

ISME,  
17 Kildare Street,  
Dublin 2.  
6<sup>th</sup> February 2017

Secretary,  
Joint Labour Committee,  
Lansdowne House,  
Lansdowne Road,  
Dublin 4

**Re: Security Industry Draft ERO**

To whom it may concern,

**ISME, the Irish Small & Medium Enterprises Association**, is the main representative body for Irish SME's with in excess of 10,200 member companies nationwide. The Association represents companies in a wide range of sectors, including the Security Industry. As such, we act on behalf of member companies who stand to be greatly affected by the enactment of this new ERO.

The association wishes to stress that we remain fully committed to protecting employee rights and interests. However, we believe that any compulsory changes to pay, or terms and conditions of employment must be appropriate and not unduly damaging to affected parties.

As such, we strongly oppose the introduction of this Security Industry ERO, as we believe it to be **unjustifiable, heavily stacked against the smaller employer, and not flexible enough to protect the business or employment**. Our position is justified because:

1. In general, the use of E.R.O's to control minimum wage rates, is nugatory and unjustifiable. In 2015, the Low Pay Commission was established to advise on the setting of a National Minimum Wage (NMW). The primary aim of this Commission is to set an appropriate rate that is both "fair and sustainable.....without a significant adverse effect on the economy or a significant negative effect on employment". In setting this rate, the commission undertakes widespread research and analyses of available data to determine what the appropriate rate of pay should be, and what increase, if any would be appropriate to meet these two aims. Given that an entire commission has been established solely to determine what an appropriate rate of pay is in the current economic environment, there is no justification for additional exclusive protection for employees in any one particular industry.
2. In 2016, based on what the low pay commission describes as "the best available evidence", it was determined that a pay increase to €9.25 per hour would be the most suitable rate for the year ahead. The current security sector ERO allows for a rate of pay that is 16% higher than the national minimum wage. A further increase in 2017, as outlined in the draft ERO, will allow for a rate of pay that is 19.5% higher. We argue that a pay rate that is almost one-fifth higher than what has been deemed the "appropriate rate or pay" is excessively inequitable and discriminatory for security sector employers in comparison to other sectors.

3. In addition, despite the Low Pay Commission providing for a pay increase that equated to a 1.1% pay increase for 2017, the Security Sector E.R.O provides for pay increases equating to 2.8% in year one, 2.7% in year two, and 2.6% in year three. This will lead to an 8.1% pay increase over a three year period. If the current trend in the National Minimum Wage remains, and we have no reason to believe that it won't, over the next 3 years we will see the pay-gap between the NMW and Security Sector widen by a further 4.8%. There is no justification for such a substantial pay-gap. Such a discrepancy will likely lead to the Security Sector becoming uncompetitive in comparison to other sectors, and drive employers out as their margins become increasingly eroded by labour costs.
4. Even in comparison to other sectors in which a Joint Labour Committee exists, the wage rates set out in this draft E.R.O are notably high. The suggested pay rate in the Security Sector provides for a 2017 rate that is 10% higher than the rate provided for within the current Contract Cleaning ERO for the same period.
5. It is also argued that the draft ERO is, from commencement, heavily stacked against the smaller employers. The representatives from the employer side who make up the Joint Labour Committee are, for the most part, dominated by large businesses, which, in general, are unable to access insight into the concerns of the smaller enterprises.
6. In addition, an increase in labour costs place a disproportionate demand on SME total costs. SMEs are disproportionately labour intensive. The average cost of labour in a typical SME is 48% of the Company's total costs, as opposed to approximately 8% in some larger companies. The increase in labour costs resulting from this draft ERO will place a disproportionate burden on smaller security companies.
7. Ireland remains in recovery mode from the worst recession in living history. With the impending challenge of Brexit, an uncertain few years is inevitable. The National Competitiveness Council cites Brexit-related [wage pressure](#) as a likely outcome of the UK's departure from the Union. In a recent ISME Trend Survey (Quarter 4, 2016), business expectations for the year ahead were at the lowest levels seen since 2014 (standing at just 21%-down from 61% for the same period in 2015). Such a result is evidence of the uncertainty in such sectors at the current time. In a time of such uncertainty providing a three year outlook is near impossible. While the NMW is reviewed on an annual basis, the draft ERO in its current form provides for no review within a three year period.
8. The lack of flexibility provided for within this draft ERO is also a substantial concern, particularly considering the three-year time span of this agreement. There is very limited flexibility for the downward negotiation of wages during this three-year timeframe. In the event of a company within the security sector coming into financial difficulties, the only legal labour cost adjustment would be to reduce the number of staff or the number of hours worked. As a result of wage increases and rising business costs in the sector, job creation and job security will be undermined. The mechanism providing for an exemption from the minimum wages set down in the ERO is wholly inadequate as it does not allow for a quick reaction to a crisis, with the likelihood that job losses or company closure could occur before an exemption is granted.
9. The mechanism by which costs (such as wages) are transmitted to consumers in service industries is highly complex. It is *simply not true* to assume that merely by increasing the minimum (or sectorally agreed) wage, the employee benefits to the full extent of the increase.

A study carried out of the University of Washington in July 2016 [concluded](#) that there was a weak correlation between the increase in the minimum wage and an increase in total employee earnings (i.e. 'P60' earnings) where the local macroeconomic environment did not support the increase. Employers simply availed of less labour, or made employees work harder to achieve the same income. These effects are difficult to observe in a rising economy, but they become apparent very quickly when there is a downward turn in a sector.

10. Lastly, this sector is one of the most [highly regulated service sectors](#) in the country. Several of our members have already advised us of their inability to hire qualified staff at rates of pay that are *substantially in excess* of the rates set in the draft ERO. The market is already setting higher benchmark wages in many areas. While this could justify a superficial conclusion that the ERO is therefore justified, it is no more justifiable than would be an ERO governing the pay of the reader, or the undersigned. This begs the question as to what material justification exists for the regulation of wages in the sector by ERO. Is this simply a political exercise, without any material or evidence-based reasoning?

In summary, we feel the Draft Security Sector ERO, in its current form will not achieve its intended objectives. In areas where the market clearing rate is already higher than those defined by the ERO, it is by definition already useless. For the rest of the country, it will only serve to erode competitiveness as the gap between the NMW and sector wages grows, increasing labour costs to an unsustainable level for the affected SMEs, and could lead to job losses and company closures. The lack of flexibility provided within the agreement for those in financial difficulties is hugely concerning in a three-year agreement such as this. In a time of great economic uncertainty, the emphasis must be on job creation and ensuring job security for those already in employment. Unfortunately, this ERO does not take into account the business realities in what is still a very challenging economic environment for the SME sector.

I trust this clarifies our position.

Yours sincerely,



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**Neil McDonnell**  
**Chief Executive**  
**ISME, Irish Small & Medium Enterprises Association**