging

- **Flexible office space**
  - Office buildings were excluded from non-domestic rates relief and there is no evidence to suggest that in general that exclusion was a mistake. Although many offices are empty or have very low numbers of staff attending each day, the tenant businesses have been able to continue trading and staff have worked from home. This transition from office to home working raises longer term issues for the future of the office, but it is not a priority area for extending non-domestic rates relief.
  - However, an issue in respect of flexible office space, has been raised. An argument has been made that tenant businesses in flexible office accommodation could take advantage of those flexible terms and vacate premises (an option not available on standard tenancies). Conversely, other evidence from across the UK suggests that occupancy rates have remained stable for flexible office space and in a post-pandemic world demand could strengthen.

    https://www.propertyfundsworld.com/2020/11/05/291776/flex-space-occupancy-remains-stable-through-covid-19
  - It is not clear the extent to which vacancy is an issue in NI and identifying these offices through the rates system may be difficult. If a short term issue was identified, there may be scope to explore using the vacant property relief mechanism.

Issues identified from consultations

New factors emerging

- **Newspapers**
  - The newspaper sector was recently granted non-domestic rates relief for the year 2020/21. As a sector, newspapers were facing significant challenges prior to the pandemic primarily from digital channels, which tends to offer content free of charge. Therefore falling circulations impacts both sales income and advertising revenue. This problem has been exacerbated by the pandemic where the economic impact of restrictions has resulted in a significant reduction in advertising spend.
  - England currently offers local newspaper rates relief worth £1,500 for eligible properties per year (the relief is for only one building per newspaper). This relief has been extended out to 2025. In May 2020 Scotland extended its rates relief scheme for Retail, Hospitality and Leisure to include newspapers.
  - The barriers to entry to the newspaper industry are very high (i.e. it is very difficult for a new newspaper to become established), therefore if a newspaper business was to fail because of this temporary reduction in demand and advertising revenue, it is highly unlikely to re-open when the economy recovers and demand returns.
  - Whilst other sectors face similar challenges, there is a strong social argument for supporting local newspapers.

Issues identified from consultations

New factors emerging

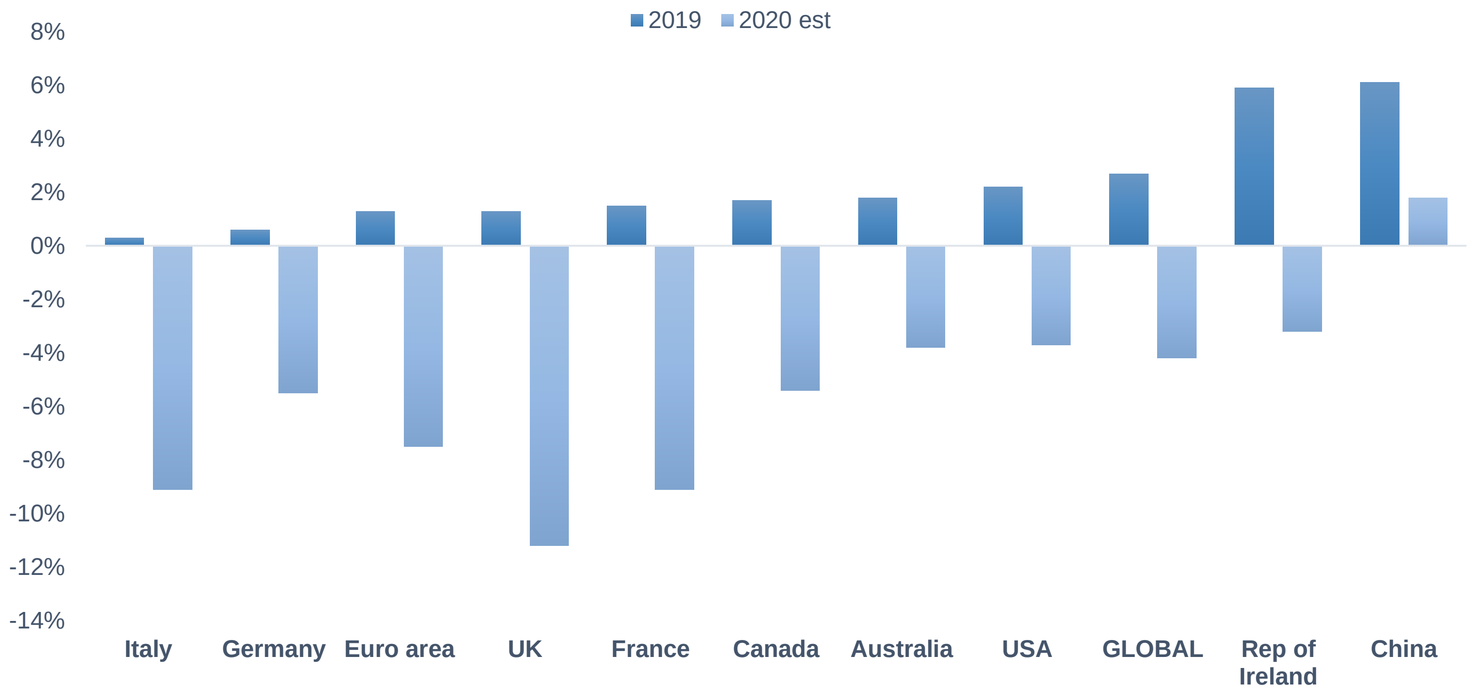
- **Impact on Local Government**
  - There is a risk that in the period after Government supports end (both UK and NI), that a significant number of businesses fail, in turn leaving a gap in local government finances due to lower non-domestic rates income. This impacts both the District Rate (local government income) and the Regional Rate (NI Executive income).
  - As a result, the longer the period of relief offered to targeted sectors, the lower the risk of damage to the rates tax-base, at least in the short term.

Economic overview and outlook

Economic overview of 2020

GDP impact varies across countries but most advanced economies will see negative growth in 2020

GDP growth rates in selected OECD countries, 2019 and 2020 (estimated)



- OECD are forecasting a decline in Global GDP in 2020 of -4.2%.
- European economies remain amongst the most significantly impacted in 2020.

Source: OECD, *Economic Outlook* (Dec. 2020)

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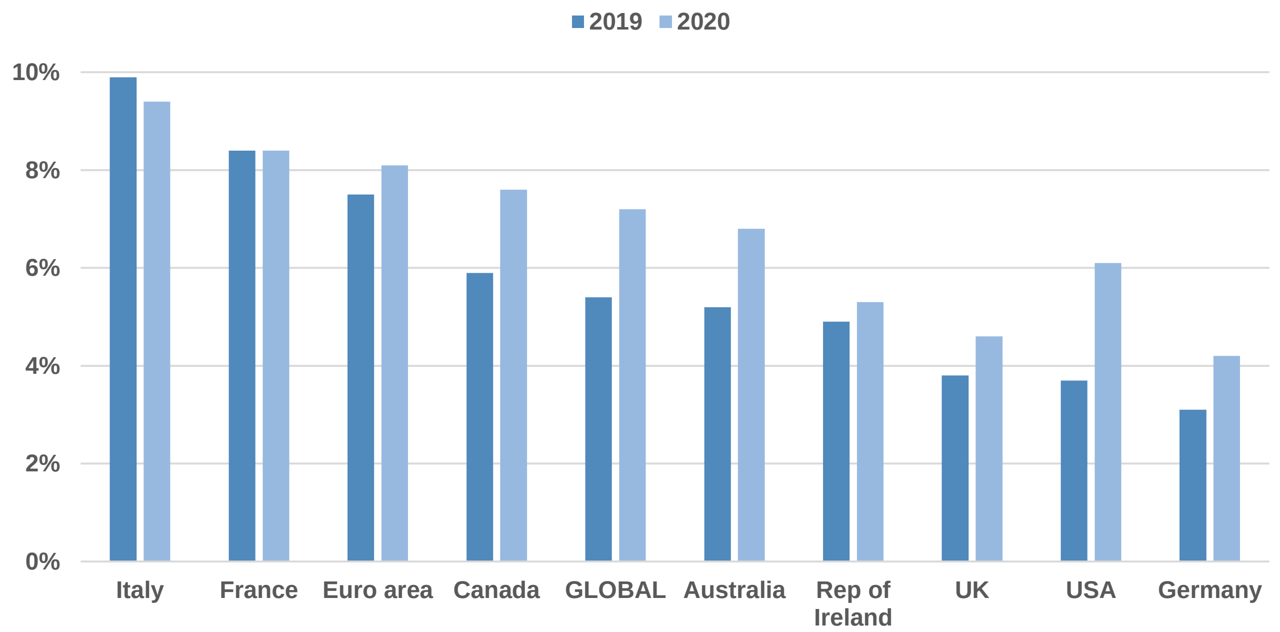
Economic overview of 2020

Globally unemployment has risen in 2020 and is expected to continue

Unemployment rates in selected OECD countries, 2019 and 2020 (estimated)



- OECD findings indicate average unemployment rates only 1.25% higher in Sept 2020 than Jan. The various job retention/ furlough schemes introduced have supported the labour market.
- BUT, significant uncertainty re. 2021 when schemes are discontinued and the associated impact on the more vulnerable groups (e.g. young people and lower-skilled).

Source: OECD, *Economic Outlook* (Dec. 2020)

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Economic overview of 2020 in NI

Unprecedented output falls in Northern Ireland

Estimates of decline in NI output, 2020, Apr-Dec 2020

Source	Annual % decline in economic output in 2020	Month released
EY	6.7%	April 2020
Danske Bank	7.5%	April 2020
UUEPC	9.6%	April 2020
EY	9%	May 2020
UUEPC	12.7%	June 2020
Danske Bank	11%	July 2020
UUEPC	11.6%	July 2020
EY	10.4%	Aug 2020
Danske Bank	11%	Oct 2020
EY	10.9%	Nov. 2020
UUEPC	12.1%	Dec. 2020

- Initial estimates, based on a one-quarter (Q2) impact, averaged c.8% fall in output in 2020.
- This increased to over 11% as the impact for the remainder of the year was considered.
- Latest estimates for the 2020 impact on NI economy are in the region of 11% - 12%.

Source: UUEPC, Danske Bank and EY

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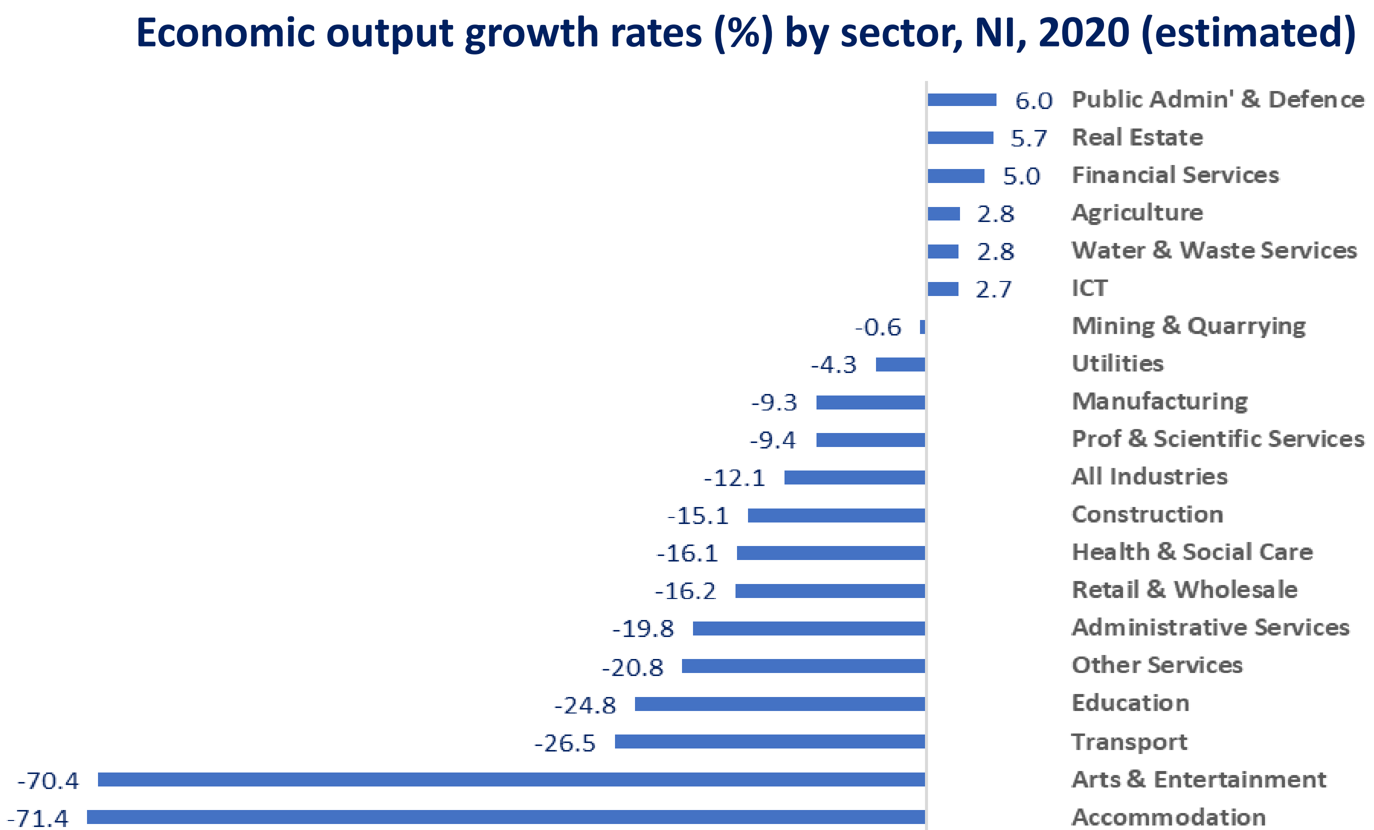
Economic overview of 2020 in NI

Output has fallen in most sectors but some particularly affected



- Overall output likely to fall by 12.1% in NI in 2020 but there is considerable variation.
- Accommodation (Hospitality) and Arts & Entertainment worst hit, while Transport, Other Services (including many close contact services) and Retail also saw output decline by 16%+.

Source: UUEPC

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Economic outlook in the short term

Recovery forecasted but return to peak will be slow

GDP forecasts, UK, RoI and NI, 2021

Country	Source	Forecast growth rate (2021)
UK	OBR	8.7%
	NIESR	5.9%
Republic of Ireland	ESRI	6.3%
	EY	3.5% [1]
Northern Ireland	UUEPC	5.8%
	EY	5.5%
	Danske Bank	7%

1. EY are forecasting a contraction of 'only' 3.9% in RoI in 2020, hence the lower growth in 2021

- The economic growth forecasts above were made prior to the current series of stricter lockdowns announced prior to Christmas, which could remain in place for months. **That said the Bank of England's latest forecast (Feb 2020), suggested the UK would reach pre-COVID levels of GVA in Q1 2022. In March the OBR indicated the UK would reach pre-COVID levels in mid-2022.**

Economic outlook in the short term

Vaccine roll-out (internationally) will be critical

GDP forecasts (contd.)

- Furthermore, growth in NI does not just require a successful vaccination roll-out in the UK and RoI, but also across major international markets such as Europe and North America. If those regions are slower to vaccinate their populations, that will impact tourism, international trade and investment into the NI economy.

Conclusions

Concluding comments

Targeting support to those with greatest need

- The consultations underlined **the critical importance of non-domestic rates relief to many firms in allowing them to stay in business**.
- The following factors should be considered:

    1. Businesses will take some time to return to ‘normal’ trading and issues such as rent arrears debt are likely to impact a return to growth – therefore relief for some areas will need to be considered beyond the period of the vaccine roll-out programme;
    2. Rates relief is only one of several support measures needed to provide support during both the ‘survival’ and ‘return to growth’ phases;
    3. All businesses have been impacted, but where government funding is finite, support should be prioritised to where the need is greatest.

Concluding comments

Targeting support to those with greatest need

- **Highest priority sectors – Hospitality; Leisure/ Entertainment/ Tourism; Airports; and Childcare**
  - These sectors have experienced the longest period of lockdown since March 2020 and this is likely to continue until the vaccine programme has been rolled out. Furthermore, given the extended period of inactivity experienced by businesses in these sectors, financial resilience is likely to be very low and an extended relief period may be necessary to allow for recovery.
- **High priority sectors – Retail (including close contact services), Manufacturing and Food Service Supply Chain.**
  - **Retail** – as previously identified, this is an issue of ‘food’ vs ‘non-food’ (rather than ‘big’ vs ‘small’):
    - Food – important to recognise the challenges faced by food retailers but have been allowed to continue trading. The recent decision by large UK supermarkets to ‘repay’ their rates relief confirms the conclusions reached in the previous research.
    - Non-food – this component of the retail sector has had periods of trading since the first lockdown, but this current period of restrictions could be in place for an extended period and then phased out over time. [*contd. overleaf*]

Concluding comments

Targeting support to those with greatest need

- **High priority sectors – Retail, Manufacturing and Food Service Supply Chain (contd.)**
  - **Manufacturing** – very broad sector and many sub-sectors are experiencing significant challenges. Manufacturing has also had the largest share of notified redundancies:
    - Agri-Food – this is a mixed picture, with those companies serving the consumer/ retail market seeing demand hold up but those selling to the food service sector (restaurants, work canteens etc.) have seen demand collapse.
    - Supply chain issues given their global nature and significant investment requirement to redesign factories which could also result in less efficient/ production processes.
    - There are individual anecdotes of pivoting to other activities, but this is not widespread or significant in scale.
    - Manufacturing companies (particularly advanced manufacturing) are complex businesses with high barriers to entry. As a result if they close, it is unlikely they will reopen when economic conditions recover and the industrial capacity will be permanently lost to a global competitor. This justifies targeted support for the sector.

Concluding comments

Targeting support to those with greatest need

- **High priority sectors – Retail, Manufacturing and Food Service Supply Chain (contd.)**
  - **Food Service Supply Chain** – wholesalers/ distributors who purchase from the agri-food manufacturer (discussed above) and sell to the hospitality sector (also discussed above). A relatively small sub-sector not identified in the initial research and the only part in the supply chain that did not receive targeted relief in 2020/21. They have a critical role in the sector and have been significantly impacted:
    - Approx. 10% - 15% staff laid off and a further 50% - 80% furloughed at the peak
    - At peak, turnover down 70% to 80%. Currently still down 50% to 60%
    - Bad debt provision increased by a factor of 5 as customers (i.e. bars/ cafes/ restaurants) are unable to pay. Financial resilience significantly eroded.
  - Merit targeted support, but identifying these properties in the rating system may present practical challenges.

Annex 1

List of organisations consulted

List of organisations consulted

In alphabetical order:

- Arts Council NI
- Belfast Chamber of Commerce
- Construction Employers Federation
- Early Years
- Hospitality Ulster
- Londonderry Chamber of Commerce
- Manufacturing NI
- NI Chamber of Commerce
- NI Hotel Federation
- NI Leisure & Entertainment Forum
- Retail NI

END