



Licensed Vintners Association Submission



**to the
Low Pay Commission
on the**

Public Consultation on the National Minimum Wage

6th February 2020

INTRODUCTION

The Licensed Vintners Association (LVA) is the representative organisation for the Publicans of Dublin. We have some 600 members which is over 80 percent of the pubs in our Capital City. Collectively our members sell almost 30 percent of all the alcohol in the Irish on-trade and employ over 12,000 employees directly and many more indirectly. As a general observation they are the largest pubs and the largest employers in the licensed trade sector in Ireland. See www.lva.ie for further information.

WORKERS ON THE MINIMUM WAGE

It is to be expected that the hospitality and retail sectors account for the majority of workers on the Minimum Wage. Furthermore, international research suggests that Minimum Wage workers tend to be young (16-24 years) and mostly part-time. This would characterise minimum wage employees in the licensed trade. In suburban pubs, there would be a large volume of older part-time workers, many of whom with long standing lengths of service and above minimum wage payments.

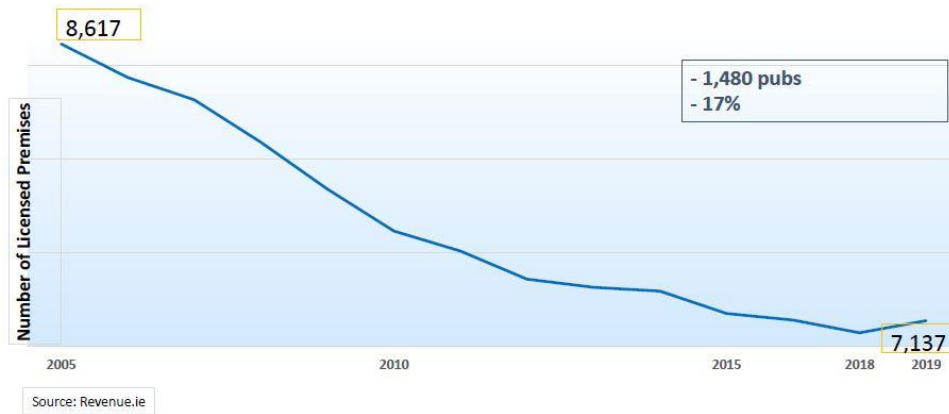
In broad terms the majority of Minimum Wage employment is concentrated in the domestic economy. The licensed trade, which operates in the discretionary consumer segment of the domestic economy, had a disastrous performance over the 2008 – 2014 period. However, 2016 provided an upturn in business and the licensed trade improved again in 2017 and levelled out in 2018 until now. While the knock on effect of Brexit continues to provide uncertainty, the outlook for the licensed trade in 2020 is reasonably positive. We are not seeing growth among our members employee numbers as most are stabilised with their current numbers.

The LVA recently surveyed our members and found that 55% of the Dublin pubs surveyed were concerned about Brexit. Bars and Restaurants were hit by declining levels of British visitors in 2018, but Americans have helped to offset this. The trend is continued in 2019 but was not spread among all members as many in non-tourist areas suffered a decline in business. The VAT 9% to 13.5% increase also negatively impacted our members.

LICENSED TRADE ECONOMIC PERFORMANCE

The pub sector operates within the domestic economy and is totally dependent on discretionary consumer spending. As such, resulting from the economic crash in 2008 and associated economic downturn until 2014, the licensed sector has endured a torrid time. Official data reveals dramatic declines in the numbers of Irish pubs as outlined in the chart here. This official data confirms that 1,477 pubs have shut since 2005 while there has been an enormous 30% decline in the volume of bar sales in the decade to December 2017.

Number of Licensed Premises 2005 - 2019



As can be seen from the data below, the pub sector is also characterised by very small family businesses with low turnover. This structural characteristic, combined with the variability in turnover by both day of the week and time of day, means that pubs tend to rely on flexible working arrangements with staff. Accordingly, the licensed trade tends to be a relatively large employer of Minimum Wage workers. This flexibility in employment arrangements also suits our employees, typically students, short stay visas holders and those with family commitments who are not available for full-time roles.

Net Turnover in Pub Sector	
Net Turnover	Nationally
Under €191k	53%
€191k - €381k	24%
€381k - €635k	10%
€635K +	13%

Coming from a low base, the Dublin licensed trade has shown remarkable resilience and is now firmly on the road to recovery. We have benefitted from the rapid recovery in the domestic economy and an excellent tourism performance, despite the Brexit-related uncertainty.

The CSO Retail Sales Index (Jan 2020) shows a sharp decline in July 2019 and again in January 2020 following confirmation of Brexit. Many of our members the NMW is a key driver of labour costs, both directly for employees on the NMW and indirectly, by driving wage claims from all other employees.

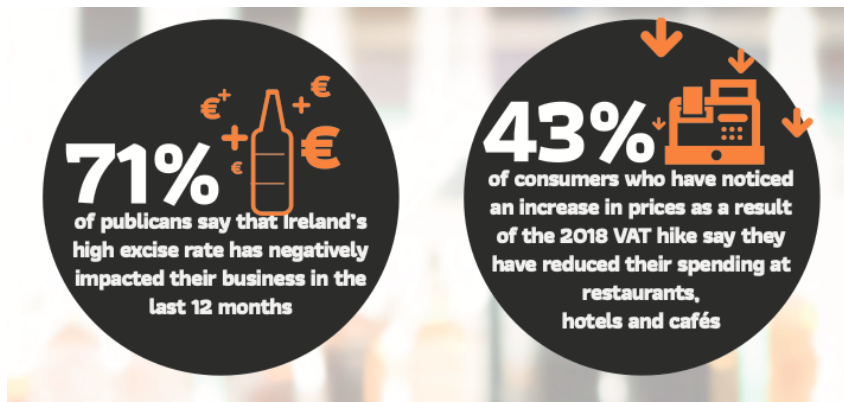
The CSO Retail Sales Index

Retail Sales volume decreased by 3.4% in January 2020

Figure 1 Retail Sales Index - Seasonally Adjusted Volume



In July 2019, Drinks Industry Ireland reported that 71st of Publicans say that Ireland’s high excise rate has negatively impacted their business in the last 12 months. 43% of consumers who have noticed an increase in prices as a result of the 2018 VAT hike say they have reduced their spending eating and drinking out.



EMPLOYERS' COST OF MINIMUM WAGE

Minimum wage increased by 30 cent in February 2020 to €10.10 per hour. It should also be noted that employers pay an additional 8.8% employers PRSI on weekly earnings up to €386 for Class A and pay 11.05% employers PRSI on weekly earnings over €395 making the true cost €10.988 per hour and €11.21 per hour for employers respectfully. Employees are also due 8% of hours worked as annual leave plus Sunday premium and therefore costs increase here also. Auto-enrolment pension system planned for 2022 is also something our members need to budget for.

LABOUR COSTS IN THE DUBLIN LICENSED TRADE

The on-trade in Dublin can be characterised as a high service, labour-intensive sector. After the cost of goods, labour is the most significant cost heading. The most commonly used metric within the trade in managing labour cost is the ratio of gross labour cost (including Employers PRSI) to nett turnover (net of VAT). This varies dramatically depending on whether the pub has a food business or not. The overwhelming majority of Dublin pubs have substantial food operations and have significantly higher labour costs as a result. The preparation and service of food is particularly labour-intensive.

In broad terms, drink-only pubs would have a labour: net turnover ratio of 22-25% while pubs with substantial food operations could have labour: net turnover ratio of 32-35%. Some businesses which place a high emphasis on service could have a ratio of 37-38%. Accordingly, the management of labour costs is critical to the commercial sustainability of pubs.

PAY RATES WITHIN THE DUBLIN LICENSED TRADE

The latest available survey of LVA members in February 2017 on pay rates highlighted that some 22 percent of the employees were paid the National Minimum Wage. This is a high proportion within the sector's workforce and is significantly ahead of the proportions in other sectors of the economy. Any proposed increase in NMW has a substantial impact on total payroll costs in our industry. Should minimum wage increase, this will push labour costs higher yet again.

Feedback from the LVA members show they are particularly concerned about the potential knock-on impact of an increase in the minimum wage on other pay scales within the licensed trade. The trade employs substantial numbers of part-time and casual staff at a premium/composite rate €10-€12.50 per hour to reflect the unsociable hours within the trade such as late nights, weekend and Sunday working and busy Bank Holiday shifts. Employees, during a time of high employment will certainly seek an increase in their hourly rates in line with any potential increase in the Minimum Wage. Furthermore, all full-time staff would also seek pay increases in line with the percentage increase in the NMW, if granted. Unemployment is declining and Publican's biggest concern at present is attracting and retaining high quality employees and the costs associated with this.

It is also worth noting that many of the staff in pubs on the Minimum Wage work in front of house customer facing roles and so generally receive significant uplifts in take home earnings through cash tips from customers. They would also get free for or reduced costs on food while working.

OTHER BUSINESS IMPACTS OF INCREASING THE NMW

INSURANCE:

The employers' liability insurance for staff is directly influenced by total payroll costs and is increasing rapidly year on year. An increase in the NMW in the licensed trade will contribute directly to higher employers' insurance costs.

RECRUITMENT AND TRAINING:

There are significant costs incurred in the recruitment and training of staff on the NMW. Given the relatively high rates of staff turnover within the hospitality sector, this hidden cost is significant. Increasing the NMW directly increases these costs.

LOW INFLATION ENVIRONMENT

The annual average rate of inflation in 2019 was 0.94%, it 2018 was 0.5%, with inflation at 0.4% in 2017. Accordingly, there is no inflationary pressure on the NMW.

Table: average inflation Ireland (CPI) - by year

average inflation	inflation	average inflation	inflation
CPI Ireland 2020	1.29 %	CPI Ireland 2010	-0.90 %
CPI Ireland 2019	0.94 %	CPI Ireland 2009	-4.46 %
CPI Ireland 2018	0.49 %	CPI Ireland 2008	4.07 %
CPI Ireland 2017	0.34 %	CPI Ireland 2007	4.90 %
CPI Ireland 2016	0.01 %	CPI Ireland 2006	3.93 %
CPI Ireland 2015	-0.29 %	CPI Ireland 2005	2.43 %
CPI Ireland 2014	0.18 %	CPI Ireland 2004	2.20 %
CPI Ireland 2013	0.51 %	CPI Ireland 2003	3.50 %
CPI Ireland 2012	1.70 %	CPI Ireland 2002	4.62 %
CPI Ireland 2011	2.56 %	CPI Ireland 2001	4.88 %

COMPETITIVENESS

Increasing wages will damage the sector's competitiveness, including tourism competitiveness. Wages are a substantial cost heading within both the licensed trade and wider hospitality sector. Increasing wages will feed through to higher prices over time and this will hinder Ireland's tourism competitiveness.

VAT INCREASE

The LVA welcomed the Government's ongoing commitment to the 9% VAT rate as a stimulus to the hospitality / tourism sector and we believe that any substantial increase in the NMW would undermine the objective of growing Irish tourism. On 9th October 2018, the VAT rate for the tourism sector increased from 9% to 13.5%, a 50% increase in the rate. The 9% rate was a lifebelt thrown to the hospitality sector. It is spending power rather than price that determines whether customers eat and drink out and this VAT increase has forced our members to increase their prices somewhat to cushion the blow but this has decreased customers to their premises. Many of our members with smaller premises, have been heavily impacted and challenged in meeting their required profit margins. 43% of consumers who have noticed an increase in prices as a result of the 2018 VAT hike say they have reduced their spending eating and drinking out.

OUTLOOK 2020

The licensed trade in Dublin, is recovering steadily from the economic crash. Across the country the recovery is uneven in the sense that it is lead by Dublin, the other major cities, and tourist hotspots. Rural Ireland remains weak.

With the latest forecasts pointing to growth in domestic consumption of 3.7% in 2020, the prospects for further recovery in the on-trade appear reasonable. Growing employment and consumer confidence also bode well for domestic consumption. The key drivers of this growth are the robust and sustainable growth in consumer spending and decent tourism performance.

Brexit continues to cause high levels of uncertainty across the Irish tourism sector, with UK tourists remaining steady after a decline of 5% last year. That said, the prospects for overall tourist numbers to Ireland are positive. The latest projections from Tourism Ireland show that despite a "mixed year", the figures are almost on par with the records set in 2018. 325,000 jobs across the island of Ireland are supported by tourism. Tourism Ireland said that it had worked to combat worry among consumers in Britain and Europe around the uncertainty caused by Brexit. Additionally, economic slowdown in some markets and the first reduction in air access to Ireland in eight years were causes for concern.

At the time of writing (4/3/20), the potential impact of the Coronavirus on the Irish economy, domestic demand and tourism is unquantifiable. However, risks are growing and hugely concerning. Clearly, the Low Pay Commission will have to monitor these developments over Spring/Summer 2020 before making any final recommendation.

LVA POSITION

The Dublin licensed trade employs relatively large numbers of workers on the NMW and such employment is of huge benefit to both the businesses and employees alike. Our members are also keen to improve the position of lower paid workers over time, but this must be done in a sustainable way that allows businesses to remain competitive.

The LVA is of the view that any increase in the NMW in 2021 should be in line with inflation. We note that inflation is expected to remain muted in 2020. Accordingly, while we await inflation developments in 2020, any increase in the NMW above 1% (approximately 10 cents/hour) would not be justified, in our view.

We also strongly argued in 2019 that the income threshold for the step-charge in employers' PRSI (currently €376 weekly) should be adjusted annually to accommodate increases in the NMW. This did not occur in the last two Budgets but did in the last Budget. We would welcome this to continue.

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