



LVA Submission

to the

Low Pay Commission

on the

Public Consultation on the National Minimum Wage

11th March 2016

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 staff. As a general observation they are the largest pubs and the largest employers in the pub sector in Ireland.

Workers on the Minimum Wage

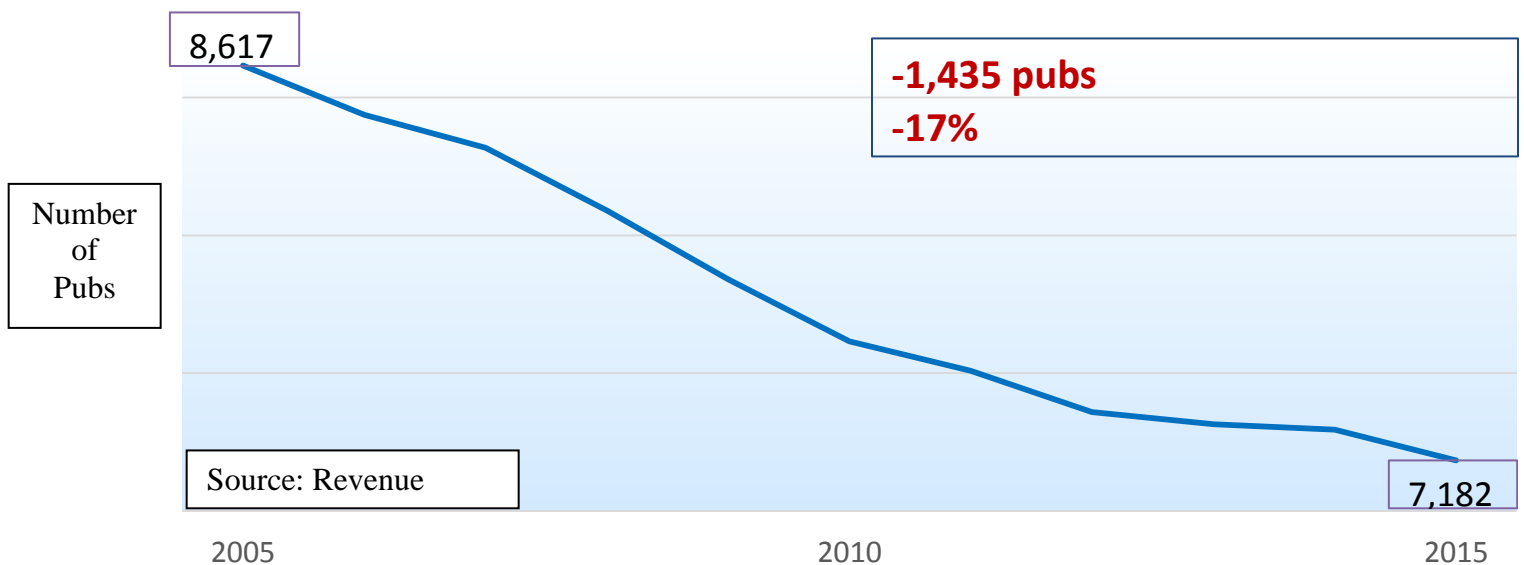
It is to be expected that the hospitality and retail sectors account for the majority of workers on the Minimum Wage. Furthermore, international research suggests that Minimum Wage workers tend to be young (16-24 years) and mostly part-time. This would characterise Minimum Wage employees in the licensed trade.

In broad terms the majority of Minimum Wage employment is concentrated in the domestic economy. We will show that the licensed trade, which operates in the discretionary consumer segment of the domestic economy, has had a disastrous performance in the past decade and has completely underperformed the wider economy.

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 and associated recession over the past eight years, the licensed sector has endured a torrid time. Official data reveals dramatic declines in the numbers of pubs as outlined below:

Number of Licensed Premises 2005 - 2015



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 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 staff, typically students, housewives and those with family commitments who are not available for full-time roles.

Nett Turnover in Pub Sector

<i>Nett Turnover</i>	<i>Nationally</i>
Under €191k	53%
€191k - €381k	24%
€381k - €635k	10%
€635k +	13%

Source: Revenue

Retail and Bar Sales Trends

(Base Year: 2005 = 100)

January 2016

	Value of Sales	Volume of Sales
Bar Sales:	81.6	70.4
All Businesses, excl Motor Trade	102.3	113.9

Source: CSO Retail Sales Index Jan 2016

This official data confirms that over 1,400 pubs have shut since 2005 while there has been an enormous 30% decline in the volume of bar sales in the decade to January 2016. This is in stark contrast to the growth in total retail sales over the same period, up almost 14% in volume terms, excluding cars.

Based on CSO price data, higher excise and VAT accounted for 78% of the increase in the price of a pint since 2011. Because of the contraction in discretionary consumer spending and the collapse in consumer confidence, the pub sector has not been able to achieve increases in retail prices in the past six years. This lack of consumer pricing power has impeded the sector's ability to recover

The recovery in the licensed trade in Dublin remains fragile and uneven. Stability in turnover is gradually being achieved, but at dramatically lower levels than applied previously.

The pub sector generally remains in a weak financial position and is highly leveraged.

Employers' Cost of Minimum Wage

It should also be noted that employers pay an additional 8.5% percent employers PRSI on top of the NMW, making the true cost almost €10 per hour for employers.

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:nett turnover ratio of 22-25% while pubs with substantial food operations could have labour:nett 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 on pay rates suggests that some **26.5 percent of the employees were paid the National Minimum Wage**. This is a high proportion within the sector's workforce and is likely to be 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.

The LVA and its members 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 €10-12 per hour to reflect the late hours and weekend nature of much of the work involved. These staff 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.

It is also worth noting that many of the staff in pubs on the Minimum Wage work as floor staff, waiters, waitresses etc. and generally receive cash tips from customers during their shift. This substantially boosts their take home pay.

Other Business Impacts of Increasing the NMW

Banking:

As part of their ongoing reviews of the financial positions with their bankers, pubs are being set demanding targets on labour to turnover ratios by their banks. Publicans find it challenging to hit these targets while maintaining high levels of customer service. Government-driven pay increases would make this process even more difficult and, such pay increases can threaten the financial viability and sustainability of some pubs.

Insurance:

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

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 latest CSO inflation data, as of February 2016, shows that prices actually fell by - 0.1% in the year to February. There is simply no case, on the basis of inflation, for an increase in the NMW.

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. We welcome the Government's ongoing commitment to the 9% VAT rate as a stimulus to the hospitality / tourism sector and believe that any increase in the NMW would undermine the objective of growing Irish tourism.

Conclusion

The licensed trade in Ireland is in a fragile economic condition following a huge contraction of 30% in volume terms since 2005. Stability in turnover has been achieved, though the recovery is uneven and uncertain in many ways. While overall consumer spending is forecast to grow by around 2-3% in 2016, on-trade consumption is likely to recover slowly.

The LVA does not believe there is any case for an increase in the NMW in 2016, given the economic environment in our industry. We wish to highlight that there is absolutely no inflationary pressure in the economy.

Should the economic recovery gather pace and become more evident across the domestic economy in particular, then the case for an increase in the Minimum Wage will strengthen. We do not believe we have reached that point this year and so we are calling for the Minimum Wage to be maintained at current levels for 2016.

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