



LVA

The Art of Great Food and Drink

Licensed Vintners Association Submission

to the

Low Pay Commission

on the

Public Consultation on the National Minimum Wage

The Art of Great Food and Drink

9th February 2017

Licensed Vintners Association, Anglesea House, Anglesea Road, Ballsbridge, Dublin 4.

Tel: 01 668 0215 Fax: 01 668 0448 E-mail: admin@lva.ie

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 premises sector in Ireland. Much of the statistics for 2016 are not available at this early stage in the year for this submission, so 2015 figures have to be relied upon.



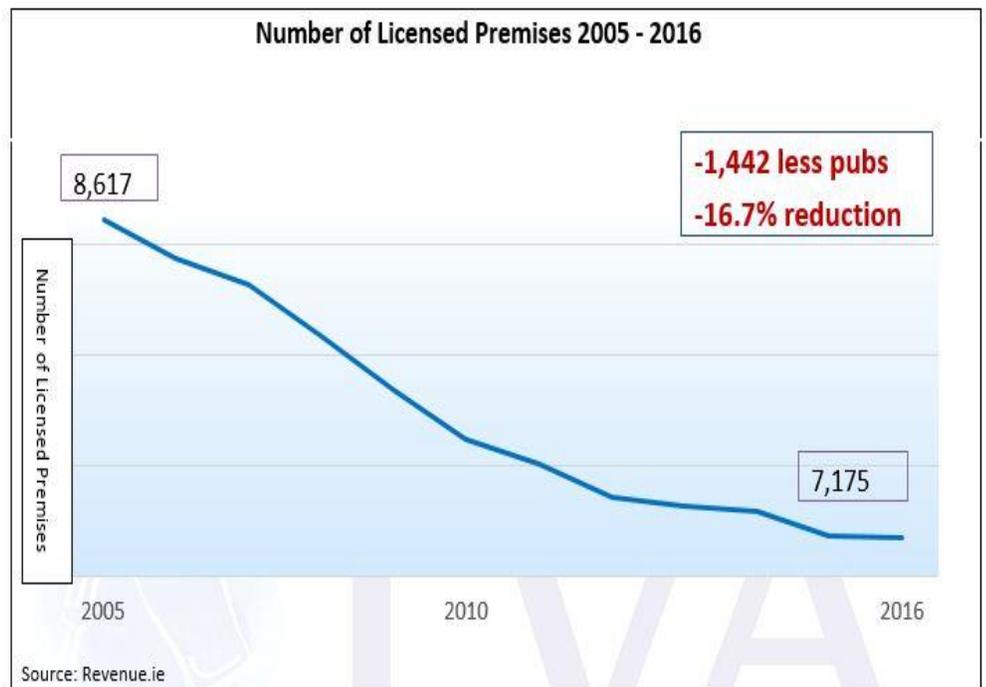
WORKERS ON THE MINIMUM WAGE

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. 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 under-performed the wider economy. However, 2016 has shown an upturn in business and the licensed trade has positive projections for 2017 and beyond. The trade naturally needs to be prudent as a result of the uncertainty and potential negative impact on trade and tourism that Brexit and the Trump Presidency may bring. These uncertain times have made long term resource planning challenging for the licensed trade.

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 1,442 pubs have shut since 2005 while there has been an enormous 30% decline in the volume of bar sales in the decade to November 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.



Retail and Bar Sales Trends		
November 2016	Value of Sales	Volume of Sales
Bar Sales:	82.5	70.6
All Businesses, excl Motor Trade:	104.1	119.4
(Base Year: 2005 = 100)		

(Source: CSO Retail Sales Index Nov 2016)

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%

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. The trade naturally needs to be prudent as a result of the potential negative impact on trade and tourism that Brexit and the Trump Presidency may bring. These uncertain times have made long term resource planning challenging for the licensed trade.

EMPLOYERS' COST OF MINIMUM WAGE

Minimum wage increased in January to €9.25 per hour. It should also be noted that employers pay an additional 8.5% percent Employers PRSI on top of the NMW, making the true cost €10.03 per hour for employers. Employees are also due 8% of hours worked as annual leave and therefore costs increase here also.

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 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. Should minimum wage increase, this will push their 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.

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 and is increasing year on year. 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 annual average rate of inflation in 2016 was unchanged. This compares to a fall of 0.3% for 2015 and a rise of 0.2% for 2014 (Source: CSO.ie). 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 still 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 as highlighted in this submission. While overall consumer spending is forecast to grow by around 3.5% in 2017 (ERSI 2017), on-trade consumption is likely to recover slowly.

With all this in mind, the LVA recommends that any increase in the NMW in 2018 should be in line with the consumer price index, given the economic environment in our industry. We wish to highlight that there is absolutely no inflationary pressure in the economy at present. 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 will have reached that point this year.

