

Small Firms Association

Submission on the cost of doing business

Presented to:
**Joint Oireachtas Committee on Jobs,
Enterprise and Innovation**

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Introduction

The Small Firms Association (SFA) is the trusted partner of small businesses (less than 50 employees) in Ireland, with 8,500 members and four affiliated organisations, in all sectors and parts of the country. Its mission is to deliver business-focused advice and insights to member companies, influence government policy to the benefit of small businesses and connect its members in a thriving community.

The SFA has a vision of Ireland as the most vibrant small business community in the world – supporting entrepreneurship, valuing small business and rewarding risk takers. The SFA makes this submission to the Joint Oireachtas Committee on Jobs, Enterprise and Innovation based on our knowledge and experience of the small business community, which comprises over 245,000 businesses, employing half of the private sector workforce.

Overview

Confidence among the small business community increased strongly over the first six months of the year. 61% of Small Firms Association members feel that the business environment is improving and half say their own businesses are growing. Almost three-quarters intend to invest in their businesses in the coming year with brand development, staffing and IT as the main investment priorities. 60% will create additional jobs.

These are positive signals that emerged from the SFA's Summer Business Sentiment Survey. They are significant for the broader economy as 98% of all businesses in Ireland are small firms (less than 50 employees) and one in every two people working in the private sector is employed by a small business. They account for one third of the value of the Irish economy and of business investment. Small firms are also key to the vibrancy of our regions, as they represent more than half of total employment in 21 counties.

If we look beyond the headline sentiment statistics, however, the outlook for small firms is much more mixed. Despite an upswing in recent months, small business confidence is still below the levels we saw this time last year, not least due to the impact of Brexit. In this context, it is more important than ever that competitiveness, including cost competitiveness, is at the heart of government policy. The SFA calls on the Government to place the same importance on competitiveness over the coming years as they placed on macro-economic stability in the period following the financial crisis.

Priority cost concerns

On 1 June 2017, the National Competitiveness Council stated once again that Ireland remains a high cost location with numerous barriers and disincentives for entrepreneurs and established businesses. This is the reality being faced by members of the SFA every day. Many operate in low margin environments, making it difficult for them to absorb cost increases. On the other hand, the post-crisis marketplace and demand for value makes it impossible for many to pass the increase onto customers.

In the latest Summer Business Sentiment Survey, members indicated that curbing the business costs over which policy makers have influence is among the top initiatives that could be taken to boost small businesses. Improving the cost competitiveness of Irish small firms has also been ranked as the second most important step that the government can take to Brexit-proof the Irish economy.

The specific costs that SFA members have identified as most in need of attention are (in order of concern):

1. Labour costs
2. Insurance costs
3. Local Authority rates and charges

General proposals:

- Examine cost monitoring already in place through the CSO, the National Competitiveness Council and other bodies, and make changes if needed in order to ensure that policy makers have access to robust data on business costs.
- Design a method for relevant departments to respond to the findings of the monitoring in a structured way and take action to curb costs that are found to be rising.

1. Labour costs

Notably, SFA members identified labour costs as the number one risk to small firms over the coming year, alongside Brexit and ahead of domestic economic stagnation, difficulties in attracting talent and firm indebtedness. When asked specifically about cost concerns, labour costs ranked number one for businesses in every sector and region, from micro enterprises (less than 10 employees) up to firms with 50 employees.

There are a number of elements of the labour cost challenge that relate to government policy. One of the main issues affecting all employers is the administrative and compliance burden placed on them. There are over 40 pieces of employment

legislation that employers must understand and adhere to, with many involving significant monitoring, record keeping and reporting.

The administrative requirements of taking on a part time job seeker who is also in receipt of social welfare payments is the cause of particular frustration among small businesses. One small employer described the challenge:

“I currently have four part time staff who are on the social welfare system...the administrative work is crazy, weekly forms are posted out (monthly) to the staff who then have to deliver them to my office, I then have to fill in these forms every week and then post them to all of the different Intreo centres... This creates all sorts of headaches...”

The SFA appeals to the Committee to remain alert to the administrative and compliance burden on small businesses when examining all draft legislation. It was notable that much of the Committee’s work earlier in the year was based around proposals that would decrease the flexibility available to employers and significantly increase the financial and administrative burden on them. These debates cannot be had in isolation – they are closely connected with the cost of doing business in Ireland.

Wage rates are also significantly impacted by government policy. Increases in public sector pay and the minimum wage often drive unrealistic pay expectations across the labour market. If the Government accepts the Low Pay Commission’s latest recommendation of a 30c per hour increase in the minimum wage, then by 1 January 2018 the minimum wage will have increased by more than 10% in two years – well ahead of inflation and of average wage increases in the private sector.

Employer taxes must also be examined in terms of labour cost pressures on businesses. This is particularly timely given the indication that employer PRSI will increase in the next three budgets in order to collect a larger levy towards the National Training Fund.

Labour cost proposals:

- Ensure that labour cost impacts form part of the SME test, the development of which is an action under the Action Plan for Jobs 2017 (due for delivery in Q4 2017).
- Address specific cost of living pressures, e.g. housing and childcare, with targeted policy interventions, preventing them from driving wages up unsustainably.

2. Insurance costs

Small businesses are currently facing an insurance costs crisis, with 81% of SFA members experiencing a rise in premiums since last year. Increases are across motor

(80% of survey respondents), public liability (71%), employer liability (60%) and other categories including buildings and professional indemnity.

There are many parties whose actions impact the insurance landscape, including government, regulators, the judiciary, the legal profession, the insurance industry and individual claimants. They interact directly and indirectly to create the rules and expectations that prevail.

The environment is complex but there are a number of clear actions that could be taken to alleviate the current crisis, reduce the pressure on small businesses and create a more sustainable insurance environment in Ireland.

Insurance cost proposals:

- Introduce a new methodology for the Book of Quantum
- Move to a care not cash approach to compensation
- Increase competition in the insurance market
- Combat fraud
- Review the powers of the Injuries Board

3. Local Authority rates and charges

Local businesses, not central government, are the primary source of income for local government in Ireland (accounting for more than one-third of the local government budget). Thus local authorities have a significant impact on business conditions and cost competitiveness in their locality through commercial rates and other charges.

Costs imposed by Local Authorities ranked as a significant concern for many small businesses. Businesses are increasingly questioning what services they get in return for payment. Primary responsibility for water and waste collection services have been transferred away from Local Authorities and businesses now pay separately for these. Meanwhile there has been little return in terms of new service provision from the Local Authorities. In essence, commercial rates are a form of local taxation, mostly to fund services that businesses do not consume.

Local Authority cost proposals:

- Rebalance Local Authority budgets so that more of a contribution is coming from those who use services, i.e. domestic households.
- Modernise the revaluation/commercial rates system. The current system is outdated and no longer fit for purpose.

Other cost concerns

There are a range of other costs flagged as concerns by SFA members, over which policy makers have influence:

- Commercial rents, in particular the persistent issue of upward-only rent reviews
- Energy costs, especially the disproportionate amount of the PSO levy derived from commercial users
- The administrative burden of engaging with public bodies – for example the dilemma facing many small businesses of whether to devote their resources to direct sales or to engaging with agencies such as Enterprise Ireland, and the cost to businesses of tendering for a public contract only for the tender to be withdrawn, as has become commonplace.
- The cost of finance, as small business loans continue to be subject to interest rates significantly above the average in comparable EU countries

Conclusion

The cost of doing business can have a huge impact on small business survival, job creation and profitability. There are a range of business costs that are impacted by government policy, making it difficult for firms to shop around, negotiate or substitute, as they can with other costs facing them. In many cases, changes in government-influenced costs bear no relationship with the performance of the business, leading to reduced profitability or higher consumer prices.

There is a wealth of business cost data and analysis available from the National Competitiveness Council. This information, for example from the annual 'Cost of Doing Business in Ireland' report, should be better utilised by policy makers and form the basis for policy actions, or indeed for the rejection of certain proposals that would increase the cost burden on businesses.

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