

John McGrane – Executive Director – Family Business Network

Opening Remarks to The Joint Committee on Enterprise, Trade and Employment

9:30am Wednesday, 16 November 2022

I would like to thank the members of the Committee for inviting us to speak with you today on the issues that face Family Businesses and the communities that they support in every townland in the country. My name is John McGrane, I am the Executive Director of the Family Business Network, and I am joined by my colleagues Ellen Kehoe, our Chief Development Officer and Aidan Finnegan, our Policy and Public Affairs Manager.

The Family Business Network of Ireland (FBN) was founded in 2013 by leading Irish business families. It represents family businesses throughout the country and has members from a broad variety of sectors, all essential to supporting and driving the Irish economy. Family businesses employ nearly a million people across every town and village in the country and provide billions of euro to the exchequer annually.

Ireland's Family Businesses have shown their resilience, strength and their importance to their communities over the past two years as they weathered back-to-back challenges to their enterprises. Brexit, the pandemic and now a crisis in the cost of doing business due to inflation, have posed and continue to pose significant challenges to our Family Businesses, but these businesses have shown that they are here to stay, supporting jobs and acting as the beating heart of towns and villages up and down the country.

Our Family businesses do not need handouts; indeed, they do not ask for them. What they do need and do ask for is an economic environment in which they are allowed to create jobs, grow and contribute to their local communities.

I want to detail for you today the immediate challenges that threaten the viability of Ireland's Family Businesses but also, I want to briefly touch on the macro challenges and opportunities that we face. We want Ireland to be the best place to start and scale up an indigenous business.

In our most recent survey, our members gave the following as the areas which most concerned them. They were Energy Costs, Labour Costs, Labour Availability, the Cost of Raw Materials and Insurance.

Speaking to members on a daily basis we consistently hear how input costs across their businesses have increased at a pace that they have never seen before. FBN members in the industrial sector have reported to us increases in their fuel costs, that are up 80%, freight costs that are up by 20% and basic raw materials like chemicals and steel, up by 15% and 25% respectively. These cost increases have placed an unprecedented strain on their businesses. We have one member who reported to us recently that the cost of core raw material used in their product increased by a staggering 250% this year alone.

Insurance is an area in which we have seen great work by the legislature, but it is not filtering down to businesses in a way that we believe was intended. We thank the Department of Enterprise, and particularly the Tánaiste and Minister Calleary (and Deputy Troy before him) for the huge focus they have applied to the issue of insurance reform, particularly through the invaluable Cabinet Sub-Group on Insurance Reform. What the Government and the Judiciary have delivered in terms of the Judicial Guidelines, the Garda Insurance Fraud Coordination Office and the Perjury Act, as well as the reform of the Occupiers Liability Act 1995 and the PIAB Act of 2003 due by this year end, has dramatically reduced the cost of claims and the future risk associated with every motor and liability policy in Ireland. In particular, we wish to thank this Committee for its work in ensuring that the Personal Injuries Resolution Board Bill of 2022 received such thorough and efficient scrutiny both at pre-legislative and Committee stages.

However, while this work has helped deliver ongoing reductions in motor insurance premiums, precisely the opposite is happening in the less competitive liability insurance market, with renewals

increasing by an average of 16% since the Guidelines were implemented in April of last year. It is up to Government to get serious with insurers to ensure that the benefits of these reforms are passed on in premium reductions to family businesses, as well as voluntary and community groups, charities and sports and cultural organisations struggling with the costs of staying open.

On the cost of energy, we welcomed the Temporary Business Energy Support Scheme when it was announced in Budget 2023 and understand that it needs EU approval, however the particular details of this scheme cannot come quickly enough for our members. We understand that the drastic increase in Energy costs is due to external issues and believe that the Scheme is a prudent and proportionate response to this price shock.

Lastly, Labour Cost and Availability remain one of the key immediate challenges facing our members. Issues that face the whole country like the Housing Crisis are directly impacting the ability of businesses to attract and retain talent in areas where the crisis is most acute. FBN welcomed the announcement of the Key Employee Engagement Programme (KEEP) in Budget 2018, and its extension in Budget 2023, as a positive step in the right direction. However, over the past four years, feedback from our members is that start-ups, SMEs, and family businesses are unable to avail of the scheme due to the restrictive nature of its conditions. We reiterate that the poor take up of the scheme indicates that its structure is not fit for purpose. Our members are also worried about the increased cost of creating jobs that has been suggested by the Commission on Taxation and Welfare.

This potential increase in the cost of creating a job moves me towards the macro challenges and opportunities that our members face. We note the findings of the Commission on Taxation and Welfare and acknowledge the consensus, that our aging demographics require a re-examination of how we generate exchequer revenue. We think that it was a grave mistake that this was not examined in tandem with examining public expenditure and believe that it is now vital that a Commission on Public Expenditure is established.

Increasing the cost of creating jobs impacts the ability of our indigenous businesses to create these jobs, which will impact our communities, but it will also impact our Corporation Tax reliant exchequer. The more costly we make it to create a job; the more likely it is to go elsewhere. Under the OECD's incoming BEPS agreement, where a company's workforce is located will influence where they pay their Corporation Tax. The Tax will be paid where the company has significant presence. If jobs are lost from Ireland, this will affect the amount of Corporation Tax that can be booked here.

It is exceptional that Ireland is the best small country in the world for attracting FDI, and the Corporation Tax receipts that come with this has allowed the government to increase public expenditure by nearly fifty percent over the last ten years. It is the result of a deliberate national strategy which has grown Ireland's economy into the powerhouse it is today. We continuously advocate that similar foresight and ambitious thinking is needed to be shown by our government to allow our indigenous family businesses to grow, innovate, compete with their global peers and support their local communities. The turbulence in the tech sector in the last few weeks and the resulting job losses show how exposed Ireland is to global shocks. Over the last number of years, FBN and others have warned that Ireland has become overly reliant on the FDI sector, while the exchequer has become dependent on volatile Corporation Tax revenues.

FDI has gotten our economy to where it is today, however, the bedrock of this economy is the family-owned indigenous businesses who will never relocate to another jurisdiction when global shifts occur. It is to the disappointment of our indigenous, non-exporting businesses that they have not enjoyed the same world-class, world leading national strategy that is enjoyed by their FDI and export-focused peers. We have brilliant state agencies that implement these strategies, the IDA for attracting FDI, Enterprise Ireland to assist businesses as they look to export and LEOs to incubate businesses at the start-up phase. What is missing from this equation is a body to support the non-exporting 'M' in SMEs, the medium sized indigenous businesses, who may be unsuited to exporting but who could benefit from advice and assistance as they seek to scale their business and create more jobs in their

communities. Be it under the umbrella of Enterprise Ireland or a standalone agency, we encourage the members of this Committee, and the Government, to examine the feasibility of such an agency. This agency could also deal with the worrying contention that Irish SMEs have lower productivity than their continental peers, according to the OECD.

It is critical that Government policy is focussed on both dealing with the challenges that face businesses immediately but also on seizing the opportunities that lie ahead by even now, in the midst of a crisis, looking forward to the medium to long term. The Government should aim to make Ireland the best small country in the world in which to establish, scale up and pass a successful employment-sustaining business onwards to the next generation of Ireland's job creators.

Thank you again for your time, my colleagues and I are happy to take any questions you may have.