

Covid-19 and the Irish Hospitality Sector

Impact and Options

March 20th 2020



Hospitality sector is the first to feel the economic brunt of COVID-19, it requires a recovery plan

The hospitality sector (bars, restaurants and hotels) has been hit hard in the past week with most businesses shuttered and staff laid off. Final data is not yet available but conservatively 100,000 people or over half the sector have already been laid off. To save this sector which provides critical support to the regional economy will require two bold actions by government:

- 1. Step in and keep employees in the sector in their jobs - a net cost to the exchequer of €2.4m per week will cover 75% of the net take home pay of the employees in the sector**
- 2. Provide loan based support interest free to provide working capital for the industry to restart itself**

Without these supports the industry will have long term structural damage resulting in economic loss, damage to the brand of Ireland Inc and damage to the social fabric. This would also bring Ireland in line with other EU countries in terms of direct support and income continuance.

While this report focuses on the hospitality sector, the approach and solutions could well be a template for other industry sectors facing similar challenges.

75% Of net take home to 180,000 employees in the sector

0% Interest free working capital facilities to re-start the sector

The state should act now to protect the employees and employers in the Hospitality sector

Executive Summary

The Hospitality sector is a key component of the Irish economy worth **up to €7.6bn and employing 180,000 people**. The last week has seen an unprecedented level of business closures (albeit we hope temporarily) and corresponding layoffs of an enormous scale. While the safety net of social welfare is welcome, in this paper we argue that the State should step in now and subvent employees to ensure that employment is protected. We also highlight that even with this step, there will be a critical need for working capital support to get the business back on its feet post the COVID-19 crisis.

We argue that a level of income continuance and working capital support would ensure that the industry, which not only provides a valuable direct economic benefit but also contributes to tourism and the overall brand of Ireland, survives.

We define Income Continuance as a scheme where the state would subvent employers to pay staff under strictly limited conditions:

- 75% of home pay;
- Benefit capped at the equivalent of an annual salary of €50,000 per annum and;
- Strictly limited to one week after the end of social distancing

Working capital has not been fully costed in this draft but we present a worked example based on a typical bar with a significant food trade. It shows that, unsupported, a proprietor would need to be able to sustain 62 weeks of negative cash before returning to the black.

The knock on impact of allowing this industry to be severely damaged to the economy and taxation is huge. There is also a significant additional impact on our social fabric especially given the level of societal disruption being caused by the current crisis. Hospitality is core to our DNA and goes to the heart of brand Ireland.

We recognise that this is a significant action. We can understand that there are clear spill-over impacts into other industry sectors, while we would argue that this may well be appropriate; we have simply highlighted one sector. We would also posit that in the last economic crisis the state took a number of step by step actions before eventually having to step in and spend €64bn to resolve the crisis. An income continuance scheme would cost net €2.4m per week for the Hospitality sector. We would argue that bold **and early** action will ultimately be more positive and impactful.

Irish Hospitality Sector

Key Statistics



180,000 directly employed by the sector



€3.2 bn direct spend with suppliers by the industry



Various reports value the sector at up to €7.6 bn total contribution to the Irish economy



€1.16 bn contribution to Exchequer



Covid-19 has created an emergency situation within Irish Hospitality with the near closure of the entire industry

Background

Ireland's hospitality sector is a critical component of the Irish economy. Various reports value the sector's **total economic contribution** at between **€5 - 7.6bn**, representing between **1.5% - 2.3%** of **GDP**. While the economic activity of the sector is underpinned by the performance of the tourism sector, Ireland's largest indigenous industry, the sector is inextricably linked to overall performance and well-being of both the national and global economy. Access to disposable income and corporate and business activity are key pillars of sectoral performance.

Since the arrival of the first Covid-19 case into the Republic of Ireland, the Hospitality industry (Hotels, Restaurants and Pubs) have experienced a near shut down as consumers remain at home. Social distancing in general, the closure of bars and restrictions on indoor gatherings have meant the industry is effectively shuttered.

Hospitality has been the first sector to experience large numbers of job losses, with this impact being experienced very quickly. Getting these people back into work as Ireland emerges from the Covid-19 crisis is critical. However, there is a significant risk that unless interventions are taken, the businesses which employ these individuals may no longer be viable and unable to return to a business as usual state. This is an industry which often operates on short cash flow reserves therefore limiting its ability to recover from a period of shock.

Ireland along with other European countries are implementing a series of measures designed to protect workers and stimulate the economy in a period where demand has effectively been eliminated. This report seeks to identify options to support the industry through the crisis and ensure its successful reboot when we emerge. The options and suggested framework identified in this report can be applied to other sectors and industries as well.

Report Context

This report presents an impact assessment of Covid-19 on the Irish Hospitality sector (focusing on Hotels, Restaurants and Pubs) as well as mitigation options to support its recovery as Ireland emerges from the current crisis.

The report includes:

1. A view of the impact on the Hospitality sector, taking both a short term and a long term position.
2. An understanding of the current economic value that the industry contributes to the Irish economy.
3. An overview of business costs and the impact of a Covid-19 related closure on a hospitality business.
4. Employee payment protection options to provide higher income levels during the crisis for those who lose their jobs, whilst at the same time ensuring that employees remain connected with their employers during this period.
5. A review of actions taken by other countries and a comparison against Ireland's actions to date.

This is an industry that is truly national; positive impact in every local community

It is also brand defining for Ireland Inc

Impact of Hospitality and Tourism Regionally

Tourism & Consumer Spending

Tourism related expenditure reached €9.4 bn in 2019 with €5.1bn coming from overseas tourists. Failte Ireland reveal that card spending alone across the hospitality sector totalled €7bn in 2018. Bord Bia report a €5.2bn spend on consumer food services within restaurants (€3bn), hotels (€1.16bn) and pubs (€1.04bn) in 2019.

Hospitality Spending

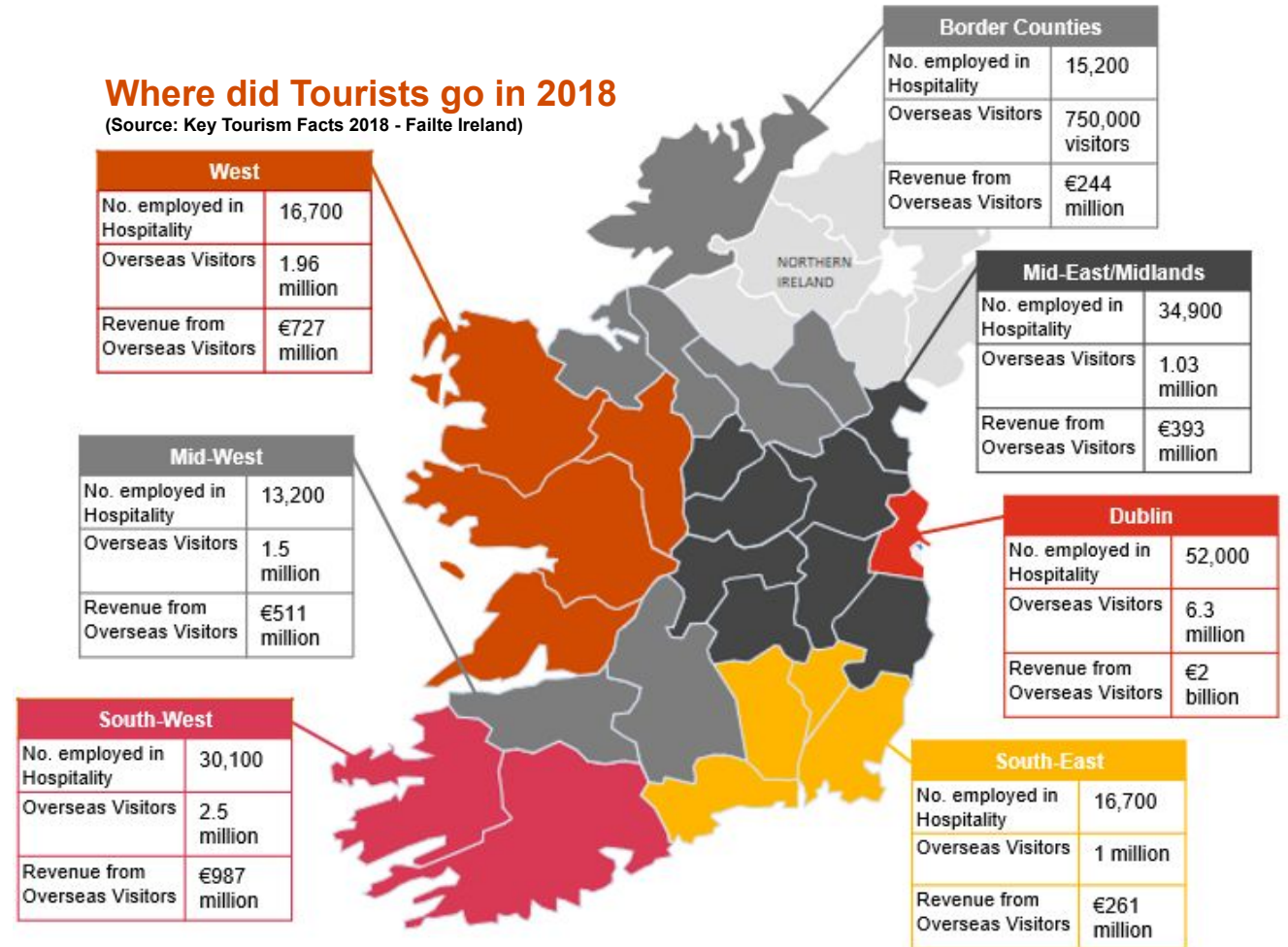
The hospitality sector supports jobs within the wider economy through its supplier related expenditure. In 2019 restaurants, hotels and pubs collectively spent €1.7bn on food purchases from a range of suppliers.

Regional Employment










While the sector employs some 180,000 workers, 71% of sectoral employment is outside of Dublin. The activities of the hospitality sector are crucial engines within regional and local economies and have been instrumental in supporting the recovery of Ireland's more rural regions post financial crisis.

Where did Tourists go in 2018

(Source: Key Tourism Facts 2018 - Failte Ireland)

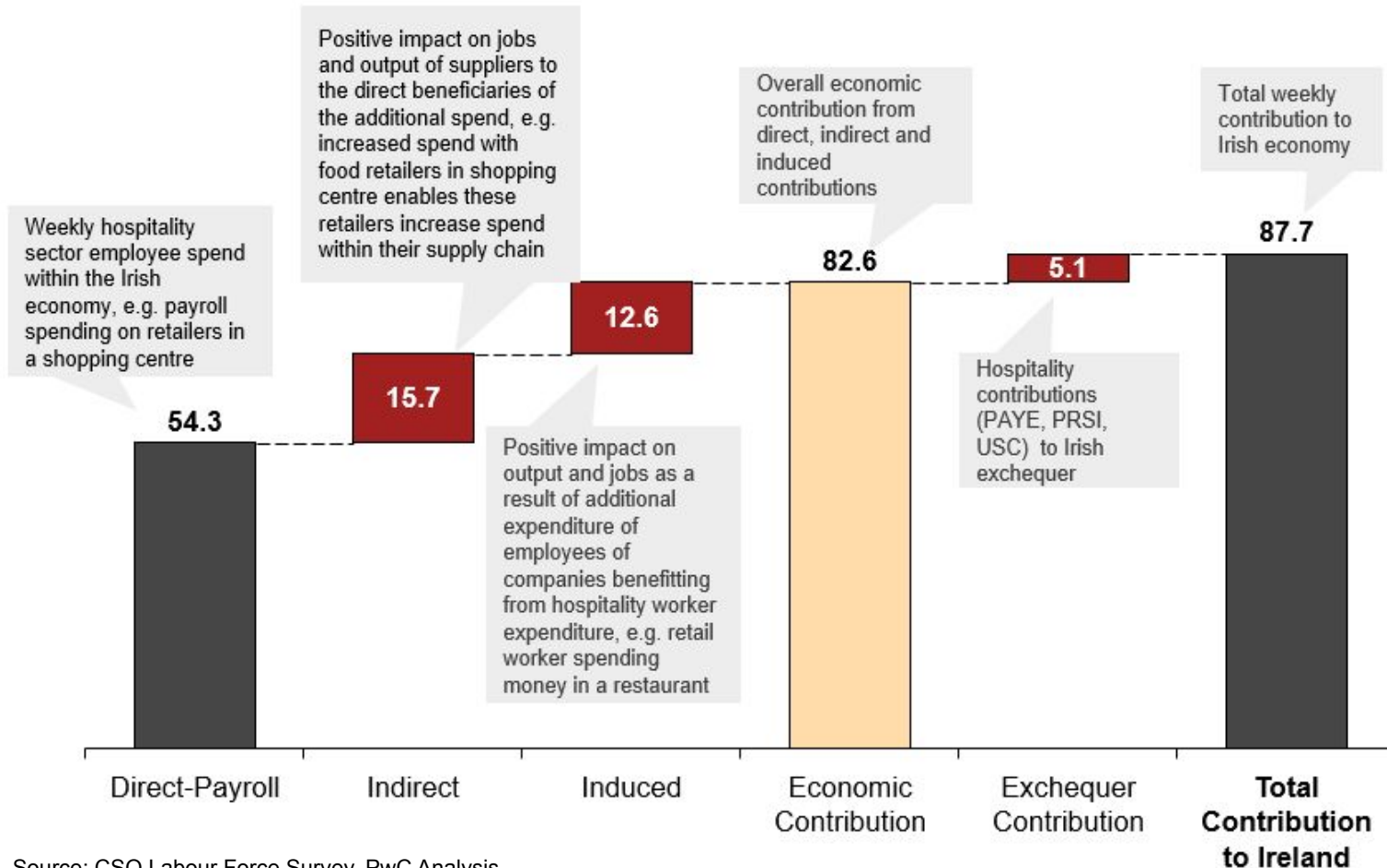


Whilst layoffs have been the biggest issue facing the sector today but there are severe challenges tomorrow

Immediate Issues		Post-Crisis Concerns		Long-term Impact	
 <p>Labour</p>	<ul style="list-style-type: none"> Majority of full time and all part time staff laid off immediately. Anticipation is to try and re-employ all when operating again. Focus on trying to retain key staff but for how long is uncertain. 	 <p>Cashflow Shortages</p>	<ul style="list-style-type: none"> Concern surrounding how finance/credit will be obtained when operating again. Fear of cash shortages and availability of funding Accumulated negative cash balances from period of shut down. 	 <p>Brand</p>	<ul style="list-style-type: none"> Risk of long term damage to the sector through shuttered properties, slow recovery and squeeze out of quality players
 <p>Supply Chain</p>	<ul style="list-style-type: none"> Limited cash reserves available to pay a number of key suppliers/ staff. Focus on maintaining future supply chain by paying key suppliers. Trying to support the small local suppliers. 	 <p>Profitability</p>	<ul style="list-style-type: none"> Intense price competition amongst hotels in an attempt to increase occupancy rates. Negative impact on profitability if widespread price competition occurs. Overall, increased competition 	 <p>Corporate Spend</p>	<ul style="list-style-type: none"> Corporate bookings for the remainder of the year are being cancelled. Reduction in corporate events being held for the foreseeable future. Corporate travel to Ireland is likely to be curtailed.
 <p>Fixed Overheads</p>	<ul style="list-style-type: none"> Ensure cash is available to cover immediate overheads. Insurance - potential to claim loss cover v future premium increases. 	 <p>Permanent Closures</p>	<ul style="list-style-type: none"> Risk of newer businesses without cash reserves being unable to reopen. Loss of rural bars and restaurants feared. Food Ireland ecosystem at risk and unlikely to recover quickly 	 <p>Tourism</p>	<ul style="list-style-type: none"> A significant decrease in the number of International tourists visiting Ireland. Optimism that more Irish people may choose local holidays providing an opportunity to target this market but lack of consumer confidence is a risk

Hospitality payroll provides a weekly contribution to the Irish economy of €87.7m

Hospitality Sector Payroll Economic and Exchequer Contribution breakdown (€m)



The hospitality sector pays approximately €64m across its 180,000 strong workforce on a weekly basis. After taxes, savings, an estimate for expenditure outside of Ireland etc. approximately €54.3m is spent in the Irish economy. By applying multipliers and effects, an illustration of the sector's total payroll economic impact can be calculated. The sector's payroll activity generates an economic impact of €82.6m. With hospitality payroll related taxes delivering €5.14m to the Exchequer, hospitality payroll generates a total Economic Contribution of €87.7m. The sector itself is also a key buyer from Irish suppliers which generates additional knock-on economic benefits. Supplier purchases totalled €3.2bn in 2016 (CSO).

By taking steps to protect employee income, longer term economic damage can be limited as consumer spending recovers at a faster pace and the industry rebounds quicker

Income Continuance Effects for Hospitality Workers



Mary



John

	Profile	32 years old with 2 children	20 years old, single with no dependents
	Annual Salary	€31,000	€20,000
	Weekly Equivalent	€596	€385
	Weekly Outgoings	(€548)	(€327)
A	Covid 19 Social Welfare (€203 per week)	€203	€203
	Weekly income vs spend gap	(€345)	(€122)
B	Income Continuance @75%	€447	€289
	Weekly income vs spend gap	(€101)	(€39)

Whilst both options leave Mary and John with an income deficit versus their expenditure, the 75% income continuance is much less impactful on their ability to survive versus the €203 per week option.

For €2.4m per week the state can deliver huge long term financial and social fabric benefits

The economy benefits from the hospitality sector's employment of some **180,000** people. With activity largely distributed across the country, the hospitality industry is a critical pillar within Ireland's regional and local economies. Payroll expenditure generates a weekly economic contribution of **€87.7m**, including exchequer related payroll payments of ~€5.14m. Firms within the accommodation and food services sector made €791m worth of VAT, Corp. Tax and CGT related payments in 2018. The sector itself is also a key buyer from Irish suppliers with purchases totalling €3.2bn in 2016.

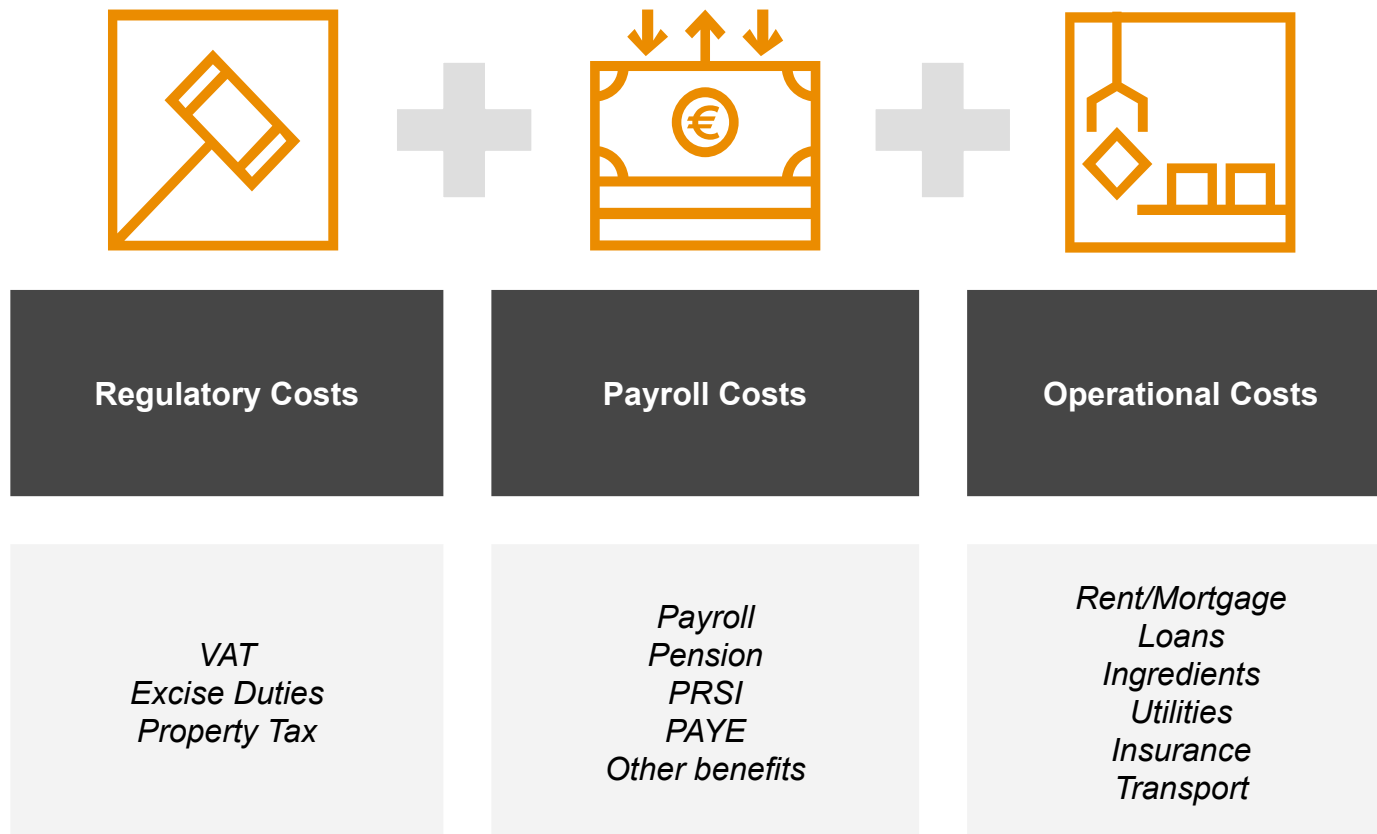
Supporting the hospitality sector via the **Covid 19 Unemployment Payment** option could directly cost the State **€36.5m** per week. However, incorporating the impact of lost exchequer payroll taxes means that the true cost of this approach is **€41.7m/week**. Use of a Payroll Subvention Support mechanism delivers a marginally more expensive outcome whilst delivering a range of additional economic benefits. Implementing a **75% payroll** subvention will cost **€44.1m**. This outcome enables policy makers deliver a more efficient and effective labour market solution for an additional **€2.4m/week**.

In addition, a subvention based approach allows businesses to remain connected with their employees. This will be critical to enabling the sector to mobilise rapidly and transition to pre-Covid normality once current social barriers are lifted. The hospitality sector, and in particular the food industry, have spent many years developing Ireland's image and reputation as a bespoke destination for food tourism. Failure to support key actors such as local farmers and producers could do irreparable damage to the long-term future of the industry.

Covid 19 Unemployment Payment		Subvention Support @ 75%	
Social Welfare Cost		Social Welfare Cost	
Lost Hospitality Sector Jobs	180,000	Current Weekly Hospitality Sector Net Payroll	€58,828,551
COVID 19 Unemployment Payment @ €203/week	€36,540,000	Payroll Subvention @ 75%	€44,121,413
Exchequer Cost			
Lost Exchequer Payroll Tax	€5,137,050		
Net Cost to State	€41.7m	Net Cost to State	€44.1m

Fixing payroll costs is only a partial solution; businesses are still left with regulatory, rent and financing costs

While there are indications of temporary relief this will simply store up a working capital issue

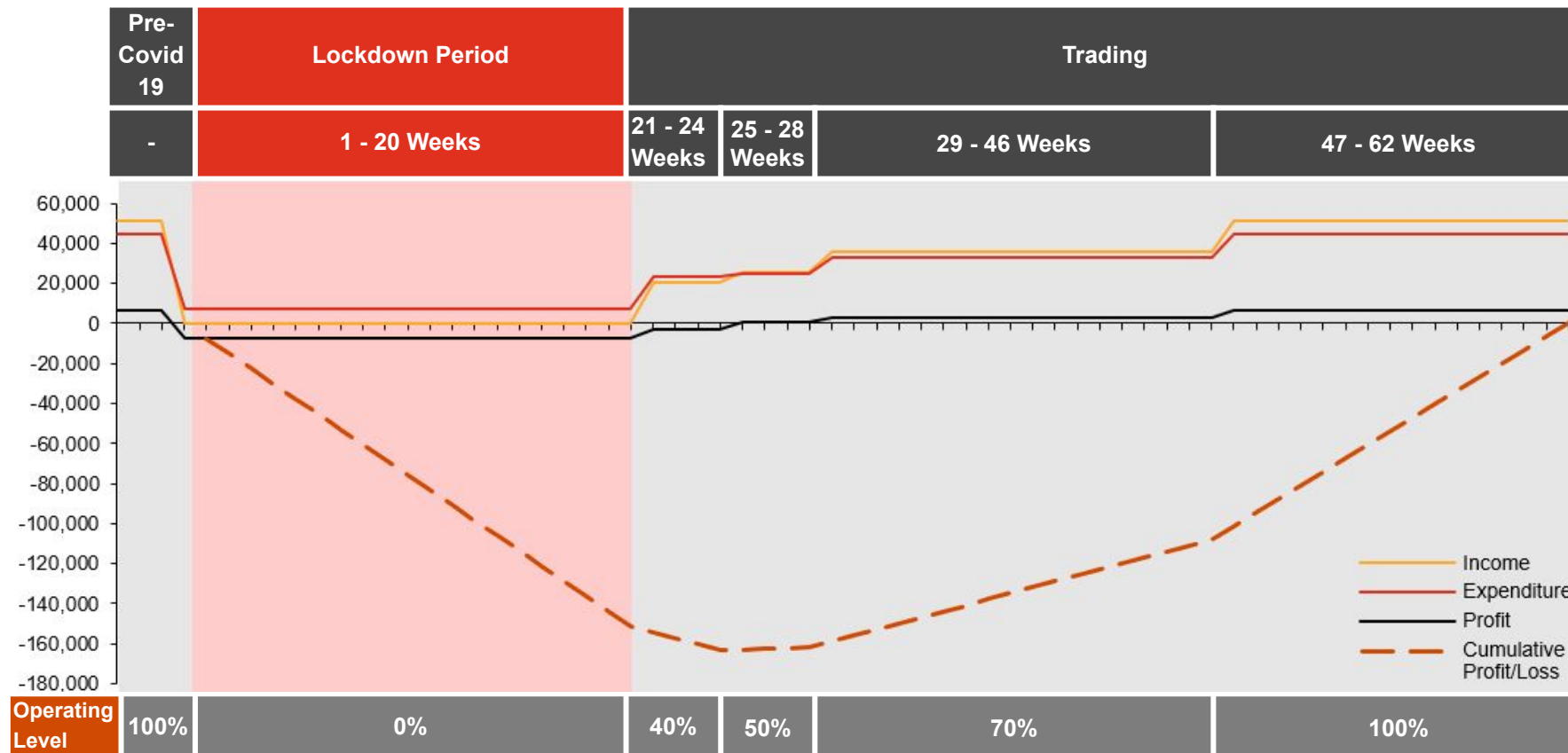


Significant efforts are being made to support businesses with Regulatory and Operational costs with two key issues emerging from this research;

1. Paying employees a higher income replacement value than the Covid19 payment will ensure higher levels of consumer spending during and post the Covid19 crisis - this is in line with other European states
2. Financial stimulus will be required to kick start businesses as the recovery commences. There are various options including loans, grants, supplier credit terms etc

Even with payroll subvention, firms operating in this space will have a working capital challenge when their business restarts

Business projections before, during and after Covid-19 lockdown











We looked at the P&L and cashflow for a bar restaurant business in the Munster region. We assumed a 20 week social distancing period and that rent, financing, VAT and payroll taxes would be suspended but would still be liable. We also assumed a gradual step up in business to allow for tourism to return. Without support the business does not return to positive cash for over 62 weeks. This will not be sustainable for operators.

There has been much talk in the public health arena about the need to flatten the sombrero to ensure that our health system is not overwhelmed. We believe that firms in this sector face a reverse sombrero - we need to flatten or relieve the curve of working capital to allow them to survive.

Economic approaches taken by others in mitigating the economic impact of COVID-19 can provide insights and options

(as at 1300 20/03/20)

	 Ireland	 Denmark	 Netherlands	 Spain	 Italy	 France	 U.K.	 Germany	Others of Interest
Stimulus package (% of GDP)	0.9%	Not known	Not known	16.1%	1.6%	15.3%	14.9%	16.3%	-
1. Guaranteed bank lines for new credit	✓	✓	✓	✓	✓	✓	✓	✓	Most countries
2. Deferred payments of existing loans and mortgages	✓ Payment & debt enforcement deferred for 3 months	✗	✓	✓ 3 month exemption	✓ Moratorium on repayments	✗	✓ Deferred VAT to end July 20	✗	-
3. Direct workforce support	✓ Flat rate - €203 to employee. Employer can top up with refund.	✓ State can pay 75% Employer 25%	✓ State can pay 90%	✗	✓ Improved existing scheme	✗	✓ State to pay 80% of salary, eligible to all.	✓ Compensation directly to employers where staff reduced hours.	Hong Kong - direct cash subsidy (US also considering). Sweden - 75% salary cover. Australia - 50% salary payment for small businesses
4. Tax/ social/ business rate contributions amnesty	✓ Debt enforcement activity is suspended	✓ Postponed payment deadlines	✓ 3 month exemption	✓ 50% business contributions to Social Security	✓ Tourism reduction contributions	✓ Deferral without penalty	✓ Business rate grant & exemption	✓ Deferring tax payments	Most countries
5. Sector specific bailout measures (i.e. tourism)	✗	✗	✓ Agri/horticulture focus	✓ Tourism sector focussed	✓ Tourism sector focussed	✗	✗	✗	Australia
6. Region specific measures	✗	✗	✗	✓ Autonomous regions	✓	✗	✗	✗	Sweden, China

Economic approaches taken by others in mitigating the economic impact of COVID-19 can provide insights and options

(as at 1930, 20/03/20)

Key Mitigations

Themes arising

Denmark	<ul style="list-style-type: none"> • €25bn support package for bank lending and guarantees on business loans. • State offer to pay 75% of employees' salaries (with cap). Company pays 25%. • Postponed payment deadlines for VAT, AM contributions and A-tax.
Netherlands	<ul style="list-style-type: none"> • Bridging loans available for SMEs. Large/ medium-sized companies able to borrow with a 50% government guarantee. • Scheme allowing companies to apply for help in paying their labour costs covering 90% salary. • Relaxed rules with respect to the payment of taxes and reduced fines with general 3 month exemption. • Temporary guarantees for companies active in agriculture and horticulture and compensation for impacted sectors.
Spain	<ul style="list-style-type: none"> • €100m in guarantees to support businesses to stay solvent and deferred repayment of loans. • ~EUR 400 million credit package to tourism sector. • Tourism specific reduction of 50% of the business contributions to Social Security or similar.
Italy	<ul style="list-style-type: none"> • €25 Bn fund available guaranteeing loans to small and medium businesses. • Mortarium on business and mortgage repayment. • Tax deadline referrals and suspension on tax payments for specific sectors. • Compensation for self employed workers and extended national redundancy fund.
France	<ul style="list-style-type: none"> • €300 bn guaranteed bank lines of credit to businesses. • Deferral of payment of social security/ tax installments without penalty. Companies may also claim back tax paid in Mar 20. • Support from the state and the Banque de France to negotiate a rescheduling of bank loans with the relevant bank. • Unguaranteed loans for SMEs and "mid-cap" companies, with a delay in repayment.
United Kingdom	<ul style="list-style-type: none"> • £330 bn loan programme guaranteed by government. • Loan scheme to support SMEs with Government guaranteeing 80% of each loan up to £1.2m, interest free for 12 months. • Job retention scheme covering 80% of salaries of workers at risk with a cap of £2,500 p/m. • Cash grants of £10,000 for small firms, and £25,000 for medium sized retail, hospitality, and leisure businesses.
Germany	<ul style="list-style-type: none"> • Loans of unlimited size to all companies. • Deferring tax payments.
Other	<ul style="list-style-type: none"> • Ability to carry forward losses and set them against profits over a longer period (8 years) - China. • Direct payments, subsidies and one off payments to individuals - Australia, Hong Kong, US (considering).



1. Guaranteed bank lines for new credit



2. Deferred payments of existing loans and mortgages



3. COVID specific direct workforce income support



4. Tax & social contributions amnesty



5. Sector specific bailout measures (i.e. tourism)



6. Region specific measures

Measures (~€3bn) have been taken to support the Irish economy to date but lag behind our EU counterparts

(as at 19/30, 20/03/20)

Themes	Mitigation Title	Key Irish Mitigations
1. Guaranteed bank lines for new credit	Liquidity support for bank borrowers	<ul style="list-style-type: none"> • Wide range of credit, cash flow and supply chain supports offered. • Package for business including €200 million in liquidity funding to provide credit guarantee scheme for loans
	Central Bank prudential policies	<ul style="list-style-type: none"> • Policies relaxed freeing up capital that can be used to provide credit.
	BFPI actions	<ul style="list-style-type: none"> • BFPI actions underway to ensure operational continuity
	Customer focussed approach	<ul style="list-style-type: none"> • Banks taking customer-focused approach to businesses with a wide variety of tailored supports.
2. Deferred payments of existing loans and mortgages	Deferred loan repayments	<ul style="list-style-type: none"> • Banks have halted all commercial/business loan repayments for three months
	Changes to assist public health policy	<ul style="list-style-type: none"> • Industry increase to the limit on contactless payments to €50
3. COVID specific direct workforce income support	Reduced working time arrangements	<ul style="list-style-type: none"> • If working time reduces to 3 days or less per week from your normal full-time hours, employees can apply for a payment called Short Time Work Support which is a form of Jobseeker's Benefit.
	Waived requirement for sick pay waiting period	<ul style="list-style-type: none"> • Waiving requirement for 6 waiting days for sick pay in respect of medically certified self-isolation.
	Removal of the means test requirement for Supplementary Welfare Allowance	<ul style="list-style-type: none"> • Removed means test requirement for Supplementary Welfare Allowance for medically certified self-isolation
	Direct payments to affected employees	<ul style="list-style-type: none"> • COVID-19 Pandemic Unemployment Payment to be paid for 6 weeks at flat rate of €203 per week with top ups from employers possible
	Illness Benefit	<ul style="list-style-type: none"> • Personal rate of Illness Benefit will be increased from €203 per week to €305 per week for max of two weeks.
	Self employed illness benefit	<ul style="list-style-type: none"> • Self-employed people to receive either illness benefit or non-means tested supplementary welfare allowance.
4. Tax & social contributions amnesty	Deferral to stamp duty	<ul style="list-style-type: none"> • Collection of stamp duty deferred on credit cards to July, which is normally levied in April.

Mitigating actions which can be undertaken to help support businesses in the Hospitality sector

Cashflow - Immediate



Tax

- Freeze interest charge on late payments of tax for all businesses, and not just SMEs
- All legitimate tax refunds in the system, that are being held up, should be automatically released as soon as possible, to release cash back to businesses
- Defer Preliminary Tax payment deadlines to match filing dates - such that businesses are not paying their liability in advance of the year end



Labour

- Defer PAYE remittances for March/April/May by three months
- Lift ER PRSI in full for a period of 3 months
- Employer COVID-19 refund scheme should apply to all businesses who lay staff off, not just those who would otherwise cease to trade
- Allow businesses who continue to pay workers in full a 200 % deduction for Corporate Tax purposes.



VAT

- Support businesses through the introduction of a method of postponing the accounting for import VAT
- Accelerate VAT refunds. Commit to a 10 day turnaround. Refund directly or via immediate offset against employment taxes.
- Allow the cash receipts basis to apply in a much broader range of circumstances than is currently the case

Support



Financial

- Look to possibly reconstitute NAMA as a support lender to Irish Business - allow companies for example to borrow back 6 months of past PAYE paid on a temporary measure to support continued payment of employees
- Look to relaunch a new SSIA type initiative i.e. Solidarity Bond to free up cash held in personal bank accounts



Emergency

- Soften requirements for VAT debt relief claim to include doubtful debts. Relieves businesses from having to carry the VAT cost of doubtful debts
- VAT on hospitality sector back to 9%
- Allow employers to make emergency cash advances, without having to submit a Payroll submission (declare in following month)
- Allow employers to make emergency loan arrangements to employees without having to apply interest rates to avoid preferential loan benefit in kind liability arising.



Rates

- Postponement of commercial property rates - or reduce these rates for the next 12 months as the UK has done.
- Consider enhanced deduction for landlords who allow rent free period for hospitality tenants – may need bank supports here for landlords in terms of cash flows and debt servicing.

Financing



Banking

- Banks need to advance new money in the form of overdraft extensions and continued access to working capital
- To help the banks, the CBI need to relax the capital adequacy requirements for at least 6 months
- The CBI need to make the facility extensions and application for additional funding as easy as possible



Payment Holiday

- The facilitation of a payment holiday needs to be introduced rather than simply not charging interest
- This payment holiday for commercial rates in 2020 should have the arrears being spread over the following 5 years
- For a period, there needs to be a relaxation around laws relating to directors duties, as directors continue to maintain their business, whilst preventing it from tipping into insolvency



Long Term

- An extension and increase of currently available supports through the SBCI and Enterprise Ireland will be necessary, together with low cost funding from banks.
- Credit Guarantee Scheme - limits need to be adjusted to include not just SME's and relaxation of state aid limits to enable larger facilities to be drawn

Contributions

This report has been assembled with the co-operation and contribution of IBEC, Bord Bia, Restaurant Association of Ireland, Licensed Vintners Association, Irish Hotel Federation, Vintners Federation of Ireland, Licensed Vintners Association, Tony Foley - DCU, Jim Power, AIB, Bank of Ireland, Musgrave Group and a number of independent operators across the bar, restaurant and hotel sector.

We thank them all for their rapid response in a stressful and busy period.

Their contribution were invaluable but all errors and omissions are ours

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