

# Pre-Budget Submission 2017

PUTTING TOURISM, HOSPITALITY  
AND FOOD AT THE CENTRE OF  
OUR RECOVERY

Presented to:  
MINISTER FOR FINANCE,  
Michael Noonan, T.D.

**KEEP 9%**  
**VAT AT**  
Supporting Food, Tourism & Jobs



RESTAURANTS  
ASSOCIATION  
OF IRELAND



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## INTRODUCTION

The Restaurants Association of Ireland (RAI) was formed in 1970 with the aim of forming a strong lobby group that would represent the restaurant sector on all issues of importance to the sector. The RAI now represents over 1,900 members in the Republic of Ireland who want to develop the restaurant industry in a professional and high quality manner.

In 2012<sup>1</sup> the CSO estimated that Ireland had 6,252 Restaurant and Mobile Food Service enterprises. In the first quarter of 2016, there were 92,300 employees working in what is classified as Food and Beverage Service Activities<sup>2</sup>. It is estimated that over 70,000 of these are employed in the Restaurant sector (1 in 4 jobs in the tourism sector). It is also estimated that the sector contributes €2 billion to the Irish economy in terms of wages and purchases of inputs.

The Restaurant sector makes a significant contribution to rural and regional employment and economic activity. It also sources much of its raw materials from Irish food producers, with Bord Bia suggesting in 2012 that 61% of restaurants source meat used in their own restaurant from within Ireland<sup>3</sup>.

The Restaurant sector went through a very difficult adjustment period from 2008 through to 2013 in line with the rest of the economy. The sector was particularly vulnerable as it is very dependent on inward tourism and domestic discretionary spending. It reacted aggressively to the changed and much more difficult economic climate, by reducing costs and menu prices, and improving the quality of the offering. This approach, when combined with the Government decision to cut the VAT rate to 9% in July 2011, enabled the sector to come through the difficult economic times.

1 CSO Annual Services Inquiry, 2012

2 CSO, Quarterly National Household Survey - Detailed Employment Series, July 27th 2016.

3 Bord Bia Survey, 16th July 2012.

The economy has recovered strongly over the past couple of years and this has benefited the Restaurant sector. However, the sector is now facing a number of fresh challenges that will test its resilience. These challenges include the nature of the economic recovery and the continued pressure on the personal sector; external economic risks; Brexit; upward wage pressures, and increasing pressure on the costs of doing business.

In order for the Restaurant sector to continue to provide employment throughout the country, to support local food producers, and promote the Irish tourism product, a number of challenges must be addressed:

- **Labour costs in Ireland stood at €30 per hour in 2015, compared to an EU average of €25, a Euro Zone average of €29.50, and a UK average rate of €25.70<sup>4</sup>. Irish restaurateurs pay the highest catering wage rate in Europe;**
- **Irish Food & Non-Alcoholic Beverage prices in 2015 were 19% above the EU average and 7.2% higher than the UK; and Alcoholic Beverage prices were 75% above the EU average and 7.4% above the UK; and**
- **Ireland has the highest excise duty on Wine in the EU.**
- **Addressing the Skills shortage, 3,200 additional chefs need to be trained each year between now and 2020 to alleviate the shortage.**

The Restaurant sector is a key part of Ireland's tourism product and has been an important contributor to the improvement in Ireland's tourism performance over the past couple of years. The latest Failte Ireland intelligence<sup>5</sup> shows that in 2015, expenditure by tourists visiting Ireland (including receipts paid to Irish carriers by foreign visitors) was estimated to be worth €6 billion, which was 16% ahead of 2014. If spending by Irish residents taking trips at home is included, total tourism expenditure in 2015 is estimated at €7.5 billion. Overseas tourist visits to Ireland in 2015 increased by 13.1% to reach 8 million. Britain accounted for 41% of those visits; Mainland Europe accounted for 35.8%; and North America accounted for 16.1%.

The strong growth has continued in 2016<sup>6</sup>. In the first half of the year, the number of overseas visitors to Ireland reached 4.38 million, which is 13.1% ahead of the first half of 2015. Great Britain accounted for 42.5% and was 15.7% ahead of the first half of 2015; the Rest of Europe accounted for 34.9% and was 11% ahead of last year; and North America accounted for 17.3% and was 15% ahead of last year. Other CSO data<sup>7</sup> shows that in the first quarter of 2016, Irish residents took almost 2 million domestic trips, generating €327 million. Of these trips, 958,000 were holidays and these generated €193 million in expenditure.

Tourism has been placed at the centre of the economic strategy of the new Government and this is very much reflected in the tourism strategy of Failte Ireland<sup>8</sup>. Two key elements of the Failte Ireland strategy are to 'increase the economic contribution of tourism across local communities within Ireland' and to 'ensure that the contribution of tourism to economic growth and regional development is fully recognised and understood'.

The Restaurant sector is a key element of Ireland's tourism product and it is essential that the policy environment for the sector is conducive to survival, growth and the maintenance of a high quality, competitive offering. The Restaurant sector has a wide geographical spread and supports rural as well as urban economic activity and employment.

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4 EuroStat, 'Labour Costs Per Hour in €, Whole Economy (excluding agriculture & public administration).

5 Failte Ireland, Tourism Facts 2015, Preliminary, July 2016.

6 CSO, Overseas Travel, July 29th 2016

7 CSO, Overseas Travel, July 29th 2016

8 'Failte Ireland Statement of Strategy to 2018, 'Driving Tourism Sustaining Communities



# THE ECONOMIC BACKGROUND TO BUDGET 2017

The domestic economic environment against which Budget 2017 is being prepared and presented is reasonably positive, but there are significant external and domestic risk factors and challenges that will need to be managed very carefully and prudently.

From a global economic and political perspective, 2016 is turning out to be a difficult year. The global economy continues to suffer from the legacy effects of the economic crisis that commenced in 2008, and political instability and uncertainty have been the defining global characteristics. The US economy is growing at a reasonable pace; the Euro Zone economy is growing well below potential; the UK economy is being undermined by Brexit and the associated uncertainty; China has slowed significantly; and many emerging economies are under pressure due to the sharp decline in global commodity prices over the past couple of years. In summary, it is clear that the global economy has been growing too slowly for too long.

The latest prognosis for the global economy from the International Monetary Fund (IMF) is very cautious. The risks to the global economy include unresolved legacy problems in the European banking system, particularly Portugal and Italy; protracted financial market turbulence and global risk aversion; Brexit; political divisions within many developed economies and a consequent shift towards more protectionist economic policies; and geo-political tensions and terrorism.

For the small open Irish economy, this global backdrop does give cause for concern.

Notwithstanding these challenges, all indicators of real economic activity are continuing to suggest an improving Irish economy. However, there are some signs that the momentum may be easing. Retail sales were weak in June, growth in car sales has decelerated, Indigenous-manufacturing output has softened, the VAT take was weak in July, and the labour market has stagnated over the past 3 months. Perhaps the effects of Brexit uncertainty are starting to be felt.

Retail sales data showed that in the first 6 months of 2016, the value of sales was 5.1% higher than the first 6 months of 2015 and the volume of sales expanded by 7.4%. These are strong numbers, but when car sales are excluded the value of sales expanded by a more modest 3.2% and the volume of sales expanded by 5.5%. The continued wide gap between the value and volume metric shows that consumer-facing businesses are still finding it challenging to convert volume sales into value. Furthermore, the volume of retail sales in June was 5.8% lower than the previous month and the value of sales was down by 3.4%.

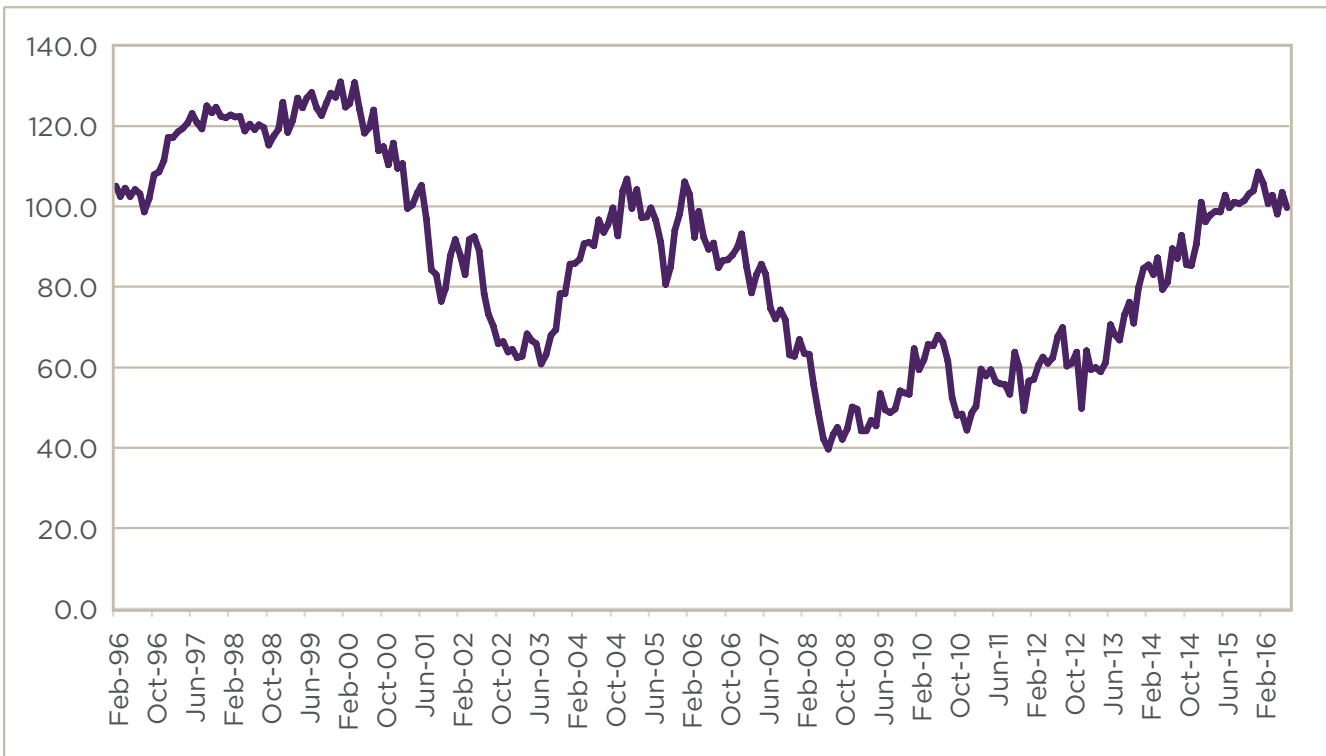
The ESRI's consumer sentiment index fell to its lowest level in 14 months in May. Issues such as Brexit and the uncertain domestic political situation have clearly had a negative effect on how consumers view the future prospects for the economy and their personal situation. There was a modest improvement in June, but the July reading fell by 3.8% on the back of the Brexit vote. It is still at high levels, but is justifiably slipping a little (Figure 1).

In July, the unemployment rate stood at 7.8% of the labour force. However, recent labour market data shows that the significant downward trend in Irish unemployment over the past couple of years has lost some momentum in recent months. The seasonally adjusted number of people unemployed has virtually remained unchanged in the 3 months to July and the unemployment rate has been stuck at 7.8% of the labour force.

In the first 7 months of the year, an Exchequer surplus of €862 million was recorded, compared to a deficit of €647 million in the first 7 months of last year. This represents an improvement of €1.5 billion on 2015. This improvement is due to total tax revenues coming in €2.1 billion ahead of last year. Total voted expenditure was €138 million ahead of last year and non-tax revenue was €224 million lower.





**FIGURE 1: CONSUMER CONFIDENCE**

Source: ESRI/KBC Bank

Tax revenues in the first 7 months of the year were 8.5% ahead of last year and were €644 million ahead of expectations. Corporation tax receipts were €482 million ahead of expectations. The VAT undershoot of €292 million in the first 7 months is a cause for some caution, and of more concern is the VAT under shoot of €61 million in July. Perhaps Brexit uncertainty is starting to be felt. However, VAT receipts are still €321 million ahead of last year. Income tax receipts are on target, but are €527 million ahead of 2015. This is reflective of the ongoing improvement in the labour market.

While the prospects for Ireland in 2016 and beyond still look positive, it would be naïve and dangerous to become complacent. It is important that fiscal policy and all issues around competitiveness are managed as prudently as possible to ensure that the economy is as resilient as possible in the event of some external shock, and particularly as the economy seeks to deal with the inevitable negative fallout from Brexit.



# BREXIT

The recent decision by the UK electorate to vote to leave the EU poses considerable challenges for Ireland and every sector of the economy.

From an Irish economic and political perspective, there is much to worry about in relation to Brexit.

- The impact on the UK economy;
- The impact on sterling and hence on the competitiveness of the Irish export relationship with the UK;
- The future trading relationship that would be negotiated between the UK and the EU
- The border with Northern Ireland
- The implications for the all-island energy market
- The future of UK corporation tax policy (the Chancellor spoke about a 15% Corporation Tax Rate).

Ireland could also lose a strong and sensible ally around the EU table, particularly in the face of the strong Franco-German axis. Ireland could benefit on the FDI front, but this would not be sufficient to offset the potential negatives.

Sterling has lost 23% of its value against the euro since November 2015, and has shed 12.1% since the Brexit vote. If this currency move were to be sustained or if sterling was to weaken even further, it would damage the competitiveness of Irish exports to the UK and would make Ireland a lot less attractive for UK tourists.

Given how important the UK economy is to Ireland, a sharp slowdown or recession there, would damage Ireland. It is estimated that for every 1% that UK activity declines, Irish economic growth would decline by about 0.3%. The number of UK tourists travelling abroad would also be damaged by a UK recession.

Brexit has already generated considerable uncertainty for Ireland and clearly has the potential for considerably more uncertainty over the next couple of years.

The Accommodation & Food Services Sector would clearly be very vulnerable to a UK recession and ongoing sterling weakness and vulnerability.

Given the intense uncertainty around how the Brexit process may develop and its economic implications for Ireland and the UK, there are no certainties. The risks to Irish tourism from a sharp slowdown in the UK economy and weaker sterling are clear.

Against this background of intense uncertainty for the Irish economy in general and the Accommodation & Food Services sector in particular, it is essential that Government policy be as supportive as possible.





# BUDGET 2017 AND THE RESTAURANT SECTOR

The RAI believes that Budget 2017 should be used by the Minister for Finance as an opportunity to support the Restaurant sector and ensure that it makes as strong a contribution as possible to Ireland's tourism product, and general economic activity and employment creation.

In Budget 2017, the RAI would like the Minister for Finance to give priority to the following issues that are of significant importance to the health of the Restaurant sector:

- |  |   |
|--|---|
| <b>1 Retention of 9% VAT rate</b>                    | <b>4.2 Insurance</b>                    |
| <b>2 Hospitality Skills Training and Recruitment</b> | <b>5 Excise Duty</b>                    |
| <b>3 The National Minimum Wage</b>                   | <b>6 Sale of Alcohol on Good Friday</b> |
| <b>4 The Cost of doing business</b>                  | <b>7 Tourism Policy</b>                 |
| <b>4.1 Commercial Rates</b>                          |   |

The RAI believes that the issues identified and the measures suggested would improve business conditions for a sector that experienced very difficult trading conditions after 2008, and which supports significant employment all over the country, and which is a key element of Ireland's tourism product.

The RAI also believes that it is essential that the competitiveness of the sector be enhanced in the face of immense challenges, such as that posed by Brexit. The potential for increased activity in the sector and more employment is significant. This would boost rural economies and also generate extra tax revenue for the Exchequer and deliver savings on social expenditure.

## 1. RETENTION OF THE 9% VAT RATE

In July 2011, the Government reduced the VAT rate for Tourism related activities from 13.5% to 9%. This incentive was due to expire at the end of 2013, but has been subsequently extended due to the fact that it is having a positive impact.

The aim of the lower rate of VAT was to encourage and support growth in small businesses in the tourism sector. In this context the measure has been very successful. As well as the direct jobs created in the sector, the multiplier effect of employment in the Accommodation & Food Services sector is an important consideration. It is estimated that for every direct job in the sector, 0.46 of a job is supported elsewhere in the economy.

Table 1 summarises the performance of the Accommodation & Food Services in terms of direct and indirect employment; tax revenue generation; and social welfare savings since the 9% VAT rate was introduced in 2011. Between Q2 2011 and Q1 2016, the number of people working in the Accommodation & Food Services Sector increased by 31,000 on a seasonally adjusted basis, taking total employment from 114,900 to 145,900. The increase in Indirect Employment as a result

**TABLE 1: IMPACT OF JOB CREATION IN THE ACCOMMODATION & FOOD SERVICES SECTOR Q2 2011 – Q1 2016.**

	Number of direct jobs created	Number of indirect jobs created	Total increase	Social welfare savings from direct employment	Payroll tax receipts from direct employment
NATIONAL	31,000	14,260	45,260	€620 M	€147.6M

Source: Jim Power Economics Limited

of this job creation is estimated at 14,260. The total increase in Direct and Indirect Employment is estimated at 45,260.

The economic and financial contribution of the Accommodation & Food Services Sector is very significant. In the first quarter of 2016:

- **145,900 workers were employed directly in the Accommodation & Food Services Sector;**
- **The total Gross Annual Wage paid to those workers is estimated at €3.38 billion;**
- **The total Net Annual Wage paid to those workers is estimated at €3.05 billion;**
- **The payroll taxes accruing to the Exchequer from this employment is estimated €695 million; and**
- **Indirect employment as a result of direct employment in the sector is estimated at 67,114.**

Since the introduction of the 9% VAT rate for tourism related goods & services in July 2011, there has been a significant increase in the number of overseas visitors to Ireland and in employment in the Accommodation & Food Services sector at a national and local level. This employment has generated considerable revenues for the Exchequer and has contributed to significant social welfare savings. One of the key attributes of the sector is that it has a broad regional spread and provides considerable employment all over the country. In the context of a country where there is a strong imperative to boost employment and economic activity in the regions, the ongoing health of the sector is of vital importance.

Cost competitiveness is a key ingredient for business success, particularly for export-oriented business. It is clear that over the past 18 months, as the economy has recovered, Irish competitiveness has deteriorated. Exchange rate movements are outside of our control, so there is a strong imperative to manage business costs carefully.

For internationally traded services such as tourism, cost competitiveness is essential. It is clear that competitiveness is key to the ongoing recovery in tourism and the growth strategy that has been laid out by the tourism sector.

The reduction in the VAT rate to 9% has improved the competitiveness of the Accommodation and Food Services sector since it was introduced, and has also helped ensure the viability of many businesses that have been going through challenging times.

While some parts of the sector are now experiencing improved trading conditions in line with the economic recovery, it is not universal and many businesses are still under significant pressure.

A number of issues need to be taken into account in any consideration of the 9% VAT rate:

- The Accommodation and Food services sector has experienced strong growth in employment since the lower VAT rate was introduced and the performance of the Irish tourism sector has improved substantially. Other factors have obviously had an impact. These include the improvement in global growth, particularly in two important source markets, the UK and US; the weakness of the euro against the dollar and sterling; the removal of the air travel tax; and domestic initiatives such as the Gathering. However, the 9% VAT rate has made an important contribution.
- Tourism is a very competitive, labour intensive, and price sensitive sector. The move to 9% took the Irish rate down to European norms and also gave a stimulus to demand on the back of the price reduction that followed the lower VAT rate. Various studies show that tourism has a relatively high price elasticity of demand (PED). For example, Durbarry<sup>9</sup> (2008) estimated a PED of -2.0 in the UK tourism sector. In the Irish context, Tol et al<sup>10</sup> (2013) estimated PED of -0.655 for holiday visitors, -0.576 for business visitors, with a measure of -1.1 for short stay visits.

9 'Tourism Taxes: Implications for Tourism Demand in the UK', Durbarry, Ramesh, Review of Development Economics, Volume 12, Issue 1, (2008).

10 'UK Tourists, the Great Recession and Irish Tourism Policy', Richard S.J. Tol & Niamh Callaghan, The Economic & social review, Vol. 44, No. 1, Spring 2013.

**TABLE 2: REGIONAL IMPACT OF JOB CREATION IN THE ACCOMMODATION & FOOD SERVICES SECTOR Q2 2011 - Q1 2016. (SEASONALLY ADJUSTED EMPLOYMENT)**

	Number of direct jobs created	Number of indirect jobs created	Total increase	Social welfare savings from direct employment	Payroll tax receipts from direct employment
<b>NATIONAL</b>	<b>31,000</b>	<b>14,260</b>	<b>45,260</b>	<b>€620 m</b>	<b>€147.6m</b>
Carlow	369	170	539	€7.4 m	€1.8 m
Dublin	8,643	3,976	12,619	€172.9m	€41.2 m
Kildare	1,420	653	2,073	€28.4 m	€6.8 m
Kilkenny	645	297	942	€12.9 m	€3.1 m
Laois	546	251	797	€10.9 m	€2.6 m
Longford	263	121	384	€5.3 m	€1.3 m
Louth	831	382	1,213	€16.6 m	€4.0 m
Meath	1,244	572	1,816	€24.9 m	€5.9 m
Offaly	518	238	756	€10.4 m	€2.5 m
Westmeath	583	268	851	€11.7 m	€2.8 m
Wexford	983	452	1,435	€19.7 m	€4.7 m
Wicklow	924	425	1,349	€18.5 m	€4.4 m
Clare	790	363	1,153	€15.8 m	€3.8 m
Cork	3,506	1,613	5,119	€70.1 m	€16.7 m
Kerry	983	452	1,435	€19.7 m	€4.7 m
Limerick	1,296	596	1,892	€25.9 m	€6.2 m
Tipperary	1,072	493	1,565	€21.4 m	€5.1 m
Waterford	768	353	1,121	€15.4 m	€3.7 m
Galway	1,692	778	2,470	€33.8 m	€8.1 m
Leitrim	214	98	312	€4.3 m	€1.0 m
Mayo	883	406	1,289	€17.7 m	€4.2 m
Roscommon	434	200	634	€8.7 m	€2.1 m
Sligo	400	184	584	€8.0 m	€1.9 m
Cavan	496	228	724	€9.9 m	€2.4 m
Donegal	1,088	500	1,588	€21.8 m	€5.2 m
Monaghan	409	188	597	€8.2 m	€1.9 m

Source: Jim Power Economics Limited

- It is clear that lower prices boost demand for tourism products. If the VAT rate was put back up to 13.5%, it is inevitable that this would result in an increase in prices and damage demand, tourism revenues and employment.

**Table 2** shows the impact on a county-by-county basis of employment changes since the VAT rate was reduced to 9% in July 2011.



The RAI believes that any increase in the 9% VAT rate would damage the Restaurant sector and the competitiveness and growth of Irish tourism. This would cost jobs and economic activity in urban and rural areas.

### **ACTION:**

- **Maintain 9% VAT rate**

## **2. Hospitality Skills Training and Recruitment**

Following the revival in the fortunes of the Restaurant over the past couple of years, a shortage of skilled staff has emerged in the sector. The main shortage is for suitably qualified chefs. The shortage of Commis Chefs feeds into shortages at higher and more specialised levels. This reflects the fact that there is not enough chef training centres in Ireland. At the moment, 1,800 chefs qualify each year from certified culinary training programmes. In 2015, a deficit of 5,000 chef trainees was identified annually<sup>11</sup>.

Since the publication of the Expert Group on Future Skills Needs (EGFSN) report, a hospitality skills forum has been developed. The industry does not however have a body dedicated to the training and development of the hospitality industry.

It is worth noting the key findings of the EGFSN report. It found that;

### **Skills Shortage across all levels, most notably amongst Chefs and Cooks**

#### **Why a skills shortage?**

- Insufficient numbers with appropriate training & experience
- Lack of training centres and courses
- Perception of careers in the sector
- Seen as a casual labour sector with no career ladder where the opposite is the case
- Reputation of the sector
- Continuous Professional Development
- Few or no courses available throughout Ireland to current Chefs to improve their knowledge and skills with further education courses
- Societal Focus on 3rd level
- Colleges unable to provide sufficient amount of on the job training hours

Another reason for the shortage is the fact that out of the 7,193 public houses in Ireland, over half of these are now serving food placing an ever greater demand for chefs.

Circa 1,800 chefs are being trained each year and chefs are needed not just in restaurants but in hotels, gastro pubs, contract caterers, coffee shops, food production units, service stations and much more.

The association receives calls every day with members struggling to find trained chefs. At present through online recruitment sites such as CPL, Jobs.ie and Jobbio among others there are over 800 + vacancies for chefs of all grades.

Research by Fáilte Ireland<sup>12</sup> covered the tourism industry's current and anticipated future skills needs. The study was based on an online survey undertaken in 2014 of 1,321 contacts in tourism accommodation, food services, attractions and related businesses.

It found that:

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11 Export Group on Future Skills Needs: Hospitality Report, November 2015

12 Fáilte Ireland Trade Survey Skills Needs 2014

- There are considerable issues in recruiting culinary staff. Two in five (41%) respondents report 'considerable difficulty' and a further quarter (24%) 'some difficulty'.
- There is a common perception that there is a lack of trained candidates to fill culinary and customer service positions.

Bord Bia<sup>13</sup> found the following in their research of the full service restaurant sector;

### FULL SERVICE RESTAURANT

- As food to go grows and innovative new concepts develop within the channel, operators are reporting on a shortage of chefs. Attracting, training and keeping skilled staff is a growing challenge. Operators are depending more on suppliers to assist in menu building and developing a customer base.
- Many consumers have reduced drinking at pubs, reflecting a growing concern with health and wellness and price consciousness. Food in pubs has grown to offer a strong value proposition and focus has shifted towards the "gastro-pub".
- Maintaining high quality and reasonable prices, despite rising food costs continues to be a challenge for operators.

A report published by the Government, People, place and policy – growing tourism to 2025 stated that it is the intention of the Government to grow numbers working in the tourism industry to 250,000 by 2025.

Without a clear leader and new courses being developed, the cited targets will not be met. Whilst there are some worthwhile initiatives (as listed hereunder) more needs to be done in the short-term to alleviate the shortage of skilled staff in the restaurant and wider foodservice industry.

- National Oversight and Advisory Group for the hospitality sector
- National Chef Apprenticeship programme
- 12week intensive commis chef course Failte Ireland
- Momentum funded courses - Certificate in Professional Cookery course Level 5 in Dublin and Galway (2012–2014)
- Restaurants Association of Ireland one day courses (Kitchen Management, Barista, Customer Care, Marketing, Sommelier)
- IHI Transition Year Online programme
- Hospitality Job fairs in association with Department Social Welfare and Irish EURES office
- Other industry bodies such as the IHF and IHI run training courses for their members

### ACTION:

- **The RAI would like to see the creation of a National Hospitality & Training Agency with designated training centers nationwide for new apprenticeships and for continuous professional development.**
- **Review of the work permit application process and eligible lists for chefs of all grade. Introduction of a two year work permit for chefs from outside the EEA.**

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13 Bord Bia Irish Foodservice Channel Insights 2014



### 3. THE NATIONAL MINIMUM WAGE

The National Minimum Wage was increased from €8.65 per hour to €9.15 in January 2016, representing an increase of 5.8%. The Low Pay Commission has recommended that the Minimum Wage should be increased to €9.25 in 2017, which would represent an increase of 1.1%. Inflation for 2016 is forecast at 0.4%. The current Programme for Government has committed to increasing the minimum wage to €10.50 per hour by 2020. Ireland's Minimum Wage per hour in 2016 is the 2nd highest in the EU.

PublicPolicy.ie carried out research comparing how the Minimum Wage has adjusted compared to inflation. Figure 1 outlines how inflation and the Minimum Wage have changed since 2000. It shows that the Minimum Wage has increased at a faster pace than the average price level. A person earning the Minimum Wage was comparatively better off in 2012 than when it was introduced in 2000. The divergence is most dramatic from 2004 onwards. If the ratio of the Minimum Wage to the Price Level were the same in 2012 as in 2000, the Minimum Wage would be approximately €7.42 per hour.

In January 2016, 22 of the 28 EU Countries had a minimum wage. Denmark, Austria, Cyprus, Italy, Finland and Sweden do not have a minimum wage. In January 2016, Ireland had the second highest minimum wage of the EU-28 (Figure 2).

This does not take account of relative price levels and purchasing power of the Minimum Wage. When account is taken of purchasing power, the value of Ireland's minimum wage falls by 15.3%, which would give Ireland the 6th highest in the EU-28 (Figure 3).

Figure 4 shows the growth in average earnings since 1998. Between 2000 and 2007, average earnings increased by almost 52%. This shows that the introduction of the minimum wage at the peak of the economic cycle in 2000, helped fuel very strong growth in earnings up to 2007 and this made a significant contribution to Ireland's loss of international competitiveness as demonstrated by the Harmonised Competitiveness Indicator.

Figure 5 shows the trend in unit labour costs in selected countries. Between 2000 and 2007, unit labour costs increased by 33.2% in Ireland and by 3.8% in the UK. They declined by 2.7% in Germany and by 23.3% in the USA.

The economic boom from 2000 onwards obviously fuelled strong growth in wages in Ireland, but this was compounded by the introduction of the National Minimum Wage. All available evidence suggests that excessive wage growth fuelled the Irish economic bubble and helped undermine the competitiveness of the economy in a totally disastrous manner. This ultimately contributed hugely to the collapse of the economy from 2008 onwards.

The Restaurants Association of Ireland supports the minimum wage as a principle and recognises that it should increase as economic circumstances improve. It is vital, however, that the minimum wage is appropriate.

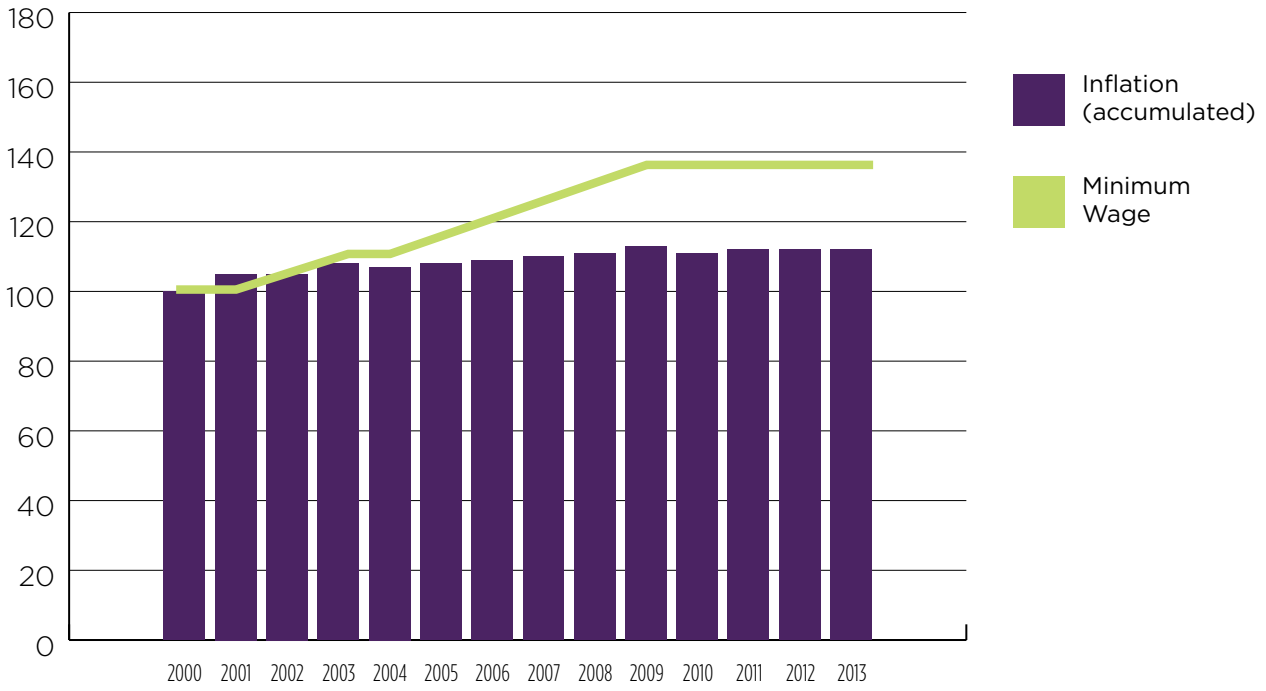
The Restaurant sector is very labour intensive and is a very competitive and low margin business. The proposed increase to €10.50 per hour would seriously increase the cost base of the sector and undermine the competitiveness of the Irish tourism product at a time when it is under threat from Brexit and other risks. The minimum wage is currently 6% higher here than in the UK. With the exchange rate likely to move towards the £0.90 over the coming months, it will make it 14% higher.

Minimum wage increases are applied right around the country, where economic conditions and wages vary. The expectations of other grades of employees must be taken in to consideration.



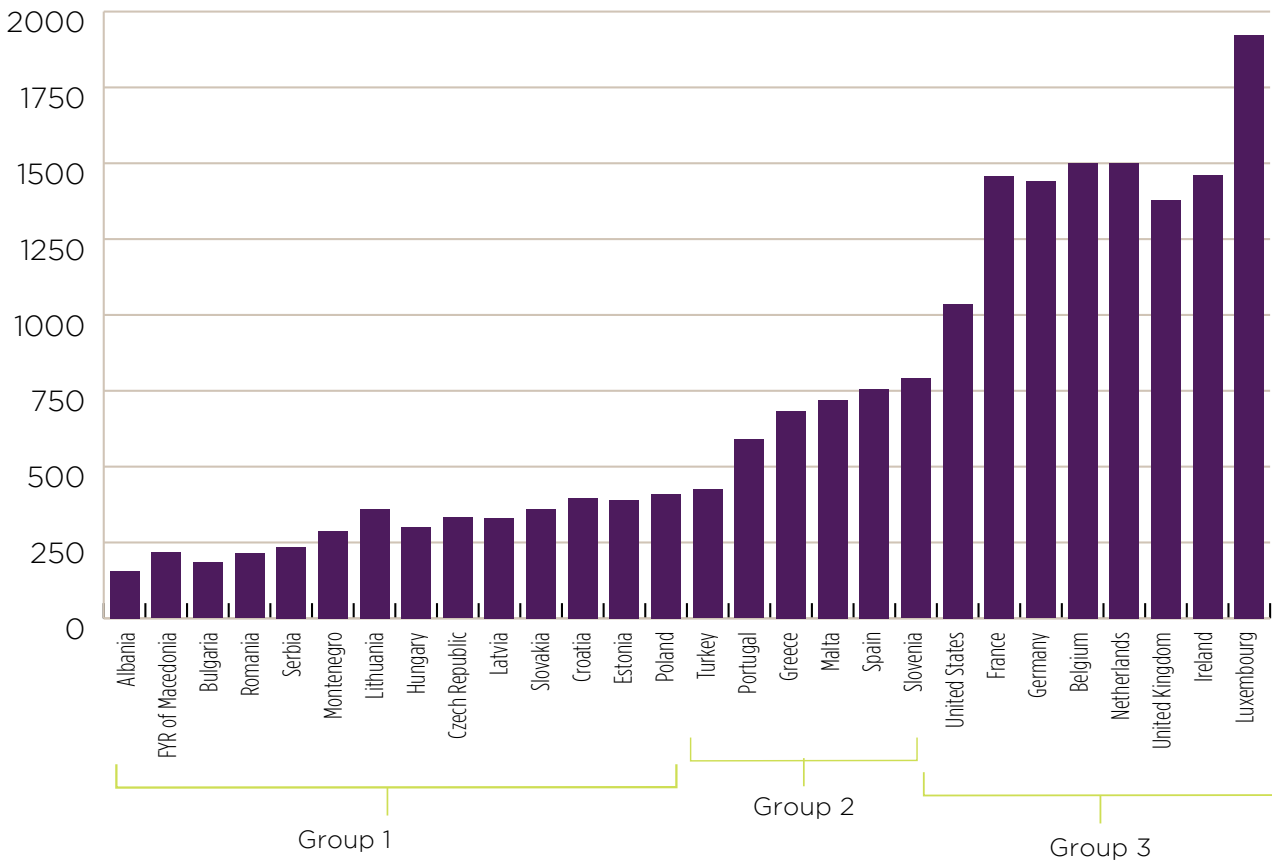


**FIGURE 1: INFLATION AND THE MINIMUM WAGE**



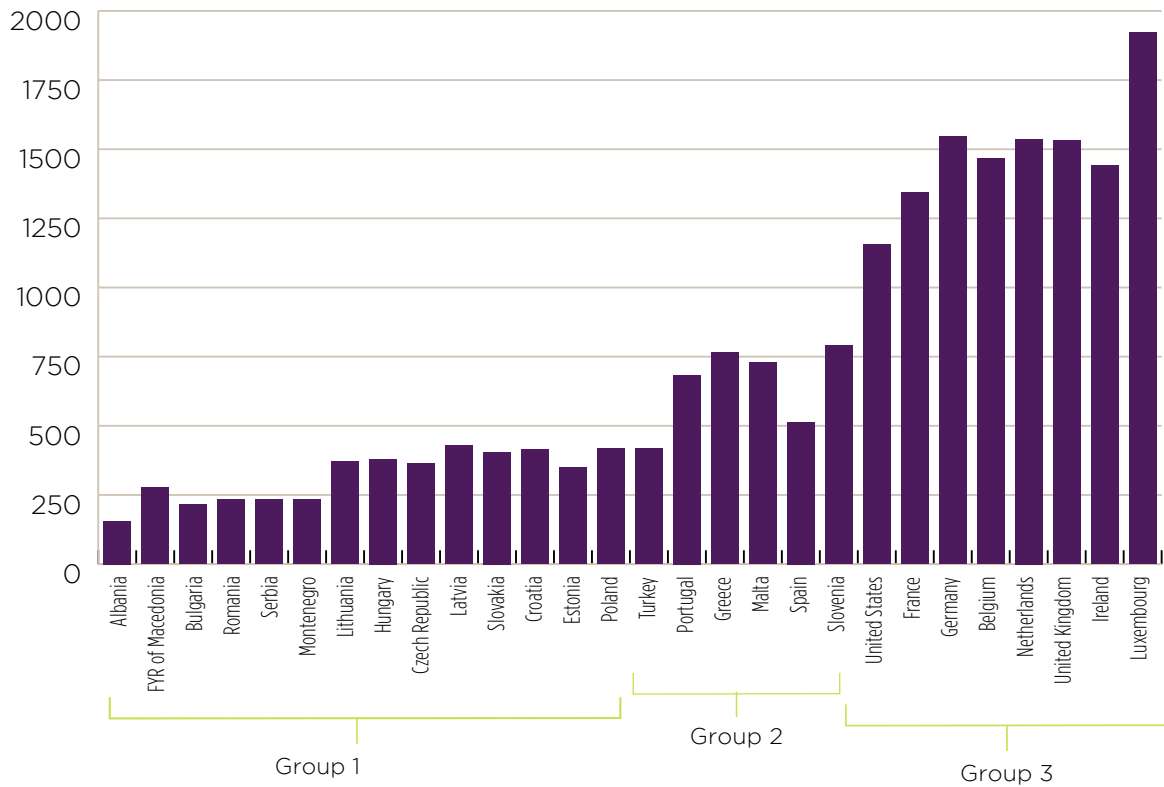
Source: PublicPolicy.ie

**FIGURE 2: EU-28 COMPARISON**

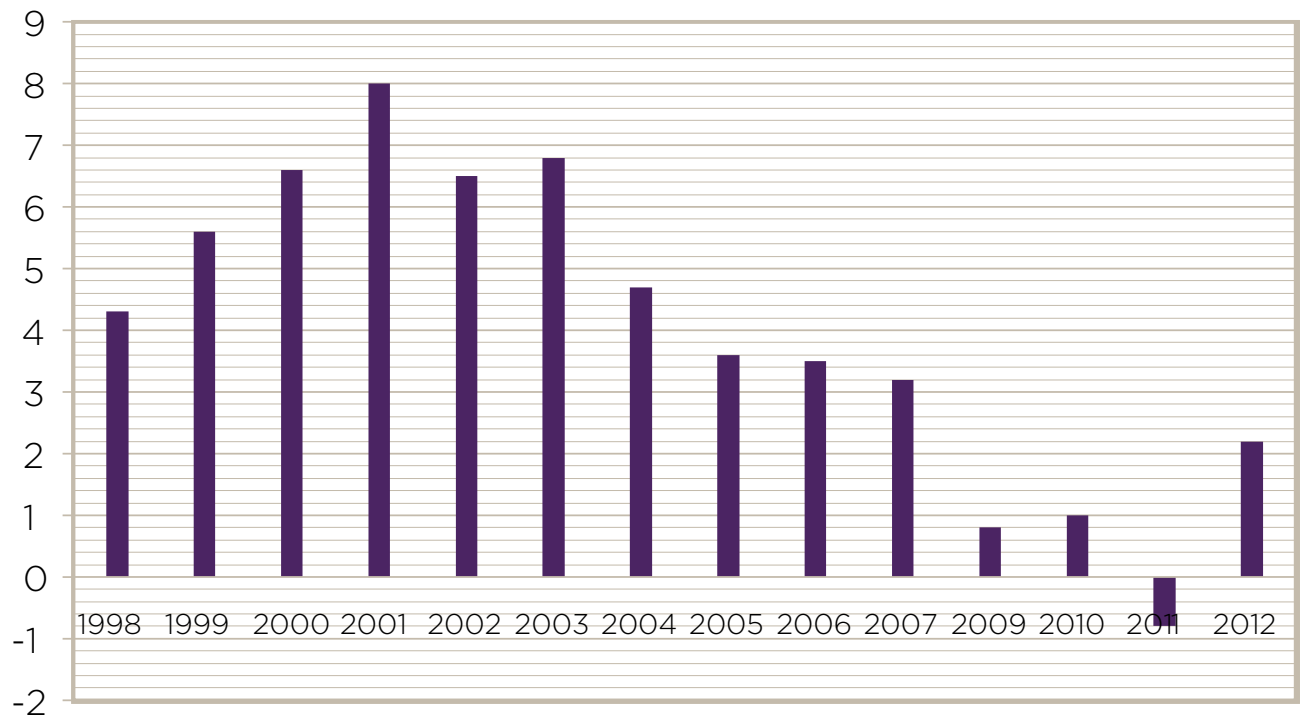


Source: Eurostat

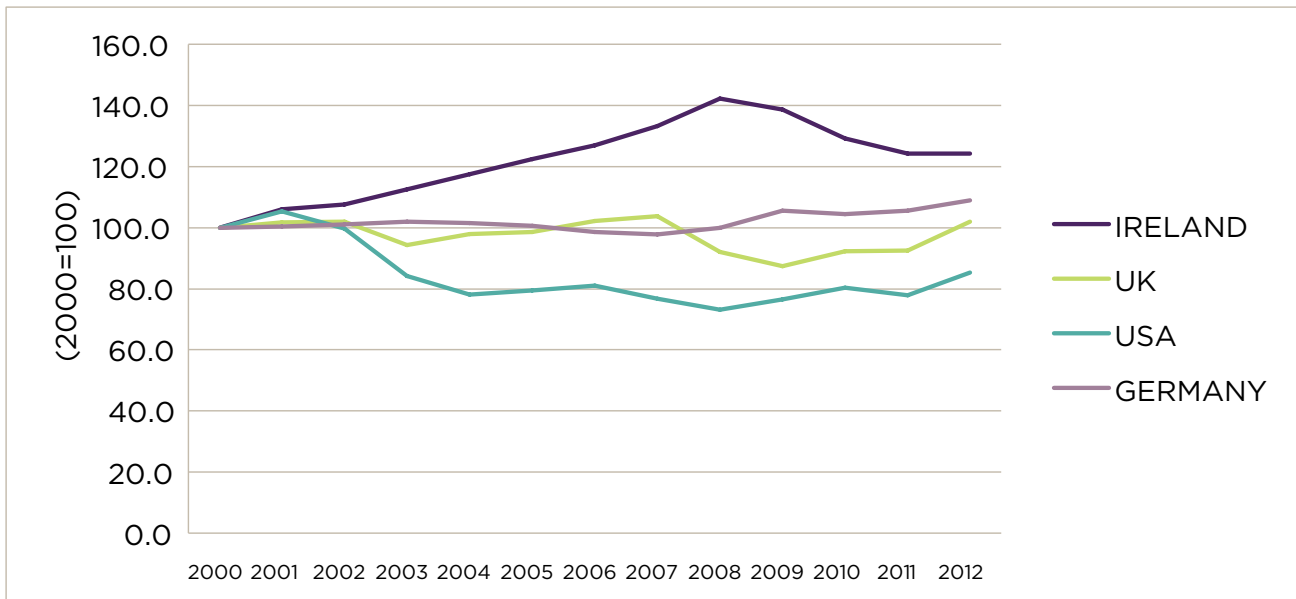


**FIGURE 3: MINIMUM WAGE ADJUSTED FOR PURCHASING POWER**

Source: Eurostat

**FIGURE 4: AVERAGE EARNINGS GROWTH ALL INDUSTRIES**

Source: CSO

**FIGURE 5: INDICATORS OF COMPETITIVENESS - NATIONAL UNIT LABOUR COSTS (€)**

Source: AMECO

The majority of our members are small, family owned and family run businesses in every corner of Ireland. During 2008–2009 turnovers on average fell by 60–80% in the restaurant sector. In 2012, the average labour cost as a percentage of turnover was between 31–35%, in 2016 this is now between 36–42%. When a restaurant takes on a new employee the average training cost is between €500–€1,000 per employee.

Ireland is building an economic platform on the back of tourism but tourists notice prices. If wages go up, menu prices go up and we won't remain competitive. Raw material costs have already increased in the past 18 months, beef and lamb being 20% more expensive now than they were 12 months ago. These increases cannot be passed on to the consumer because the eating public is not ready to absorb them.

The tax and welfare system should be used to put money into people's pockets, rather than facilitating and encouraging an economically damaging upwards spiral in wages. The notion of pushing up wage costs at this juncture fails to recognise the business realities in what is still a very challenging economic environment.

For a sector that is starting to experience a gradual recovery in business performance and which plays such an important role in national and regional employment, adding to operating costs at this juncture would be premature and potentially damaging. We must provide sustainable jobs for the future.

#### **ACTION:**

- **The Minimum Wage should be left at current levels until the whole economy is on a sounder footing and until there is more certainty in relation to Brexit. A freeze in the minimum wage until 2021 is recommended in order to preserve the competitiveness of the Restaurant sector.**
- **Future decisions on the rate of the National Minimum wage must be evidenced based. There is still no hard data to determine the impact that the increase in January 2016 has had on businesses.**



## 4. COSTS OF DOING BUSINESS

It is widely recognised that generating sustainable broad based export-led growth is essential in rebuilding a sustainable Irish economic model. To achieve this objective, cost competitiveness is an essential ingredient. A high cost base undermines the attractiveness of FDI and business expansion; it makes firms selling into foreign markets less competitive; and it creates the potential for import substitution.

For a service export like tourism, international competitiveness is absolutely crucial to success. If the tourism product is not competitive, foreign visitors will be diverted to other cheaper markets, and domestic tourists will have a stronger incentive to go overseas.

Ireland's international competitiveness deteriorated significantly between 2000 and 2008 as all of the costs of doing business were allowed to escalate in a very damaging way. From 2009 onwards, there was a significant improvement, helped by the weakness of the euro against sterling and the dollar, but also an improvement in the costs of doing business as the economy contracted.

Over the past year there has been some deterioration again. The Real Harmonised Competitiveness Indicator (Real HCI) increased by 3.8% between April 2015 and June 2016. The Nominal Harmonised Competitiveness Indicator (Nominal HCI) increased by 4.7% over the same period. Exchange rate movements have made a significant contribution to this deterioration in competitiveness. For example, since April 2015 the euro has appreciated by 5.7% against the dollar and by 20.4% against sterling. However, there is also clear evidence that many of the costs of doing business are increasing in line with the economic recovery.

**The Costs of Doing Business in Ireland 2016**<sup>14</sup> report does give some cause for concern in relation to the recent trends in business costs. Its key findings include:

- Ireland remains an expensive location in which to do business with a price profile, which can be described as 'high cost, rising slowly';
- In the year to Q3 2015, Irish labour costs grew by 2.1%, compared with growth of 1.9% in the EU-28 and 1.2% in the euro area;
- In 2016, Ireland had the 2nd highest monthly minimum wage and the 5th highest in PPP terms of 18 countries considered;
- Ireland is the 6th most expensive location in the euro area for prime retail rents. Rents increased by 22% in 2015;
- Commercial rate increase as a proportion of total Local Authority revenue from 24% in 2002 to 38% in 2015. Over the same period, the proportion received from Central Government fell from 46% to 29%;
- Ireland was the 5th most expensive country in Europe for diesel in January 2016;
- Industrial electricity prices for SME energy users are 6% higher in Ireland than the euro area, making Ireland the 6th most expensive location. Between 2010 and 2015, Irish prices for SMEs increased by over 20%;
- Water and waste-water costs for industrial users compare favourably to those in competitor markets; and
- Irish interest rates on business loans have been consistently higher than equivalent euro area rate. In December 2015, the interest rate on loans of up to €0.25 million was 80% higher than the euro area average, and 60% higher for loans of up to €1 million.

Utility costs as well as Local Authority rates/charges are a significant cost burden on SMEs. Many of these costs have been increasing at a rate above inflation since the recession commenced. The cost of operating a tourism business in Ireland continues to be higher than the EU average across a range of metrics, putting the sector at a disadvantage internationally.

14 'Costs of Doing Business in Ireland 2016', National Competitiveness Council, April 2016.

Labour costs account for over 35% of turnover in restaurants. Electricity, Waste Water, Outdoor Seating Charges, Music Rights Licences, Business Improvement District Levies, and Fats, Oils and Greases licences all add considerably to the cost of running a restaurant business.

#### **ACTION:**

- **In Budget 2017, the Minister for Finance should support tourism businesses in moving towards greener energy sources to combat rising electricity prices. This would also contribute towards Ireland's international environmental obligations.**
- **Budget 2017 should also reduce the cost of Government imposed red-tape on business, in part by streamlining regulatory enforcement activities out of a merger and rationalization of existing structures and agencies.**



## 4.1 COMMERCIAL RATES

Over a third of local authority funding comes from commercial rate collections. Commercial rates underpin the entire range of services provided by local authorities. We recognise that these authorities are striving to maintain the delivery of high-quality local services in the face of increasing constrained financial resources.

Nevertheless, such charges represent a substantial cost burden for the Irish business sector.

Local Authorities in Ireland collected €1.2bn in commercial rates in 2015, close to a 10% increase since 2008. Businesses are paying more for less with the transfer of water and waste services to Irish water and commercial waste services no longer being provided by local authorities but private operators. On top of their rates, in some local authority areas Restaurants have to pay for outdoor seating and tables.

The current rates system does not take account of ability to pay, the size of the premises, numbers employed, meaning many companies are disproportionately hit. Commercial rates for a restaurant are currently calculated by the rent that is paid, and not on the basis of turnover as is the case with hotels and public houses.

The commercial rates revaluation process is benefiting hotels. Where rate revisions have taken place, the commercial rates liability of hotels fell by 30% or more<sup>15</sup>.

For restaurants in areas where their rates have been reviewed, many have seen sharp increases. Given the preponderance of upward only rent reviews, this has acted to the detriment of restaurants, particularly given the difficult trading conditions that the sector experienced after 2008. Although trading conditions have improved for many restaurants, there are many restaurants still experiencing difficult trading conditions. The commercial rates system needs to take greater account of trading conditions. In 2014 in the Dublin City Council area, restaurants commercial rates increased on average by 68%.

Payment of rates is also another issue as it varies across all local authorities. In some instances you pay in full, in other two installments (one upon receiving the bill and another payment 6 months later) whilst some local authorities have taken the initiative to introduce a monthly direct debit payment system.

The burden of regulation is proportionately greater on SMEs than on large enterprises which tend to have substantial administrative systems and personnel. Very few are of sufficient scale to justify a range of in-house specialist functions.

### **ACTION:**

- **The RAI would like to see a comprehensive review of the commercial rates system with the aim of funding local government on a more equitable and sustainable basis. The system as it applies to restaurants is unfair and it needs to change to recognize turnover and profit when the commercial rates liability is being calculated.**
- **The RAI would also like to see an introductory 'holiday rate' for new restaurants to help them become established. For all new businesses this would mean, in the first year of business a new restaurant would pay 25% of their rates bill in year one, 50% in year two, 75% in year three and full rates bill in year four.**

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15 Failte Ireland, 2011 report, Reducing State Imposed Costs on Tourism: The Case for Better Regulation





## 4.2 COMMERCIAL INSURANCE COSTS

Data from the CSO show that private motor insurance costs have increased by 38.3% in the year to July 2016 and have increased by 69.8% between July 2013 and July 2016. In line with the increase in private motor insurance, commercial insurance costs are also rising strongly. Members of the RAI are reporting that commercial insurance costs have increased by up to 50% over the past 12 months. Restaurants that operate a 'take-away / delivery service' have seen their motor insurance premiums increase by 100%.

Figures from the Central Bank of Ireland in 2013 found that insurance companies were operating at an overall combined operating ratio of 114%, in other words they were operating at a loss of 14%.

The National Competitiveness Council highlighted in their January 2016 Bulletin on Insurance Costs, that insurance costs are one of the issues of "greatest concern to businesses" in the country.

The Restaurants Association of Ireland supports the NCC's findings and recommendations of their January bulletin.

### ACTION:

- **An investigation into the factors that are driving insurance costs higher needs to be undertaken and measures introduced to alleviate those pressures and make insurance affordable for individuals and for business.**
- **Reform of the Personal Injuries Assessment Board to ensure that it has the ability to collect the required claims data.**
- **Reform of legal services.**



## 5. Excise Duty

There are a total of 2,406 fully licenced and wine licenced restaurants in Ireland in 2015. The regional spread of restaurants and other licenced premises facilitates and supports the geographic spread of tourism, jobs and regional development.

As you can see from Figure 6 the majority of restaurants in Ireland operate under a Wine licence.

**FIGURE 6: GEOGRAPHIC SPREAD OF LICENCED PUBLIC HOUSES, HOTELS AND RESTAURANTS 2015**

County	Fully Licenced Restaurants	Wine Licenced Restaurants	Hotel Bar Licences	Public House Licences
Carlow	2	21	7	97
Cavan	6	10	10	190
Clare	8	52	18	291
Cork	52	231	63	954
Donegal	22	55	40	365
Dublin	162	677	135	773
Galway	14	128	65	475
Kerry	23	115	50	435
Kildare	13	72	22	183
Kilkenny	10	30	12	191
Laois	2	18	9	123
Leitrim	3	10	5	109
Limerick	14	68	23	360
Longford	2	8	1	90
Louth	15	38	10	182
Mayo	8	68	40	273
Monaghan	3	14	7	106
Offaly	2	18	5	126
Roscommon	5	15	4	203
Sligo	0	22	11	145
Tipperary	10	39	17	422
Waterford	14	53	15	220
Westmeath	11	33	10	169
Wexford	4	69	22	265
Wicklow	10	62	18	151
<b>Total</b>	<b>431</b>	<b>1975</b>	<b>631</b>	<b>7193</b>

Source: Revenue Commissioners



Brexit has caused the Sterling to decline and this is likely to persist for some time thus making our excise rates even more expensive for our largest cohort of visitors (Great Britain 41%) as well as driving cross border purchasing of alcohol.

The statistics on excise are alarming. The tax take on a standard bottle of wine is now over 50%. Irish wine excise is the highest in the EU. Excise is now 106 times higher in Ireland than France. 1,100 people are employed directly by Irish wine distributors and thousands more in the 13,000 restaurants, pubs and off-licenses that sell wine. Ireland has the highest wine excise in the EU and the third highest beer and spirits excise rates. The Irish wine excise is 7.4 times the Belgian level, 4.8 times the Dutch level and 2.7 times the Danish level; 14 EU economies have no excise on wine as demonstrated in Figure 7.

**FIGURE 7: EXCISE TAX PER 750ML BOTTLE**

Country	Excise per 750ml bottle
Ireland	€3.19
Finland	€2.54
United Kingdom	€2.83
Sweden	€2.01
Denmark	€1.17
Netherlands	€0.66
Estonia	€0.84
Latvia	€0.64
Lithuania	€0.56
Belgium	€0.56
Poland	€0.28
Greece	€0.15
Malta	€0.15
France	€0.03
Croatia, Austria, Bulgaria, Cyprus, Czech Republic, Germany, Hungary, Italy, Luxembourg, Portugal, Romania, Skandania, Slovenia, Spain (14 countries)	€0.00 - zero rate of excise

**FIGURE 8: EXCISE DUTY ON €9 STANDARD OF BOTTLE WINE**

Year	2011	2012	2013	2014	2015	2016
Tax %	39% Tax	41% Tax	50%	54%	54%	54%
Excise	€3.53	€3.65	€4.46	€4.87	€4.87	€4.87
VAT	21%	23%	23%	23%	23%	23%
Increase	No change	+ 2%	+ €1	+€0.50	No change	No change

The 62% increase in wine excise in less than a year (between December 2012 and October 2013) put huge additional cash flow pressure on small businesses at a time when access to credit was difficult. The tax on 1,000 cases of wine has increased by €17,958 since 2012; a huge upfront cost for distributors, independent off-licenses and restaurants to bear. These businesses continue to bear the increased cash flow burden of the 2012 and 2013 excise increases.



Rural establishments have been hit the hardest, particularly areas like the midlands and some border counties that have not seen an increase in tourism numbers like other parts of the country, namely Dublin and towns along the Wild Atlantic Way. Restaurants in many rural areas no longer open for lunch and some may also be closed on Monday – Wednesday evenings.

Tourists and Irish consumers compare Irish prices with those in other tourist destinations, e.g. Spain, Italy, Portugal, Greece and France, where there is no duty on wine. IN recent years, we have been keen to show that we offer value for money. Failte Ireland's Visitor Attitudes Survey 2015 compiled by Millward Brown stated that drinks costs is the third most frequent item mentioned as a disadvantage when visiting Ireland, this comes after the weather and the high cost of living. This report also found that our Value for Money rating was seen as;

- Very Good 18%
- Good 45%
- Fair 31%
- Poor 5%

It is clear from the above that a drop in excise duty would see the cost of beverages decrease thus improving our value for money offering.

#### **ACTION:**

- **The RAI are calling for €1 Reduction in Excise Duty on a bottle of wine**
- **15% reduction in excise duty on beer and spirits**

## **6. LIFTING THE BAN ON ALCOHOL SALES IN RESTAURANTS ON GOOD FRIDAY**

It seems absurd, that in 2016, a multi-cultural, multi-religious Ireland is still subjected to an archaic, out-dated law such as The Good Friday ban against the sale of alcohol. The law which dates back almost 90 years to the Intoxicating Liquor Act of 1927, often results in the closure of restaurants and businesses on this day. It is in its simplest form, a religious based law that not even in the Vatican City adheres to. In a modern Ireland, this law is both damaging to our economy and brand abroad.

It is estimated that the Restaurant sector foregoes €15 million in revenues every year due to the bank on alcohol sales in restaurants on Good Friday.

The legislation provides exemptions from the ban on the sale of alcohol in venues such as greyhound stadiums; those travelling by rail, sea or ferry; in licensed theatres; in national cultural institutions; and for guests staying in a licensed premises such as a hotel, provided a meal is served.

#### **ACTION:**

- **The RAI is calling for a lifting of the ban on the sale of alcohol in restaurants on Good Friday. This would be financially good for the sector, but would also help tourism and promote job creation.**



## 7. TOURISM POLICY

### INVESTING IN RURAL IRELAND – IRELAND’S TOURISM LAKELANDS BRAND

The development of the Wild Atlantic Way, Ireland’s Ancient East and the Dublin brand has been most welcome to operators in these areas. These brands are and will continue to reap benefit.

There are however, many areas that do not fall into these brands. The strategy for the next three years should be to ensure the development of the Lakelands brand encompassing the River Shannon flowing through Cavan, Leitrim, Longford, Roscommon, Westmeath, East Galway, Offaly, Tipperary, Clare, Limerick and all of its tributaries plus the canal network across the Midlands.

#### PROGRAMME FOR GOVERNMENT 2016<sup>16</sup>

€100million Capital Investment in Wild Atlantic Way & Greenways

One of the biggest achievements in revitalising tourism has been the creation of the Wild Atlantic Way. We will seek to set aside €100million in additional capital funding to take the Wild Atlantic Way to the next level, including an Atlantic blueway route, and the Ireland Way, and to invest further in developing a nationwide Greenway network.

As part of this additional funding, we will double the funding available for the Rural Walks Scheme from €2million to €4million to increase the number of walks covered from 40 to 80.

**We will also direct Fáilte Ireland to develop the ‘Ireland’s Lakelands’ brand** as a separate proposition to sit alongside the Wild Atlantic Way and Ireland’s Ancient East. To assist with sustainability of tourist accommodation and small tourism ventures, a support scheme will be introduced for businesses operating along these routes”.

Without the development of a co-ordinated tourism brand for these areas it will have a negative effect on local tourism and hospitality businesses.

#### CAPITAL INVESTMENT IN TOURISM

In 2014, capital investment in tourism was only €17m. The total expenditure by overseas visitors to Ireland has increased from a low of €2.9 billion in 2011 to €4.2 billion in 2015. The tourism sector has also increased employment at a faster rate than any other industry up 16% from 194,000 (2011) to 224,999 (2014).

Based on the expenditure alone by overseas tourists in Ireland, investment in tourism is certainly worth a lot more than €17m.

Over the next three years a co-ordinated approach across departments and local authorities should see investment being placed in the following;

- Training Courses and training centres of hospitality excellence
- Tourism Infrastructure and attractions
- Investment in our Digital Infrastructure
- Support tourism businesses to become more energy efficient.

#### ACTION:

- **Development of the Lakeland’s brand**
- **Capital investment in tourism**









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