SUBMISSION to the LOW PAY COMMISSION
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INTRODUCTION

The retail industry plays a vital role in creating and sustaining communities all around Ireland. The industry employs over 270,000 people and is the largest single employer in Ireland. It provides jobs in every town and village. It is the means by which our fellow citizens and visitors engage in their favourite leisure activity – shopping.

Retail Excellence Ireland, representing over 1,100 retailers operating 13,000 individual stores all around Ireland, is the 'voice' of the retail industry in Ireland. We represent retailers of all sizes in all sectors of the industry including: book shops, café/food to go, department stores, DIY and hardware, electrical, fashion and footwear, forecourt, furniture and flooring, garden centres, grocery, health and beauty, homeware and giftware, jewellers, opticians, pet stores, pharmacies, telecommunications etc.

With such a broad membership base, we are in an ideal position to offer the Low Pay Commission a unique perspective on the current state of the retail industry which must be taken into account when determining the level of the National Minimum Wage (NMW).

CONTEXT

Certain sectors within the M50 belt in Dublin are apparently booming however many retailers in those areas are still struggling as they are encumbered with upward only rents and legacy debts. Retailers in provincial Ireland have not witnessed a recovery as yet and a number have closed their doors in 2015. This usually happens without any fanfare as they are often independent retailers. In 2014 and 2015, we have also witnessed larger international retailers entering into examinership in Ireland. The reality is that the retail industry is still not seeing a broad-based revival in the economy.

The most recent CSO retail sales data of 27/02/2015 prove this. While the volume of sales is up significantly year on year, the fact that value is not tracking volume is disappointing and shows once again that many parts of the country are still struggling. Annualised growth of retail sales volume (excluding motor sales) was 4.8%, while the annualised value increased by only 0.9%. This illustrates that aggressive discounting is taking place. It further accords with our view that the private sector is not the driver in any way of inflation in the Irish economy.

Talk of an increase in the most significant operating cost for retail businesses has damaged employer confidence and weakened the case for job creation in retail. At a 10% unemployment rate, Ireland is still struggling with that issue and Government should be assisting businesses in doing all it can to address that. Youth unemployment is over twice that rate. It is the youth who will be those most harmed by an increase in the Minimum Wage as this will undermine the case for job creation of 'entry level' jobs that the youth in Ireland so desperately need so that they can 'get a start' on their careers and avoid long term wage scarring from blighting their future economic success.

For these reasons, we are extremely concerned at the prospect of an increase in operating costs. We detail our concerns in full below:

NATIONAL MINIMUM WAGE IN COMPETITOR COUNTRIES

The Low Pay Commission must be very mindful of Ireland's place in Europe from an unemployment and competitiveness perspective when reviewing the NMW.

The National Minimum Wage in Ireland at €8.65 per hour, is relatively high by international standards. The most recent figures published by Eurostat show that Ireland's rate is the fifth highest among the 21 EU Member States that have a National Minimum Wage.

Retail is a highly price sensitive industry. With more and more activity going to online trading, it is becoming increasingly difficult to compete with countries which operate from a much lower cost base.

Unlike other countries in the EU, Ireland has a disproportionate foreign direct investment (FDI) sector due to its low corporate tax rate. Without this sector unemployment would be substantially higher (17.4%).

YOUTH UNEMPLOYMENT

Ireland has one of the highest levels of youth unemployment in the EU at approximately 21.8% (France 25.4%; Belgium 21.6%; UK 17.8%; Netherlands 9.7%; Germany 8%). There have been numerous reports on the employment effects of increasing the NMW. Practically all studies (e.g. 2014 IMF Study) conclude that even a moderate minimum wage will increase the rate of youth unemployment.

CONCERNS REGARDING THE OPERATION OF THE LOW PAY COMMISSION

PRE-DETERMINED UPWARD OUTCOME

We remain concerned that government rhetoric has already prejudged its findings.

If you operate in a business that is encumbered with:

1. Boom time era rents as a result of Upwards Only Rent Review (UORR) provisions
2. Local Government charges on retail that more or less doubled in the noughties and which have not fallen in line with current rates of economic activity
3. Existing Wage Rates at the upper end of the scale when contrasted with fellow members of the Eurozone

4. A 23% VAT rate that is one of the highest in the world. 1
5. Are in the midst of structural changes to the retail model with the growth of eCommerce and the Click and Collect model of retailing
6. Weak consumer demand with many households still marked by high levels of indebtedness and high, though improving, unemployment rates

Any talk of mandatory change to your only other variable cost—labour is a cause for major worry.

This is especially the case for an industry that remains very labour intensive. It operates on really tight net margins, 2-4% is a figure one often hears. It follows that even a 1% increase in labour costs causes great pain. Our issue here is also with respect to the 'ripple effect' of pay increases on salaries that are set above the NMW. This is the domino impact that would cause the greatest pain. This issue comes on the back of other increases to employment costs that have been driven by Government. Furthermore members have confirmed to us that should the 'base' of the NMW be raised, then this will result in upward pressure on all role levels of base pay. One member has calculated that an increase of 2.5% on the NMW would result in an increase of <3% to the <u>total</u> pay bill. This is not an increase that can be absorbed readily given the fragile nature of the industry. Potential impacts arising from such a change in the operating cost environment would include reconsideration of number of new jobs created, number of hours scheduled, replacing natural attrition and maintaining a performance related pay model (which rewards the most productive employees).

The Low Pay Commission's recommendations appear to pre-determine an increase in the national minimum wage rate. Section 12 (1) of the founding legislation states the Commission, in discharging its functions, shall make recommendations to the Minister that are designed to set a minimum wage that *"is adjusted incrementally, and that, over time, is progressively increased to assist as many low-paid workers as is reasonably practicable without creating significant adverse consequences for employment or competitiveness."* This appears to suggest that no meaningful analysis of the economy will take place as the Commission is fettered with recommending a change in an upward only direction.

POLITICS REMAIN

Despite the stated aim to 'take the politics out of the national minimum wage', the final decision with respect to any recommendations made by the Commission will rest with the Minister of the day. This is a significant ground for concern on the deliberations of the Commission.

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[1] According to TASC only Denmark, Iceland, Sweden and Netherlands have a higher rate.

PERIOD OF REVIEW

The Commission is required to make recommendations to the Minister once a year which means that the period of certainty with respect to minimum wage rates remains unchanged to the present system. A longer period of certainty would assist retailers in setting their budgets and attracting international retailers to this economy.

CONCERNS REGARDING THE EFFECT OF ANY INCREASE ON BUSINESS OPERATING COSTS

Any increase in the NMW, which is the starting wage for many new entrants in the retail industry and other industries in Ireland, will have an inflationary effect, and increase the upward wage pressures for other employees, including at supervisory level in the industry. This inflationary effect is concerning as any recovery we are experiencing is very fragile in nature.

It could be argued that the Irish NMW is already set at a high level. When the current level was set in 2007, unemployment was at 5% and inflation was 4.92%. Unemployment now stands at 10% and inflation is now less than 1%. The economy in money terms is still about 6% below its pre-crisis level and overall prices are below where they were in the summer of 2008. In retail, for example, turnover is still nearly 20% down and businesses are constrained by boom time costs and charges (e.g. legacy rents and rates). We note that according to the ESRI, Ireland experienced a 20% peak to trough decline in demand that was only surpassed by Iceland in the Noughties. This is the context in which we must set our talk of an upturn. Ireland cannot afford to be complacent in reviewing the case for any increase or decrease in the NMW.

An increase in the NMW will negatively affect those high employment sectors such as retail, manufacturing, accommodation and food. These are the big job creators in our economy accounting for over 600,000 jobs or 30% of total employment in the country. These sectors are generally made up of smaller Irish owned businesses spread throughout the whole country, many of which are only starting to recover from the last recession. They need to generate profits so that they can reinvest in and upgrade their businesses to maintain existing and attract new customers. Typically these smaller companies have higher labour costs as a percentage of sales and a higher proportion of minimum wage jobs. We note that the UK Low Pay Commission 2014 Report identified these sectors where:

“minimum wage jobs account for up to 12 per cent of jobs. This means that, in general, minimum wage jobs are likely to be too large a part of the cost base for wage rises to be affordable without material increases in a firm’s revenue, particularly as such increases are likely to create pressures to increase the pay of other workers in order to protect differentials.”

DISPROPORTIONATE EFFECT ON SMES

The same report noted that there is a clear relationship between the proportion of minimum wage jobs and the size of firm: *“Small and micro firms employ 20 per cent of the adult workforce, but employ around 35 per cent of minimum wage workers.”*

This supports the argument that a rise in the NMW will have a more negative effect on smaller companies and businesses, e.g. family businesses, shops, restaurants, pubs, rural businesses, start-ups.

The same report noted that jobs in retail paid at or around the national minimum wage including retail assistants, cashiers, and other basic sales occupations can be affected negatively.

"Over the years we have often heard from retailers and organisations representing them that a consequence of increases in the NMW has been to narrow differentials between the grades, particularly between basic retail and supervisory roles, with implications for the motivation, and recruitment and retention, of staff."

This point illustrates the knock on effect of a rise in the NMW and also applies to manufacturers, exporters, hospitality and food businesses.

INCREASED GOVERNMENT CONTROLLED BUSINESS COSTS

The Commission is tasked with ensuring that any changes to the NMW have minimum adverse impact on employment and competitiveness. Many of our members' businesses are labour intensive and labour costs represent, in the most cases, the largest single outlay for our members. As such, even a marginal increase in the rate of the NMW will have a disproportionate effect on the net financial results for retailers. Despite favourable performance generally in the Dublin area, the retail industry is not 'out of the woods yet' and still struggles with increasing costs. A number of these direct costs are entirely within Government's control. We would suggest that rather than increasing another state controlled cost, the Government should look at ways of offering tangible financial incentives to employers in the retail industry who employ the largest single group of employees in Ireland. This is especially the case when contrasted with the extensive levels of support offered to 'super profitable' multinational businesses in Ireland as opposed to indigenous businesses which employ multiples of the numbers employed by the multinational sector.

INCREASE IN EMPLOYER'S PRSI

The reduced rate of Employer's PRSI of 4.25% (down from 8.5%) until January 2014 represented a tangible financial support to Irish business. We suggest this rate be restored to promote the creation of new jobs and to sustain those already in existence. We also note that An Taoiseach recently stated that when the Government last increased 'the minimum wage in July 2011, [it] simultaneously halved the lower 8.5% rate of employers' PRSI to offset the impact on employment costs. Any changes in this regard must also include measures 'to mitigate the impact of any increase to the minimum wage, particularly for small employers' as An Taoiseach has already promised."[2]

[2] Speech by An Taoiseach Enda Kenny T.D given on Wednesday 4th March, 2015

UPWARD ONLY RENT REVIEWS

Many retailers remain encumbered with Upward Only Rental Reviews (UORR) and as a result are facing boom time era rates on properties which are trading poorly. Despite assurances this matter would be dealt with, the current Government reneged on commitments given prior to the last general election. The existence of these types of agreement is the reason that we are still seeing retailers entering examinership or even going out of business altogether in 2015.

23% VAT RATE

Our highly regressive VAT rate of 23% is one of the highest in the world.[3] This directly impacts negatively on consumer demand.

INCREASE IN SICK PAY EXPECTATIONS

The increase in 'waiting days' for Illness Benefit has increased the expectation of employees of certain retailers who offer sick pay. This is another change introduced by the Government which has resulted in cost pressures being pushed on to employers.

HIGH LEVEL OF LOCAL AUTHORITY CHARGES

Increases in County Council Rates since the noughties have been major and significant. These have not fallen in line with general levels of economic activity in the years since the great depression commenced and remain a significant drag on the successful operation of businesses.

INCREASE IN BANK CHARGES

We have seen significant increases in bank charges thus further challenging the operating costs for businesses in Ireland.

ABOLITION OF REDUNDANCY REBATES

The abolition of the redundancy rebate for employers is another example of a tangible financial support taken from challenged businesses that further undermines the business case for creating a new job rather than embracing a self-service/ever more automated model of conducting business.

UNCERTAINTY REGARDING JLCs

[3] According to TASC, only Denmark, Iceland, Sweden and the Netherlands have a higher rate.

Retailers currently operating in the market are struggling with the ongoing uncertainty regarding the reintroduction of JLCs. Many are finding it increasingly difficult to budget accurately for the years ahead with the prospect of the reintroduction of the JLC system looming in the background. The possibility that further minimum wage rates could be set is bad for business and bad for attracting investors to this country. It seems a terrible waste of time and resources to duplicate the efforts of the Commission in other foras covering the same cohort of workers.

UNFAIR COMPARATORS

The concept of a ‘Living Wage’ and the wide commentary it has generated has resulted in unfair expectations being generated among employees. The concept was taken from central London which has an economy, unrivalled by any in Ireland.

We believe it is unfair to foster talk of a €11.45 living wage rate; 32% higher than the current NMW. Talk of a ‘Living Wage’ ignores that the fact that it is take home pay that matters to employees, not the gross amount prior to taxation which the Government has taken an ever greater chunk of over the past 7+ years. Government tax increases have had the greatest impact on employees take home pay over the past 7+years as employers have grappled with the after effects of the economic collapse. Furthermore outside of the Dublin Area a competitive cost base is a vital requirement. We note that in some regions that NMW is *currently* approaching 60% of the Median Wage. It follows that an increase in the minimum wage will hurt employment and businesses in these challenged regions much more so than inside the M50. [4]

CONCLUSION

There are also general observations that have been made by our members which are worth noting:

1. It is important for Irish decision makers to understand that ‘low pay’ is not a problem that can be simply fixed by raising the national minimum wage or introducing a ‘living wage’. Low pay is a result of unemployment, new technology, globalisation, the removal of economic borders, the openness of labour markets and other large macro-economic trends.
2. An increase in the minimum wage will reward low skill jobs but this will reduce what employers can pay those with higher skills and who take more responsibility. This will actually create a greater low pay problem in the long run as people will remain in low skill jobs rather than upskilling.
3. The labour market is a sensitive ecosystem. The government must have a compelling case to interfere in its workings. There will be many unintended consequences. The Low Pay Commission must also remember that

[4] See: http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/DebatesWebPack.nsf/committeetakes/BUJ2015022400002?opendocument#F00300

caution and moderation are vital. The NMW can go up but almost never down. If the rate is set too high businesses will fold and jobs will disappear or go into the black economy.

4. Experience from 2007 shows that any increase in the minimum wage will have a 'ratcheting' effect as other pay claims will be sought throughout the economy.
5. It is vitally important that the Irish Low Pay Commission retains its independence from political and populist influence. The UK Low Pay Commission has consistently managed to present comprehensive and well considered reports despite electioneering pressure from the main political parties. This is the template that must be followed in the Commission's determinations. The domestic economy cannot afford to deal with a fresh round of cost inflation when it is still dealing with a collapse in demand that has not yet recovered in the 7+ years since the collapse.

Retail Excellence Ireland is realistic, takes a proactive approach and has made a number of practical suggestions to Government to restore activity in the largest industry in Ireland.

With regard to the current issue of low pay, we would ask the Commission not to recommend an increase in the NMW rate, while the economy is still at a fragile stage in its recovery. We cannot afford to mistake the thriving evening economy of Dublin City Centre—for the most part driven by debt-free 20 somethings and international visitors—for a broader based economic recovery that is being felt all over the country. In our view, the Commission should let the employment market determine salaries and costs. There is little scope for direct intervention given how weak the economy has been and the challenges that domestic facing businesses still face to deliver financial viability.