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Aileen Fallon
Clerk to the Committee (Work Programme)
Special Committee on Covid-19 Response

Email: covid19@oireachtas.ie

23 June 2020

Dear Committee Clerk,

Following your letter dated, June 2nd the SFA thanks you for the invitation to make a written submission to the Special Committee on Covid-19 Response. Unfortunately, the Small Firms Association was not able to provide views on the issues under consideration by the Committee, at that time.

Instead we write to the Committee outlining the current economic challenges facing Ireland's small firms and the policy measures needed to bring about an economic recovery.

Thank you in advance for your close consideration of our position.

Sincerely,

A handwritten signature in blue ink that reads 'Sven Spollen-Behrens'.

Sven Spollen-Behrens
SFA Director
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The Small Firms Association proudly represents a diverse membership of businesses with less than 50 employees; homegrown and spanning every sector of our economy. Our members are found in every town and every city in Ireland.

There are over 265,000 small businesses in Ireland. Small firms are a driver of economic growth, key players in cross-sectoral and cross-regional value chains, enablers of innovation and employ nearly 760,000 people – half of the private sector workforce in Ireland. Together with larger companies, they also have a central role to play in achieving an economically competitive Ireland including environmental and social goals.

The past three months have been especially challenging for small firms, the recent sustained lockdown is likely to lead to bankruptcy and closure of many businesses. Looking at recent data from the height of the crisis, Revenue statistics showed that two thirds of Irish small business employing less than 10 employees are now in receipt of the Government Temporary Wage Scheme (TWSS). SFA acknowledges that unprecedented steps have been taken in recent weeks to shield small businesses from the devastating impacts of COVID-19 through a range of supports and initiatives such as the TWSS. Nevertheless, to alleviate uncertainty and maintain competitiveness, as we move the economy forward after COVID-19, the longer-term focus of government department, agencies and all public representatives must be to priorities areas that will benefit small firms.

To understand how business in Ireland has responded to the crisis in the short-term and to explore longer-term impact, Ibec conducted a comprehensive leaders' survey of its membership. Engagement amongst small firms was exceptionally strong with over 292 small business owners responding to the survey from across business.

Nearly three-quarters of small business owners (74%) expect to return to preCOVID-19 levels of demand within 12 months after restrictions end.

Lay-offs or short-time working for employees was the most common action undertaken by small firms because of COVID-19 (42%). A similar proportion (40%) had reduced production levels because of the COVID-19 crisis. One fifth (20%) redeployed staff and around 18% temporarily closed down their organisation. On a positive note, (14%) diversified their product offering to meet altered demand. A smaller proportion (8%) expanded their product levels during this time.

Respondents in general were expecting substantial decreases in turnover (64%) and profitability (62%). 45% expect employee numbers to stay the same with a third expecting a slight decrease in staffing.

Over two fifths (41%) expected their order books to decrease substantially, and less than half (49%) expected a significant decrease in domestic sales over the next 12 months. Half of small

business owners (51%) indicated that they would have cash reserves for less than 3 months and 50%.

Half of respondents (52%) indicated that deferred rates or tax bills would be most useful to their organisation in returning to business as usual, post COVID-19. Rate bills write-off (49%) and Direct cash grants (46%) and Supports for upskilling/reskilling of staff (33) were also identified. Use of remote working (63%), flexible working (49%), changes to physical workspaces (53%), as well as employees' changed approach to work life balance (39%), are all identified as key long-term implications of this crisis for small firms in general. Two fifths of respondents (40%) expect to increase their investment in technology over the longer term, while over a third (34%) expect a heightened focus on online sales/services in the future.

Around a third of small firms (31%) expect a different model for their business over the longer term, with 15% looking at shorter supply chains.

The possible move to more online sales (34%), coupled with greater use of remote working (63%) and increased investment in technology (40%) point to a more virtual way of conducting at least some aspects of business into the future.

Contrary to hope this health and economic crisis will not be temporary and will last well into 2021. Current unemployment levels point a stark picture of the impact of COVID-19. Unemployment had jumped to 28% according to the new COVID-19 adjusted unemployment rate. At the height of the crisis, Revenue statistics showed that two thirds of Irish small business employing less than 10 employees were in receipt of the Government Temporary Wage Scheme. All sectors have seen an increase in unemployment over recent weeks, the sectors most impacted are retail, accommodation, hospitality and construction. These firms are labour intensive, regional spread and include many small firms.

Confidence improved somewhat in May after collapsing in April. However, the KBC Consumer Sentiment survey indicated that Irish consumers are still worried about current circumstances and prospects and a large majority of those surveyed expected austerity in coming years. In 2019, the inflation rates in Ireland remained low 0.99%. In January Ibec forecast a modest increase of 1.3%. This forecast has now been decreased to 0.5% for 2020 and 1.2% for 2021. During this period, there is also a growing risk of a cliff-edge Brexit happening in December 2020, ongoing uncertainty about global tax reform, and a prolonged reduction in global economic capacity.

Unprecedented steps have been taken in recent weeks to shield small businesses from the devastating impacts of COVID-19 through a range of supports and initiatives. However, as we move the economy forward more needs to be done to support small business survive this difficult time. The SFA welcomes the acknowledgement and commitments to sustain and grow productivity amongst SMEs in the recently published Programme for Government.

For small businesses to bounce back when this health crisis is over, the SFA is calling for the introduction of the following measures:

Continue to enhance the suite of liquidity and debt forgiveness supports for business: the scale of public supports provided to address the liquidity crisis remains far behind those in most other countries and further measures such as low or zero cost loans, export credit insurance and extended state guaranteed loans are urgently required.

The restart grant scheme which, is linked to 2019 rates bills, has the potential to be cumbersome, operationally inefficient, and lacking sufficient scale to make a difference. As of the 12 June, only 5,085, approvals have been made out of 23,351 applications. While it is good to see money reaching firms – there’s a backlog of applications that need to be processed and application levels are considerably low. SFA recommends instead that the State introduce a grant Programme of €15,000 in no-strings cash in line with other countries such as Germany, the UK and Denmark.

Revenue’s tax ‘warehousing’ scheme has significant potential to help impacted small firms to carry on trading for the period of COVID-19 disruption. Guidance under this scheme must provide for a continuation of the scheme for firms which are impacted by containment measures or significantly capacity constrained by social distancing measures. Revenue should also ensure follow through on accelerated payment to businesses of VAT bad debt relief, Section 481 relief, the R&D tax credit and other payments which impact on liquidity. Revenue should also waive any fines relating to the underpayment of corporate tax filings based on 2020 provisional estimates.

Set up a SME Reboot Taskforce: we welcome the announcement that the next government will establish a SME Growth Taskforce to design a National SME Growth plan that will map out an ambitious long-term strategic blueprint beyond COVID-19. This growth plan should follow the OECD SME and Entrepreneurship roadmap to bring about a reboot and growth within the small business community.

Upskilling SME management and workforce: in order to bring about a reboot in the economy and to retrain those who have lost their jobs because of the crisis, in the next three years the State must focus on delivery focused SME upskilling, particularly in the area of management skills and digital skills to bring about greater innovation. Despite the challenges facing the economy in the future we must continue to invest in Skillnet Ireland and other training providers to ensure all employees have the necessary skills to adapt to changes in the economy.

SME Business Environment: the commercial rates exemption in our opinion does not go far enough in tackling debts built up by small firms during the lockdown. SFA recommends providing funding to local authorities to extend the rates exemption for impacted companies to six months and to support a further six-month deferral. There should be consideration given to extending the duration of these supports for all companies.

Pre-COVID-19 there were notable challenges impacting negatively on the ability of SMEs to establish and prosper within Ireland. High legal and insurance costs, access to finance, rising labour and utility costs and government-controlled costs and increasing tax and business administration. Addressing the cost of doing business will assist in helping the economy to recover as we deal with the COVID-19 crisis.

Addressing issues such as SME engagement in public procurement, access to broadband and childcare costs and ensuring investment infrastructure projects outlined in the National Development Plan are maintained will be essential if we are to sustain small firms and protect jobs.

It is also important that we do not increase regulatory barriers, at this time, and that start-ups are encouraged to form during the economic recovery in order to meet the demands of new markets and provide employment.

As we look to linking our economic recovery strategies to the goals of the EU Green Deal. Clear and definite environmental targets, policies and incentives must be set to help small businesses know what they need to do in enough time to transition to a low carbon economy. Furthermore, providing small businesses with additional State supports to identify and exploit opportunities from the green economy as they emerge will spur the small business community toward a low carbon economy.

Unfortunately, not all small firms will survive the COVID-19 related disruption to their operations. Therefore, we recommend reform of the insolvency and restructuring laws in order to reduce the cost and impact of business insolvency on small firms.

Taxation: If we want to return the economy to a sustainable growth path and get behind SMEs, tax reform must be activated to work towards these goals. We welcome the announcement of the establishment of a Commission on Social Welfare and Taxation which we hope will address both the immediate tax revenue challenges of the crisis and a range of other long-term issues affecting SMEs. We propose the reintroduction of the 9% VAT rate for hospitality and related sectors for the remainder of 2020 and all of 2021.

The above highlights the growing concern amongst small businesses that more needs to be done by the States to support small businesses at this time and that measures need to be introduced now to ensure that the reboot is felt across the country, throughout the economy and that its impact is sustainable and job rich.