RESTAURANTS ASSOCIATION OF IRELAND

Submission to The Tourism Recovery Taskforce Consultation

Rebuilding and Recovering the Irish, Restaurant, Café and Gastropub Sector – with contributions from Economist Jim Power

INTRODUCTION

The Restaurants Association of Ireland was established in 1970 by a group of independent restauranteurs to represent and support the industry. To this day the goal of the Association is still to Represent, Assist and Inform members. The Restaurants Association of Ireland represents over 3,000 members, including full-service restaurants, hotel restaurants, gastro pubs, coffee shops and cafes, the majority of which are independent SMEs.

Data from the Central Statistics Office (CSO)1 show that in the week commencing 19th April 2020, 23.9% of businesses surveyed had ceased trading, temporarily or permanently. The sectoral breakdown provides a compelling snapshot of the sectoral impact.

In Industry,17.7% of businesses had ceased trading; 70.8% in Construction; 20.6% in Distribution; and 20.3% in Services. Within Services, for responding enterprises in the Accommodation and Food Services sector, 88.1% had ceased trading. The Accommodation and Food Services sector has been the most severely impacted sector of the economy and the recovery of the sector will be very difficult.

The broad hospitality sector has been the sector most adversely affected by the COVID-19 lockdown of the economy. This sector is a major employer throughout the country; it is the key component of the tourism product; it is the centre of social life and community in Ireland; and at a national level, it makes a very significant economic and fiscal contribution.

The hospitality sector is currently in a very difficult situation and the recovery from this crisis is likely to be slow and difficult. However, it is essential that it makes a full recovery as quickly as possible in order to restore employment and help re-build the very damaged tourism industry. However, to achieve these objectives, significant immediate and ongoing support from the State will be required. Such support is warranted, because thousands of viable businesses within the sector were forced to cease trading. For many, revenues have totally disappeared, while costs have continued to accumulate.

The immediate challenge is to ensure that businesses survive during the period of forced closure, and the longer-term challenge is to ensure that they remain solvent and sustainable in an environment of social distancing and until demand levels return to the Pre-COVID19 norm.

THE CONTRIBUTION OF THE RESTAURANT SECTOR

The Accommodation and Food Services sector has been seriously damaged by the COVID-19 crisis, as most businesses within it have been forced to shut down, or to operate at significantly reduced levels of activity. This broad sector is a very important component of the economy in terms of employment and Exchequer revenues. The latest labour force survey from the Central Statistics Office (CSO) estimated that 179,100 people were employed in the sector at the end of 2019. This is equivalent to 7.6% of total employment in the economy. In 2018, the Accommodation and Food services sector contributed €1.16 billion euro to the Exchequer, comprised of VAT (€661 m); PAYE, Income Tax & USC (€316 m); Self-Employed Income Tax (€53 m); Corporation Tax (€119 m); and CGT (€11 m).

Restaurants are a key component of the Accommodation and Food Services sector. At the end of 2019, 125,800 workers were employed in Food and Beverage activities. There are over 6,500 such businesses, which have a broad regional and rural footprint. Restaurants and food service businesses employ workers in almost every city, town, and village in the country. They are a vital component of rural and regional economic activity, and serious economic and social damage will be done to those cities, towns, and villages if those businesses do not survive the current unprecedented shock.

It is estimated that the restaurant sector contributes over €3 billion per annum to the Irish economy in terms of wages and purchases of inputs. It is a key customer of Irish agri-food producers and has a very high value-added economic impact. As well as the direct contribution that restaurants make to the overall economy, they are a crucial component of the tourism product. Tourism is vital to the well-being of the Irish economy. In 2019, 10.8 million overseas visitors came to Ireland and the tourism sector is estimated to have been worth €9.3 billion to the economy. It employs in total around 260,000 workers, which is equivalent to 11% of total employment in the economy.

The restaurant sector is a crucial element of Ireland’s tourism offering. Having a high-quality and affordable restaurant offering is of vital importance to the success of tourism in Ireland. Restaurants will have to play a key role in re-building tourism in the aftermath of COVID-19.

BUSINESS CONDITIONS FOR THE RESTAURANT SECTOR

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, both of which came under significant pressure during that severe economic downturn. Restaurants reacted strongly 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 very sensible and supportive Government decision to cut the VAT rate to 9% in July 2011, enabled the sector to come through the difficult economic circumstances and re-establish itself. Between the fourth quarter of 2012 and the fourth quarter of 2019, employment in the Food and Beverage Services sector increased by 50,500 or 67% to reach 125,800.

The past couple of years have been challenging for restaurant businesses. Prior to COVID19, the sector was under pressure from a combination of factors that included Brexit-related uncertainty; sterling weakness and a consequent more difficult UK visitor market; increased costs of doing business on a range of different fronts; labour shortages; and the decision to increase the VAT rate from 9% to 13.5% in Budget 2019. These pressures have been dramatically compounded by the COVID-19 health crisis.

RE-OPENING THE RESTAURANT SECTOR

COVID-19 is having a devastating impact on the restaurant sector. Most businesses are either closed fully or offering a very limited takeaway service. Cashflow has effectively ground to a trickle and fixed costs persist in many cases.

Without aggressive and effective official policy supports, many of these businesses will be forced into bankruptcy.

Under the Government's Roadmap for Reopening Society and Business it is envisaged that on June 29th, cafés and restaurants providing on-premises food and beverages can re-open. However, they must comply with social distancing and strict cleaning protocols. The problem is that strict social distancing will limit the number of customers in a very significant way, and the costs involved in hygiene and cleaning will also be significant.

Given the economics of the restaurant sector, these necessary COVID-19 measures will render the business model extremely challenging. Estimates from the sector suggest that between 80% and 90% of restaurants could not operate on this basis without significant support for the 18 to 24 months or so during which these protocols are likely to have to apply.

MEASURES NEEDED TO SUPPORT THE RESTAURANT SECTOR

The National Small Business Plan published by www.smerecovery.ie is based on 3 key principles. These are:

- 'SMEs are vital to our social fabric. They provide critical jobs at a local level across the country and anchor our communities. They provide innovation and ingenuity at the heart of our communities.'
- 'An SME Bailout is required. SMEs now need a bailout with recovery funds (capital and liquidity) on favourable terms of at least €15 bn to start the recovery of society and our economy.' And
- 'SMEs need a post crisis boost to demand. There is no point in having well capitalised SMEs ready to do business if there is no demand.'

These principles are totally applicable to the restaurant sector and they inform the suggested measures for the restaurant sector.

The warnings about potential job losses issued by restaurant owners may sound extreme, but the reality is that they have been forced to shut down at a time when the tourist season is normally gathering momentum. Cashflow has disappeared and yet many costs still must be covered.

Restaurants normally operate on tight margins and many have a very seasonal business, so a shock of the current magnitude will seriously threaten business survival.

It seems obvious based on the implications of doing nothing, that restaurants will have to get very strong State support to ensure that they can continue to operate after 29th June.

In the provision of support, two distinct periods will need to be covered:

- The period of the shutdown; and

- The period after restaurants are allowed re-open.

It is essential to provide support during the period of shutdown, to ensure that business costs are covered in an environment where receipts have fallen dramatically.

It will also be essential to provide support for a prolonged period after restaurants re-open. This will be necessary, because business volumes will be undermined by social distancing protocols; the cost base will increase due to health protocol requirements; the economic environment will be more difficult; and the overseas tourist market will be well below previous levels for a considerable period of time.

The reality is that it could be 2022 before business volumes for restaurants return to their pre-COVID levels. It is a fact that restaurants represent one of the hardest hit sectors in the economy and will need considerable support to survive in business.

The specific objectives of the suggested State interventions are clear:

- Get as many employees in the restaurant sector back to work as quickly as possible in a safe and secure manner. It will inevitably take time to re-employ all affected employees, but a clear timeline is essential.
- Ensure that a high percentage of restaurants forced to shut down, re-open and contribute to re-building the labour market, the tourism industry, and the national economy.
- Get the cost base of viable restaurant businesses into line with actual sales and revenues following the re-opening of restaurants, allowing viable businesses to survive.
- Re-engage the public, by re-assuring them that it is safe to come out and dine and socialise in restaurants again.

Socially and economically, it is essential that the following measures are implemented as quickly as possible to help achieve these objectives.

(1) LABOUR COST SUPPORT

It is imperative that restaurant businesses can get their cost base to adjust to lower revenues.

Labour costs represent the biggest operating expense for restaurants. This became a major issue for restaurant businesses that were forced to shut down, with a consequent collapse in revenues.

The Government sensibly stepped in and provided a temporary wage subsidy of 85% of take home pay up to a maximum weekly tax-free amount of €410 per week. This was an essential initiative that helped businesses maintain an employment relationship with their employees. These payments must continue until June 29th, when cafés and restaurants providing on-premises food and beverages will be able to re-open.

The financial support for employment cannot end once the restaurants re-open. The reality is that business volumes will be very slow to recover due to higher unemployment; lower incomes across many parts of the economy; a weaker economic environment; a lack of international visitors; customer caution; and the impact of social distancing and strict cleaning protocols on costs and business volumes.

It is probable that on a best-case scenario, that it could take restaurants up to 24 months to return to pre-COVID-19 levels of activity. During that 24-month period it will be necessary to continue to provide financial support on a gradually reducing basis. The payments during this period should be based on turnover. As turnover improves, support should be gradually reduced.

Claims under this scheme should initially be based on self-assessment, but they should be subject to independent audit to guarantee the integrity of the process.

The following graduated approach is suggested:

- The current subsidy to be paid by Government where turnover is down by between 80% and 100% on 2019 levels.
- 70% subsidy (based on current wage subsidy scheme methodology) to be paid where turnover is down between 50% and 80% on 2019 levels.
- 50% subsidy (based on current wage subsidy scheme methodology) to be paid where turnover is down between 25% and 50% on 2019 levels.

In Year 1 of this graduated scheme (1st July 2020 to 30th June 2021) it is estimated that the cost of the scheme would be around €1 billion. However, if those 70,000 workers were to lose their jobs, it would cost the Exchequer around €1.4 billion in unemployment benefits.

In Year 2 of this graduated scheme (1st July 2021 to 30th June 2022), it is estimated that the cost would be around €450 million. However, if those 40,000 workers were to lose their jobs, it would cost the Exchequer around €800 million in unemployment benefits.

While the cost of this scheme is on the face of it expensive, it has numerous benefits. It would keep more workers in employment and prevent lower-skilled workers from becoming long-term unemployed; it would save the Exchequer in social welfare payments; it would stimulate demand in the economy; and it would help keep restaurants in business, which will be crucial for re-building the Irish tourism industry and regional economic activity and employment.

(2) LOCAL AUTHORITY CHARGES – COMMERCIAL RATES /WATER /WASTEWATER /STREET FURNITURE CHARGES

These local authority costs represent a major cost burden for restaurants. They will prove very difficult to cover during the lockdown period, but until restaurant business gets back towards pre-COVID levels of activity, which is likely to take at least 24 months, they will represent a very significant cost burden on business.

State intervention to cover 100% of these costs is necessary during the period of forced business closure. However, ongoing intervention in the form of a grant to cover these costs and keep the businesses solvent will be very important over the following 24 months. It is assumed that the average cost for the 6,500 restaurants is around €40,000 per annum.

A grant scheme to cover these costs on a gradually reducing basis using the following methodology is suggested:

- 80% grant towards these costs where turnover is down by between 80% and 100% on 2019 levels.
- 50% grant towards these costs where turnover is down between 50% and 80% on 2019 levels.
- 25% grant towards these costs where turnover is down between 25% and 50% on 2019 levels.

In Year 1 of this graduated approach (1st July 2020 to 30th June 2021), it is estimated that the cost of this scheme would be around €123 million.

In Year 2 (1st July 2021 to 30th June 2022), it is estimated that the cost of this scheme would be around €78 million.

OR

CREATION OF SMALL BUSINESS RECOVERY FUND

The 'National Small Business Recovery Plan' recommended the setting up of a Small Business Recovery Fund to be capitalised by the EU and Government to re-capitalise the SME sector by paying compensation for the sudden SME losses.

(3) A REDUCED VAT RATE

A Zero % VAT rate for restaurant sector should be introduced to the end of 2021. This should then be followed by a reversion to the 9% VAT rate on a permanent basis to assist recovery, create certainty, and secure a viable and sustainable future for the sector.

The Zero % VAT rate for the restaurant sector to the end of 2021. This would cost an estimated €470 million in gross VAT terms for an 18-month period.

The 9% VAT rate would cost an estimated €250 million per annum in gross VAT terms.

These changes to VAT would help the international competitiveness of the tourism sector and provide support to a restaurant sector that is under severe pressure. This would help the overall tourism sector, but it would be particularly supportive of regional economic activity.

At the end of 2019, a zero % VAT rate applied to 11% of activity in the Irish economy. The application of a zero % VAT rate would be resisted by the European Commission on the basis of the EU VAT directive, However, in an environment where the restaurant sector is under so much pressure due to unprecedented circumstances totally outside of its control, the Irish Government should do its utmost to seek a derogation from the EU. Desperate times require desperate measures.

A reduced VAT rate for the hospitality sector proved very effective after it was introduced in July 2011 in terms of saving many very vulnerable businesses; in supporting a recovery in employment in the sector; in rebuilding Ireland's tourism sector; and in helping the recovery in the national economy and the regions. The same can and must be done again.

(4) COMMERCIAL RENTS

A scheme to reduce the burden of commercial rents is essential from the perspective of restaurant owners and landlords. Rents represent a significant fixed cost and should be included in a package of support measures covering all occupancy costs.

The following grant rent support grant mechanism is suggested:

- 100% grant during period when restaurants are closed.
- 80% grant during period when turnover is down 80-100%.
- 50% grant during period when turnover is down 50-80%.
- 25% grant during period when turnover is down 25-50%.

For the 6,500 restaurant and food service businesses in Ireland, the estimated cost of this scheme to the Exchequer would be around €173 million in the 15-month period from 1/4/20 to 30/06/21.

In Year 2 a similar methodology is suggested, but the cost would be significantly lower as business condition should be better in the year from 1/07/21 to 30/06/22.

For the 6,500 restaurant and food service businesses in Ireland, the estimated cost of this scheme to the Exchequer would be around €71 million in year 2.

(5) DEBT REPAYMENT RE-STRUCTURING

Government and industry stakeholders need to get agreement from the banks to reschedule the repayment of Term Loans, Overdrafts, Business Mortgages, Finance Leases and Hire Purchase loans for a 2-year period from the date of the forced closure of the business, where businesses are unable to meet current debt obligations, but where loans were performing as at 31st December 2019.

A graduated scheme of alleviation would be appropriate, reflecting the projected recovery in business volumes over the next 2 years. The following methodology is suggested:

- Re-scheduling of all debt repayments (interest and capital) during the forced closure of the restaurant sector.
- Interest only repayments for the 12-month period from the closure of the business.
- Re-structured capital repayments based on repayment capacity, during the second year after the closure of the business. Full interest repayments will be made during this period.
- Covenant modification for this period to ensure no breach is triggered by the graduated process.

(6) LIQUIDITY

The restaurant and food services sector are not highly profitable generally and many businesses will very quickly use up their working capital during the cashflow crisis that COVID-19 has created. Official intervention to ensure adequate liquidity for all businesses is essential. Without the immediate provision of working capital, many small firms will go out of business and many jobs will be permanently lost, but longer-term more permanent support will be necessary in many cases.

An interest free working capital fund of €500 million should be set up, with allocations of around €20,000 for restaurants with pre-COVID-19 turnover of under €2 million; €30,000 for restaurants with pre-COVID-19 turnover of €3 million, and so on.

This would impose a marginal cost on the Exchequer as the Irish Government is currently able to borrow for 10 years at a rate of just 0.15%.

(7) REDUCTION IN EXCISE DUTIES ON ALCOHOL

Excise duties on alcohol in Ireland are very high by EU standards and the drinks industry is one of few industries which suffers excise tax in addition to VAT. In 2019, excise removed €1.233 billion from the drinks industry, including both on and off-licence segments. Alcohol excise should be reduced by 7.5% in Year 1 and a further 7.5% in Year 2. This would be a substantial boost to cash flow and commercial viability in the context of a difficult recovery and much lower turnover because of physical space expectations. It would also enhance the competitiveness of the Irish tourism product in a time of deep crisis.

The cost of this measure in Year 1 is estimated at €92 million and €184 m in Year 2.

(8) INNOVATION FUND FOR RESTAURANT DIVERSIFICATION

Due to COVID-19 social distancing rules, many restaurants will have to change their business models and diversify. This includes a greater focus on on-line ordering, takeaway and delivery. An innovation grant for eligible businesses would help restaurants to develop and test new methods of doing business. A grant of €20,000 per business would be a realistic way of facilitating and promoting such business diversification.

This would cost around €130 million.

IMMEDIATE SUPPORTS NEEDED RELATING TO LABOUR COSTS

Temporary Wage Subsidy Scheme

- Inclusion of Seasonal businesses immediately is the only way to ensure this vital element of the Food Tourism Sector does not die completely. Without supports to reopen this season they simply will not re-open their doors.
- Inclusion of New businesses (as of the start of 2020) and new employees / employees who moved employer mid COVID
- Extension of the scheme for the restaurant, hospitality and wider tourism sector into 2021

Redundancy

- The suspension of the provision under which laid off employees can trigger redundancy with employers is now only pushed out until 10th August 2020, such a provision needs to run until at least the end of 2020. With consideration being given to such an extension being permitted on a sectoral basis, if legislation allows.
- There is an urgent need to reinstitute the statutory redundancy employer rebate as a first step in supporting businesses with no choice other than to reduce their work force, due to social distancing requirements. If employers must pay full statutory redundancy to qualifying employees on top of existing outgoings, they will not reopen at all, leading to extensive job losses.

THE COSTS OF NOT SUPPORTING THE RESTAURANT SECTOR

Providing support to restaurant businesses will come at a significant financial cost to the Exchequer. The proposed measures would cost around €1.8 billion in a full year. However, the costs of not providing adequate support and allowing thousands of businesses die, would far outweigh those costs.

It is conceivable that without adequate support during this 24-month period, up to 100,000 jobs could be lost in the sector. Such an outcome would impose a very significant cost on the Exchequer, which could be as high as €2.8 billion.

If 100,000 workers were to remain unemployed for a full year:

- It would cost the Exchequer around €2 billion in increased social protection expenditure.
- It would cost the Exchequer up to up to €500 million in lost payroll taxes.
- It would cost the Exchequer around €240 million in lost VAT receipts; and
- It would cost local authorities around €52 million in lost commercial rates.

The regional impact of such job losses would be very severe and seriously undermine the efforts of Government to promote stronger and more balanced regional economic growth. With such a prospective loss of restaurants, it would prove very difficult to rebuild Ireland's very damaged tourism industry.