Pre-Budget Submission 2018

SUSTAINING JOBS, MAINTAINING COMPETITIVENESS AND DELIVERING CERTAINTY FOR THE RESTAURANT AND TOURISM SECTOR

Presented to:
MINISTER FOR FINANCE,
Paschal Donohoe, T.D.

KEEP VAT AT 9%
Supporting Food, Tourism & Jobs

RESTAURANTS ASSOCIATION OF IRELAND

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INTRODUCTION

ABOUT THE RESTAURANTS ASSOCIATION OF IRELAND

The Restaurants Association of Ireland is the representative body for restaurants in Ireland. With over 2,500 business owners nationwide, we represent fine dining, casual dining, ethnic, family, gastro pubs, and hotel restaurants. The restaurant sector employs some 72,000 people and contributes €2bn annually to the economy.

THE RESTAURANT INDUSTRY IN IRELAND

There are currently 2,628 restaurants operating in Ireland of which 905 are in Dublin. There are about 6,000 pubs in operation of which about 30% are now serving food. There are 983 hotels in Ireland. It is hard to put a figure on the number of cafes in Ireland, but we believe it is well over the 2,500 mark.

The RAI has a current membership of 2,500 members. RAI members are a mix of Restaurants, Hotel Restaurants, Gastro Pubs, Cafés and industry suppliers. 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.

In July 2011, the VAT rate for accommodation and food services was reduced from 13.5% to 9% giving a major boost to our industry, enabling many to keep their doors open, reduce their menu prices and retain staff. Given the growth in the sector, particularly in the past three years, the VAT rate has remained. Some figures illustrated below, show the importance of this rate to the sector.

Between Q2 2011 and Q1 2017, the number of people working in the Accommodation & Food Services Sector nationally increased by 37,800, taking total employment from 114,400 to 152,200. The sector accounted for 7.4% of total employment in the economy in the first quarter of 2017.

The increase in Indirect Employment as a result of this job creation is estimated at 17,388. The increase in Direct and Indirect Employment is estimated at 55,188.[1]

In 2016, Irish consumers spent €7.5 billion on out of home food & beverage. The bulk of this (91%) was spent in the commercial channels, in locations such as quick service restaurants, full service restaurants, cafés and pubs.[2]

The restaurant industry is a fiercely competitive and difficult industry. There are constant new entrants to the market, high failure rates and high burnout rates. The general feeling amongst members at present, is that business is extremely tough, not only from the competition of new openings and other businesses going in to the food space (pubs/QFS) but the continued increase in the cost of doing business, (Insurance premiums, wages costs increases of on average 10%, commercial rate increases, rent increases in urban areas). There is a chronic shortage of suitably skilled or qualified chefs and to a lesser extent front of house managers/supervisors.

To survive in this business restaurant's must offer the best quality product at the lowest price.

At a recent Council meeting of the RAI (which is made up of business owners throughout Ireland) all agreed that business at present is particularly difficult, 'staying alive' was their new motto.

To date this year, 49 of our members have closed their business., that is more than 1 restaurant a week closing its doors in 2017.

Most of our members are all small owner operators and in many cases, they are the Head Chef. They open a restaurant because they have a passion for cooking food, serving customers and like all business people, trying to make a profit. This is however becoming increasingly difficult.

HOSPITALITY SECTOR IN NUMBERS

16,000 – There are over 16,000 enterprises in the hospitality-related accommodation and food services sector in Ireland.

- 41% Restaurants and beverage servicing activities bars
- 45% are Catering and other food service providers
- 14% Hotels and other accommodation

228,600 are employed in the Tourism and Hospitality sector of which 152,000 people are employed in the Accommodation and Food services sector = 8% of Employment in Ireland

Accommodation and food services activities accounts for €3 BILLION of total gross value added in the Irish economy

1 Job Creation in the Accommodation and Food services Sector Q1 2017, compiled by Jim Power Economics for the Restaurants Association of Ireland

2 Irish Foodservice Channel Insights, Bord Bia Technomic Report, 2016

THE ECONOMIC BACKGROUND TO BUDGET 2018

Ireland cannot allow the cost competitiveness of the economy and the fiscal situation to be undermined at a time when the recovery is facing immense challenges, both from external and domestic sources. Careful, prudent control of wage costs and the public finances is essential.

The National Competitiveness Council defines national competitiveness as 'the ability of enterprises to compete successfully in international markets'. The Council believes that in the face of immense international uncertainty presented by Brexit, US economic policy and the uncertain nature of the political economy of the EU, it is vital that Ireland manages the issues that are within its own control, such as maintaining cost competitiveness and investing in supporting infrastructure and talent.

From April 2008 until mid-2016, there had been a significant improvement in Irelands cost competitiveness. The Restaurants Association of Ireland is now starting to see that the gains that had been made during this time are slowly being eroded. Whilst there is little we can do to manage external threats such as exchange rates, Brexit policies or American taxation policy, all elements of domestic cost competitiveness must be monitored and controlled very diligently.

The Irish Tourism Industry Confederation (ITIC)[3] have said that the cost to Irish Tourism of Brexit will be at least €100m this year. British consumers are now finding Ireland 15-20% more expensive as the value of sterling has remained low. Ireland now also has strong competition from the UK as it is becoming a more affordable destination for many markets. Arrivals to Britain are up 11% in the first four months of 2017 and revenue is up 14%.

For a service export like tourism, international competitiveness is 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.

The economy has recovered strongly over the past couple of years and this has benefited the Restaurant sector. However, the sector is now facing several 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, particularly Brexit; upward wage pressures, and increasing pressure on many of the other costs of doing business. Spiralling insurance costs now represent a serious cost pressure for the restaurant sector.

"The bottom line is that only some people, in certain jobs, and certain sectors, in certain parts of the State, are benefiting from the recovery. It's far from widespread."
Austin Hughes, Chief Economist, KBC Bank Ireland

3 ITIC Pre-Budget Submission 2018

HOSPITALITY SKILLS AND RECRUITMENT

a. Skills Shortage

b. Establishment of a National Tourism & Hospitality Training Authority

c. Work Permits

Since 2012, in each pre-budget submission by the RAI, we have been calling for policies to tackle the chronic chef shortage in Ireland.

Currently, 1,800 chefs qualify each year from certified culinary training programmes. In 2015, the Expert Group on Future Skills Needs (EGFSN) report on the Hospitality sector identified a deficit of 5,000 chef trainees annually.[4] The key findings of the EGFSN report found that the skills shortage is across all levels, most notably amongst Chefs and Cooks. The reasons for the skills shortage are as follows;

- *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*

Policies to tackle the skills shortage implemented to date;

- Development of National Commis Chef Apprentice Programme (112 places to be rolled out in October 2017) (2 days college, 3 days employment x 2 years)
- Commencement of development of National Chef de Partie, Sous Chef and Executive Head Chef apprenticeship programmes.
- Establishment of a *Restaurant & Hospitality Skillnet* to provide short courses to those currently working in industry.
- Establishment of a National Oversight and Advisory Group '*Hospitality Skills Oversight Group*'
- Apprentice Chef Initiative – aims to create a positive and pro-active approach and introduction to culinary arts profession for second level students
- Tourism Insights – online portal for transition year students to promote careers in tourism and hospitality. Over 240 schools have participated to date.

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

Since the publication of the EGFSN report, a National Oversight and Advisory Group '*Hospitality Skills Oversight Group*' has been developed. This forum meets 6 times per year and consists of the following members;

- Solas
- Industry Bodies (RAI, IHF, LVA, IHI, VFI)
- Failte Ireland
- Educational Bodies (IOT's, QQI, HEA, ETBI)
- Dept. Social Protection
- Dept. Education
- Dept. Jobs, Enterprise & Innovation
- Regional Skills Dublin

The chair for the first year was Solas and has now changed to Irish Hotels Federation. The forum does not have any powers in policy creation or direction for the development of education, training and promotion of the industry.

The Hospitality Skills Oversight Group recently published their 2017 interim report (August 2017)[5] and one of the findings of the report was that hospitality is a diverse industry that would benefit from further co-ordination.

"The hospitality sector is very diverse, with many different kinds of employers and occupations, and as a result, different priorities and needs emerging within the industry. While diversity is in many ways an important and positive feature, there is a need for more co-ordination to represent the interests of the industry and the thousands of talented people working in it".

Whilst the long-term goals and target number of trainees for the national apprenticeship programme are welcomed, in the short term we are facing a massive crisis in the shortage of skilled labour, most notably among chefs.

Educational providers across the IOT's and ETB's are creating culinary and hospitality training programmes, building kitchens & training restaurants but there is no one or no body to co-ordinate these actions. External consultants are being hired by individual ETB's to co-ordinate building of training facilities and develop programmes. Whilst we welcome the building of new facilities and training programmes, with no one to co-ordinate these actions, we will end up having facilities in locations where the population is not there to fill courses. Culinary facilities and courses are expensive to build and operate and at present we feel resources and funds are not being used efficiently.

The Council for Education, Recruitment and Training (CERT) was held in very high regard during its operational years. It was funded by Bord Failte, the department of Labour and the industry and run by a board including hoteliers and restaurant owners. The board undertook to promote a career in tourism to young people and provided direct skills training at its network of training centres and in developing tourism and culinary orientated education in VECs and other colleges.

The RAI would like to see a National Tourism and Hospitality Training Authority established based upon the format of the Credit Review Office, to do the following:

- Oversee policy development in hospitality training needs and the development of national training structures and programmes

5 Ireland's €3 Billion Hospitality Industry, 'Skills, Careers, Growth', 2017 Interim Report

- Be a one stop shop for information regarding all training locations and programmes related to the tourism and hospitality industry
- Deliver a National Hospitality Careers Roadshow
- Develop a training charter and an official National code of practice
- Engage with secondary schools for the recruitment, training and formal education of young school-leavers preparing and incentivising them for careers in the Industry.

Creating a National Tourism and Hospitality Training Authority would provide a much-needed boost to the industry by providing a service whereby young school leavers can access information about careers in the industry and find locations where they can properly train and develop their skills. Creating practical relationships with secondary schools to properly teach young people the merits of joining the industry is essential.

The Food experience as part of the overall tourism product plays a crucial role in attracting overseas visitors. We want to be able to market Ireland as a centre of food excellence, a true culinary experience with world-class chefs leading the way. Instead, we are finding ourselves in a position where we have a severe shortage of chefs in Ireland which is now threatening growth and expansion.

ACTION

- To establish a National Tourism and Hospitality Training Authority

WORK PERMITS

At present, all grades of chefs other than those wishing to work in an ethnic restaurant in Ireland, are on the ineligible category of employment list for work permits.

The Association would like to see Chefs removed from the ineligible category of employment list. As presented above, we have a chronic chef shortage in Ireland. Whilst many initiatives are under way to tackle this in the long-term, in the short term it will only get worse before it gets better.

The introduction of a two year work permit for hospitality workers from outside the EU would assist in alleviating the current shortage.

ACTION

- Short-term Work Permits for Non-EU qualified hospitality workers

RETENTION OF 9% VAT

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 since it is having a positive impact.

There has been strong growth in the number of overseas trips to Ireland since the 9% VAT rate was introduced in July 2011. Between 2011 and 2016 there has been an increase of 47.3% in the number of overseas visitors to Ireland. This growth is due to several factors, but the impact that the reduced VAT rate has had on the competitiveness of the Irish tourism product is significant.

As Table 1 below demonstrates, in the first 5 months of 2017, the number of overseas trips to Ireland increased by 3.1%. However, visitor numbers from the UK declined by 6.8%. This decline is primarily currency related and is a source of concern for the Irish tourism sector.

TABLE 1: TRENDS IN OVERSEAS VISITORS TO IRELAND JAN – MAY 2017

Country of Origin	Jan-May 2016 (000s)	Jan-May 2017 (000s)	% Change
Great Britain	1,541	1,436	-6.8%
Other Europe	1,213	1,261	+3.9%
North America	536	663	+23.7%
Other	175	213	+21.7%
Total	3,465	3,573	+3.1%

Source: CSO

Table 2 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 2017, the number of people working in the Accommodation & Food Services Sector increased by 37,800 on a seasonally adjusted basis. Taking total employment from 114,400 to 152,200. The increase in Indirect Employment as a result of this job creation is estimated at 17,388. The increase in Direct and Indirect Employment is estimated at 55,188.

TABLE 2: IMPACT OF JOB CREATION IN THE ACCOMMODATION & FOOD SERVICES SECTOR Q2 2011 – Q1 2017.

	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	**37,800**	**17,388**	**55,188**	**€756m**	**€180m**

Source: Jim Power Economics Limited

Table 3 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.

TABLE 3: REGIONAL IMPACT OF JOB CREATION IN THE ACCOMMODATION & FOOD SERVICES SECTOR Q2 2011 – Q1 2017. (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
NATIONAL	**37,800**	**17,388**	**55,188**	**€756m**	**€180 m**
Carlow	458	211	669	€9.1m	€2.2m
Cavan	604	278	882	€12.1m	€2.9m
Clare	878	404	1,282	€17.6m	€4.2m
Cork	4,405	2,026	6,431	€88.1m	€21m
Donegal	1,063	489	1,552	€21.3m	€5.1m
Dublin	11,291	5,194	16,485	€225.8m	€53.7m
Galway	2,025	932	2,957	€40.5m	€9.6m
Kerry	1,094	503	1,597	€21.9m	€5.2m
Kildare	1,866	858	2,724	€37m	€8.9m
Kilkenny	791	364	1,155	€15.8m	€3.7m
Laois	697	321	1,018	€13.9m	€3.3m
Leitrim	234	108	342	€4.7m	€1.1m
Limerick	1,461	672	2,133	€29.2m	€7m
Longford	333	153	486	€6.7m	€1.6m
Louth	1,041	479	1,520	€20.8m	€4.9m
Mayo	912	420	1,332	€18.2m	€4.3m
Meath	1,649	759	2,408	€32.9m	€7.8m
Monaghan	450	207	657	€9m	€2.1m
Offaly	585	269	854	€11.7m	€2.8m
Roscommon	459	211	670	€9.2m	€2.2m
Sligo	455	209	664	€9.1m	€2.2m
Tipperary	1,156	532	1,688	€23.1m	€5.5m
Waterford	886	408	1,294	€17.7m	€4.2m
Westmeath	677	311	988	€13.5m	€3.2m
Wexford	1,160	534	1,694	€23.2m	€5.5m
Wicklow	1,144	526	1,670	€22.9m	€5.4m

Source: Jim Power Economics Limited

Since the introduction of the 9% VAT rate 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. This employment has generated considerable revenues for the Exchequer and has contributed to significant social welfare savings.

Tourism is Ireland's most important indigenous sector and has a broad regional spread. It 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.

The lower VAT rate is an important component of the efforts to build the tourism sector and improve the regional spread of growth and should not be risked, particularly in the context of Brexit-related uncertainty and sterling weakness. It is totally uncertain as to how the Brexit process will evolve, but in an environment of such uncertainty and significant sterling weakness, increasing the VAT rate is not advisable and would just serve to undermine the competitiveness of the sector.

ACTION

- Maintain 9% VAT rate

BREXIT

"Brexit represents the most significant and uncertain challenge facing the Irish Economy in generations. Every sector will be potentially affected. For the restaurant sector, there are many challenges that will need to be managed very carefully".

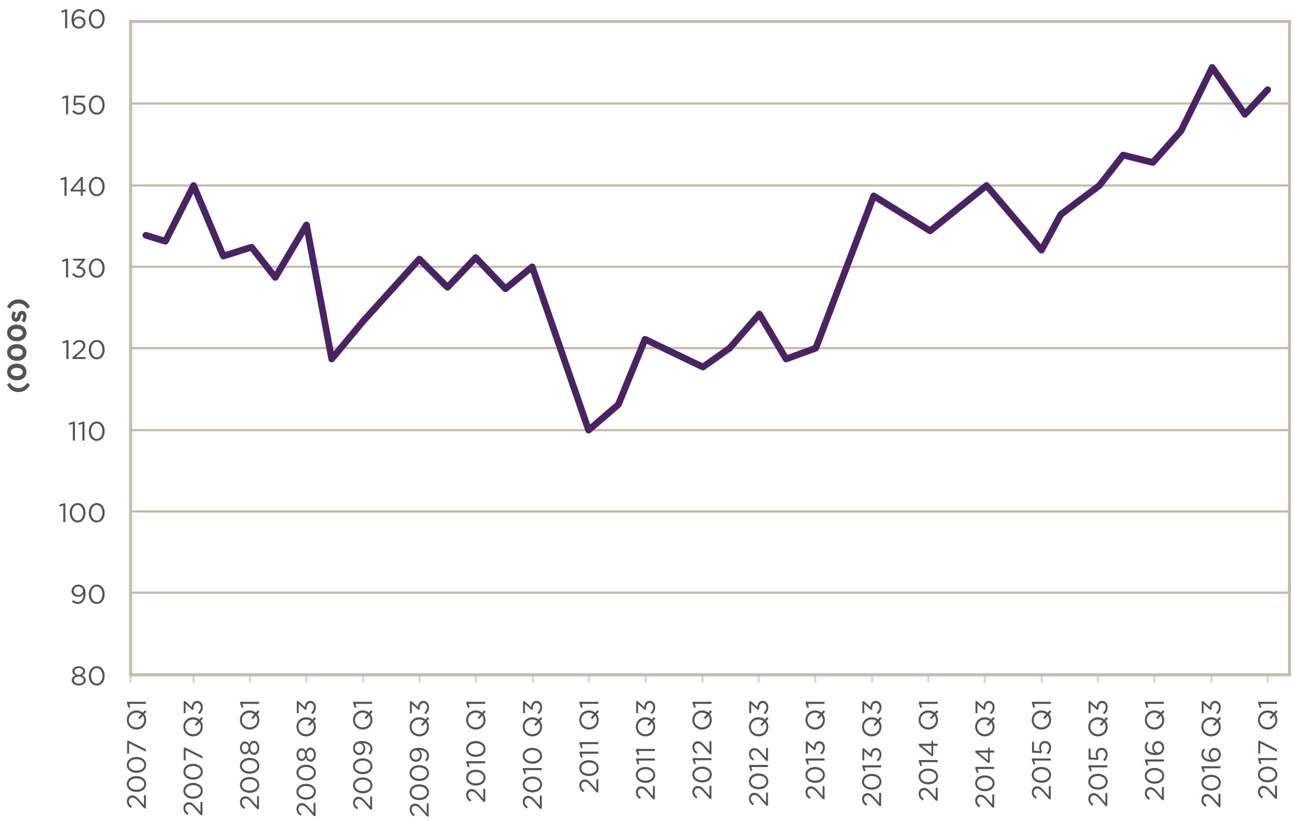
Jim Power, Economist, August 2017

The EU is based on four key pillars – the freedom of movement of goods, services, capital and people. The EU would be reluctant to compromise on any of these pillars as it could serious undermine the whole basis of the EU and create potentially dangerous precedents.

"The trade deal negotiated with the EU will have a major bearing on the UK economy and by implication, on Ireland".

In the first quarter of 2017, 152,200 people were employed directly in the ***Accommodation & Food Services sector, accounting for 7.4% of total employment in the economy***. Between Q2 2011 (just before the special VAT rate of 9% was introduced) and Q1 2017, the number of people working in the sector increased by 37,800, equivalent to employment growth of 33%.

FIGURE 1: EMPLOYMENT IN THE ACCOMMODATION & FOOD SERVICES SECTOR



Source: CSO Quarterly National Household Survey Q1 2017, May 23rd 2017.

The restaurant sector is a key element of the Accommodation and Food Services sector and has a very strong regional and rural economic and employment footprint. It is very vulnerable and exposed to the consequences of Brexit. If overseas visitors from the UK continue to decline on the back of sterling weakness, restaurants all over the country will be adversely affected. It is important to distinguish between the situation ahead of Brexit and the situation post-Brexit.

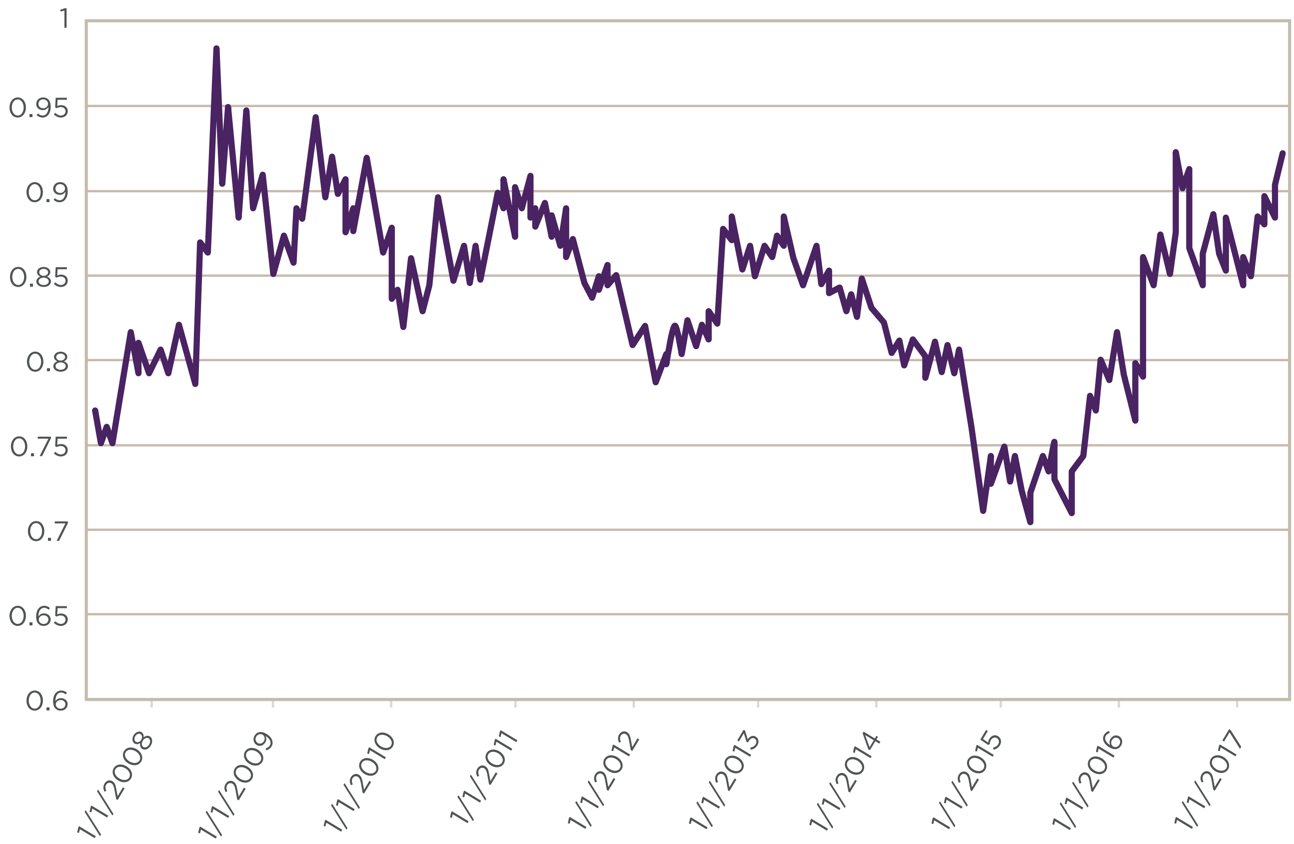
Ahead of Brexit, **the currency effect** is the big issue:

- Restaurants in general will suffer if visitor numbers from the UK continue to decline due to sterling weakness;
- Restaurants in the Border counties are particularly vulnerable to sterling weakness as less people will come across the border from Northern Ireland and customers from the South will have a financial incentive to go North of the Border;
- Restaurants in rural areas all over the country will suffer if indigenous exporters, which are very important contributors to rural economic activity, come under pressure due to sterling weakness.

Post-Brexit the following threats to the Restaurant sector can be identified:

- Sterling weakness and its consequences will remain a serious threat;
- If a 'Hard Brexit' transpires, indigenous Irish exporters will come under significant pressure. Farming and agri-food businesses are likely to be particularly vulnerable. If rural businesses suffer, the restaurant sector in rural areas will be particularly vulnerable. The Dublin market will be less vulnerable, due to its capital city status;
- If the Common Travel Area is not preserved, the outlook for the UK tourism market will become very pressurised;
- If the UK leaves the EU's Open Skies arrangement, air travel between Ireland and the UK could be adversely affected, with negative consequences for tourism and by implication, the Restaurant sector.

FIGURE 2: STERLING V EURO EXCHANGE RATE



Source: Bloomberg

THE VALUE OF THE BRITISH TOURIST

Great Britain is Ireland's large source market for overseas visitors. In 2016, 41% of overseas visitors to Ireland originated from Great Britain, and they accounted for 23% of total overseas visitor revenues. The immediate challenge for Irish tourism emanates from sterling weakness, but the longer-term issue concerns any threat to the common travel area between the UK and Ireland.

Table 4 shows that in the first six months of 2017, visitor numbers from the UK were 6.4% lower than the first half of 2016. Visitors from the UK accounted for 38.3% of total overseas visitors to Ireland in the first half of 2017.

TABLE 4: OVERSEAS TRIPS TO IRELAND

Area	% of total 2017	2017	2016	% Change
Great Britain	38.3%	1,745,300	1,865,000	-6.4%
Other Europe	35.4%	1,617,900	1,528,100	+5.9%
North America	20.2%	922,300	758,400	+21.6%
Other Areas	6.1%	280,100	232,200	+20.6%
Total	100.0%	4,565,600	4,383,700	+4.1%

Source: CSO

2,087,100 British visits were recorded between January and July, compared with 2,224,900 for the same period last year – a reduction of 6%, or of 138,000 visitors, and an indication that the impact of Brexit is real and material for the Irish tourism industry. More detailed CSO numbers relating to the first quarter of 2017 show that the number of nights spent in Ireland by all overseas travellers decreased by 4.1% down from 11.6 million to 11.1 million for the same period in 2016. Total expenditure by overseas visitors also decreased for this period by 1.3% to €684 million.

WHAT NEEDS TO BE CONSIDERED

The Irish economy currently has to cope with sterling weakness, which is a particular issue for Irish indigenous exporters in general and the tourism sector in particular. If a 'Hard Brexit' transpires, with barriers to trade, an ending of the Common Travel area, and the UK leaves the Open Skies arrangement, the Irish economy will be damaged, with the tourism sector particularly vulnerable, and by definition the Restaurant sector, which has a very broad regional employment footprint.

It is totally uncertain as to how the Brexit process will unfold, but it is incumbent on policy makers to ensure that the Restaurant sector is helped to the greatest extent possible.

Maintaining the competitiveness of the sector is essential. Specifically:

- *The 9% VAT rate needs to be preserved;*
- *Minimum wage increases need to be minimised;*
- *The general costs of doing business for restaurants in areas such as local authority charges and regulatory costs need to be controlled; and*
- *The shortage of Chefs and other restaurant operatives needs to be addressed.*

COST OF DOING BUSINESS

For any industry, high and rising business costs are often reflected in rising costs to the consumer, reducing the competitiveness of goods and services. Ireland's economic prosperity is inextricably linked to our international competitiveness.

Rising labour costs, commercial rates, insurance premiums and utility costs all pose a real threat to our sustaining the competitiveness that took us years to build post-recession.

LABOUR COSTS

For most restaurants, labour costs account for close to 40% of total operating costs. Hence the sector is very sensitive to increases in the minimum wage, not least because such increases tend to feed into wages of the majority of staff who earn above the minimum wage.

A survey of RAI members carried out in January 2017, showed that in response to the 50-cent increase in the minimum wage on January 1st 2017:

- 55% of respondents reduced hours available to staff;
- 35% of respondents reduced the number of staff employed;
- 49% of respondents experienced pay claims from staff earning above the minimum wage of €9.15; and
- 48% increased the price of their product.

The restaurant sector is very sensitive to wage costs and it is clear that increases in the minimum wage actually do impact on employment, hours worked, the price of the product and general wage levels in the sector. Consequently, further increases in the minimum wage would need to be considered very carefully, particularly given the competitiveness challenges now facing the Irish economy in general and the tourism sector in particular from Brexit and other issues.

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:

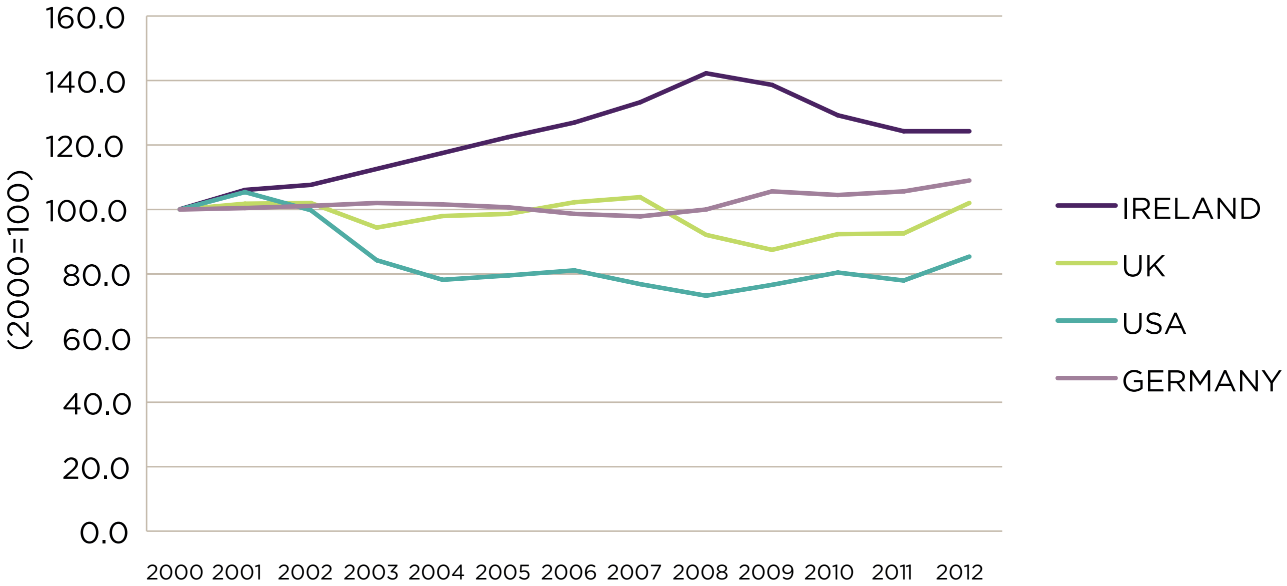
- Labour costs per hour in Ireland stood at €30 per hour in 2015, compared to an EU average of €25, a Euro Zone average of €29.50, and a UK average rate of €25.70.[6] Irish restaurateurs pay the highest catering wage rate in Europe;

Given the significant skills shortage at present[7] particularly in relation to chefs, many restaurants are finding it difficult to recruit staff and are using external recruitment agencies. Restaurants would pay between 6-10% of the salary to the agency should they recruit a new chef.

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

7 Assessment of Future Skills Needs in the Hospitality Sector, November 2015

FIGURE 3: INDICATORS OF COMPETITIVENESS – NATIONAL UNIT LABOUR COSTS (€)



Source: AMECO

Figure 3 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 (programme for government) 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.

INSURANCE PREMIUMS

Restaurants and other business in the hospitality sector such as hotels, pubs, nightclubs have seen huge hikes in their public liability insurance. These establishments are places of high public footfall.

For restaurants, there are four elements involved in business insurance;

- Property Cover
- Employer's liability
- Public liability
- Motor Insurance (applies to those who offer take-away/delivery service)

The RAI conducted a survey of its members and found the following;

- On average premiums for restaurants have increased by 30%
- Those who have had no claims in the past five years have had their premiums increased from anywhere between 20% - 50%
- Those who operate delivery services, saw their motor insurance increase by 100%

For those who have had a claim in the past five years, and in the case of restaurants, claims are mostly for those who trip/slip, premiums have doubled and in some cases trebled. This is not sustainable for any business. We have even seen some cases where the restaurant has had to close.

- In some cases, restaurants are finding that if they have had a claim in the past five years, their current insurance provider will not renew their policy
- It is now perceived to be a high risk of keeping your doors open with the number of claims being awarded.
- There are many cases amongst restaurants of serial claimants whether they be customers or employees. In some instances, employees are now being viewed as a potential liability rather than their strongest asset.
- Insurance companies settling out of court given the high cost of legal fees. The recent case of the hotel who was sued for someone hitting their knee off the leg of a table saw legal fees amount to €150,000.
- Insurance companies have stated that even in cases where there have been no claims, they are putting their premiums up due to higher level of footfall and business doing better in the restaurant despite no increase in the restaurant size or the number of covers they can do at any one time.

Claims being paid out

- There is evidence from many of our members that claims are being settled unbeknownst to them. There are significant costs involved in preparing a defense, including the time of the owner and management, in seeking legal advice, talking to staff and getting witness statements. It does not seem to matter if the business feels they have done no wrong, claims will be settled regardless to avoid high legal fees.
- Insurance companies are using unsettled claims against the business. Some claims could take two plus years to settle and the premium increases even though the claim is unsettled and it may eventually lead to no award being given.

EXAMPLES OF INSURANCE PREMIUM INCREASES IN RAI MEMBER RESTAURANTS

TABLE 5: EXAMPLES OF THOSE WHO HAVE HAD NO CLAIMS IN THE PAST FIVE YEARS

Location	2015 €	2016 €	2017 €	€ Increase over 2 years
Dublin 2	3,238	3,617	5,025	+€1,787
Connemara, Galway	2,460	2,590	5,335	+€2,695
Dublin 6	3,000	4,000	7,500	+€4,500
Kilkenny	Not in business	2,308	4,700	+€2,392
Kildare	3,500	6,500	12,000	+€8,500
Laois	525	765	1,185	+€660

TABLE 6: EXAMPLES OF PREMIUM INCREASES DUE TO CLAIMS

Location	2015 €	2016 €	2017 €	Type of Claim	How was it settled?
Clare	2,200	3,300	7,000	Customer fell at restaurant entrance and sustained back injury.	Out of court €35,000
Cork	13,000	22,000	24,000	Two separate incidents of employees slipping on stairs.	Out of court Ca. €40,000
Donegal	5,600	6,500	11,500	Employee slip on stairs.	Out of court €63,000 Employee had claims history from other establishments.

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.

LOCAL AUTHORITY CHARGES

Commercial rates underpin the entire range of services provided by local authorities.

Over a third (€1.47 billion) of the combined local authority budget comes from local businesses. Exchequer cutbacks have left local businesses to plug the budgetary gap. There has been a 10% increase in the total value of commercial rates paid by business (2010-2017). This undermines local cost competitiveness and capacity for job creation.

We recognise that local authorities are striving to maintain the delivery of high-quality local services in the face of increasing strained financial resources. However, as a business representative body we cannot dismiss the fact that businesses are now paying more rates for less services.

Restaurants are paying more for less with the transfer of water and waste services to Irish Water and private commercial waste services.

How are commercial rates calculated?

Local authorities charge commercial rates on the basis of valuations provided to them by the valuations office.

The valuations office visit a premise to establish the net value of the property, which in a restaurants case would usually be the rent for the year. The valuations office will compare the annual rental value with other similar properties in the area. Each local authority sets an annual rate of valuation (ARV) common to all commercial, industrial and non-domestic properties.

The valuation of a property is multiplied by ARV to calculate the amount of commercial rates payable per annum.

For a restaurant the calculation of rates does not take in to account;

- the ability to pay
- the size of the premises
- Profitability
- Numbers employed
- Location

However, other licensed premises such as hotels and public houses are valued by reference to the trading data of their property.

By using the valuation system of rents, it does not take in to account where a neighbouring property has benefitted from the ban on upward only rent reviews. This is clearly unfair to those restaurateurs whose lease still include an upward only rent review provision and does not reflect the market rent thus ultimately leading to the higher the rent, the higher the commercial rates that are paid.

Over the past number of years, the valuations office has conducted several re-valuations of restaurant premises, examples of which you will find in the table below;

TABLE 7: RESTAURANT COMMERCIAL RATE COST EXAMPLES IN THE ABOVE AREAS

County	Type of Establishment	Year	Rates €	Year	Rates €	Increase by
Kildare (Maynooth)	Restaurant	2016 /2017	€3,450	2018	€5,930	€2,480
Carlow	Café & Garden Centre	2016	€35,000	2017	€55,000	€20,000
Westmeath	Restaurant	2016	€1,000	2017	€2,300	€1,300
Sligo	Restaurant	2016	€7.087.30	2017	€13,961	€6,874
Sligo	Restaurant	2016	€4,000	2017	€4,700	€700
Limerick	Café – Restaurant	2016	€4,700	2017	€8,000	€3,300
Dublin South City Centre	Restaurant	2016	€3,000	2017	€7,000	€4,000
Dublin North City Centre	Restaurant	2016	€6,400	2017	€6,800	€400

South Dublin	Restaurant	2016	€19,000	2017	€21,000	€2,000
Laois	Restaurant	2016	€4,100	2017	€4,226	€126
Limerick (Adare)	Restaurant	2013 2016	€1,500 €4,888	2017	€5,109.78	€3,609.78
Kildare (Kilcullen)	Restaurant	2016	€1,200	2017	€13,000	€1,000

The Restaurant Association of Ireland is aware that the above only shows those that have had increases in their rates bill. This is mainly due to the fact that, of those who responded to our survey, only 10% had seen no change in their rates bill.

The comments from many who have seen their rates bill increase is that they are paying more for less, they receive no additional benefits/services from their local authority.

BUSINESS IMPROVEMENT DISTRICTS LEVY (BIDS)

In some local authority (Urban areas) an additional rates charge has been charged to businesses, known as a Business Improvement District Levy. This BID's scheme is currently operating in;

- Dublin
- Dun Laoghaire
- Ennis
- Sligo
- Dundalk

A percentage is added to the commercial rates bill of the property that goes directly in to the BID fund. To establish a BID, business owners must vote for it to be established.

For example, in Sligo ratepayers contribute a levy calculated at 3.09% of their respective rateable value giving the BID an annual budget of approximately €375,000 per annum.

In Dublin city centre, the BID was established in January 2008 and the levy was calculated at 3.8% and now in 2017 it is 5.9% with the potential for further increases of 1%-2% in 2018/2019 as they now link it to inflation. Dublin Town is the organisation tasked with running the BID and a vote takes place every 5 years. It is mandatory for businesses to pay the levy. In some areas of the centre members benefit and others they do not.

The BID levy is seen by many as a ***double taxation***.

The policy document, *A framework for Town Centre Renewal*[8], recommends the establishment of BIDS areas throughout many towns in Ireland or else the Town Team Model.

This document also illustrated the example of the Town Team Model, where Roscommon county council agreed to forego 1% of the rates to establish Town Team's in 6 major towns in Roscommon.

For members of the Restaurant Association, they would prefer to see that the current rates they pay go towards the Town Team initiative rather than be levied with additional rates charges.

8 A framework for Town Centre Renewal, DJEI, Retail Consultation Forum

OUTDOOR SEATING CHARGES

In some local authority areas, restaurants must pay for outdoor seating and tables. The following local authority areas would on average charge €125 per table and two or four chairs;

- Dun-Laoghaire Rathdown County Council
- Dublin City Council
- Fingal County Council
- Wexford County Council
- Tipperary County Council
- Louth County Council
- Kerry County Council
- Kilkenny County Council
- Cork City Council
- Cavan County Council
- Waterford County Council
- Offaly County Council
- Sligo County Council
- Mayo County Council
- Limerick City and County Council

In some areas, restaurants/cafes are also charged for **Sandwich Boards** outside their premises. This could be a one off yearly fee of €75-€125.

UTILITY COSTS

According to the National Council for Competitiveness (NCC), their 2016 cost of doing business report found the following regarding utility costs in Ireland;

- Ireland is the 6th most expensive for electricity in the Eurozone for SME's. It is 6% higher than the EU average and prices have increased by 20% since 2010.

ACTION

- Maintain VAT at 9%
- 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.
- Freezing of the minimum wage rate until 2020 or if increases are to apply, PRSI for employers is reduced

EXCISE DUTY

There is a total of 2,628 fully licenced and wine licenced premises in Ireland in 2017. The regional spread of restaurants and other licenced premises facilitates and supports the geographic spread of tourism, jobs and regional development.

The Restaurants Association of Ireland is a member of the Drinks Industry Group of Ireland and we support their call for a 15% reduction in excise duty.

The statistics on excise are alarming;

- The tax take on a standard bottle of wine is now over 50%.
- Since 2012, excise on wine has increased by 62%
- Ireland has the highest wine excise in the EU 28
- Ireland has the second highest beer excise in the EU 28 behind Finland
- Ireland has the third highest spirits excise in the EU 28 after Sweden and Finland

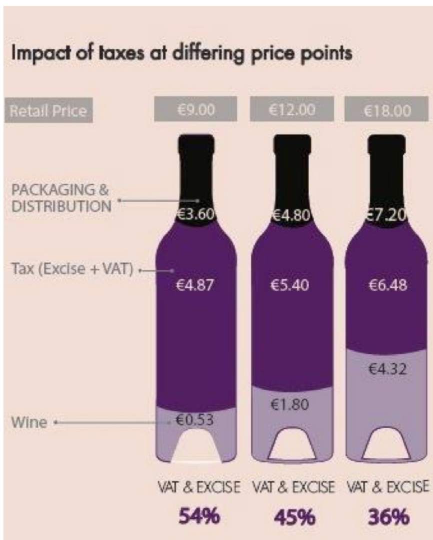
Ireland has very high alcohol excise tax levels compared to other EU countries. ***Ireland has the highest wine excise tax in the EU***. This is extraordinary for an economy which depends so much on international tourism. Fourteen EU countries do not impose any excise tax on wine. Ireland has the second highest beer and third highest spirits excise tax.

- The Irish wine excise is 5.7 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

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.

Excise increases not only impact restaurants, hotels and pubs. These increases introduced during the financial crisis as an emergency measure have created significant cash-flow issues for distributors and importers, as many have to pay excise as an up-front cost. Irish wine importers and distributors are now paying €38,240 up-front, on excise per 1000 cases when they are imported.

ACTION

- Reduction of 15% in excise duty

NATIONAL TOURISM POLICY

Figures from Fáilte Irelands Tourism Facts 2016 preliminary report demonstrate that although the launch of the Wild Atlantic Way in 2014 and The Gathering in 2013 saw an uplift in tourism revenue in 2015, there has been somewhat of a plateau.

2015 saw an increase of €837.6m total tourism revenue bringing the total figure to €7688.8m compared with €6851.2m tourism revenue in 2014. 2016 however saw an increase of only €619.2m bringing the total revenue figure for 2016 to €8308m. This figure is despite the launch of Ireland's Ancient East in 2016. What the Irish Tourism sector needs is a consistent policy and investment plan to ensure continued overseas tourism revenue into the sector.
(Fáilte Ireland Tourism Facts 2016 – preliminary)

Capital Investment in Tourism

In 2014, capital investment in tourism was only €17m which the RAI recommended should be increased given that the total expenditure by overseas visitors to Ireland had increased from a low of €2.9 billion in 2011 to €4.2 billion in 2015. That figure for 2016 stood at €4.6m. This was an increase of +29% in revenue from 2014 to 2016. This is evidence of a return upon investment in tourism, initiatives such as The Wild Atlantic Way and The Gathering, and investment in such sees a return in overseas spending revenue. The RAI recommends the development of the "Ireland's Lakelands" brand as a separate proposition to sit alongside the Wild Atlantic Way and Ireland's Ancient East. *(Programme for Government 2016 & www.itic.ie/ezine/regionality-look-overseas-visitors-spend-money-ireland/)*

In September 2015, the Department for Public Expenditure and Reform (DPER) launched the Government's Capital Plan for investment 'Building on Recovery: Infrastructure and Capital Plan Investment 2016-2022'. The plan indicates an intended investment of €125,705,000 in tourism over this six-year period. This would approximately €21m a year investment is a moderate but welcomed increase, however.
(Fáilte Ireland Tourism Development & Innovation – A strategy for investment 2016 - 2022)

The Irish Tourism Industry Confederation, of which the RAI is a member has renewed its call for an immediate €12 million Brexit Fund for the tourism industry. This would allow diversification into new markets and would also support vulnerable tourism enterprises. To date the tourism industry has not benefited from the extensive support systems introduced by Government. According to ITIC "The agri-food sector, manufacturing industries and other businesses, have seen budgets to their respective state agencies increased and are benefiting from new custom designed business support schemes to counter the impacts of Brexit. Enterprise Ireland, Bord Bia, IDA and other agencies have been actively innovative in launching support services to assist businesses cope with the impact of Brexit in the UK marketplace and to identify diversification opportunities."
(www.itic.ie/BREXIT-BULLETIN-JULY-2017/index.html#SupportingTourism)

The drop off in tourist numbers from Great Britain by almost 7% as demonstrated in Table 1, for quarter 1 and 2 2017 comparative to the same period in 2016 is cause for concern. Recent figures coming from a springboard report commissioned by Dublintown shows footfall was down 29% in 2016 compared to 2007, further showing that tourist figures have not returned to pre-recession figures. Demonstrating a need for greater capital investment in tourism nationwide to strengthen Ireland's position as a prime tourist destination long-term.
(www.rte.ie/news/2017/0817/898008-footfall-dublin/)

ACTION

- A greater investment in national tourism capital then proposed in 2016 – 2022 strategy
- Development of and investment in the "Irelands Lakelands" brand, including infrastructure
- A €12 million Brexit Fund for the Tourism industry

NOTES

NOTES

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