



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

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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.



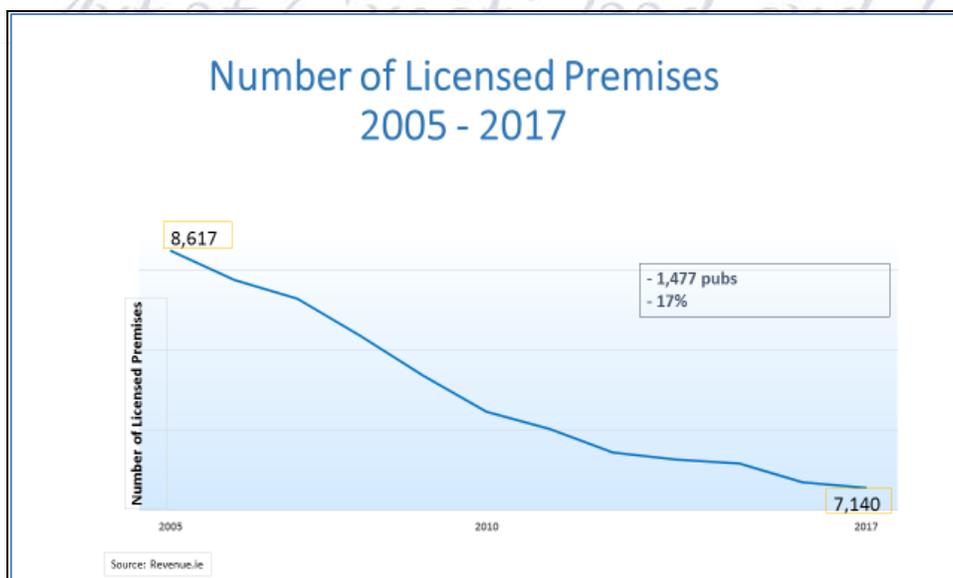
WORKERS ON THE MINIMUM WAGE

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. While Brexit continues to provide uncertainty, the outlook for the licensed trade in 2018 is reasonably positive.

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 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%

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 (Dec 2017) records national bar sales up some 2.8% in volume terms in 2017. It is our view that Dublin out-performed the national average. Having said that, it is vital that our sector retains competitiveness and, in this context, 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

EMPLOYERS' COST OF MINIMUM WAGE

Minimum wage increased in January to €9.55 per hour. It should also be noted that employers pay an additional 8.5% Employers PRSI on top of the NMW, making the true cost €10.36 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 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.

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 2017 was 0.4%, with no inflation in 2016. Accordingly, there is no inflationary pressure on 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 substantial increase in the NMW would undermine the objective of growing Irish tourism.

OUTLOOK 2018

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 2.5% - 3.0% over 2018 and 2019, the prospects for further recovery in the on-trade appear reasonable. Growing employment and consumer confidence also bode well for domestic consumption.

Brexit continues to cause high levels of uncertainty across the Irish tourism sector, with UK tourists to Ireland down 5% last year. That said, the prospects for overall tourist numbers to Ireland are positive.

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 2019 should be in line with inflation. We note that inflation is expected to remain muted in 2018. Accordingly, while we await inflation developments in 2018, any increase in the NMW above 1% (approximately 10 cents/hour) would not be justified, in our view.

We also strongly argue 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.

~ ENDS ~

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