IRISH HOTELS FEDERATION

Submission to the Low Pay Commission

on the

National Minimum Wage in 2021

March 2020

TABLE OF CONTENTS

1. Introduction

As noted in previous submissions the Irish Hotels Federation (IHF) supports a national minimum wage but such a rate must be appropriate, competitive and affordable and should take substantial and increased account of regional and sectoral characteristics. The domestic economy growth rate is slowing. There are substantial uncertainties in the international economy. There are renewed concerns for a hard Brexit. The hotel sector faces severe cost pressures including insurance and commercial rates. It is proposed to substantially increase water charges for many enterprises from May 2020. In addition to all these "usual" economic issues the Covid-19 virus could result in a very large negative economic impact on the Irish hotel and wider hospitality sector. Negative economic effects are already happening. By any measure the hotel sector faces a very difficult economic environment. Overall, the sector currently faces an extraordinary accumulation of shocks.

The IHF agrees with the comment in the 2018 Low Pay Commission (LPC) (page 1) report that

"…minimum wages alone are not sufficient as a poverty alleviation strategy. Additional policies are required to deal with issues such as housing, childcare and transport costs."

Consequently, an increased focus should be placed by policymakers on social policy measures and interventions to improve employment participation levels and low standards of living.

The LPC is considering what, if any, changes should be made in 2021 to the current National Minimum Wage of €10.10 per hour and the associated sub-minimum rates for young people. The current rate applied from February 2020. This followed submissions in early 2019, the LPC report in July 2019 and a Government decision accepting the recommendation resulted in a ministerial order applying the new rate from February 2020. The changes, if any, currently being discussed will apply from January/February 2021, or later if the IHF recommendations are accepted. The IHF argues that the LPC should place a stronger emphasis on regional and sectoral considerations, exchange rates and cost of living changes in its deliberations and in particular, should take into account the greatly increased uncertainty of national and international macroeconomic prospects due to Covid-19. The IHF acknowledges the difficulties of having a very up to date and projected empirical assessment in light of the time lags associated with data availability and the time lag between the submissions, decision by LPC and the implementation of any new rates. The LPC must make its recommendation for 2021 in July 2020. Economic circumstances may change greatly between July 2020 and January 2021, depending on Brexit and Covid-19. The worst effects of Covid-19 should be felt in 2020 but the hotel sector will probably need support to recover from these negative effects in 2021. It should be noted that the international macroeconomic environment has deteriorated greatly since what was expected when the minimum wage recommendation was made for 2020, because of Covid-19.

For reasons discussed in the submission the IHF recommends that the 2021 increase in the minimum wage rate should be constrained to that which compensates for the cost of living increase as measured by the consumer price index. Any larger increase should be avoided because of the array of economic difficulties facing the economy and the hotel sector. However, this recommended increase is conditional on the avoidance of a hard Brexit and on minimum disruption arising from Covid-19. Should the macroeconomic situation deteriorate or be expected to deteriorate because of a large negative virus impact or a hard Brexit, the IHF recommends that there should be no increase in the NMW for 2021. In addition, where increases are proposed in the future, they should apply from April of the relevant year instead of January as currently applies. The IHF also recommends that increases in the sub-minimum rates should be limited to matching the cost of living increase.

The IHF acknowledges that the current implementation of the minimum wage is as a "national" rate. The IHF argues below that specific regional and rural economies and hotel/guesthouse activities operate in a fundamentally different economic and business environment to the national economy and the economies of large cities and traditional strong tourism locations. These weaker geographic areas and specific sectors should receive increased emphasis in deliberations and decisions on minimum wage rate fixing. The IHF acknowledges that the LPC has considered and rejected the concept of a regional variation in minimum rates.

The LPC argues that "*that regional rates would prove unduly complex and could not be targeted sufficiently (e.g. people often live and work in different areas, and have different housing costs*" (page 1). As argued in its previous submission, the IHF does not accept that these are sufficient grounds for rejection. It would seem that the principle has not been rejected but that there would be operational difficulties. The LPC should consider ways to overcome these operational difficulties.

The IHF welcomes the additional data acquisition, research and analysis which have been done by and for the LPC on the low pay issue.

As argued in this and previous submissions, and as identified by the new data, minimum wage employees have above average representation in certain industries, including the hotel/guesthouse sector. Certain sectors are also characterised by relatively low earnings primarily because of their business and economic circumstances and not because of excess profits. In the accommodation and food sector the share of employees earning the NMW or less was 29.8% compared to the next highest share of 16.2% in wholesale and retail. Such industries are more vulnerable to labour cost increases than high earnings sectors. The LPC should pay particular attention to the sectoral issues of these industries when deciding on the appropriate minimum wage rate rather than depending on economy wide assessment and average performance. A focus on specific sectors would produce better analysis of the effects of minimum wage increases. For example, national productivity levels and international comparisons present Ireland in a very good light but this is mainly due to the impact of multinational enterprises. A different picture emerges at the more detailed sectoral level.

The particular issues the Commission is obliged by legislation to have regarded in considering its recommendation are:

(a) changes in earnings during the relevant period,

(b) changes in currency exchange rates during the relevant period,

(c) changes in income distribution during the relevant period,

(d) whether during the relevant period— (i) unemployment has been increasing or decreasing, (ii) employment has been increasing or decreasing, and (iii) productivity has been increasing or decreasing, both generally and in the sectors most affected by the making of an order,

(e) international comparisons, particularly with Great Britain and Northern Ireland,

(f) the need for job creation,

(g) the likely effect that any proposed order will have on — (i) levels of employment and unemployment, (ii) the cost of living, and (iii) national competitiveness.

The IHF recognises that it is difficult to make a direct empirical link between the supporting analysis undertaken by the LPC and the specific recommendation on the minimum wage rate. However, there should be a strenuous effort to clearly identify why and how a specific analysis leads to a particular recommendation. In particular, there seems to be limited identification of a direct linkage between the detailed analysis of the LPC and its specific recommendation. Is the basis of the recommended increases evidence-related or is it related to the ratio of the minimum wage to the median wage or is it simply a process to move to larger minimum wages rates? For example, is the 2019 recommendation of a 2.6% increase compared to the 2018 increase of 3.2% due to negative Brexit expectations? Why was the 2020 increase 3.1% compared to the 2019 increase of 2.6%?

The IHF notes, as already mentioned above, that the previous LPC reports reject the idea of a regionally differentiated minimum wage. However, it is essential that consideration of the size of the national minimum wage should take into account regional economic circumstances which are of great significance in the hotel/guesthouse sector. Increases in the national minimum wage can also generate additional relativity type wage cost increases.

The 2019 LPC Recommendations report noted that the basis for its 2020 recommendation took into account the following;

- Strong increases in employment have taken place and economic predictions indicate that Ireland may reach close to full employment in 2019.
- The Irish economy has experienced growth in domestic demand and personal consumption.
- The recommendations made by the Commission are on the basis of an orderly exit from the EU by the United Kingdom.
- The costs of childcare, housing and transport continue to grow. They are significant issues for minimum wage and low pay workers –(the LPC notes that these issues cannot be resolved by increases in the NMW alone).
- Growth which was initially focussed on Dublin has spread to all regions of the country, but not equally.
- Across most sectors, both average weekly and average hourly earnings have increased.
- Level of inflation

The IHF is particularly concerned that the LPC in its Recommendation report of 2019 appears not to have taken into account the negative impact on the hotel and wider hospitality sector of the increase in the hospitality VAT rate on the 2019 and subsequent performance and economic environment.

Ireland already has a high NMW. The 2019 LPC Recommendation report notes that… "While in terms of gross hourly rates of the NMW, Ireland is in third position *(in the EU),* when adjusted for purchasing power standards (PPS) Ireland falls to sixth place among EU countries in 2019."

Overall, having taken account of the current overall economic position of the hotel sector, cost increases including insurance, water and commercial rates, the continuing macroeconomic economic threats, especially arising from Covid-19 and to a continuing extent from Brexit, the issue of low pay as a feature of the sector, and the medium-term exchange rate related loss in competitiveness, the IHF proposes that the increase in the minimum wage in 2021 should be related to the change in consumer prices or the change in the cost of living as measured by the 2020 increase in the CPI. However, this recommended increase is conditional on the avoidance of a hard Brexit and on minimum disruption arising from Covid-19. Should the macroeconomic situation deteriorate or be expected to deteriorate because of a large negative virus impact or a hard Brexit, the IHF recommends that there should be no increase in the NMW for 2021.

2. Labour and Earnings Structure of Hotel Sector

The average economy-wide labour and costs situations do not adequately represent the hotel sector. They give a completely misleading impression of the actual labour costs role in the sector. The hotel sector in Ireland and internationally is characterised by high labour intensity and very high labour cost to revenue and labour cost to gross value added ratios. These factors should be borne in mind by the LPC. The hotel and wider hospitality sector is particularly vulnerable to changes in labour costs. The higher the labour share of overall production costs the greater the burden felt by a sector from a labour cost increase, other things being equal.

The role of labour costs in turnover and gross value added is shown below for a sample of sectors. Official CSO data is used as this allows a comparison between hotels and other sectors and supports transparency. This data illustrates the fundamental difference between the hotel/hospitality sector and several other sectors. The latest CSO data is for 2017 but data for some sectors are available only for 2014. The sample includes indigenous manufacturing sectors such as food, high technology manufacturing sectors such as chemicals and computers and a range of services sectors including retail, wholesale, computer services and accounting.

The CSO sectoral comparative data are shown below and labour costs relative to gross value added and turnover are shown. Gross value added (GVA) refers to the value added generated by the sector. In effect it is turnover less bought in materials. GVA is a more accurate measure of the economic contribution of a sector than turnover. However, the payroll to turnover ratio is also an important business and economic indicator.

Table 2.1 Labour Costs as percentage of Turnover and Gross Value Added 2017

	Turnover	**GVA**
Food manufacturing	8.4	28.4
Beverages manufacturing	7.3	15.7
Chemicals	6.8	18.7
Pharmaceuticals	3.0	9.9
Computer electronic and optical products	9.9	41.7
Retail	14.1	67.0
Wholesale	4.0	41.4
Hotels	39.1	78.0
Restaurants	33.4	77.2
Beverage serving	29.4	70.2
Computer programming, consultancy	8.1	44.7
Accounting auditing	29.2	55.2

Source: CSO CIP and Annual Services Inquiry, all services refer to 2017, food refers to 2017and other manufacturing refer to 2014.

The vulnerable position of the hotel sector arising from labour costs is clearly illustrated by the above official CSO data. Within manufacturing, the chemicals sector pay bill as a percent of turnover is 6.8%, the pharmaceuticals sector is 3.0%, the food sector is 8.4% and the beverages sector is 7.3%. Within services the ratios also vary, wholesale is 4.0% and retail is 14.1% with computer programming at 8.1%. Of the listed sectors, hotels, at 39.1%, have the highest labour costs to turnover ratio. Restaurants and beverage serving activities are also high at 33.4% and 29.4% respectively.

This conclusion is reinforced by the labour costs share of GVA. Labour costs amount to 9.9% of GVA in pharmaceuticals manufacturing compared to 78.0% in hotels. The manufacturing figure is, of course, influenced by the accounting practices of the inward multinational sector and also the additional measurement issues of 2015 and subsequently. The food manufacturing sector has a labour cost to GVA ratios of 28.4%. The hotel sector is a very labour intensive industry and is very vulnerable to wage induced cost increases. 78% of its gross value added is accounted for by labour costs. The CSO data indicate the very large role of labour costs in the hotel business model.

The hotel sector provides many highly skilled jobs such as managers, accountants marketing executives, HR executives and IT specialists. The sector also supports highly skilled jobs in other sectors such as aviation. However, to provide the required level and type of service, the hotel sector also employs large numbers of lower skilled occupations. Consequently, it has a higher proportion of lower paid persons than other sectors. This means that wage cost and the NMW in particular are significant business issues for hotels, unlike many other sectors.

The hospitality sector is of significant strategic importance in economic and regional development policy and should be supported.

The CSO data on the minimum wage (CSO statistical release QNHS – National Minimum Wage Estimates, April 2017) show the regional and sectoral variation in the role of such employees. While 10.1% of employees are paid the NMW or less, the proportion in Dublin is 8.3% and, at the other extreme, is 14.3% in the Border region and 13.2% in the South-East region. Increased levels of the NMW have a larger negative impact on the regions.

The CSO data show that the accommodation and food services sector has a very high incidence of minimum wage workers. 24.7% of this sector's employees are on the NMW or less.

The differential regional impacts are further illustrated by the regional breakdown of payroll share data available from the Hotel Industry Survey data. The CSO estimates refer to "hotels and similar accommodation" and the Hotel Industry Survey refers to "hotels".

Table 2.2 Regional Labour Cost as % of Revenue 2018

	Dublin	Midlands and East	South West	Western Seaboard	Ireland
2018	30.6	38.5	37.3	36.6	35.1

Source: Ireland Annual Hotel Industry Survey 2019

The four regional shares range from 30.6% to 38.5%. Labour cost as a share of revenue is much higher in the three non-Dublin regions than in Dublin. It is clear that the three non-Dublin regions are more vulnerable to increases in the national minimum wage rate than average national figures indicate.

3. National and International Economic Situation: Major Concerns

The OECD March Interim Economic Outlook is the latest set of international macroeconomic projections available at time of writing. Mainly due to the effects of Covid-19 it presents a very worrying picture for 2020 which could continue into 2021 depending on the impact of Covid-19.

Global economic growth in 2020 will be lower than 2019. On the assumption that Covid-19 will be contained the global 2020 growth will be 2.4% compared to an expected 2.9% in November. However, if the virus spreads significantly to other countries and its impact is prolonged the OECD expects that 2020 growth could decrease to 1.5%. This would be the lowest global growth for several years. On the assumption of an early containment of Covid-19, the performance in 2021 will improve to a growth of 3.3%. However, a more negative virus outcome will significantly reduce the currently expected 2021 growth performance.

These forecasts assume a soft Brexit in terms of a reasonable free trade deal between the UK and the EU. A hard (WTO-based) Brexit will greatly weaken the 2020 and 2021 growth performances of economies which are particularly relevant to Ireland which are already significantly damaged by Covid-19. The March 2020 OECD Interim Economic Outlook Update forecasts are presented in Table 3.1. The economies which are critical for Ireland in terms of both exports and inward tourism are all expected to grow but generally at lower rates than in 2019. These forecasts are based on a soft Brexit and reasonable containment of Covid-19. A hard Brexit and a wide spread of Covid-19 will result in a much weaker 2020 macroeconomic situation and possibly a continuation of that weakened position into 2021.

The UK growth will be low in 2020 and 2021 at 0.8% each year compared to 1.4% in 2019. The UK performance is a major problem for the hotel sector and the economy generally. Coupled with the continued weakness of the Sterling exchange rate this suggests a continuation of difficulties for Ireland in the British and Northern Ireland tourism markets.

The USA's growth rate will decline from 2.3% in 2019 to 1.9% in 2020 and increase to 2.1% % in 2021.

The euro area economy is expected to grow by 0.8% and 1.2% in 2020 and 2021 respectively, compared with 1.2% in 2019. German growth will be 0.3% and 0.9% respectively for the two years 2020 and 2021. France will grow by 0.9% in 2020 and 1.4% in 2021.

Overall, this expected performance is weaker than recent years and, depending on Brexit and Covid-19, the expected 2020 and 2021 macroeconomic performances may be much worse than currently projected.

Table 3.1 Current Expectations of GDP Growth% volume 2019, 2020 and 2021

	2019	2020	2021
USA	2.3	1.9	2.1
Euro area	1.2	0.8	1.2
Germany	0.6	0.3	0.9
France	1.3	0.9	1.4
Italy	0.2	0.0	0.5
UK	1.4	0.8	0.8
Ireland	6.1	4.8	4.2

Source: OECD Interim Economic Outlook March 2020 for all except Ireland which is from the Central Bank Quarterly Bulletin February 2020.

On the assumption that there is not a significant worsening of the international economic environment because of Brexit and Covid-19 the Irish economy will perform reasonably well over the next two years, but with a much lower growth performance than in 2018 and 2019, with the Central Bank expecting growth of 4.8% in 2020 and 4.2% in 2021 This compares with 8% in 2018 and 6% in 2019. Consumption will grow by 2.7% and 2.2% in 2020 and 2021. These are declines from the 2018 and 2019 consumption increases. However, there are very significant uncertainties associated with these forecasts because of Brexit and the possible wider spread and intensity of Covid-19.

The average wage increase expectations are 4.2% in 2020 and 4.3% in 2021 with employment growth continuing and unemployment declining. The move towards full employment and resulting labour market competition should ensure that appropriate or commercially justified levels of sectoral wages are realised without increasing the regulated wage level.

4. Impact of Hospitality VAT Increase on Competitiveness

The IHF regrets that the LPC in its 2019 deliberations has not taken sufficient account of the negative impact on competitiveness of the Budget 2019 increase in the hospitality VAT rate from 9% to 13.5%. This increase had a range of possible impacts including a price increase to absorb the increased cost, absorbing the effect through lower profit levels and a mixture of the two mechanisms. In addition the negative impact on economic activity and investment may be seen only after a time lag. Industry operators may respond in the short run with lower profit margins but this may not be sustainable in the medium term. As with other aspects of the sector there is also a regional dimension. Operators in certain geographic areas have lower profit margins than locations such as Dublin and the main tourism centres. The 2019 IHF submission referred to this and we repeat the assessment of the impact in this submission. The hotel sector is already under competitive pressure from the continuing low value of Sterling. The 4.5 percentage points' increase is equivalent to 3.2% of the existing VAT-inclusive turnover on the assumption that the 23% rated component is 20% of turnover. This, in turn, leads to a much larger negative impact on profit margins if the increase is being absorbed through lower profits.

On the assumption of a profit margin of 10%, absorbing the VAT increase through lower profits reduces profits by 32% and the profit margin drops from 10% to 6.8%. This is a very large negative impact on profits. The basis of this assessment is shown below.

- assume 20% of turnover is at 23% rate and 80% is at old 9% rate
- old VAT receipts were €11.8 for each €100 of pre-VAT sales
- 10% profit relative to revenue is €11.2 per €111.8 revenue
- new VAT receipts are €15.4, an increase of €3.6
- absorbing the higher VAT through lower profits reduces profits from €11.2 to €7.6, a decrease of 32% and a new profit rate of 6.8%

5. Exchange Rates

The Brexit-related decline in the value of Sterling has had very significant negative economic implications for the hotel sector and these negative implications continued in 2019 and will continue in 2020 and 2021. Should there be a no deal Brexit or a weak and limited free trade agreement, Sterling will remain low or will decline further and the negative implications will worsen. The sector depends heavily on the British market. Britain accounted for 41% of visitors in 2016 and 35% in 2019. The CSO number of British tourists was 3.9241 million in 2016, 3.7289 million in 2017, 3.7590 million in 2018 and 3.7877 million in 2019. British visitor numbers declined by 5% in 2017 and the small increases of 0.8% in 2018 and 0.8% in 2019 have not recovered the 2017 decrease. The decline in the value of Sterling has substantially reduced the competitiveness of the Irish hotel sector and this is a factor which is outside the control of both the Irish government and the hotel sector. Other markets performed well and overall there was an increase in international visitors. There was also a decrease in visitors from Northern Ireland and some counties and localities within Ireland are more dependent on the UK market than the average national position.

The Sterling exchange rate to the euro in January 2020 was £0.84927. In January 2019 it was £0.88603. This was broadly the same as the January 2018 rate of £0.88331. In January 2017 the value was £0.86100 and in January 2016 it was £0.75459. This is a substantial and continuing loss in competitiveness over four years (with most loss concentrated in 2016) of 12.5%, despite the recent improvement. There is no expectation that Sterling will recover all this lost value in 2020 and 2021. At best it will experience small changes in either direction. However, poor performance in the Brexit/EU trade negotiations would result in a further large decline in Sterling. It should also be emphasised that the hotel industry has to continue to carry the burden of the decline in Sterling. It is an ongoing burden as opposed to a once-off temporary change. The central bank is assuming a rate of £0.85 for 2020 and 2021 in its macroeconomic forecasts (on the assumption of a Brexit related free trade agreement).

The Sterling decline has reduced Irish national and tourism competitiveness. The negative effect on the UK market has been seen. The lower value of Sterling will also encourage a switch from Irish domestic holidays and breaks to the UK market and a switch by foreign tourists from Ireland to Britain. It also results in British tourists spending less on their Irish trips. As emphasised in our previous submission, the public policy aim should be to find ways to restore the lost cost competitiveness and to avoid additional reductions in competitiveness such as an excessively increased minimum wage. The decline in Sterling has had a large, continuing and indisputable negative impact on the cost competitiveness of Irish tourism and hotel activity. The LPC should take more notice of this negative cost impact in its evidence based analysis.

6. CPI Inflation

The IHF proposes that the 2021 increase in the NMW should be related to the change in consumer prices. However, this recommended increase is conditional on the avoidance of a hard Brexit and on minimum disruption arising from Covid-19. Should the macroeconomic situation deteriorate or be expected to deteriorate because of a large negative virus impact or a hard Brexit, the IHF recommends that there should be no increase in the NMW for 2021. The 2021 rate should be increased by the percentage change arising from the estimated average 2020 consumer prices compared to the 2019 prices as indicated by the Consumer Price Index (CPI). The 2020 figure will have to be estimated because the LPC recommendation will be made in July of 2020. We recommend the use of the CPI instead of the Harmonised Index of Consumer Prices (HICP) because the CPI is the more widely used measure of domestic cost of living changes.

Currently the central bank is forecasting an increase in the Consumer Price Index of 1.6% in 2020 and 2.0% in 2021. Therefore, the increase in the NMW for 2021 should be approximately 1.6% based on current information. The projected 2020 change in the CPI compared with 2019 may change as the year progresses. The CPI recorded very small increases over the past three years. These were much lower than the percentage increases in the NMW recommended by the LPC. The CPI changes were 2016 0%, 2017 +0.4%, 2018 +0.5% and 2019 +0.9%. As noted, the projected 2020 and 2021 increases are 1.6% and 2.0%. The comparable NMW increases were 2016 5.8%, 2017 1.1%, 2018 3.2%, 2019 2.6% and 2020 3.1%.

7. Tourism and Hotel/Guesthouse Performance and Earnings

Growth in tourism slowed in 2019 compared to previous years. Expenditure by tourists in Ireland declined slightly in 2019 following several years of growth. Fáilte Ireland estimates that total expenditure by overseas visitors declined by 2%, Northern Ireland visitor expenditure declined by 2%, expenditure by same day visitors declined by 2%. Expenditure by domestic tourists declined by 2% in 2019 compared with 2018.

Irish international inward tourism visitor numbers had only a small increase in 2019. Average spending per tourist declined. Overseas visitors to Ireland increased from 10.6163 million in 2018 to 10.8075 million in 2019, an increase of only 1.8% compared to the 2018 growth of 6.9%. The British market was 3.9241 million visitors in 2016 and 3.7289 million in 2017. There was a decline of 5% in the UK market in 2017. The 2018 level was 3.7590 million, an increase of 0.8%. The 2019 British figure was 3.7877 million, an increase of 0.8%. The 2019 British level is still well below the 2016 level. A wide international spread of Covid-19 would have a major negative impact on the Irish hotel and wider tourism sector. Negative effects are already being felt.

The Ireland Annual Hotel Industry Survey reports that in 2018 54.7% of hotel business was sourced from the domestic market with 13.2% from Northern Ireland and Britain and 32.1% from other overseas. In addition to bed nights the hotel industry depends greatly on the domestic market for a wide range of revenue generating functions. The performance of the domestic market will be strongly influenced by the macroeconomic performance which is uncertain and by the extent of, and reaction to, Covid-19.

Overall, the industry has performed well over the recent past but with large regional variations. The 2015 average room rate was €92.15. This increased to €104.11 in 2016, €111.25 in 2017 and €118.27 in 2018. This followed a long period of weak performance since the economic collapse in 2008. Room occupancy has increased from 71.1% in 2015, to 74.0% in 2016, 75.4% in 2017 and 75.1% in 2018.

The usually quoted profit figure for the hotel sector is obtained from the Crowe Ireland Annual Hotel Industry Survey. However, this survey's measure and definition of profit does not include all costs. Its definition of fixed charges excludes depreciation, bank loan interest and rent where applicable. Consequently, the published profit figures refer to Earnings before interest, taxes, depreciation, amortization, and restructuring or rent costs (EBITDAR) and should not be read as the true surplus or economic profit. EBITDAR per room has increased from €11,990 in 2015 to €14,558 in 2016, €16,377 in 2017 and €17,519 in 2018. These are average national figures and there are substantial regional variations. The national figures exaggerate the strength of much of the rural and regional hotel sector.

The 2018 regional figures for EBITDAR are shown below:

- National average €17,519
- Dublin €24,818
- Midlands and East €14,543
- South West €12,964
- Western Seaboard €12,014

Dublin is well above the national average but the other three regions are each substantially below the national average. The same geographic difference applies to occupancy rates. The national level is 75.1%. Dublin is 83.9% but the other three regions are substantially below the national occupancy rate, they range between 69.0% and 71.3%

The different regional performances are summarised in Table 7.2 where a range of indicators is presented.

Table 7.2 Regional Variation in Hotel Performance 2018

	Room occupancy %	Average room rate €	EBITDAR* per available room €
Dublin	83.9	145.82	24,818
Midlands and East	69.0	105.51	14,543
South-West	71.3	107.80	12,964
Western Seaboard	70.4	93.83	12,014

Source: Ireland Annual Hotel Industry Survey 2019

(*as restated - Earnings before interest, taxes, depreciation, amortization, and restructuring or rent costs (EBITDAR))

Room occupancy is much higher in Dublin than elsewhere. The Dublin average room rate greatly exceeds those of the other three regions. EBITDAR in the Western Seaboard is less than half of the Dublin level. These regional differences in the hotel sector clearly have implications for the regional impact of a nationally determined minimum wage rate which does not take sufficient account of the regional economic characteristics. The IHF urges the LPC to take account of the evidence based regional business features of the sector.

Much of the improvement in hotel operating figures relate to the recent and current temporary shortage of hotel capacity, particularly in Dublin. This shortage was caused by the exit of capacity during the economic downturn. The ongoing development of tourism and tourism employment requires investment in additional capacity which in turn requires appropriate levels of profitability and return on investment.

The IHF's December 2019 Industry Barometer reported that only 35% of hotels had a positive outlook for 2020. The concerns were a hard Brexit, excessive business costs especially insurance, the increase in the VAT rate, local authority rates and weak visitor numbers in 2019. Of course, since then the possibility of potentially very large negative effects of Covid-19 has emerged.

Preliminary Crowe estimates for 2019 indicate a 4% drop in EBITDAR from €17.5k to €16.8k.

8. Regional Issues

As noted in this and the previous IHF submissions to the LPC, the economic recovery is not evenly spread throughout the country. The economic recovery as measured by GDP or GNI modified growth, employment increases and lower unemployment has not been felt evenly throughout the country. This is particularly the case in tourism and the hotel sector. Dublin is performing very well, followed by some other urban centres and traditionally strong tourism locations but there are many hotels and locations in the third group where there has been limited recovery and where hotels and guesthouses have weaker performances. The IHF is concerned that the LPC has not paid sufficient attention to the weak regional and rural economies within the national economy in deciding on the appropriate rate for the national minimum wage.

The LPC has noted that the economic recovery is spreading to the regions. However, there is a wide spread of regional performances. Based on the new Labour Force Survey employment data, all eight regions experienced increases in employment over the 2012/2019 period. Therefore all regions have shared in the jobs growth. However, the rate of growth is not evenly distributed. The Mid-West had the worst performance with a 14.5% employment increase compared to 35.0% in the Midlands which was the best performing region over the period. Dublin was the second best performing region with an increase of 29.3%. Two regions, South-West and Mid-West were below 18%. The range of growth rates was 14.5% to 35.0%.

Table 8.1 Regional Employment levels and changes Quarter 4 2012 to Quarter 4 2019, thousands

Region	Quarter 4 2012	Quarter 4 2019	% change 2012/2019
State	1893.6	2361.2	24.7
Border	147.7	183.9	24.5
West	179.8	222.1	23.5
Mid -West	188.4	215.8	14.5
South-East	155.3	195.9	26.1
South -West	287.6	338.3	17.6
Dublin	560.6	725.1	29.3
Mid-East	274.7	345.6	25.8
Midland	99.5	134.3	35.0

Source. CSO, LFS

The 2016 Census of Population enables an examination of the county pattern of employment change compared with the previous 2011 census.

All 26 counties experienced employment increases between 2011 and 2016. However, there was a wide range of percentage increases. The highest increase was Louth at 13.8% and the lowest was Sligo at 2.2%. An East-West difference is clear from the figures. The top five percentage increases were all in Leinster: Louth, Dublin, Carlow, Wexford and Kildare. Four of the five lowest increases were in Connacht: Sligo, Mayo, Roscommon and Leitrim. Tipperary completes the bottom five growth performances.

Average disposable income per person in 2016 in the State as a whole was €20.9k. Dublin had an average disposable income of €24.1k while Donegal, the lowest, was at €16.1k. Dublin's disposable average income was 49.7% greater than Donegal. Offaly, Mayo and Roscommon, the next three lowest counties, were each under €18k. There are substantial regional differences in disposable income per person.

9. Assessment and Recommendations

- The IHF supports a national minimum wage for workers but such a rate must be appropriate, competitive and affordable and take account of sectoral and regional factors.

- There should be a greater use of other social policy instruments in addition to the minimum wage mechanism to support standards of living and to deal with specific costs such as housing, childcare and transport.

- The increase in the minimum wage in 2021 should be related to the change in consumer prices or the change in the cost of living as measured by the 2020 increase in the CPI. However, this recommended increase is conditional on the avoidance of a hard Brexit and on minimum disruption arising from Covid-19. Should the macroeconomic situation deteriorate, or be expected to deteriorate, because of a large negative virus impact or a hard Brexit, the IHF recommends that there should be no increase in the NMW for 2021. The current Irish NWR is already relatively high by EU standards and is higher than the UK. In light of the decline in the British and Northern Ireland tourism markets, the continuing low value of Sterling and the uncertainties of Brexit, cost competitiveness is even more critical than usual. In addition to the "usual" economic problems the hotel sector has to face the new and possibly substantial negative economic effects arising from Covid-19. Overall, the sector is facing an extraordinary accumulation of shocks.

- The LPC should take direct and increased account of the substantial reduction in hotel and tourism competitiveness caused by the increase in the hospitality VAT rate from 9% to 13.5% in Budget 2019.

- The widely quoted hotel sectoral EBITDAR performance from the Crowe Hotel Industry Survey does not represent the level of actual or economic profit in the sector. The survey figure excludes tax, depreciation, interest payments and rent where applicable. Preliminary EBITDAR figures for 2019 indicate a drop of 4%.

- Public policy decisions should consciously reflect the current and possible future negative direct and indirect economic impact of a hard Brexit and the very large negative economic effects of an inability to contain the Covid-19 virus.

- The OECD March Economic Outlook reports that global economic prospects remain subdued and very uncertain due to the Covid-19 outbreak. Economic growth in 2020 will be lower than 2019. Global growth in 2019 was 2.9% and current expected 2020 growth is 2.4% but if the virus outbreak is not contained the 2020 growth will drop to 1.5%.

- The UK is expected to grow by a low 0.8% in both 2020 and 2021 compared with1.4% in 2019 on the assumption of a soft Brexit and containment of the virus.

- The USA's growth rate will decline from 2.3% in 2019 to 1.9% in 2020 and 2.1% in 2021.

- While current Irish growth expectations for 2020 and 2021 are relatively good but lower than earlier years, there is a large degree of uncertainty attached to future performance due to Brexit and Covid-19. The growth in consumption was 3.3% in 2019 and this will drop to 2.7% in 2020 and 2.2% in 2021. The 2020 outcome could be substantially worse than currently projected.

- The central bank, as of February 2020, is predicting a CPI increase of 1.6% in 2020 and 2.0% in 2021.

- The decline in the value of Sterling, despite some recent improvement, has significantly lowered the competitiveness of the Irish economy and the hospitality and hotel sector relative to the UK over the medium-term. The hotel sector and the economy have to cope with this structural and long-lasting competitiveness deterioration.

- Public policy should seek to support competitiveness whenever possible and not to worsen it with an inappropriate increase in the national minimum wage.

- The hotel and wider hospitality sector, as is the case internationally, has very high labour cost to revenue and labour cost to value added ratios which make it vulnerable to inappropriate minimum wage increases. In addition, the hotel sector is open to severe international competition both for domestic tourism and international inward tourism and has been badly hit by the decline in the value of Sterling. These factors should receive strong consideration in the LPC's deliberations.

- The sector faces significant increases in operation costs including insurance, commercial rates and water charges.

- The hospitality sector is of strategic importance in terms of future national and regional economic development. Its strategic role and the need to support national and regional competitiveness should be recognised in the LPC's deliberations.

- Specific regional and rural economies and very many hotels/guesthouses operate in a fundamentally different economic and business environment to the national economy and the economies of the large cities and traditional strong tourism locations. These weaker areas should receive increased emphasis in deliberations and decisions on minimum wage rate levels.

- The strong national inward tourism performance up to 2019 and the Dublin hotel performance give an exaggerated image of the wider regional hospitality and hotel/guesthouse performance and economic position.

- The Dublin average hotel room rate greatly exceeds those of the other three regions. EBITDAR per room in the Western Seaboard is less than half of the Dublin level.

- The IHF also recommends that the sub-minimum rates should be increased at the same rate as the NMW.

- Where increases are proposed in the future the LPC should show the link between its economic and other analysis and its recommendation.

- The submissions deadline should be closer to the LPC decision date and this should be closer to the implementation date.