

# LICENCE FEES AND COMMERCIAL VIABILITY IN THE NIGHTCLUB INDUSTRY

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Note: Throughout this document the author refers to the cost of a Special Exemption Order (SEO) as €410. This comprises a €300 Court Fee and €110 in Excise Duty. This €410 is payable each and every night a nightclub opens.

## Executive Summary

This report was commissioned by the Irish Nightclub Industry Association (INIA). The INIA is the national representative body for the nightclub industry in Ireland, which comprises 300 venues, employs 2,400 full time equivalent jobs, and entertains 500,000 adults per week.

The objectives of report are:

- to identify and assess the impact of special exemption orders/licence fees on the commercial viability of nightclubs
- to identify recent economic trends and performance in the nightclub industry
- to identify the taxation revenue implications of the recent performance
- evaluate the jobs impact of the current SEO fee, and of the proposed reduction to €200

There has been a substantial decline in the volume of business in the nightclub industry. Existing nightclubs operated for an average 4.2 nights per week in 2007, this has reduced to 2.7 in 2010 (October). The number of nightclubs has declined. The overall number of nights offered by nightclubs has declined by about 40% over the period. The decline since 2007 of 27,000 nightclub operating nights is associated with the loss of approximately 600 jobs.

On a turnover of €2,000 per night the operation is non viable on an incremental cost basis with the existing licence fee of €410. On a turnover of €2,000 per night the tax revenue excluding the licence fee is about €520. A fee of €200 would just about generate breakeven on an incremental cost basis.

It is recommended that the Special Exemption Order (SEO) fee should be reduced to €200 per night pending the introduction of an alternative and more appropriate licensing system.

Based on the analysis in this report the reduction in the SEO fee to €200 would generate the equivalent of 330 full time jobs and this additional employment would have a positive impact on the exchequer of €2m. In addition the existing employment of 2,400 full time equivalent jobs will be supported.

A new lower fee of €200\* per SEO would be exchequer neutral on the assumption of 90% of nightclubs operating one additional night per week on average and an additional 500 public houses and other users operating one additional night per month.

\*NOTE: Includes excise and court fee.

## Objectives

The objectives of this report are:

- to identify and assess the impact of licence fees on the commercial viability of nightclubs
- to identify recent economic trends and performance in the nightclub industry
- to identify the taxation revenue implications of the recent performance
- evaluate the jobs impact of the current SEO fee, and of the proposed reduction to €200

## Methodology

A survey of nightclubs was undertaken to obtain information on the recent pattern of operating nights. 62 nightclubs responded to this survey. Interviews were held with four nightclubs to obtain detailed financial operating costs and tax revenue associated with the operation of nightclubs. Desk research of relevant data and previous research was also carried out.

## Current Licensing Arrangements

There is no such thing as a “nightclub” licence in the same form as a public house licence or an off licence. Nightclubs operate by obtaining a special exemption order (SEO) for each night of operation. These orders are granted by the court system. There is a charge of €410 for each order. In addition the applicant must bear the legal costs associated with the application. Multiple applications are allowed which avoids the need for an individual court appearance for a single application. The fee cost is relatively large in that a nightclub operating for 300 nights per year pays a licence fee of €123,000. Of course, a nightclub operating for a lower number of nights pays a lower, but still relatively high, licence fee. One operating for 100 nights per year pays a licence fee of €41,000.

The licence fee is effectively a charge to sell alcohol at particular times. It is informative to compare the nightclub fee to ordinary public house licence or off licence fees. An off licence requires separate licences for beer, wine and spirits. Each of these cost €500 for a full year. A “full” off licence, therefore, costs €1,500 for a full year. The fee is regardless of the volume of alcohol sold. This fee is substantially less than the nightclub charge.

Public house licence fees are based on turnover, with the fee increasing as the turnover increases. The fees and bands are shown below in Table 1. The fee ranges from €250 annually for premises with a turnover of less than €190,500 to a maximum of €3,805 for premises with sales of €1.270m and above. Regardless of turnover level the maximum pub licence is €3,805 for the full year. This is relatively low compared to the nightclub situation. Of course, if a pub wants to operate for later than normal licensing regulations it must obtain a SEO and pay the €410 per occasion. If a pub operated later than usual hours once per week the overall licensing fee would be €3,805 (if sales were above €1.27m) plus €21,320 for the 52 late nights, a total of €25,125.

**Table 1: Licence Renewal Fee Public House**

Sales Band €	Fee €
Under 190,500	250
190,500 - 380,999	505
381,000 - 634,999	1,140
635,000 - 952,4999	1,775
952,500 - 1,269,999	2,535
1,270,000 and above	3,805

**Table 2: Licensing Costs and Hours of Trading**

Licensed Activity	Trading Hours per week	Annual Cost €
Off Licence	78.5	1,500
Ordinary Publicans Licence	90	3,805
Nightclub	18	148,000

Source: Revenue Commissioners

A previous INIA report noted that the nightclub industry accounted for about 5% of alcohol sales and 70% of alcohol licence receipts. (INIA 2008)

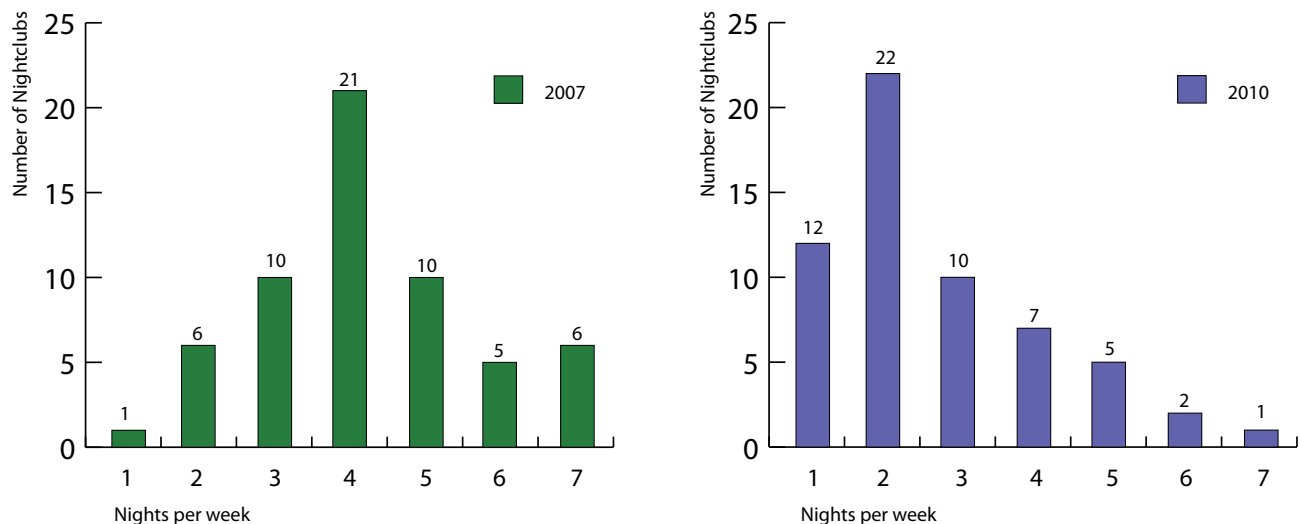
## Activity Decline 2007 to 2010

The estimate of the decline in nightclub activity is based on the internet survey with 62 respondents carried out for this report and industry estimates of the number of nightclubs. Exact and official data on the nightclub industry are not available. However, the survey and industry sources allied with conservative assumptions provide a relatively robust picture of the decline which has occurred. The overall decline in nightclub economic activity is determined by the decline in number of nightclubs, the decline in the number of nights operated by nightclubs and the decline in revenue per night of operation.

The survey asked nightclubs the number of nights operated in 2007 compared with 2010. Respondents could also give comments on the performance. The survey population was based on the INIA lists of nightclubs including both members and non-members. The target population was assumed to be currently operating nightclubs. Consequently, the recorded decline would understate the actual decline in the industry because the nightclubs which went out of business between 2007 and 2010 would not be included in the responses. However, three recent closures in late 2010 also replied to the survey. In all there were 62 responses which is quite a large share of the overall population of about 300 nightclubs. Of the 62 responses three had recently ceased operations and reported that no nights were being operated. These three are excluded from the details in Graph 1. These three recorded weekly nights of 7, 7 and 2 in 2007. The reason for excluding them is that the aim of the survey was to identify the decline in the number of nights of current operators. There are significantly larger numbers of nightclubs who operated in 2007 and have ceased to operate in 2010, than the three indicated in the survey.

The details of the 2007 and 2010 situations are shown in Graph 1 below.

**Graph 1: Weekly number of nights operated by nightclubs 2007 V 2010**



Source: Survey conducted by INIA Oct 2010

The data indicate a substantial decline in business between 2007 and October 2010. This is not surprising because of the substantial overall decline in economic activity and discretionary income which occurred over the period. In 2007 only 1.7% of nightclubs operated for one night per week. In 2010 this share had risen to 20.3%. At the other end of the scale in 2007 18.7% of nightclubs operated for either 6 or 7 nights. By 2010 this had declined to 5.1%.

The sample indicates that the total number of nights operated by the 62 respondents was 265 or an average of 4.3 nights per week. In 2010 the same 62 respondents operated for 158 nights or an average of 2.5 nights per week in 2010. If we exclude the three respondents which ceased operation by 2010 the relevant figures are 249 total and weekly average of 4.2 nights in 2007 and a total of 158 nights and an average of 2.7 nights per week in October 2010. Between 2007 and 2010 the average nights operated weekly by currently operating nightclubs declined from 4.2 nights per week to 2.7. **This is a decline of 36.5% in the number of nights operated.**

The 36.5 % decline does not allow for the nightclubs which ceased to operate in the period. Inclusion of these will increase the rate of decline in the volume of business.

The data on average nights operated are broadly consistent with earlier INIA surveys when allowance is made for the population surveyed. Earlier research indicated an average of 4.7 nights in 2007 but this survey was more reliant on responses from the larger operators. Earlier surveys indicate that average operating nights declined in 2008 and again in 2009.

Year	Special Exemption Orders Granted	Total Revenue €
2000	74,736	15,694,560
2001	75,498	15,854,580
2002	81,993	17,218,530
2003	86,718	18,210,780
2004	89,716	18,840,360
2005	93,247	19,581,870
2006	91,157	19,142,970
2007	90,691	19,045,110
2008	78,711	20,464,859
2009	64,011	26,244,510

Source: Courts Service Annual Reports, author calculations and 2008 estimate

ceased operation since then might lower that average as it is more likely they would have been the smaller and lower average number nightclubs. If we assume an overall average of 4 nights per week and 379 nightclubs the total number of nightclub SEOs for 2007 was 78,832 or 87% of the official total of SEOs. This conclusion depends on the precision of the estimates of number of nightclubs and average nights per week.

We use the same methodology for 2010. The average weekly nights of 2.7 and the estimate of 300 nightclubs result in a nightclub SEO total of 42,120. This is a decline of 46.6%. This is higher than the survey decline because of the decline in the number of nightclubs and the adjustment to the 2007 average weekly nights.

Relatively conservative assumptions are to assume that nightclubs accounted for 75% of SEOs in 2007 and that the number of nightclub SEOs declined by 40% between 2007 and October 2010. This results in a decline of 27,207 nights. It is reasonable to assume that the bulk of the lost nights were in low demand/turnover nights. On the assumption that average revenue per lost night is €2,000, the 27,000 lost nights account for a revenue loss of €54m. This is a low estimate since we know that some of the decline was due to closures which would have included busy nights as well as low demand nights. Consequently the €54m loss of revenue is a conservative estimate.

The total number of SEOs peaked in 2005 at 93,247 having increased from 74,736 in 2000. In 2007 the number was 90,691. There was a substantial decline to 78,711 in 2008 and a further decline to 64,011 in 2009. Unfortunately nightclubs are not separately identified in these statistics.

The INIA has estimated that the number of nightclubs were 328 in 2008 compared with 430 in 2006. Estimates for this report assumed a total of 379 in 2007.

INIA estimates that the number declined to about 310 in 2009 and to a current level of about 300. Based on the average number of nights and the number of nightclubs it is possible to estimate the number of nightclub SEOs. In the survey we established that the average number of nights per week was 4.2 nights. Inclusion of the nightclubs which

## Impact of Licence Fee on Decline in Nights & Jobs

The decline in the number of nights is due to several factors on both the demand and supply sides. Over this period the economy entered a severe recession. Consumer demand declined greatly, discretionary income declined due to higher taxes and pay trends. Consequently demand for nightclub services declined over the period. However, there is also a supply issue. The decline in demand may have pushed the weaker nights beyond the commercial breakeven point. The increase in the licence fee from €210 to €410 increased the cost of supply and may have resulted in previously viable low demand nights becoming non-viable. This comment relates primarily to the low demand nights. The lower is the turnover the greater is the impact on viability of the current licence fee of €410. The issue becomes one of whether it is cost effective to open on the low demand nights.

To deal with this issue it is necessary to get a perspective on the costs of operating a nightclub on these low demand nights. This will enable a judgement to be drawn on the role of the licence fee. Of course, there are many other costs of operating a nightclub in addition to the licence fee. It would be expected that operators would minimise the costs within their control. Significant costs are outside the operators control or are substantially outside their control. These include labour costs where regulatory minimum wages apply and commercial rates. In addition operators can do little about IMRO costs and the price per unit of energy. A difficulty in estimating the cost per night is the non separation of some costs.

For example, a hotel might operate a nightclub but the commercial rates are absorbed by the hotel and are not apportioned over the night club activities. Exclusion of any direct or indirect costs associated with the operation of the night gives a false indication of commercial viability. All costs should be included. Full costs should include apportionment of administration, rates and other overheads where the nightclub is not a “stand-alone” operation. Variable costs are items such as wages, light and heating, IMRO, PPI (both copyright fees), advertising, security, licence fee and cleaning.

Many costs are not uniform throughout the industry and efficiencies (in energy needs for example) also vary. Pay rates differ and there are city/rural differences. We developed an illustrative cost profile from a variety of direct interviews, inspection of accounts and provision of data from a number of operators. The cost analysis shows that it is unprofitable to open on a low demand night of €2,000 revenue.

The net profit per night on a turnover of €2,000 excluding overheads and before the licence fee is included is €164. Including the licence fee of €410 causes an incremental loss of €246 per night. It is not possible to operate on an incremental cost basis with a turnover of €2,000 per night with a licence fee of €410.

An SEO licence fee of about €200 would allow a revenue/turnover of €2,000 to just about break even on an incremental cost basis. Even this lower fee would be insufficient to cover the full costs of operations. There is very limited scope to economise on the operating costs to the extent of the

Table 3: Cost Analysis

Item	€
Turnover	2000
Turnover excl VAT	1653
Cost of sales	496
Gross profit	1157
Commercial rates	Not included
Admin and other overheads	Not included
Wages/DJ	620
Lighting/heating	150
Insurance	50
IMRO	53
Other	120
Incremental expenses before licence	993
Incremental profit before licence fee and excluding overheads	164
Licence fee	410
<b>Total incremental cost</b>	<b>1403</b>
<b>Total incremental loss(excludes overheads and rates)</b>	<b>246</b>

Source: Interviews with and accounts of nightclub operators

required €200. The licence fee is the only cost where this magnitude of reduction could be achieved.

It is clear that the licence fee of €410 is a very substantial part of the vat exclusive less cost of sales revenue. The share is 35% on a revenue of €2,000. Clearly the licence fee is a lower burden on the busy nights when revenue would be several multiples of the €2,000 level.

A nightclub night is associated with the employment of approximately five person days (composed of about 8 people working about 5 hours each). The additional 14,000 business nights in nightclubs and additional 6,000 night in pubs would be associated with an estimated additional employment of the equivalent of 330 full time jobs. The increased employment would improve the exchequer finances by about €1.7m. **In addition the reduced SEO fee would contribute to the protection of the existing 2,400 jobs in the sector. The decline since 2007 of 27,000 nightclub operating nights is associated with the loss of approximately 600 jobs.**

## Impact of Reducing the SEO Fee

The exchequer loses tax revenue when a nightclub is not operating. On a weak night with a revenue of €2,000 the loss is about €520 in income tax, PRSI, VAT and excise. Commercial rates would be paid regardless of being open or not. In effect the charge of €410 for a licence prevents a tax revenue of €520. An SEO cost of €200 would just allow incremental breakeven and would generate a new tax flow of €520. Every additional night would generate a positive impact on exchequer revenue despite the lower licence fee.

Existing operating nights would also avail of the reduced licence fee and revenue from this source would decline. The overall exchequer impact is determined by the positive tax revenue impact of the increased number of nights generated by the licence fee reduction less the reduced fee from existing nights which would have continued at the higher licence fee. The reduced fee would apply to both nightclub operators and other users of SEOs.

On the assumption that 2010 will have a total of about 58,000 SEOs the tax revenue loss would be €12.2m from a reduced licence fee of €200. We have assumed that of the 2010 total of 58,000 SEOs, 42,000 are nightclubs and 16,000 are others. It is likely that the lower licence fee would stimulate additional nights. As shown above, a fee of €200 per night generates incremental breakeven on a turnover of €2,000 per night which would be achievable on a “quiet” night.

On the assumption that on average 90% of nightclubs would operate an additional night per week the extra nights would total 14,040 and would generate the fee of €200 and the other tax revenue of €520 per night giving a new exchequer flow of €10.1m.

In addition the other users of SEOs would be likely to increase their number of nights. Public houses and bars are the main other users of SEOs. There are about 9,000 pubs in the country with, on our estimates, a total of 16,000 SEOs. On the assumption that those pubs which avail of SEOs use an average of 30 per year this would imply that only about 500 pubs use this facility. An additional non nightclub SEO is assumed to be associated with an additional €170 in tax revenue as well as the €200 licence fee. It would be expected that the tax revenue yield from a nightclub night would be higher than the other users. Some nightclubs and pubs may open late illegally without acquiring SEOs. On the assumption that an additional 500 pubs would utilise about 12 new SEOs per year (one per month) the additional revenue flow would be €2.2m. The overall new revenue flow would be €10.1m from nightclubs and €2.2m from other users of SEOs giving a total of €12.3m. These expectations of additional nights seem reasonable and overall would generate a neutral impact on the exchequer from a lowering of the SEO fee to €200.

In the event of the turnover from the additional nights being operated by nightclubs exceed €2,000 the tax revenue would be higher than estimated above because of increased excise and VAT receipts. A reduction in the licence fee may prevent the termination of some of the existing nights which are provided and would further improve the exchequer situation from what would occur in the absence of the reduction. Additional nights might also contribute to ongoing commercial sustainability and

prevent complete closure of some nightclubs which would further enhance the exchequer position.

On current tight costs and SEO fee it requires a revenue of about €5,000 to generate a net profit of about 5% which is very low as a return to enterprise and capital. A reduction of the fee to €200 would raise the net profit to 9% which is closer to required rates in the absence of substantial borrowing.

Overall, even with substantial nightly revenues the current licence fee of €410 per night is a very substantial cost element.

Table 4 below summaries the Exchequer revenue impact of the fee reduction. This does not include the positive employment related Exchequer impact.

Gross revenue decline	58,000 SEO's @ €210 each	€12,180,000
Gross night club revenue increase	14040 @ (€200+€520) each	€10,108,800
Gross other premises revenue increase	6000 @ (€200+€170) each	€2,220,000
Gross revenue increase	Not applicale	€12,328,800

\*Includes excise and court fee

## Summary

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