



**Retail
Ireland**

ibec

**Submission to the
Minister for Finance**

Budget 2020

Keeping retail competitive

Introduction

Over 300,000 people are employed in the retail sector making it the single biggest private sector employer in Ireland. The sector employs people from all walks of life that live in every city, town and village in Ireland.

Overall the last year has been largely positive for the sector. The value of retail sales grew by 4.7% in the first quarter of this year compared with the same period in 2018, but consumer sentiment has fluctuated throughout. This can be mainly attributed to Brexit related concern and the extension to the UK's exit date from the European Union.

The retail sector is concerned at the rising rate of business costs and taxation. The sector is happy to pay its fair share of taxation but, we have seen the sector bear the brunt of rising business costs such as increasing insurance premiums, the abolition of the 9% VAT rate and rising Local Authority Rates in recent years. Furthermore, new costs have been introduced by certain government bodies such as Irish Water, where excessive one-off connection fees are being applied to secure access and discharge to the main water and sewer networks when developments are carried out at existing and greenfield locations. This ever-increasing burden on business is not sustainable in the long term. To put this in context, at the same time price discounting has become a main stay in retail where customers are now expecting deep discounts outside of the traditional periods, such as the January sales. Black Friday and Cyber Monday are now staples of the retail calendar which is having an effect on the already tight margins that retailers work within. This imbalance between input costs and retail prices is not sustainable in the long term.

One of the single biggest challenges to the retail sector is the ever-present threat of Brexit. An orderly Brexit with clear systems in place to ease the friction on trade and supply chains will go some way of helping the sector weather this storm, but it will be by no means a smooth transition. We have, however, already seen a Brexit related dip in consumer sentiment. Earlier this month consumer sentiment hit a 56-month low and retailers are reporting a softness in trade in recent weeks. Whatever type of Brexit occurs, we will see severe disruption to a sector that has over the course of 20 years created and perfected a supply chain that delivers fresh, high quality products to our shelves. To overcome this, there will need to be clear instructions from Government on how checks at entry points to Ireland will be undertaken, and how trade between Ireland and Northern Ireland will be handled. All of this activity will further add to operation costs for Irish retailers.

While there are serious cost challenges in the retail sector, there is also much cause for optimism. Retailers continue to prepare for the future and are looking to continue to develop and upskill their staff to embrace the opportunities that lie ahead. Retail is one of the most diverse sectors of the economy with people of all ages and from all educational backgrounds working in the sector. Retailers are very aware of the need to train and upskill their workforce, not only to help them work more effectively but to give their employees a long-term career in the sector. Workforce retention is a challenge in the current economic climate, but the retail sector is committed to attracting and retaining the best talent. Many retailers see the opportunities that education and training can bring to their businesses, but such activity is costly, and retailers need support in this space.

We in Retail Ireland believe that Budget 2020 is a prime opportunity to foster continued growth, innovation and educational development in a sector that is a key contributor to the Irish Economy. The continued growth of retail is not only good for the sector it is good for the economy as a whole. Strategic investment from new and existing funding streams will help the retail sector remain competitive and grow at a time where internal and external threats make it increasingly difficult to do business.

Executive Summary – Retail Needs:

Education

Education and in work training has long been an important facet of any career in the retail sector. Businesses are investing in their workforce by engaging with training programmes run by organisations such as a Retail Ireland Skillnet. With increased interest in training and upskilling, Skillnets limited resources are coming under increased pressure. Allocating a greater share of funding from the National Training Fund to Skillnets will allow them to expand their programmes, supporting a greater number of workers to be placed on training courses.

Apprenticeship programmes are an ideal way for retail employees to upskill and gain new qualifications while they are working. Retail Ireland is strongly supportive of the apprenticeship model but also notes the significant productivity challenges when an employee is out of the workplace to attend classroom days. To offset this, a rebate scheme such as a tax credit on employers PRSI for those employees who are off site on training courses, would be of benefit and would help encourage further uptake of such programmes, thereby increasing education and training provision in the Irish labour force.

Tackling retail crime

Retail Crime is one of the most pressing issues that many retailers have faced in recent times. Retail crime encompasses the traditional aspects such as shoplifting and theft, anti-social behaviour, assaults but also increasingly insurance fraud, which is now a major difficulty for many retailers. There have been many incidents reported in the press of groups engaged in loitering around retail outlets, abusing employees and of no-go areas developing for home delivery drivers. These incidents are not unique or confined to one area but are becoming more common right around the country. To the frustration of many retailers these incidents are not being policed effectively, largely due to limited Garda resources which are currently over stretched. Retail Ireland, as a member of the Garda Retail Crime Forum, has consistently raised the issue of effective policing in these areas and has called for a renewed focus on retail crime and the policing of public spaces. Retail Ireland and its members believe that the work the Gardaí do is vital and stress the need for additional funding to effectively tackle these issues.

Brexit

Retail is one of the most exposed sectors to the United Kingdom's decision to exit from the European Union. Regardless of the type of Brexit agreed over the coming weeks, retailers will see an increase in their operating costs arising from checks at ports or elsewhere and other supply chain disruption. In the current operating environment, these additional costs simply cannot be absorbed and will have to be passed on to consumers in the form of higher prices. Retail Ireland urges Government to clearly set out its plans in the case of a no deal Brexit. To reduce disruption to businesses and to consumers, a specific funding stream needs to be developed to continue to upgrade our ports and points of entry in order to offset some of the disruption that increased customs checks and inspections will cause. Financial support should also be made available to those businesses most effected by Brexit, in the form of interim subsidies over a transition period to help adapt and restructure post Brexit, thereby protecting jobs and the Irish economy.

Protecting consumers and retailers from rising costs

To protect consumer sentiment and support disposable income growth, the Government should implement a freeze on consumer taxes and duties on consumer products in Budget 2020. The recent scrapping of the 9% VAT rate for the food service, newspaper sales and hairdressing categories has increased cost pressures for retailers and consumers alike and nothing further should be done to further increase those costs. Moreover, cutting income tax will boost spending by putting more money into consumers' pockets and ultimately benefit exchequer revenues through increased tax generation. Advice from retailers tells us that rising business costs are reducing the sector's competitiveness. To address this, Government needs to act to limit increases in areas they control, such as the National Minimum Wage and PSO levies. Every effort should be made to ensure input cost variances with the UK are not aggravated by policy.

Digital investment

Retail is undergoing a paradigm shift in how it operates. Consumers are now not only looking for value for their money, they are looking for convenience when shopping. Retailers must now adopt a digital first policy and approach to consumers. For example, 44% of people aged 17-35 expect to be able to shop via the click and collect method¹. While most large retailers are at the cutting edge of online shopping, many smaller businesses are not. That is why supports such as Enterprise Ireland's Online Retail Scheme is so important and funding for such programmes needs to be expanded in Budget 2020. However, gaining access to these funds must be made much simpler and criteria reviewed to ensure funding is made available to more businesses.

¹ Pwc Irish Retail & Consumer Report 2019.

Education

The retail sector has been one of the early advocates of in work learning and continuous upskilling of its workforce. There has, in the past been a misconception that the retail sector is not an industry where you can develop a long lasting and fulfilling career; when the opposite in fact is true. Many people from a diverse range of backgrounds have found that they have been able to build a career that is as varied, as it is fulfilling.

Over the years Retail Ireland's members have invested heavily in their workforces through in-house training programmes and through the Retail Ireland Skillnet. Since its foundation the Retail Ireland Skillnet has provided over 570,000 training days, with over 20,000 retail employees trained in a large range of practical skills through our many fully accredited training courses. This in work training system with an emphasis on practical on the job training, supplemented by a small number of classroom days is a flexible way of learning for people who may not thrive in a traditional classroom setting.

A great deal of the funding and implementation of training is being borne by employers, for example the hairdressing industry in particular has been particularly badly impacted by the abolition of training rates and the increase in the vat rate from 9% to 13.5%. In the absence of any government funding the industry relied solely on training rates to subsidise the cost of training. The abolition of training rates in March 2019 has constrained employers' ability to recruit and train young people and training opportunities in the sector will continue to fall in the future. Employers in the industry were also faced with increasing prices to consumers to account for the increase in the Vat rate in January 2019. This has resulted in both a reduced demand for hairdressing services and a rise in activity in the black economy.

Furthermore, Retail Ireland is very proud to have developed an industry led apprenticeship programme fully accredited by Quality and Qualifications Ireland and ready for launch in the autumn of 2019. This programme, developed with the Retail Ireland Skillnet and with input directly from industry, will be an exciting new career opportunity for retail employees.

While employers are investing heavily in upskilling their workforce, there is a challenge to business arising from the loss of productivity when an employee is away on company time in a classroom setting. There are many innovative ways that this can be offset, such as a potential rebate on PRSI and payroll taxes. This has been done very successfully in the Canadian Provinces of Ontario and British Columbia for example². Retail Ireland advocates for the Tax Credit system similar to the Canadian model whereby qualifying businesses can claim up to 25% back on their PRSI for each employee, while they are away from the business on company time attending an accredited apprenticeship training programme. We believe that this scheme would encourage businesses to avail of upskilling opportunities for their workforce and would assist in enrolling more workers in apprenticeship programmes. Skills shortages are becoming increasingly apparent across a broad range of sectors, including retail. The development of industry led apprenticeship programmes will help foster talent retention in the retail industry and increase labour productivity.

² Ontario Ministry of Finance.

In Budget 2020 the Government should:

- Introduce a new Training Tax Credit to enable employers to get a rebate on PRSI when an employee is off site on an official industry led Apprenticeship.
- Allocate a greater share of the National Training Fund budget towards the Skillnet programmes to allow networks, such as Retail Ireland Skillnet, access to increased funding to meet the ever-increasing demand from member companies and retail employees alike.
- NTF supported programmes which are not meeting explicit employer-defined upskilling or reskilling should be discontinued or funded from alternative exchequer sources.

Tackling Retail Crime

Retail crime has become a major drain on retail businesses in recent months. Many retailers are reporting that significant revenues are being diverted or lost due to the toll that anti-social behaviour, theft and insurance fraud are having on their business.

As reported by the Garda National Crime Prevention Unit, there was a 3% increase in reported thefts in the retail sector in the 12-month period to the end of April 2019. Drive offs from filling station forecourts were a constant feature in their statistics, with April 2019 showing the highest level of drive offs on record. Businesses are doing what they can to prevent such crimes occurring, but without a high frequency of patrols by An Garda Síochana, there is little that individual retailers can do to alleviate this in the longer term. Retail Ireland is acutely aware of the challenges that the Gardaí face in terms of their limited resources. However, the effects that anti-social behaviour such as intimidation and even assaults on staff are having on morale in many businesses cannot be overstated.

Allied to this, retailers have also had to cope with increasing levels of fraudulent or exaggerated personal injury claims. Almost every day we see some reporting in the press of excessively large sums being awarded by the Courts to people who are bringing soft tissue injury claims. While recent figures from the Courts Service Annual Report 2018 have shown that awards in the superior courts have fallen, the same cannot be said for the Circuit or the District Court. The passage of the Judicial Council Bill 2017 will go some way to revising down the high award claims, but this does not tackle the serious issue of fraudulent and exaggerated claims, that in many cases, the Gardaí do not have the resources to fully investigate.

In Budget 2020 the Government should:

- Increase funding levels to An Garda Síochana to allow them to effectively deploy resources to reduce retail crime levels and increase their overall visibility in the community.
- Allocate sufficient funding to An Garda Síochana to expand the National Fraud Unit.
- Increase civilianisation of the Force to free up more Gardaí for crime investigation and prevention.

Brexit

A 'no deal' Brexit, and the United Kingdom leaving the EU without an interim trading arrangement would be extremely disruptive to the Irish Economy. Such an outcome would have devastating economic consequences, not only for the Irish economy, but for the retail sector more particularly. The retail sector is one of the most exposed to any disruption that a "no deal" Brexit would cause. While retailers have been working hard over recent months to assess the options available, such as adjusted supply chains or substitute products, there will likely be major disruption and delays at Irish ports. The retail supply chain is deeply integrated in the Single Market and uncoupling the United Kingdom from this will be a difficult task. As mentioned, the retail, and in particular the grocery supply chain, is now so streamlined that fresh produce is ordered from the UK and on our shelves in 24 - 36 hours. Any prolonged delays in Dublin or Rosslare Ports or cross border movements north to south or vis versa will cause extreme difficulty.

Budget 2020 is the Government's last chance to further lay out concrete measures to minimise these disruptions. Retail Ireland is calling for further funding to expand our trade facilitation infrastructure, an increased capacity for custom checks at Dublin Port and increases in personnel to carry out inspections. Government must be flexible in finding solutions to the challenge posed by mixed loads of goods coming across either the Northern Ireland border or across the UK land bridge. There will need to be investments in technological solutions to customs checks and inspections and pre-screening of loads.

Retail Ireland calls on the government to intensify their planning for 'no deal' and to increase investment in initiatives that will help business to adjust to the post Brexit realities.

In Budget 2020 the Government should:

- Put in place funds to support retailers adapt their businesses to the worst impacts of Brexit.
- Allocate a specific funding stream to allow for the modernisation of customs procedures.
- Publish a detailed cost analysis of the impact a no deal Brexit will have on cross border and east/west trade.
- Allocate funding to the upgrading of our ports and road infrastructure.

Protecting consumers and retailers from rising costs

(i) *Taxation*

Ireland now has an economy that is experiencing a period of robust growth. With forecasts from the European Central Bank predicting growth in GDP of 4.1% in 2019 and 3.7% in 2020, this budget should seek to continue to reduce the tax burden on workers. The CSO stated that in 2018 the average annual earnings in Ireland now stood at €38,871, while the entry point to the higher tax rate is any income above €35,300. By raising the entry point it will allow consumers to have more disposable income to spend, thereby helping the economy to grow.

In Budget 2020 the Government should:

- Support disposable income growth by increasing the entry point to the 40% rate of income tax by €1,000 to keep ahead of wage growth.
- Reduce the higher marginal rate of tax for those earning over €70,000 by 1%.

(ii) *Labour costs*

Earlier this year, Retail Ireland recommended that should the Low Pay Commission see fit to apply a further increase in the minimum wage in 2020, that it should be proportionate and in line with current and predicted levels of inflation over the coming year of 1%. We believe inflation tracked increases, or decreases, offer retailers certainty and enable them to plan for the medium term and build business plans around a manageable cost base. At a time when cost competitiveness is of upmost importance, we are disappointed at reports that the Low Pay Commission have recommended a €0.30 cent (3.1%) increase to the National Minimum Wage in 2020. The cost of doing business in Ireland is continuing to rise particularly in the retail sector, this continues to put us at a significant disadvantage vis a vi our neighbours in, Northern Ireland.

(iii) *Operating costs*

It has become an ever-increasing phenomenon to see reports in the national newspapers from the Courts of another grossly inflated insurance award. The Courts Service Annual Report for 2018 which was recently published stated that the range of awards handed down in Higher Courts have fallen by 29% and this is welcome; but the level of awards for minor claims in the Circuit and District Courts have once again risen substantially from €18,488 in 2017 to €19,304 in 2018³. The effect that these increasing levels of awards are having on insurance premiums for retailers are in some cases prohibitive and jeopardise the existence of some businesses. There are also the issues of Local Authority Rates and the outdated revaluation procedure.

³ Court Service Annual Report 2018.

In Budget 2020 the Government should:

- Reflect current economic realities in setting the National Minimum Wage rate for 2020 and limit any increase to mirror recent inflation trend of circa 1%.
- Address the cost base concerns of the retail sector in areas such as, local authority charges, energy, government services and other business input costs.
- Undertake reform of the commercial property revaluation process.
- Continue to implement the Cost of Insurance Working Group recommendations.
- Implement the provisions of the Judicial Council Bill 2019 as soon as possible to bring personal injury awards down in line with international and EU norms.

Investing in the Digital Age

Budget 2020 could be one of transformation for the digital economy. Across all age groups the percentage of people using online mediums to make everyday transactions are increasing. Platforms such as click and collect is gaining an ever-increasing market share of Irish retail purchases. According to PwC's Irish Retail and Consumer Report, 30% of all consumers made purchases online in 2018, compared to 24% in 2017.

With Sterling's value continuing to fall in recent times due to Brexit uncertainty, retailers must become leaders in the online space in the domestic economy in order to remain competitive.

In Budget 2020 the Government should:

- Prioritise the expansion of Enterprise Ireland's Online Retail Scheme and make it more accessible to SME businesses.

Conclusion

We are entering a very uncertain time for the retail sector, with many variables outside of the sector's control likely to impact greatly over the coming months. There is growing evidence that consumer sentiment is increasingly linked to the narrative around the Brexit process. Consumer sentiment softened as we approached the deadline in April and now it is beginning to soften again as we approach the October deadline for the United Kingdom to exit the European Union.

It is vital that Budget 2020 is a business budget, one that helps businesses and retailers to flourish in an economy that will experience many new challenges. Retail sales continue to underperform when compared to the wider economy and the increasing cost of doing business is undermining the growth we have seen in the sector in recent years.

Issues such as commercial rates, crippling insurance premiums and increased labour costs are some of the challenges that need to be addressed by Budget 2020 in order to keep retail competitive. Retailers are not looking for an unfair advantage in this budget, only a level playing field. Retail Ireland fully supports the Government's stated aim of delivering sustainable economic and social infrastructure across urban and rural Ireland. To achieve this, the Government must harness growth in the retail sector, which is at the heart of Irish communities and throughout the economy by adopting the proposals outlined above.



**Retail
Ireland**

ibec

Retail Ireland

84/86 Lower Baggot Street

Dublin 2

1 6051500

retail@ibec.ie

www.retailireland.ie