

THE VOICE OF SMALL BUSINESS



A Plan for Action



The Advisory Group for Small Business

Jim Barry | Sherri Brennan | Patricia Callan | Tim Fenn | Mark Fielding | Paul Gallagher
Jacqueline Hall | Tom Hayes | Conor Healy | Declan Hughes | Ian J. Martin | John McDonald
Eamonn McHale | Vincent Reynolds | John Ryan | John Trethowan

The Report of the Advisory Group for Small Business

Small firms play a significant role in Ireland's economy. Almost 200,000 small firms involve over 655,000 people in their operations. That's about half of all people engaged in businesses in Ireland.

We know that small firms have a lot more to offer. Times are very challenging at the moment - but we can address some of the immediate pinch points that are affecting owner/managers and CEOs on a day-to-day basis - and set the scene for future growth.

Our collective knowledge and insights have informed our first report. We have focused on identifying ways to address barriers to growth; to help small firms compete on a level playing field; and to help small firms to help themselves.

Through the Chair of the Advisory Group for Small Business, Minister John Perry, T.D. we present our first report to the Taoiseach, Enda Kenny, T.D.

Jim Barry	Barry Group
Sherri Brennan	Skip Trans and Chambers Ireland
Patricia Callan	Small Firms Association
Tim Fenn	Irish Hotels Federation
Mark Fielding	ISME
Paul Gallagher	Buswells Hotel and Irish Hotels Federation
Jacqueline Hall	Partners in Communication
Tom Hayes	Enterprise Ireland
Conor Healy	Cork Chamber of Commerce and Chambers Ireland
Declan Hughes	Forfás
Ian J. Martin	Martin Services (Industrial) Ltd. and SFA
John McDonald	Mediateam
Eamonn McHale	Department of Jobs, Enterprise and Innovation
Vincent Reynolds	County and City Enterprise Boards
John Ryan	Certification Europe Ltd and ISME
John Trethowan	Credit Review Office

Advisory Group for Small Business, Chaired by Minister John Perry, T.D.

Research and Analysis, Forfás:

Maria Ginnity Céline McHugh Adrienne Costello

Secretary, Department of Jobs, Enterprise and Innovation:

Celestine Nolan

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Executive Summary

There are almost 200,000 small businesses in Ireland involving over 655,000 people¹. A significant proportion of these firms employ less than 10 people. Many trade on international markets, and there is potential for many more to internationalise. Many will continue to focus exclusively on the domestic market and to remain small by choice. Small firms are involved in a broad spectrum of sectors and activities; including: software, medical technologies, food production, digital content, tourism, retail and wholesale, business, professional and personal services - many of which are high employment generators². Small firms are regionally spread and contribute to building a community, to developing a sense of place and to enhancing a location's attractiveness as a place in which to live and to do business. This is what makes small business both interesting and challenging in terms of future development.

We are directly aware of the severe impact that the challenging economic environment has had, and continues to have, on small businesses in Ireland. There were 8,000 fewer small businesses and 105,000 less people employed by small businesses in 2009 than there was in 2007. Many small firms are trying to sustain their operations and to navigate their way through this recession.

It is vital that the voice of small business is heard by government - and that the necessary actions are taken to address the very real issues facing them. It is about survival in the first instance, and maintaining what we have. We contend that by addressing some of the immediate pinch points that are affecting owner/managers on a day to day basis, the scene can be set for future growth.

We have brought our collective insights to bear on prioritising what needs to be done in the short term and this, our first report, sets out our plan for action (page vii). We have taken the constraints on exchequer finances into consideration. In most cases the actions are cost neutral, although need a prioritisation of resources to deliver on them. A very small number require funding. The benefits will outweigh the costs - through sustained employment in small firms throughout Ireland in the first instance and a more solid basis for growth and job creation.

Big Ticket Items

The following issues are well known, although finding a workable solution does not appear to be straightforward. While some steps are being taken, we contend that not enough is being done to address the root of the problem in some instances and to deliver the structural reforms needed.

Lending Facilities and Access to Finance

We are aware that progress to date may have been impeded to some extent by the lack of credible current data and analysis of credit supply and demand. We also acknowledge that there are two sides to every story.

The fact remains - access to credit is *the* single biggest issue facing small firms today.

As a first and critical step, government focused primarily on improving the inflow of capital to the banks. The focus now needs to be on improving the outflow to businesses. Of particular importance in the very near term is the implementation of the proposed Micro Finance Fund and

¹ Small businesses are those with less than 50 people engaged

² Over the period 2000 to 2007, before the recession hit, over 172,000 net jobs were created in small enterprises involved in services

the Partial Credit Guarantee scheme that are currently being developed. We also need increased certainty and a more positive disposition by the banking sector toward small business and an understanding of our needs and potential for growth. Small firms themselves can also take action to ensure that they are equipped to present a credible business plan to their banks³.

Labour Market Costs and Flexibility

Despite cyclical adjustments, current wage levels continue to negatively impact on small firms based in Ireland. Small firms, even those trading on the domestic market, face international competition for business here. Labour costs make up a significant proportion of input costs. The labour cost differential alone between Ireland and neighbouring markets places small Irish businesses at a considerable competitive disadvantage. The National Minimum Wage and other wage setting mechanisms (including EROs and REAs⁴) are particularly relevant to and onerous for businesses operating in retail, tourism and other 24/7 services.

We acknowledge that there is a complex interplay between wage rates, social welfare, a competitive tax wedge, other wage setting mechanisms and Ireland's cost competitiveness. Whatever the complexity, a coordinated national labour market policy is needed urgently to restore labour cost competitiveness and to incentivise work and recruitment.

Local Authority Structures

As well as the costs of delivering services, the costs of running, managing and housing the existing structures of local authorities need to be funded in some way. Central funding goes some way toward meeting these costs - but the stated aim of government is to reduce this over time. Currently, the other primary source of funding is business. In Section 4 of the report we outline actions that should go some way to reducing the rates burden and other charges for small firms. Fundamentally, however, we contend that the existing local authority model needs to be restructured.

While we welcome the *Report of the Local Government Efficiency Review Group* (LGERG) published July 2010, and ask that cost savings be passed on to firms, we contend that this does not go far enough. The LGERG itself states that its approach to implementing its recommendations will depend on the final decision of Government in relation to structures. We need to see immediate progress on the *White Paper on Local Government Reform* - with perhaps some radical thinking brought to bear.

Priority Actions for the Short Term

Notwithstanding the need for real progress in relation to the big ticket items, we have set out a number of actions that need to be taken in the immediate term:

- Helping Small Businesses to Compete on a Level Playing Field:
 - Costs of Doing Business - reducing the cost burden on small firms;
 - Facilitating Access to Public Procurement for Small Business;
 - The Hidden Economy - tackling an issue that undermines the legitimate firm; and
 - Competitive Practices.

³ See Section 4 Managing out of a Crisis, and Management Development for Growth

⁴ Employment Regulation Orders (EROs) and Registered Employment Agreements (REAs)

- Helping Businesses to Help Themselves:
 - Improving Cash Flow - releasing working capital for businesses;
 - Managing out of the Crisis - mentoring and advice;
 - Management Development - Start Right and aiming for Growth; and
 - Making it Easy to Access Information.
- When Things Go Wrong - Insolvency and Debt Resolution.

Costs of Doing Business

While Ireland's cost competitiveness has improved since 2008 most of the recent price falls are more likely to be as a result of the downturn⁵. Businesses can, and should, take steps to improve cost efficiencies themselves. We recognise that there are limitations in what the government can do to address cost factors within their control. But every possible avenue needs to be exploited to reduce costs and to enable small firms to compete on a level playing field - whether against domestic or international competition, and whether trading locally or in overseas markets. Beyond labour costs, we have focused on the areas of energy costs and commercial rates; and given its increasing impact on small firms, on the cost to business of regulations. There are a number of inter-related actions proposed given that no one action will resolve the entire costs issue.

Access to Public Procurement for Small Business

The public sector is a significant purchaser of a wide range of supplies and services. It can play a vital role in stimulating domestic activity, and is a strong reference for companies targeting opportunities for exports. There has been some progress in recent years through the work of the National Procurement Service and the Department of Jobs, Enterprise and Innovation. Enterprise Ireland has set up a dedicated procurement team working with SME companies in its client portfolio. We welcome the establishment of a steering group on SME access to Public Procurement by Minister Bruton, T.D. last July. However, gaining real traction remains problematic and we see progressive initiatives underway in other countries. It is a case of much done, more to do.

We have set out the main areas that we consider important in the short term to facilitate small firms' access to public procurement opportunities. Actions are focused on providing training and developing capability, facilitating collaboration between firms to take advantage of complementary offerings, enhancing access for innovation and supply chain opportunities and establishing an appeals mechanism.

The Hidden Economy

Many people consider that it is just the tax man that loses out from hidden economy activities. However, the loss of tax revenues means that there are fewer funds available for the delivery of government services and infrastructures - this affects everyone in society. The hidden economy also has a detrimental impact on legitimate businesses - weakening their sustainability and the jobs they create. The areas of undeclared cash for services and illicit tobacco trade are particularly problematic for small businesses. It is important, too, that entrepreneurs have a good basic understanding of what is required in order to be tax compliant from the very start of running a business.

⁵ Ireland's international cost competitiveness is now at February 2003 levels, *Costs of Doing Business in Ireland 2011*, Forfás & NCC

A whole of government commitment to combating the problem would be demonstrated if an inter-departmental approach was taken to promoting an awareness campaign to highlight the implications for the Irish economy, jobs and society. Other actions proposed involve a social welfare *Start Over* initiative, amendments to the process for taxing commercial vehicles, the introduction of container scanners at Irish ports, increased judicial penalties and a *Start Right* initiative for entrepreneurs.

Competitive Practices

We are conscious of the need to encourage competition and increased productivity and to protect the consumer interest. It is important too, that a balance is struck between consumer and competitiveness interests and the objectives of job creation and retention.

Small grocery retailers and off licenses are struggling to compete with larger supermarket retailers with deep pockets who are utilising below cost selling tactics (particularly for alcohol) to generate increased foot-fall. We propose that a voluntary code of practice relating to alcohol sales should be developed and adhered to by the industry - supported by a strong signal from government about the importance of small retailers.

The increasing consolidation of major players in Ireland's grocery sector is also of concern to the small retailer. We think that a medium to long-term perspective should be developed to assess the potential structure and development of the grocery retail sector and the potential impact in social and economic terms in light of current trends.

Improving Cash Flow

The challenge that small businesses face in accessing finance is exacerbated by cash flow difficulties that owner/managers and CEOs face on a day to day basis. Cash flow, or the lack of it, is a genuine threat to the survival of some small firms. A number of the initiatives we propose involve government directly, and acting upon them would release much needed funds to circulate in the economy - helping businesses to help themselves.

We suggest ways in which the main concepts of the Prompt Payments Rule can be extended to include semi-state commercial entities and second tier suppliers to the public sector. Firms themselves can play a role by entering into a voluntary code of conduct for payments.

The practice of advance payment of taxes by firms has a direct impact on cash flow for small firms. We propose the abolition of the Professional Services Withholding Tax and an adjustment to the process for preliminary payment of Corporation Tax. We contend that these are relatively low cost ways to effect a tangible cash flow benefit to cash-strapped small businesses in the current environment.

Managing out of the Crisis - Mentoring and Advice

Many owner/managers that are running businesses today have been operating during a boom period, with success made easier by high levels of demand. Today, these owner/managers are working in a very different environment. They are living day-to-day, often afraid to admit to the seriousness of the situation in which they find themselves. When faced with severe difficulties, many don't have the confidence to see their way out of the problem, or even where and how to start tackling it. This is a very serious and indisputable issue. We need a quick and timely response to address concerns specific to an individual company.

While our analysis shows that there are some initiatives in place to support firms in crisis, there still appears to be an unmet business need, particularly for the broad cohort of micro and small firms trading on the domestic market. We suggest the establishment of a freefone service for a

period of two years to deliver crisis management services specifically. This requires the reassignment of a small number of agency personnel and leveraging existing public and private resources already in place. An active monitoring system would facilitate real-time assessment of demand/supply.

Management Development - *Start Right* and Aiming for Growth

The freefone initiative outlined above should not be interpreted as replacing initiatives to stimulate demand and take-up of more structured management development and capability programmes. Research shows that there is a strong relationship between management practice and business performance. Improved management practices are associated with large increases in productivity, sales growth and return on capital employed⁶.

Getting off to the right start is key, and we'd like to see greater take-up of existing Start Your Own Business Courses, and a consistency in standards across all providers. We would also like to see funding being made available to deliver on the recommendations in the Management Development Council's report⁷ with the objective of improving the management capability within all Irish firms. Funding should be allocated from the National Training Fund - to which firms contribute.

Making it Easy to Access Information

A recurring theme for small businesses in Ireland is that it is difficult to get the information they need, as and when they need it, and in a way that is easy to understand. In this internet era there is a plethora of information available online, accompanied by down-loadable guides, brochures and documents. As well as that, the range of bodies/agencies/providers (both public and private) makes for a very busy and complex space for entrepreneurs and for small firms to navigate.

We propose a number of inter-related actions, including the implementation of a *Plain English* initiative across all government departments, the establishment of a web portal for small businesses (leveraging the range of existing relevant websites) and improving the availability of data relating to small business performance.

Personal Insolvency

The reality is that firms do, and will, fail in these very difficult economic times. The closure of any business is stressful - and for proprietors that have personal loan guarantees in place, it is even more so. The commitment within the EU-IMF Agreement to provide for a new structured non-judicial debt settlement and enforcement system that provides for an alternative to court supervised proceedings needs to be advanced as a matter of priority.

Corporate Insolvency - Small Business Schemes of Arrangement

The costs associated with corporate debt resolution poses a problem for small businesses in difficulty. There are often prohibitive costs involved in pursuing the examinership route, as opposed to liquidation or alternative schemes of arrangement. The proposed amendment to the new Companies Bill that increases the threshold at which an examinership hearing can take place in the Circuit Court (as opposed to the more costly High Court) is a first step. The Law Reform Commission's proposal to bring small businesses within the provisions of a new non-judicial debt

⁶ *Management Matters in Northern Ireland and the Republic of Ireland*, McKinsey & Co and Forfás, 2009

⁷ *The Report of the Management Development Council*, February 2010

settlement system is also positive. The Advisory Group for Small Business (AGSB) will give more detailed consideration to the emerging proposals (and to alternatives) over the coming months.

We will also consider options for action to address the issue facing self employed business owners who cannot claim social welfare benefits, because they (must) contribute at a lower class of PRSI.

Conclusion

It is worthwhile saying it again. There are almost 200,000 small firms operating in Ireland today. Over 655,000 people are involved in their operation. That is almost half of all people engaged in businesses in Ireland. They contributed €26.5 billion to Gross Value Added in the economy (2009).

The Advisory Group for Small Business has advanced an open discussion between businesses, the enterprise development agencies and Government. The result of our past 3 months work has been this report and plan for action. We're keen to see it progressed and delivered upon.

Small companies (and the State) are navigating through a difficult period. We have intentionally narrowed our focus on key issues and barriers to growth at this stage of our deliberations.

Many of the actions outlined here are about enhancing Ireland's business environment. By improving the business environment for small businesses, all businesses in Ireland will benefit, and small businesses will thrive.

Firms too, have a role to play, particularly in terms of cost efficiency management, and in coming to the table to take up initiatives - to ask for help, to develop management capabilities and to enhance basic business planning skills (where relevant).

As stated earlier, we have been cognisant of the constraints on exchequer funding and most of the actions require a reallocation as opposed to additional resources. The investment will pay dividends in terms of sustaining a strong base of small companies and setting the scene for growth and for retaining and creating jobs.

This is a rolling agenda for small business. In the next phase of our deliberations we will consider other aspects to enhance growth prospects, including enhancing innovation and productivity and stimulating sustainable entrepreneurship.

Areas for Action			
1	Lending Facilities and Access to Finance	7	Competitive Practices
2	Labour Market Costs and Flexibility	8	Improving Cash flow
3	Local Authority Structures	9	Managing out of the Crisis
4	Costs of Doing Business : Energy, Rates and Regulation	10	Management Development for Growth
5	Enabling Access to Public Procurement	11	Access to Information
6	Hidden Economy	12	Insolvency and Debt Resolution

A Plan for Action

The actions below are all short-term in terms of their priority for small businesses and we need them to start at the earliest opportunity. The delivery timeline indicated acknowledges that actions will vary in terms of the length of time required to implement fully; so:

Immediate	= action can be fully implemented by end 2011
Short	= action can be fully implemented within 6 months
Medium	= action can be fully implemented within 12 months
Long	= action can be fully implemented within 18 months

No	Action	Lead Responsibility	Indicative Delivery Timeline	Page Ref
1	Lending Facilities and Access to Finance			9
	<ul style="list-style-type: none"> ▪ Address the needs of small business as a matter of priority ▪ Implement Partial Credit Guarantee scheme ▪ Implement Micro Finance Fund 	DJEI	Short	10
2	Labour Markets Cost and Flexibility			11
	<ul style="list-style-type: none"> ▪ Implement a coordinated national labour market policy incl. Social Welfare, NMW, competitive tax wedge and other wage setting mechanisms 	DJEI/DoF/DSP	Medium	12
3	Local Authority Structures			13
	<ul style="list-style-type: none"> ▪ Progress the White Paper on Local Government Reform 	DECLG	Medium	14
4	Costs of Doing Business			15
4a	Energy Costs:			
	<ul style="list-style-type: none"> ▪ Abolish subsidies for peat generated electricity ▪ Review future subsidies provided through the REFIT scheme ▪ Review timeframe of grid investment plans ▪ Introduce compare price & contract conditions ▪ Raise awareness among SMEs on reducing energy use and provide relevant advisory services and supports 	DCENR DCENR Eirgrid/CER CER SEAI/IDA/ EI/ CEBs/Ind. Assoc	Medium Medium Short Immediate Immediate	16-17
4b	Commercial Rates:			
	<ul style="list-style-type: none"> ▪ Accelerate introduction of broad based property tax and water charges and ensure that the burden of any reduction in the General Purpose Grant will not fall to businesses ▪ Review regulations regarding payment of commercial rates and implement standard Code of Conduct for Local Authorities. ▪ Advance a range of solutions to reduce costs: 	DECLG DECLG	Immediate Medium	17-18

No	Action	Lead Responsibility	Indicative Delivery Timeline	Page Ref
	<ul style="list-style-type: none"> - Implement recommendations of report of Local Government Efficiency Review Group - Direct Local Authorities to lower their Annual Rate on Valuation for 2012 - Accelerate the national Revaluations Process 	DECLG	Long	18
4c	Cost Burden of Regulations: <ul style="list-style-type: none"> ▪ Report on progress to date towards Government 25 % reduction target ▪ Introduce common commencement dates for domestic legislation. ▪ Develop & implement easy-to-use templates in areas relevant to small businesses ▪ Audit and review multiplicity of licenses required by businesses. ▪ Improve cooperation between State inspection & enforcement bodies incl. development of a Unique Business Identifier 	DJEI DPER DJEI/Other Depts DJEI DJEI/DPER/Other Depts	Immediate Short Medium Medium Medium	19-20
5	Government Procurement - Enabling Access by Small & Medium Enterprises			20
	<ul style="list-style-type: none"> ▪ Develop public sector supply chain access opportunities for small businesses using prequalification online process. ▪ Support training & development of small firms and procurers. ▪ Foster an environment where small and medium firms can network & collaborate on tender bids. ▪ Develop and implement a new model for procuring innovation within the public sector that facilitates effective engagement with small firms ▪ Establish an appeals mechanism that facilitates small firms to report concerns 	DJEI/DPER/NPS/EI NPS/DJEI DJEI/EI/CEBs DJEI/DPER/EI NPS	Short Short Medium Medium Short	22
6	Hidden Economy			22
6a	Awareness: <ul style="list-style-type: none"> ▪ Develop & implement a cross-departmental awareness campaign on the impact of hidden economy activity. 	DoF/Revenue /DSP/DJEI	Short	23
6b	Undeclared Cash for Services: <ul style="list-style-type: none"> ▪ Validate information on the Goods Only Declaration for taxing of commercial vehicles as a matter of course ▪ Introduce a social welfare <i>Start Over</i> initiative for a defined period 	DECLG DSP	Immediate Medium	24

No	Action	Lead Responsibility	Indicative Delivery Timeline	Page Ref
6c	Illicit Tobacco Trade: <ul style="list-style-type: none"> ▪ Increase awareness of Revenue’s hot-line for reporting of smuggling ▪ Introduce container scanners at ports with high container traffic. ▪ Increase judicial penalties on conviction of illicit tobacco trade. 	Industry Assoc Revenue DoJE	Immediate Short Short	25
6d	Start Right Initiative: <ul style="list-style-type: none"> ▪ Make Starting in Business -A Revenue Guide more accessible. ▪ Rebrand relevant guides & materials as a <i>Start Right</i> initiative. 	Revenue DJEI/All stakeholders	Short Short	26
7	Competitive Practices			26
7a	Below cost selling of alcohol: <ul style="list-style-type: none"> ▪ Stakeholders to introduce Voluntary Code of Practice; and Government to issue a statement in support of fair competition in this regard 	Industry/DJEI	Short	27
7b	Market Share - Grocery Sector: <ul style="list-style-type: none"> ▪ Undertake an assessment of future scenarios for the structure & development of the grocery retail sector 	DJEI	Medium	28
8	Improving Cash flow			28
8a	Prompt Payments: <ul style="list-style-type: none"> ▪ Make available an Official Notice re 15 Day Prompt Payments Rule ▪ Develop a Supply Chain Fair Payment Charter (public sector contracts) ▪ Develop a Voluntary Code of Conduct on Payments (private sector) ▪ Mandate the introduction of electronic payments by all Government & State agencies by end 2012 	DJEI DJEI/NPS Industry Assoc DoF	Immediate Short Short Medium	30
8b	Advance Payment of Taxes: <ul style="list-style-type: none"> ▪ Remove Professional Services Withholding Tax for service providers. ▪ Consider a reduction in the preliminary tax requirement from 100 percent to 75 percent for small firms until 2013 	DoF DoF	Short Short	31
9	Managing out of the Crisis			31
	<ul style="list-style-type: none"> ▪ Establish a free-fone contact for managing out of a crisis services for all small firms ▪ Actively promote what is available by public & private sector providers ▪ Share support ‘systems’ and learnings with others ▪ Develop a one-page guide encouraging small businesses to ask for help 	DJEI/CEBs/EI DJEI/CEBs Industry Assoc DJEI	Short Short Short Short	33-34

Advisory Group for Small Business

No	Action	Lead Responsibility	Indicative Delivery Timeline	Page Ref
	<ul style="list-style-type: none"> Introduce plug & play tools to assist forecasting & cash flow modelling 	Credit Review Office	Short	34
10	Management Development for Growth			34
10a	Management - <i>Start Right</i>: <ul style="list-style-type: none"> Use CRO business/company registration as a trigger to direct applicant to information relating to SYOB courses & advisory services Review range of SYOB providers & introduce structured approach 	CRO/Agencies DJEI	Short Medium	35
10b	Managing for Sustainability & Growth: <ul style="list-style-type: none"> Deliver on MDC recommendations - allocate funding for SME management development networks 	DJEI/DES	Short	37
11	Making it Easy to Access Information			37
11a	A <i>Plain English</i> initiative: <ul style="list-style-type: none"> Implement a <i>Plain English</i> initiative by relevant stakeholders and update to Plain English all content and communication for business within 18 months. Make all new information available in <i>Plain English</i> at the outset. 	DoTaoiseach/ All Depts All Depts	Medium Medium	38-39
11b	Web Portal for Small Business: <ul style="list-style-type: none"> Establish a working group to identify the functionality, content of a small business portal, with delivery of web portal by mid 2012 Incorporate standard 'roadmap' giving clear path to which agency is most suited to firm/entrepreneur needs on all enterprise related state agency websites Include cross-referrals on enterprise related state agency websites Review enterprise related state agency websites' search engine optimisation Ensure an introductory call is provided from one agency to another when redirecting a potential client 	DJEI All Agencies	Medium Short	39-40
11c	Improving Availability of Data for Small Business: <ul style="list-style-type: none"> Update & re-launch the Small Business in Ireland publication Re-launch monthly reporting of Tourism and Travel statistics 	CSO	Short	40
12	Insolvency and Debt Resolution:			41
	<ul style="list-style-type: none"> Advance the commitment to provide for a new structured and non judicial debt settlement and enforcement system reflecting the needs of small business/owner managers 	DoJE	Long	41

Section 1 The Value of Small Business

Background

The Advisory Group for Small Business (AGSB) was launched by the Taoiseach in June 2011⁸. It is chaired by Minister John Perry T.D. The AGSB brings together people who are directly involved in running their own businesses as well as representatives from small industry associations, Chambers Ireland and the enterprise development agencies who work closely with small businesses on a day to day basis. We, the members, have a deep understanding of the common challenges and aspirations of CEOs of small firms and owner/managers.

We aim to ensure that the voice of small business is heard by Government. We can help to formulate the actions needed to ensure that Ireland is the best place in which to do business for small firms. By that we mean *all* small firms - through from the owner/manager micro firm to the larger scale operation employing up to 50 people - encompassing the entrepreneur, the family owned business, the exporting entity and those that will remain small and trade on the domestic market by choice. Through the AGSB, we have had excellent open and constructive discussions with the Minister, and with representatives from the Department of Jobs, Enterprise and Innovation (DJEI) who can help to deliver on the actions proposed.

We know that small businesses contribute a significant amount to Ireland's economy. Small businesses *can* grow to contribute even more in the future and play a critical role in helping to return Ireland to sustainable economic growth.

The current economic downturn has put into stark relief the extent of the issues facing small businesses. We cannot hope to address all issues at once. This report is the first phase of a rolling agenda for action. Our initial focus has been on identifying and addressing barriers to growth, so that we can sustain what we have already, and position ourselves for growth. We set out the actions needed to help small businesses to compete on a level playing field, and to help small businesses to help themselves.

Owners and CEOs of firms and relevant industry associations have a role to play. Firms can clearly articulate their needs, participate in relevant initiatives and provide feedback if, for whatever reason specific initiatives are not accessible to them, or not meeting their needs.

The next phase will focus on looking at ways to accelerate business development and growth and to stimulate the creation of new employment.

Structure of the Report

In this section we set out the contribution that small firms make to Ireland's economy and what we see as the role for Government in supporting small business.

- Section 2 sets out areas where action has recently been taken or is underway;
- Section 3 sets out critical issues facing small firms where structural change is needed;
- Section 4 sets out the priority actions for the short term;
- Section 5 briefly outlines our focus in the next phase of our deliberations.

⁸ Department of Jobs, Enterprise and Innovation press release, 16th June 2011:
<http://www.djei.ie/press/2011/20110616a.htm>

Small Business in Ireland - The Facts

Employment

There are almost 200,000 small firms based in Ireland and 13,810 new enterprises started in 2009⁹. Small firms employ almost 544,000 people, accounting for 45.7 percent of the total employed in businesses in Ireland. In fact, when you take into account the proprietors and family members that are directly engaged (although not drawing a fixed wage or salary) more than 655,000 people are involved [Table 1].

A significant proportion of these small firms - almost 92 percent - employ less than 10 people; and almost 49 percent are sole owner/operator entities.

Small firms are involved in a wide range of sectors and activities, many of which are employment intensive, including tourism, retail, construction and a host of other professional, business and personal services¹⁰. Prior to the recession, over 172,000 net jobs were created in services over the period 2000 to 2007¹¹.

Table 1: Small Business in Ireland - 2009

2009	All Businesses* All sizes	Small Business 0-49 engaged	Breakdown by size class (number of persons engaged ¹²)			Sole Owners/ Operators 0 employees
			0-9	10-19	20-49	
Active Enterprises	199,241	196,189 98.5%	180,199	10,360	5,630	95,750
Persons Engaged	1,302,082	655,829 50.4%	350,533	138,785	166,511	74,803
Employees	1,189,163	543,641 45.7%	242,561	135,547	165,533	0

Source: CSO Business Demography

*Note: Data relates to NACE rev 2 categories B to N, less 642 (excluding activities of holding companies), and excludes NACE rev 2 categories A (agriculture, fishing & forestry) and categories O to U (which includes public admin, education, health & social work, arts, entertainment & recreation, and a number of other activities).

Gross Value Added

In terms of Gross Value Added, small firms involved in Distribution/Services and Construction contributed higher proportions to the national total GVA for those activities, than was the case for manufacturing, in 2009 [Table 2 overleaf].

⁹ CSO *Business Demography* 2009. Small firms are those with less than 50 persons engaged

¹⁰ See Appendix 1 for data on trends, sectoral breakdown and survival rate of small enterprises

¹¹ CSO (Database Direct): small services employment in 2000 was 212,419 and in 2007 was 385,252 (+ 172,833)

¹² 'Persons engaged' includes employees, proprietors and family members. Employees are persons who are paid a fixed wage or salary

Table 2 Gross Value Added by Sector & Size¹³

	National Total €'000	Small Firms %	Micro Firms €'000	Firms 10-49 persons €'000
Manufacturing (2009 : 2+ engaged)	29,616,898	7.4%	494,517	1,704,482
Construction (2009 sample of <20 engaged (aggregated))	10,650,260	53%	4,649,841	955,060
Distribution & services (2009 : sample of <20 engaged (aggregated))	35,775,199	52%	8,831,681	9,866,660

Source: CSO - Census of Industrial Production, Annual Enterprise Statistics on Building & Construction, and Annual Services Inquiry.

The Bigger Picture

When considering the data it is often possible to overlook the qualitative contributions of small firms to Ireland's economic fabric. Small firms are regionally spread - dotted throughout the country. They contribute to building a community, to developing a sense of place, to enhancing a location's attractiveness as a place in which to live and to do business.

The small local supplier adds value through personal relationships, genuinely knowing the customer to deliver superior quality of service. The family firm sets down strong roots and continuity, building and enhancing the firm's capability over the generations. The CEO/owner of the exporting small firm can enhance Ireland's visibility overseas, create beneficial overseas networks, and act as a door-opener for, and share experiences with, other like-minded firms.

Trading Focus

Because of data limitations, it is not possible to give an accurate picture of small firms that are trading internationally, those trading locally, and those that may be trading locally today with the potential to internationalise. However, we can build an indicative picture as follows:

- There are 7,002 small firms¹⁴ within the enterprise agencies portfolios of IDA, EI, Shannon Development, and Údarás na Gaeltachta. Most of these enterprises are primarily exporting or have the potential to export. These firms operate in a wide range of sectors, including Life Sciences - which include Medical Devices, Biotechnology and Pharmaceuticals - Clean Technologies, ICTs, Agri-Food, Digital Media, Financial Services and a range of other internationally traded services.
- There are almost 16,000 firms operating in accommodation and food service activities - a significant proportion of them generate foreign earnings as part of the tourism sector.

¹³ Manufacturing: GVA is the value of output less the value of intermediate consumption. Construction: GVA is the difference between production value and intermediate consumption and represents the value added by the firm

¹⁴ Forfás, *Annual Employment Survey*. Note: these figures represent the number of plants rather than the number of enterprises. In some instances, an enterprise may have multiple plants in Ireland

- The County and City Enterprise Boards (CEBs) provided financial supports to 1,453 micro firms involved mainly in manufacturing and internationally trading activities in 2010. Just over 23,700 micro firms received CEB supports in the form of training/advice/mentoring in 2010. This underplays the extent of the touch points that the CEBs have with small and micro firms throughout Ireland - given that a number of firms may only engage once for a specific training programme in any given year, and many new firms come on stream every year. A proportion of these firms trade on international markets and/or have the potential to do so.

There are likely to be many others that trade on international markets but that are not in the enterprise agencies' client base. The potential for internationalisation is open to all sectors, facilitated by advances in communications technologies and physical infrastructures, the EU Services Directive, as well as general economic conditions.

However, although the opportunity to export presents itself for all sectors, many firms will continue to focus exclusively on the domestic market. Locally trading firms are primarily involved in activities such as retail, construction, transport¹⁵ as well as business, professional and personal services. Many will remain small scale by choice.

Market Demand

Market demand is fundamental to business success. Small firms whether trading locally or internationally have been faced with a severe challenge in the context of the economic downturn.

Growth in global demand is something over which Ireland has no control. The continued focus on improving competitiveness both in terms of the business environment and at the level of firms is crucial to enabling them to compete effectively on global markets.

For many others, the vitality of the domestic market is critical. Recent evidence of consumer behaviour suggests that people are opting to save or to focus on reducing personal debt rather than spend in these current economic uncertainties. Disposable income available to households for spending/consumption has fallen to levels similar to 2006 (or down by 11 percent from the 2008 peak); retail sales continue to fall; and consumer sentiment continues its downward trend according to latest figures for September 2011¹⁶. People are worried about their employment prospects, the impact of the next budget, mortgage interest rates etc.

A return to consumer confidence is key for small businesses that serve the domestic market. We welcome the recent publication of the medium-term fiscal statement which sets out the Government's planned fiscal adjustment path for the period 2012-2015. Certainty will help build confidence, and confidence is good for business.

The Challenge and its Impact

We are acutely aware of the impact of the economic downturn on small firms. The latest available data in 2009 shows a net loss of almost 8,000 small firms since 2007, when the recession started to bite¹⁷. The greatest loss over that period was in construction - which saw the number of small firms drop from a high of 58,750 in 2007 to 44,807 in 2009. In other sectors the number of firms

¹⁵ Which have a total of 329,840 persons engaged between them, including 271,597 employees

¹⁶ Disposable income: CSO *Institutional Sector Accounts*, October 2011; Retail sales: CSO *Retail Sales Index*, August 2011; Consumer sentiment: KBC Bank Ireland/ESRI *Consumer Sentiment Index*, September 2011

¹⁷ Refer to additional trend data in Appendix 1 (Table 1 and Table 5)

has grown - although from a smaller base - including professional services, financial and insurance activities, motor trade and repairs and grocery retailers. Some of this may be explained by the phenomenon of 'necessity entrepreneurship' - where recently unemployed individuals or graduates have no alternative open to them for employment¹⁸.

Employment in small firms overall has dropped by almost 105,000 over the 2007 to 2009 period. The impact has been most severe amongst small firms with more than 10 people engaged and those involved in construction.

Table 3: Number of active enterprises, persons engaged and employees* - all small firms (0-49 persons engaged), by year and size class

	2007 (No.)	2008 (No.)	2009 (No.)	Actual change 2007-09	% change 2007-09
Active Enterprises	204,017	199,490	196,189	-7,828	-3.8
Persons Engaged	775,869	748,799	655,829	-120,040	-15.5
Employees	648,616	627,901	543,641	-104,975	-16.2

Source: CSO, Business Demography (*See note at Table 1)

From our own experiences the negative impact of the recession has continued beyond 2009. We have seen many close down their operations over the past two years and many continue to struggle to sustain their activities. The reality we face is stark. The challenge is real, but not insurmountable - if decisive action is taken.

We firmly believe that small firms will continue to be key contributors to Ireland's economic growth.

Our Ambition for Small Businesses in Ireland

What we envisage is:

- An increased number of start-ups and improved survival rates;
- More small indigenous businesses growing to scale;
- More businesses exporting and/or earning foreign revenues and achieving international recognition in their served markets;
- Enhanced productivity and competitiveness at the level of the firm - involving *all* small firms, which will contribute more to Ireland's GDP; and
- Higher levels of innovation, resulting in new products, services and ways of doing business.

Critical to achieving our ambition will be the strengthening of management competence across all small businesses. Ultimately small business can play an even stronger role in Ireland's future economic growth and success - create more new jobs and enjoy greater sustainability and longevity.

¹⁸ *Entrepreneurship in Ireland*, GEM, 2011, reports that levels of 'necessity' entrepreneurship rose to 19 per cent in 2008 from six per cent in 2007 and in 2010 stood at 32 per cent

Supporting Small Business

Getting the business environment right and appropriate to the needs of small firms is paramount. The majority of our proposed actions are aimed at this objective.

Today, direct financial and soft supports are available to start-ups and small firms that meet certain criteria through the County Enterprise Boards (CEBs). The cohort they work with are mostly involved in manufacturing or internationally traded services, and generally employ not more than 10 people. The CEBs run a number of Start Your Own Business advisory services and courses.

Enterprise Ireland works with High Potential Start-Ups - those with export potential and/or those already exporting - that employ over 11 people. More recent initiatives by Enterprise Ireland are aimed at helping companies that are currently trading on the domestic market to consider exporting, and include their Go Global and First Flight initiatives.

Bord Bia, Fáilte Ireland, the Irish Film Board, Údarás, Teagasc, BICs, Local Development Partnerships and others support sectoral activities and development through various financial incentives, promotional and advisory services¹⁹.

We assert that there is a much broader cohort of smaller firms trading on the domestic market that need direct supports in these turbulent times. We know that a limited number of targeted supports had been introduced and made available to the wider cohort of firms which aim to help firms take the first steps toward productivity and innovation²⁰. We'd like to get a better understanding of the level of awareness, take-up and outcomes for these initiatives in the next phase of our deliberations, and identify what, if anything, needs be done to augment supports in these areas. For now, we have focused on management development given its criticality to the success of a business - through from managing out of the crisis to starting your own business, to management development for growth - and have set out what we think needs to be done.

¹⁹ Some initiatives are delivered on a group basis or via on-line tools etc as appropriate

²⁰ Including Innovation Vouchers and Techcheck. Funding for Techcheck was discontinued in 2010

Section 2 Things *are* Happening

Actions Underway

We are aware that a lot is happening under the new Government and of the proposed actions in the Programme for Government and the National Recovery Plan 2011 - 2014.

We have agreed that the work of the AGSB would not duplicate the efforts of other groups where work was already underway. Our aim is to ensure that the perspective of the small business is taken into account in any deliberations and a sense of urgency applied to resolving those issues that are critical to the growth - and in many instances - the survival, of small businesses in Ireland.

Following a request by Minister Perry, T.D., other relevant Government Departments have assigned a senior official with designated responsibility for dealing with small business matters. This is a very welcome development. It demonstrates Government commitment to understanding and addressing the needs of small business across the entire system - a whole of government approach that *Thinks Small First* is critical. This report will set the agenda for action, prioritising what needs to be done. This senior officials group will hold its first meeting on the 15th November, 2011.

We are aware that a number of initiatives that help small business have been put in place in recent years [Appendix 2]. More recent examples include:

VAT: A targeted reduction in VAT rates was introduced in July aimed at stimulating activity in the domestic market. A new rate of 9 percent applies mainly to restaurant and catering services, hotel and accommodation and various entertainment services. It also applies to hairdressing and printed matter such as newspapers and brochures. If the reduction is to have the stimulus intended, it's important that all firms continue to pass on the reduction in their pricing.

Audit Exemptions were further enhanced in August 2011 and are expected to save Irish SMEs up to €5million per annum²¹. The audit thresholds now include companies with a turnover of less than €8.8 million and a balance sheet of less than €4.4 million.

Standardised Loan Application Forms: Working with the Credit Review Office, the major banks (AIB and Bank of Ireland) introduced standardised application forms for lending in October this year. This increases clarity for small business. Small businesses are now able to use the same basic information to approach any of the two major small business credit suppliers. There are also benefits for each bank in having standardised information to assess applications internally. We would like to see the use of these standardised forms being extended across all banks based in Ireland.

In Progress

There are others where work is ongoing. We're keen to see that focus is maintained and that results are delivered within a reasonable timeframe:

Legal Fees: We all know that legal fees in Ireland remain overly high and we welcome the Government commitment under the EU/IMF MOU to introduce an independent regulator for the legal profession and to implement the outstanding recommendations of the Competition Authority and the Legal Costs Working Group. The recent publication of the Legal Services Regulation Bill marks significant progress and we urge speedy enactment. It is possible that there may be some

²¹ Legislation is required to give effect to this

fall out in terms of reduced employment in the immediate term²². However, both competition and competitiveness should be improved in the medium term.

Upward Only Rent Reviews: The very high commercial rents still being charged to businesses is a major inhibitor to small businesses striving to remain cost competitive. The legislation that was introduced in Ireland to ensure that all new leases signed from March 2010 contain a provision that rents can be reviewed both upwards and downwards in business leases is a positive development. The benefits are limited to new, expanding or relocating firms. However, the reality is that many existing small firms are tied into long leases with no opportunity to renegotiate the terms. We welcome the work underway on the Landlord and Tenant (Business Leases Review) Bill, which (if and when enacted) should give commercial tenants greater scope to renegotiate their existing leases with landlords particularly where a tenant's business is vulnerable²³.

Broadband: Competitively priced and high quality broadband services are essential in today's business world - whether a firm is trading nationally or internationally. Ireland remains uncompetitive for broadband services compared to other countries - the cost of the fastest package in Ireland is higher than significantly faster packages in other countries²⁴. Progress is being made under the National Broadband and Rural Broadband Schemes. The establishment of the Next Generation Broadband Taskforce and its focus on identifying industry, private and public investment plans is a welcome development. However, the policy actions taken, while necessary and welcome, are not sufficient to ensure the widespread availability of advanced broadband infrastructure and services within a timescale that will allow Ireland to catch up with competitor countries.

We urge implementation of the actions set out in the recently published Forfás report on *Ireland's Advanced Broadband Performance and Policy Priorities*. The overarching aim is that within five years, Ireland will have an advanced broadband infrastructure comparable with our key competitors in all towns with a population of greater than 1,500. By advanced we mean download speeds of at least 100 Mbps, and significantly higher upload speeds²⁵.

A continued focus is essential to deliver on these areas within a reasonable timeframe.

There are other areas where progress is being made, although we still have some major concerns: in the areas of Access to Finance, Labour Costs and Local Authority reform which we set out in the next section on Big Ticket Items.

Despite the proposed amendments to Ireland's bankruptcy law, it will continue to remain somewhat out of line with other jurisdictions. There is a continued focus on the costs of business regulation, though much remains to be achieved. We discuss these in further detail in Section 4.

²² There are also a considerable number of small firms involved in legal activities - 7,388 in 2009, CSO, *Business Demography*

²³ There are some concerns about the impact that the abolition of upward only reviews might have on investment - for example, the removal of the upwards only review could negatively affect liquidity and investor demand in an already deflated investment market. Similarly, changes in rental agreements could adversely impact upon pension funds *Costs of Doing Business 2011*, NCC

²⁴ *Costs of Doing Business 2011*, NCC

²⁵ Including the widespread availability of symmetric services to enterprise and low latency

Section 3 Big Ticket Items

Overview

Finding the solution to some of these well articulated and regularly stated issues is not an easy one - but is critical. These issues directly impact the ongoing viability of small firms. Although some steps are being taken, we contend that not enough is being done to address the root of the problem in some instances. Conscious that there have been welcome cyclical adjustments to a number of areas that impact on Ireland's cost competitiveness, we have a strong view that more fundamental structural change is needed.

Lending Facilities and Access to Finance

The global and domestic downturn saw a rapid deterioration on credit flows to business since the beginning of 2008. For many small businesses, changes in practices have seen a shift from the credit push by the banks up to the late 2000s to one where banks are looking for greater assurance on repayment capacity. Many firms have fundamentally viable businesses that are starved of much needed funding. This is particularly problematic for small and micro firms.

Without access to cash flow and credit, many viable businesses are going to lose sales, customers and jobs.

A recent survey showed that 48% of small businesses felt that their business was being curtailed by banking restrictions, up from 44% last year.

County and City Enterprise Boards
Business and Banking Survey Sept 2011

As a first and critical step, Government has been focused primarily on improving the inflow of capital to the banks that have involved fundamental changes to bank structures²⁶. This involves a requirement by the banks to dedicate €21 billion to ensure lending to Irish SMEs over the three years to 2013. The Department of Finance has committed to *'rigorously monitoring the banks' activities to ensure this credit is entering the system for borrowers meeting reasonable credit standard requirements*²⁷. However, the €3 billion target for 2011 for each of the two main banks is unlikely to be met - their contention being, that demand from small and medium businesses (SMEs) has fallen.

We are aware that current data and analysis of credit supply and demand is seriously lacking²⁸. This has presented challenges in getting to the root of the issues. What is needed is robust and timely data that truly reflects realities on the ground. The Department of Finance have recently commissioned a survey to assess the demand for credit by SMEs to be completed by mid November. This is a welcome development (particularly as it will be independent from the banking sector itself) which should be undertaken on a six monthly basis. The Central Bank should continue to provide regular reporting on supply of lending to SMEs as outlined in the new *Trends in Business Credit* publication, with further analysis of new lending disaggregated from gross new lending.

²⁶ Including initiatives to bring stability to the financial sector (bank guarantee, recapitalisation), creating the capacity of banks to lend (NAMA) and to review cases of refusals for credit (Credit Supply Clearing Group and the Credit Review Office)

²⁷ www.finance.gov.ie *Restructuring of the Irish Banking System*, 31 March 2011

²⁸ For example, the findings in the review on lending published in April 2010 did not disaggregate new lending from gross new lending (which includes both new *and* restructured lending)

Access to Finance remains the single biggest issue for the Irish small business community

Patricia Callan, Small Firms Association

High levels of uncertainty are still in evidence. Banks, the government and businesses are still navigating their way through this economic turbulence. Small firms remain concerned about the application and decision process. Despite the introduction of a mandatory Code of Conduct²⁹ and the requirement to respond to an application within 15 days, small firms' experience is that the entire process through from application to decision takes considerably longer. We are also concerned about rising interest rates - loans of up to and including €1million have experienced faster interest rate increases than for loans greater than this amount³⁰. We need increased certainty and a more positive disposition by the banking system toward small business and an understanding of our needs and potential for growth. Of particular importance in the very near term is the implementation of the Micro Finance Fund and the Partial Credit Guarantee scheme that are currently being developed. Minister Perry has written to the Minister for Finance to reflect our sense of urgency regarding access to finance issues.

It is also important that owner/managers equip themselves so that they are on top of how their business is performing, and are capable of presenting a credible business plan and cash flow. Section 4 sets out the actions needed to assist firms in managing out of the crisis and to enhance management development capabilities overall.

We have also looked at other ways in which cash flow can be improved for firms (See Section 4).

In the next phase of our work we will also look at what alternative sources of funding are available, particularly to support entrepreneurs and early stage start-ups³¹. We are conscious too, that innovative financial mechanisms may be required to incentivise investment into small businesses to facilitate an orderly restructuring of overhanging bank debt. This is particularly relevant where the equity base of a small firm has been decimated in the last three years due to trading losses and the collapse in property values.

Fail to Prepare - Prepare to Fail

To access bank credit you need to have prepared your case to show how you can repay the loan.

There are two sides to every story - we've seen that in every case we have dealt with.

John Trethowan, Credit Review Office

We, the members of the AGSB, will continue to seek to ensure that the needs of small business are being prioritised and addressed. In the immediate term:

- Implement a partial credit guarantee scheme;
- Implement a Micro Finance Fund initiative.

[DJEI]

²⁹ Central Bank Code of Conduct for Business Lending or the 'SME Code', February 2009. The SME Code is currently being reviewed in relation to the provisions with respect to SMEs in financial difficulties. A full review will be undertaken in 2012

³⁰ Central Bank *Quarterly Bulletin* October 2011- loans of up to €1m are used as a proxy for loans to SMEs as data is not available for firm size

³¹ Including, for example, private equity and new initiatives such as crowd financing as well as existing initiatives such as the Seed Capital Scheme and BES

Labour Market Costs and Flexibility

There *have* been some adjustments to wage costs due to the economic downturn. The fact is that despite such cyclical adjustments current wage levels are unsustainable and still present a considerable challenge for small firms. Ireland's national statutory (monthly) minimum wage is the second highest amongst EU member states³². There are also a number of other wage setting mechanisms that firms have to adhere to.

The National Competitiveness Council (NCC) report *Costs of Doing Business 2011* highlighted location sensitive costs from the perspective of exporting firms. Given that the location sensitive costs are primarily domestic³³, the findings are informative from the perspective of all firms trading in Ireland.

Labour costs represent between 45 percent and 58 percent of location sensitive costs for manufacturing activities. For services activities, in which a high proportion of small and micro firms is involved, labour costs can represent as much as 84 percent of location sensitive costs.

Small businesses, even those serving the domestic market, face competition from international players. The labour cost differential alone between Ireland and neighbouring markets places small Irish firms at a considerable competitive disadvantage.

While the government has little control over private rates it can exert some influence in the labour market. It can influence the rate at which the National Minimum Wage (NMW) is set, although the attempt to reduce it by €1 earlier this year was subsequently reversed in July 2011. We understand that the minimum wage is intended to deliver a socially preferable distribution of income than would occur through a free market solution, and its success is usually measured against its impact on poverty levels. At the same time, we also need to ensure that our small businesses can remain trading, can offer a reasonable wage and continue to provide jobs.

I see many contracts lost out by small firms to our neighbouring countries, Northern Ireland and the UK. Their input costs are considerably lower than ours.

These input costs have to be covered in the pricing of goods and services if businesses are to be sustainable.

If businesses are priced out of the market they cannot remain in business - and won't be able to provide jobs for others.

Ian Martin, Martin Services (Industrial) Ltd.

The NMW and other wage setting mechanisms such as the JLC Employment Regulation Orders (EROs) and Registered Employment Agreements (REAs)³⁴ are particularly relevant to, and onerous for the high proportion of small firms that are involved in retail, tourism and other 24/7 service providers. Some reforms *are* being advanced and we are aware that the Industrial Relations (Amendment) Bill is expected to be published in the current term of the Oireachtas. From the perspective of small business, it is essential that the legislation does not inadvertently

³² *Costs of Doing Business, 2011*, NCC. The analysis was based on a monthly minimum wage for comparison purposes

³³ Location insensitive costs include inputs for which the price is set in international markets, such as materials and equipment

³⁴ EROs and ERAs result from negotiations between trade unions and employers, called Collective Agreements. If a Collective Agreement has been registered with the Labour court, it is known as a Registered Employment Agreement

disincentivise employment or result in additional costs for other sectors with a predominance of small businesses³⁵.

The ongoing consultation on the reform of the *State's Employment Rights and Industrial Relations Structures and Procedures* is also welcome. Improved processes and rationalisation should go some way toward minimising costs for all parties³⁶, toward early resolution of disputes and toward greater certainty and labour market flexibility.

Although there appears to be some progress being made, we agree with OECD commentary in the *Economic Survey for Ireland, 2011* published in October relating to measures that would foster a return to work, involving 'welfare reform; better activation policies; and a sustained reduction in unit labour costs'.

There is a complex interaction between a number of factors that influence overall labour cost competitiveness and labour market flexibility, encompassing the NMW, social welfare rates, taxes on labour, collective pay agreements (EROs, REAs), etc. The appropriate balance between the NMW and social welfare rates is a factor and can influence whether or not an unemployed person will (or indeed can afford to) take up a job offer³⁷. The work of the Tax and Social Advisory Group is also relevant in this regard³⁸.

There are differing views amongst group members as to the best way to address this particularly pressing issue for small firms. But there is absolutely no disagreement about the fact that labour cost competitiveness and flexibility must be tackled with a sense of urgency.

We would like to see a coordinated national labour market policy developed and implemented as a matter of priority with the objective of restoring labour cost competitiveness and incentivising work and recruitment. The policy should incorporate aspects of:

- Social welfare;
- The national minimum wage;
- Maintaining a competitive tax wedge;
- Other wage setting mechanisms that are still in place; and
- The Industrial Relations (Amendment) Bill currently being drafted.

[DJEI/DoF/DSP]

³⁵ A letter issued from Minister Perry as Chair of the AGSB to Minister Bruton in August 2011 to reflect the view and concerns of the AGSB

³⁶ The key features... will be to encourage early resolution of disputes, the vindication of employee's rights and minimisation of the costs involved for all parties - employers, employees and Government in terms of money, time and workplace productivity; *Consultation on the Reform of the State's Employment Rights and Industrial Relations Structures and Procedures*

³⁷ The proportion of out-of-work benefits received when unemployed against take home pay if in work is called the Replacement Rate. The Department of Finance has noted that a replacement rate in excess of 70 percent is considered excessive. See Forfás, 2010, *Review of Labour Cost Competitiveness*

³⁸ The Minister for Social Protection may refer specific issues around the income supports and tax systems to the Tax and Social Welfare Advisory Group so that they provide good incentives to take up work and to contribute to the reduction of poverty

Local Authority Structures

Businesses are levied by the Local Authorities in the form of rates, development levies etc. These go toward funding a range of locally delivered services from which they benefit. We cannot argue that the provision of local lighting and water services, road maintenance, parks and cultural amenities is not important, adding to the attractiveness of a location as a place to live and to do business. However, much of the cost is levied on business currently - rather than on the wider cohort that benefits. We have set out a number of recommended actions in relation to commercial rates in Section 4 of this report.

As well as costs for delivery of services, the operational costs now embedded in managing, running and housing the existing structures of local authorities, town and county councils and regional bodies, need to be covered in some way. In Ireland there are 114 local authorities made up of 29 county councils, 5 city councils, 5 borough councils and 75 town councils³⁹. Current expenditures are funded through a combination of commercial rates, charges for goods and services, specific Government grants and funding from the exchequer-funded Local Government Fund⁴⁰.

We welcome the *Report of the Local Government Efficiency Review Group (LGERG)*, July 2010, and the establishment of an implementation group earlier this year. The scale of the implementation challenge is considerable - with approximately 106 actions identified. The aim is to reduce expenditures and to improve cost recovery and revenue raising, amounting to €511m in total.

We are concerned that small business may not see the benefit of these efficiencies in terms of reduced costs (and not only improved services). The Report states that '*the savings inherent in this report should help reduce the burden that would otherwise fall on those who pay for local government*'. At the same time, the stated aim in the National Recovery Plan 2011-2014 is that: '*Savings and offsetting measures within the local government sector in the 2012-2014 period will allow the Exchequer to end its contribution to the Local Government Fund*'.

In parallel with the work carried out by the LGERG, a Cabinet Committee has been considering the structural changes to local government to be contained in a White Paper. It is currently unclear as to what progress is being made in this regard. The Green Paper was published as far back as 2008.

Over the last three years hoteliers have had to reduce employment levels in order to help pay commercial rates bills that have not reduced in line with the contraction in their business.

At its simplest - if the identified savings by the LGERG were passed on to commercial rates payers, rates bills could be reduced by 38%.

Think what a boost this would be to businesses seeking to retain existing employment and create new jobs

Tim Fenn, Irish Hotel Federation

³⁹ At the town level there are 54 rating town councils with exclusive rating jurisdiction within its own area - the non-rating town councils are largely representational

⁴⁰ Commercial Rates contribute 29 percent to Local Authority Current Income, Charges for Goods and Services contribute 28 percent. Sources of Local Authority Current Income, *The Report of the Local Government Efficiency Review Group 2010*. The Local Government Fund was provided for in the Local Government Act 1998 and is made up of an Exchequer contribution and motor tax receipts

The LGERG also acknowledge that structural changes could also offer opportunities to introduce [other] new and more efficient ways of doing business which *'may not so easily arise when operating with outdated structures which no longer correspond to current needs'*⁴¹.

It is absolutely crucial that the *White Paper on Local Government Reform* be progressed as a matter of urgency - and that some radical thinking is brought to bear to bring about real and impactful change.

[DECLG]

⁴¹ The LGERG also states that its approach to implementing its recommendations will depend on the final decision of Government in relation to structures. Delays on such decision would likely impact on the timeframe for the realisation of reduced costs envisaged in the report

Section 4 Priority Actions for the Short Term

Priority Actions

Notwithstanding the crucial importance of the big ticket items, we have focused on key issues and barriers to growth to identify actions that can largely be implemented in the short term. We have set them out below as follows:

- Helping Small Businesses to Compete on a Level Playing Field:
 - Costs of Doing Business - reducing the cost burden on small firms;
 - Facilitating Access to Public Procurement for Small Business;
 - The Hidden Economy - tackling an issue that undermines the legitimate firm; and
 - Competitive Practices.
- Helping Businesses to Help Themselves:
 - Improving Cash Flow - releasing working capital for businesses;
 - Managing out of the Crisis - mentoring and advice;
 - Management Development - Start Right and aiming for Growth; and
 - Making it easy to access information.
- When Things Go Wrong - Insolvency and Debt Resolution

Helping Small Business to Compete on a Level Playing Field

Costs of Doing Business

It is well known that Ireland's extended period of economic growth led to significant increases in the costs of doing business. While Ireland's cost competitiveness has improved since 2008 most of the recent price falls are more likely to be as a result of the downturn nationally and internationally⁴².

There are two dimensions to helping to reduce input costs for small firms - one relates to what businesses can do to improve cost efficiencies themselves, and the other relates to what government can do to address cost factors within their control. There *are* limitations in what can realistically be achieved. But in the current climate every possible avenue needs to be exploited so that real and necessary structural change is realised where possible.

Small firms can control costs to some extent, by:

- Managing stock levels - excessive stock ties up money;
- Reducing waste, scrap and shrinkage;
- Assessing ways of increasing energy efficiencies; and/or
- Identifying ways of increasing productivity - producing more for less - through process enhancements, reskilling and/or utilising ICTs.

⁴² Ireland's international cost competitiveness is now at levels of February 2003, *Costs of Doing Business in Ireland 2011*, Forfás & NCC

There are a number of input costs that could be improved, even marginally, where Government has some control. The reality is that while many small firms trade in the local market, they are facing competition from international sources. Business costs that are out of line with our trading partners need to be addressed. We've highlighted our views relating to labour costs (and labour market flexibility) above. We also believe that there are other opportunities to influence the cost environment in specific areas that, with decisive action, could have a positive impact:

- Energy Costs;
- Commercial Rates; and the
- Cost Burden of Regulations.

Energy Costs

Though there have been improvements in the costs of electricity and gas in recent years (driven by a fall in global fuel prices) energy prices are likely to increase again, and Ireland still remains an expensive location for SMEs relative to the Euro area average⁴³. Fluctuations in energy prices have a significant impact on small business and the uncertainty over future prices is a challenge. Typically small businesses are not in a position to hedge energy prices through future purchasing or to invest in CHP⁴⁴ facilities.

Small businesses can achieve significant savings by increasing energy efficiency and there are advisory services and supports available from SEAI and the enterprise development agencies⁴⁵. It is also crucial that structural measures are progressed to ensure long term energy cost competitiveness.

We know that much of the pricing is outside the control of government (i.e. the regulated aspect of energy bills is relatively limited). However, it is essential that aspects of energy pricing that can be influenced domestically are addressed, for example the operating, maintenance and capital costs for energy networks and the price supports for peat and renewable energy⁴⁶.

It is important too that small firms shop around amongst competing providers, although we are also aware that the information available from providers (and via the CER information website⁴⁷) does not facilitate direct comparison. Often, the conditions attached by providers are unduly onerous, including for example the requirement for a two/three month deposit.

Proposed Actions

- Abolish subsidies for peat generated electricity due to the cost implications for electricity customers, including small businesses, and the impact on the environment⁴⁸. [DCENR]

⁴³ Although the gap with the Euro area average has narrowed considerably, NCC & Forfás, 2011 *Ireland's Competitiveness Scorecard*

⁴⁴ Combined Heat & Power

⁴⁵ Data collected by SEAI in relation to participants on their Small and Medium Enterprise (SME) Programme shows that on average companies are achieving a 12 month saving rate of 10.3 per cent. The SME programme delivers assessments, advice, mentoring and training services to SMEs to help them reduce energy use and costs with a structured approach to energy management

⁴⁶ The Government pays an inflation-linked supplementary price (feed-in tariff) to operators, in addition to the amount received by the operator, for the sale of renewable power to the grid or to a utility

⁴⁷ Commission for Energy Regulation (CER) <http://www.energycustomers.ie/electricity/index.aspx>

⁴⁸ DCENR is currently reviewing the PSO levy on electricity generated from peat

- Review future subsidies provided through the REFIT scheme for renewable energy to ensure that they do not adversely affect Ireland's long term competitiveness and are phased out as technologies mature.⁴⁹ [DCENR]
- Review the timeframes of grid investment plans, taking account of reduced demand and planning delays while ensuring enterprise needs are met. To minimise the amount of additional grid investment required, priority should be given to optimal wind sites in terms of generation potential as well as proximity to the grid⁵⁰ [Eirgrid/CER]
- CER to include a facility on their information web-site to enable business users to compare price and contract conditions across all providers. [CER]
- Continue to raise awareness among small firms about how best to reduce energy use and provide the relevant advisory services and supports⁵¹.

[SEAI/Enterprise Agencies/small business representative associations]

Commercial Rates

Although rates are generally a relatively small proportion of business costs for many businesses they can be particularly burdensome for small enterprises⁵². The rate of increase in charges over the past decade coupled with reducing central government funding creates a high degree of uncertainty for small business⁵³. Small businesses that are struggling in the current economic conditions encounter a commercial rates regime that is often inflexible and lacking in transparency, and there is a high degree of variability across the Local Authorities in terms of the charges applied and the payment arrangements available.

We accept that Local Authorities are operating within a very challenging financial context at the present time, exacerbated by a considerable level of unpaid charges. Steps *are* being taken to reduce costs and increase efficiencies. They are also operating within a very narrow revenue base which means that the costs of providing services are unduly borne by business - this needs to be addressed. Alongside the fundamental structural reforms required (as noted above), there are actions that should be progressed immediately.

Proposed Actions

- Accelerate the introduction of annual broad based property tax and water charges for households to assist in rebalancing local authority revenue sources, and to ensure that the burden of any reduction in the General Purpose Grant will not fall to businesses. [DECLG]

⁴⁹ Any adjustments to the REFIT scheme must be considered in the context of national renewable targets and encouraging new entrants into the renewables market

⁵⁰ Work underway by Eirgrid to examine the timing of specific projects under the Grid 25 strategy is welcome

⁵¹ The state agencies recently published a brochure providing information on where firms can go for help in relation to water conservation, waste prevention, energy efficiency and clean technology
<http://www.forfas.ie/pubication/search.jsp?ft=/publications/2011/title,8202,en.php>

⁵² Especially for those that are property intensive but with very low or negative profitability

⁵³ Over the past decade, the cumulative increase in commercial rates set by Local Authorities has been almost double the cumulative rate of inflation, with the result that on average 29 percent of total expenditure of a local authority is now derived from commercial rates (varies from 9 percent to 47.5 percent (Source: Chambers Ireland research)

- Review the current regulations with respect to the payment of commercial rates for companies in genuine financial difficulty, with a view to implementing a Standard Code of Conduct across all Local Authorities for the management and modification of payment terms. The Code should reflect a consistent approach regardless of location, be fair and reasonable with respect to ability to pay, and allow for a prompt appeals/resolution mechanism. [DECLG]
 - The Government should advance a range of solutions that would reduce costs on businesses and provide Local Authorities with sustainable sources of income:
 - Implementation of the recommended actions of the Report of the Local Government Efficiency Review Group can realise estimated savings of almost €511m per annum. The savings that arise should be passed on to business in the form of reduced rates and charges.
 - A mechanism for monitoring progress in cost savings and demonstrating the resultant reduction in costs to business should be set out at an early stage of the process.
 - A broad based reduction in rates could be achieved by directing Local Authorities to lower their Annual Rate on Valuation for 2012. As a reduction in ARVs will lower Local Authority revenues - the imperative to accelerate the implementation of the Efficiency Review Group is strengthened
 - Accelerate the national revaluations process to ensure that commercial rates are most closely aligned with current market reality. Consider the introduction of outsourcing of valuations, self assessment or IT solutions (as is the case for many other taxes). [Commissioner for Valuations/Department of Finance]
- [DECLG]

Cost Burden of Regulations

There is no question regarding the importance of effective regulation. However, the way in which regulations have been implemented over the years (many of which are driven by the EU) has inadvertently resulted in a heavy administrative and cost burden to small businesses. The Government's aim is to reduce the cost and administrative regulatory burden imposed on business by 25 percent by 2012. This would mean savings of an estimated €500 million to Irish businesses.

Some steps *have* been taken over recent years to make life simpler and to reduce the regulatory cost burden for small businesses [Appendix 2]. It is important that small firms are aware of these initiatives. Although much has been achieved, there is much more that can be done. Businesses are represented on the High Level Group on Business Regulation, chaired by Minister Perry⁵⁴.

BeSMART, implemented by the Health and Safety Authority is part of the Taking Care of Business initiative developed for small business.

It is a free, easy to use, online tool to assist small business owner/managers, to generate a risk assessments and safety statement, in consultation with employees, as required under health and safety law.

http://www.hsa.ie/eng/Small_Business/BeSMART_-_Risk_Assessment_Safety_Statement_Tool/

⁵⁴ The Group works in parallel with the cross-Government Programme of Administrative Burden Measurement and Simplification

One area of concern is the sheer volume of regulations and modifications to them. This adds to the complexity and burden for small firms - not only in terms of cost, but also in terms of fear of unintentional non-compliance. It should be possible to introduce a common commencement date for regulation, as is the case in the UK⁵⁵ and the Netherlands. There is also a pilot initiative underway at EU level⁵⁶. Bottlenecks are avoidable, as the necessary work and documentation etc., can continue to be done and Statutory Instruments considered by the Oireachtas throughout the year⁵⁷.

Initiatives, such as BeSMART by the Health and Safety Authority can make life considerably easier for small businesses, and are welcomed. Other similar initiatives should be considered, for example - making available a standard employment contract that can be customised on line. Industry associations, Chambers of Commerce and CEBs will commit to playing a role in ensuring that the availability of such tools is brought to the attention of as wide a cohort of small firms as possible - for example, by setting up a links section *How To* in their websites, and including *How To* information in their newsletters, circulars etc.

The number of licences required by a single business, the cost, and the renewal process are particularly onerous⁵⁸. Following on from this, the un-coordinated manner in which a range of regulatory inspections is undertaken also places an additional burden on firms. There is definitely potential for a more coherent approach among enforcement and inspection agencies and a more consistent approach to risk-based enforcement. This requires cooperation between the relevant bodies, enabled by data-sharing.

In the waste collection business, I have to place an advertisement in the newspaper every time I have to renew a licence and go through the whole application process all over again.

The time and cost to small business is onerous and unnecessary.

Sherri Brennan, SkipTrans

At a more fundamental level, unnecessary cost burdens for small firms can be avoided in the first instance. Regulatory Impact Analyses (RIAs) should be undertaken and published, using the premise of *Think Small First*. There also needs to be consistency in terms of the standard and quality of individual RIAs⁵⁹. It is an absolute imperative that *visible* progress is made over the coming year to measure and reduce administrative burdens across government in order to meet the 25 percent target by 2012.

Proposed Actions

- Deliver a report by end 2011 that outlines what has been achieved to date and progress made against achieving the government target. [DJEI]

⁵⁵ The UK initiative relates to all domestic regulations

⁵⁶ Following the European Commission's commitment in the 2008 Small Business Act for Europe the Commission is trialling a project in selected sectors related to internal market legislation before a full launch of CCDs. http://ec.europa.eu/enterprise/policies/sme/business-environment/common-commencement-dates/index_en.htm

⁵⁷ The UK provides clear guidelines in relation to Statutory Instruments Commencement Dates Guide to Policy Makers, BIS, UK, August 2010 (pg 7)

⁵⁸ Forfás is undertaking further analysis to review sector specific licensing requirements

⁵⁹ Revised guidelines were introduced in 2009 *Revised RIA Guidelines - How to Conduct a Regulatory Impact Analysis, Department of An Taoiseach, 2009*

- Introduce Common Commencement Dates for all domestic legislation relevant to business. [DPER]
- Develop and implement easy to use templates, that can be customised specific to the needs of individual businesses similar to the Health and Safety Statement initiative - for example, Employment Contracts; [DJEI, relevant Govt Departments, agencies and bodies]
- Undertake an audit and review of the multiplicity of licences required by businesses, to assess:
 - The potential for discontinuing some licences;
 - The potential to amalgamate licences; and
 - The cost of the license itself and the application and renewal processes. [DJEI]
- Improve cooperation between State inspection and enforcement bodies - to enable data-sharing among bodies, to improve risk-based enforcement, and reduce the burden of inspections on compliant firms:
 - Progress the development of Data Sharing legislation currently being prepared by DJEI to provide the legal underpinning for such data sharing between bodies;
 - Match databases across relevant bodies to improve risk analysis and reduce the administrative burden of inspections on business (following the enactment of the data sharing legislation); and
 - Develop a Unique Business Identifier for Ireland, having regard to best practices internationally. [DJEI/DPER/Other Depts]

Public Sector Procurement - Enabling Access by Small and Medium Firms

The public sector is a significant purchaser of a wide range of supplies and services. In 2011 government spend is estimated to be in the region of €14 billion. Government procurement can play a strong role in stimulating domestic activity. For a small firm that is trading internationally, being able to cite having a government department/body as a client also acts as a strong reference.

For many years, smaller firms have talked about the challenges in gaining access to government tenders - including administrative burdens, inconsistencies, rigid application of (sometimes overly onerous) criteria, and the absence of formal appeals mechanisms. Factors such as attitude to risk, decision making capabilities, and knowledge of the market play a role in the government procurement process, and in the successful engagement (or not) with small firms.

We also have to acknowledge that small firms themselves are not always clear on setting out the business case and benefits of their offerings. Working with other partners can help small firms to overcome issues of scale, or to complement their existing capabilities to strengthen their proposal. Yet small firms can find it difficult to do so as it involves identifying the 'right' partner and requires a high degree of mutual trust⁶⁰.

⁶⁰The INTERREG project CONEXUS, led by Cavan County Enterprise Board, and the FUSE initiative in the South East, facilitated by Enterprise Ireland, set the groundwork for such collaborations

Building the capabilities of both the supplier and the procurer is crucial - and a firm understanding of the Department of Finance circular 10/10 is essential for the public sector procurer⁶¹.

The High Level Group on Business Regulation found that there is a gap between the policy itself and its implementation. The achievement of cost savings through government procurement is one aspect which needs to be addressed, but these need not be, and should not be achieved to the detriment of broader economic potential. For example, the consolidation of purchasing could result in the creation of monopoly suppliers, resulting in an adverse impact on small firms.

Some progress is being made. The publication *“Buying Innovation: The 10 Step Guide to SMART Procurement and SME Access to Public Contracts”*

sets out clear guidelines (see box overleaf). It also advocates the use of a range of criteria that ensures the Most Economically Advantageous Tender, rather than lowest price, taking into account whole life-cycle costs⁶². The National Procurement Service (NPS) has set up a new website that provides tips for tendering and public sector contracts⁶³. It sets out details of upcoming opportunities and incorporates a standardised suite of procurement documents. They are intended to make it easier for SMEs to respond to tenders. Enterprise Ireland has also established a dedicated procurement team working with SMEs and relevant Government Departments to identify opportunities and to raise awareness regarding the capabilities of Irish small firms’ products and services.

While we welcome these recent initiatives that demonstrate a commitment by government to overcome what has been a real issue for small business for some time now - gaining traction remains problematic.

Keeping up the momentum, Minister Bruton established a steering group on SME access to Public Procurement last July. He has asked them to examine what more can be done to improve SME participation in tendering for public contracts. It is important that ongoing efforts continue apace and that further changes are made that will open up the process and provide a level playing field for small and medium firms. At a fundamental level government procurement needs to be considered strategically, and not merely from a day-to-day operational perspective.

Progressive initiatives are already in place in other countries and include:

- the *Compete For* portal in the UK was developed in the context of the build and delivery of the Olympics 2012. The service acts as a brokerage, matching buyers with potential suppliers who have met a range of industry recognised competencies and opens access for

Public Procurement : Involve SMEs

- Encourage the use of sub-contractors and make subcontracting opportunities more visible
- Be open to consortia bids from SMEs - split tenders into lots where appropriate
- Keep administrative requirements to a minimum
- Use the online verification service for tax clearance certificates at www.revenue.ie rather than requesting the original from the company.

Extracts from *Buying Innovation: The 10 Step Guide to SMART Procurement and SME Access to Public Contracts*

⁶¹ Circular 10/10 Guidance on measures to facilitate participation of SMEs in public procurement

⁶² In some instances, particularly for non-differentiated products opting for the lowest cost makes most economic sense

⁶³ www.procurement.ie

Tier 2 and below suppliers. It is already being extended to meet other capital and current procurement needs.

- The Small Business Innovation Research (SBIR) initiative is well established in the US, and is being implemented in the UK, Netherlands, Finland and other European countries. Its main aim is to use the power of government procurement to accelerate technology development and innovation. It provides a real opportunity for small innovative firms to engage in a procurement process through the stages of feasibility and prototyping.

These and other models could be replicated and/or adapted here, with relatively low initial cost - and longer term benefit as a stimulus for indigenous company growth and sustainability.

Proposed Actions

- Develop public sector supply chain access opportunities for small firms through the use of a pre-qualification online process (modelled on the UK *Compete For* portal).
[DJEI/EI/DPER/NPS]
- Support training and capability development of both small firms and procurers with a minimum level of certified training provided to Procurement Officers in public bodies; and
 - Request the Department of Public Expenditure and Reform to provide clarifications to contracting authorities on the operation of Procurement Circulars, where necessary.
[NPS/DJEI]
- Working with Enterprise Ireland and CEBs, foster an environment where small and medium firms can network and collaborate on tender bids around specific opportunities.
[DJEI/EI/CEBs]
- Develop and implement a new model for procurement within the public sector that encourages innovation and facilitates effective engagement with small and medium firms.
[DJEI/EI/DPER]
- Establish an appeals mechanism that allows for small firms to report concerns relating to overly onerous criteria, pre-qualification decisions etc.
[NPS]

The Hidden Economy

The hidden economy involves activities that are not declared for tax purposes and usually carried out in exchange for cash. It includes:

- Undeclared work, where workers and businesses do not declare their wages/earnings to avoid taxes and/or claim welfare supports;
- Under-reporting which occurs primarily in cash-based businesses that only report part of their income in order to avoid some of the tax burden; and
- Illicit trading (we have focused on illicit trade in tobacco).

There is always an element of hidden economy activity within any jurisdiction. This is often exacerbated during times of economic recession and high unemployment. There is a general acceptance that this is the case in Ireland.

Measuring the hidden economy is a complex science. Although somewhat dated, analysis undertaken by AT Kearney the *Shadow Economy in Europe* published in 2009 (based on 2005 data)

provides some insights. Ireland's hidden economy was estimated at 14 percent of GDP (or circa €23 billion based on GDP 2005) before the recession. Within Western Europe the shadow economy ranges from a high of 20 percent in Belgium to a low of 9 percent in Austria.

Many people are unaware of the extent of the impact of the hidden economy activity and think it is 'just the tax man' that is losing out. This loss of tax revenue for the State has implications for everyone - because it means that there are less funds available for the delivery of government services and infrastructures, for example, education/schools, hospitals or public transport.

The shadow economy also has a detrimental effect on legitimate businesses - weakening their sustainability and the potential to create jobs. The areas of undeclared cash for services and illicit tobacco trade are particularly problematic for small businesses.

Consumer and employee protection is also compromised. Hidden economy work carried out will have little or no guarantee of quality and the workers are unlikely to be insured or protected under health and safety rules. Suffice to say - this is a big problem for Ireland's economy - and for small businesses that are trying to keep their heads above water during this serious downturn. We need to level the playing pitch.

We know it is a daunting task. We are aware of the risk based focus and coordinated monitoring programme underway within the Office of the Revenue Commissioners⁶⁴. We also welcome Minister Burton's recently launched Fraud Initiative. It has a strong emphasis on cross agency collaboration in Social Welfare fraud detection, including hidden economy activity⁶⁵. We are very keen that the measures outlined in this initiative are aggressively pursued.

Awareness

The implications arising from the hidden economy are substantial and wide reaching (including employment, government taxes and services, and general society). There is a need to raise awareness, highlighting the implications, influencing attitudinal/cultural factors that see many turn a blind eye. We think that a whole of government commitment to combating the problem would be demonstrated if an inter-departmental approach was taken to developing and promoting an awareness campaign that would deliver a clear, yet comprehensive message⁶⁶.

Proposed Action

- Develop and implement an awareness/advertising campaign to communicate the issues and to highlight the positive impacts of a reduction of hidden economy activity on the Irish economy, jobs and society, and also the negative consequences of dealing in the hidden economy for the consumer personally. [DoF/ Revenue Commissioners/DJEI/DSP]

⁶⁴ *Annual Corporate Plan 2011*, and *Strategy On Combating the Illicit Tobacco Trade (2011-2013)*, Revenue Commissioners. There is also a Hidden Economy Monitoring Group in place that includes representatives from small business organisations

⁶⁵ Department of Social Protection Fraud Initiative 2011-2013:
<http://www.welfare.ie/EN/AboutUs/Documents/FraudInitiative2011.pdf>

⁶⁶ The insurance fraud campaign has been cited as a good example. Given that it has been running for over 7 years we can assume that it has been successful overall and yielded returns above the outlay. It is funded by the insurance industry

Undeclared Cash for Services

When individuals or companies carry out undeclared services for cash it undermines the ability of legitimate and above board businesses to compete. The legitimate provider is more often than not registered for VAT - this alone equates to a 13.5 percent price differential⁶⁷.

Small businesses contend that much of the 'competition' they face comes from the delivery of services for (undeclared) cash that involve commercial vehicles. This includes, for example, home improvements and decoration, waste disposal, gardening services, furniture removal etc. Currently anyone registering for motor tax at the cheaper commercial rate for commercial vehicles must sign a declaration in the presence of a Garda that the vehicle will be used for commercial purposes and must state their Income Tax Registration; however there is no formal mechanism in place to validate their legitimacy as a business/commercial operation⁶⁸.

We also think that the introduction of a social welfare *Start Over* initiative would allow for individuals to come forward and legitimise their tax/earnings status. It would facilitate those who have the potential for maintaining a business to legitimise - and would remove unfair 'competition' and level the playing field for the small business that is trading legitimately.

Proposed Actions

- For the taxing of commercial use vehicles, introduce a mechanism that ensures that information provided to the Gardaí on the Goods Only Declaration is validated as a matter of course. [DECLG]
- Introduce a social welfare *Start Over* initiative for a defined period, that allows for individuals to come forward and legitimise their tax/earning status on the basis of forgiving the past and wiping the slate clean. Penalties and consequences should be enhanced considerably (zero tolerance) in the event of fraudulent activities being subsequently detected. [DSP]

Illicit Tobacco Trade

In terms of illicit tobacco trade, the loss to the exchequer in duty and VAT was estimated at €435 million in 2010 alone⁶⁹. It has a much broader impact on small retail outlets. It means reduced footfall for the small retailer - the loss of tobacco margin itself as well as the loss of sales of ancillary items. Put bluntly, losses in revenue caused by illicit tobacco trade can compromise the sustainability of the small retailer and result in job losses.

⁶⁷ Goods and services which attract VAT at 13.5 percent include building services, repair, cleaning and maintenance services, other services attract 21 percent rate

⁶⁸ Article 3 of the Road Vehicles (registration and Licensing) (Amendment) Regulations 1992 provides that a licensing authority must be satisfied that a vehicle is correctly taxed and the applicant should be asked for supporting documentation including: evidence of registration for VAT. A Tax Clearance Certificate, a commercial insurance certificate, and a copy of their 'Notice of Tax Registration Form'

⁶⁹ Source: Irish Tobacco Manufacturers Advisory Committee (2010). An independent survey carried out for Revenue and the Office of Tobacco Control tentatively estimated that illicit cigarettes accounted for approximately 14 percent of all cigarettes consumed in the State in 2009. This represents a potential loss of €200 million in excise duty for the Irish Exchequer

Tobacco can be bought easily in the hidden economy. Operators sell illicit tobacco in markets, stores and many other places. Illicit tobacco costs less and there is a ready market willing to buy.

As a legitimate, law abiding retailer, if I breach the laws that govern tobacco sales, I will be prosecuted and receive a significant penalty.

The import of illegal products is monitored at Irish ports and airports by Customs. There are currently two container scanners in operation at Irish ports - one of which is mobile and rotates between ports. This means that there are a number of ports without a container scanner at any one time. It is possible that tobacco smugglers are aware of the likely location of the mobile scanner and this allows them to divert course to an unmonitored port, and potentially allowing large quantities of tobacco through undetected.

We need to see the same happen to criminals who continue to sell illicit tobacco.

Benny Gilsenan, Retailer

A confidential hot-line allows any individual to highlight places where illicit tobacco trading (or any kind of smuggling) is taking place. Retailers have expressed concern that it is not clear how issues raised have been addressed. In addition, it is unclear as to the confidentiality of the process for the whistle-blower. The fact is that the Revenue has a duty of confidentiality to all its customers.

A number of initiatives have been put in place to deliver on the Revenue Commissioners' *Strategy on Combating the Illicit Tobacco Trade (2011-2013)* and it is good to see the considerable success they are achieving⁷⁰. We contend that while progress is being made, increased emphasis is needed to ensure both the risk of detection and penalties are further enhanced.

Proposed Actions

- Increase awareness among retailers of the hot-line and manage expectations in terms of the confidential nature of the service. [Industry Associations/Revenue Commissioners]
- Introduce container scanners at Irish ports where the volume and frequency of container traffic justifies the investment. Partial funding can be sourced through the EU Hercules 11 (anti-fraud programme), and consideration should be given to the role of industry in this regard⁷¹. [Revenue Commissioners]
- Increase judicial penalties on conviction of illicit trade in tobacco⁷² [DoJE]

⁷⁰ In July of last year Revenue launched a nationwide tobacco operation which concentrated additional Revenue resources at ports, airports and at various retail points. This resulted in 561 seizures totalling 13.7 mn cigarettes and 195 kgs of tobacco in the course of the two-week period of the operation. Two subsequent 3-day operations in 2010 resulted in the seizure of over 1.76 mn cigarettes and 175 kgs of tobacco. In two similar operations carried out in 2011, a total of 580 seizures were made, comprising 7.4 mn cigarettes and 167 kgs of tobacco, Dáil Éireann Debate Vol. 731 No. 3, Written Answers - Illicit Trade in Tobacco, May 2011

⁷¹ The cost of each container scanner is estimated to be in the region of €2m. Depending on the number of scanners required the capital cost is estimated at €8m - €10m - which, when considered against the potential benefits through increased duties, is relatively low (even when taking into consideration the operational costs)

⁷² Note: the revision of the Finance Act has increased penalties for tax evasion

A Start Right Initiative

Finally, the entrepreneur has a broad range of issues to consider when starting a business - gaining a customer base, assessing the competition, financing the business, pricing, invoicing, accommodation and all that goes with it. What is not often considered at the earliest stage of the start of the business are the steps that need to be taken to ensure tax compliance. Often tax issues are perceived as onerous and complex - and the job of the Accountant. As a consequence, businesses can either inadvertently become involved in operating illicit activities in the early stages of their establishment; or, having got into bad habits, continue to operate at least part of their business operations 'under the counter'.

Specifically related to tax, the Revenue Commissioners publishes *Starting in Business - A Revenue Guide*⁷³ which covers all aspects of taxation (including registration, VAT, keeping of books and records etc.). The Revenue Commissioners will also visit a new business if requested, to advise on what steps a company should take at the start. Unfortunately, in reality there appears to be a lack of awareness of what is available.

Proposed Actions

- Review the *Starting in Business - A Revenue Guide* to identify ways in which the content could be made more accessible to the owner/manager and to non-accountants (i.e. written in *Plain English*) with step by step 'what I need to do' instructions for tax compliance.
 - Consider a short form guide that is the 'what I need to know' for the owner/manager, which limits the content to the basics with an option to get additional information from the existing 32 page guide as needed.

[Revenue Commissioners/Industry Associations]

- Rebrand relevant guides and materials as a *Start Right* initiative and use a variety of channels to make the guide available including:
 - CEBs, BICs, Banks, enterprise agencies, business organisations, Local Authorities, solicitors, accountants, libraries, schools, universities/colleges, etc;
 - Use company registration/VAT registration as a trigger to issue the Guide;
 - Encourage firms to use the existing system to request a visit from a Revenue official following tax registration <http://www.revenue.ie/en/business/running/registering-tax.html>;
 - Integrate the Start Right Guide as part of the Start Your Own Business Courses.

[DJEI/All stakeholders]

Competitive Practices

We are conscious of the need to encourage competition in the domestic economy, to maintain competitiveness internationally, encourage higher productivity and to protect the consumer interest. We think that there needs to be a balance struck between general consumer and competitiveness interests and the objectives of job creation and retention. The practice of below cost selling of particular products (especially alcohol) merits attention and response.

⁷³ www.revenue.ie/en/tax/it/leaflets/it48.pdf

We have broader concerns relating to the continuing consolidation and vertical integration within the retail sector in Ireland. This has led to the emergence of dominant players within various sub-sectors. We consider the implications for the grocery sector below.

Below Cost Selling of Alcohol

The abolition of the Groceries Order, removing the restriction on below cost selling, serves the consumer interest in terms of facilitating real competition and the resultant downward pressure on prices across the board. We're concerned about the unintended consequences associated with what is now a legitimate practice. Small grocery retailers, off licenses and publicans are struggling to compete with larger supermarket retailers with deep pockets who are utilising below cost selling tactics with products such as alcohol to generate increased foot-fall and arguably to build local market share at the expense of local small businesses. In the case of alcohol there are also legitimate broader societal concerns⁷⁴.

We are proposing that a voluntary code of practice relating to alcohol sales, committing retailers not to engage in below cost selling, should be developed and adhered to by industry. We are convinced that the majority of players, including the breweries and importers, would be in favour of such a code and use it to ensure that their products are not sold below cost or their customers down-traded. The proposal would also attract the backing of groups and individuals concerned with the adverse effects of alcohol misuse and abuse on public order and health⁷⁵.

A Ministerial statement in relation to a voluntary code would send a strong signal from Government about the importance of retaining small retailers.

Proposed Action

- The relevant stakeholders (Retailers including multiples, independents & off-licenses, Wholesalers, the Health Promotion Unit and Drinks companies) should agree a Voluntary Code of Practice to implement an initiative to cease the practice of below cost selling of alcohol. The Minister for Jobs, Enterprise and Innovation should issue a statement to the effect that he supports and encourages fair competition in this regard.

[Industry/ DJEI]

Market Share - Grocery Sector

While a number of retailers have entered the Irish market in recent years, Ireland does not have as wide a range of grocery retailers as some larger European countries⁷⁶:

⁷⁴ Report of the Government Alcohol Advisory Group (2008) contends that the price at which alcohol is sold is an important influence on purchasing patterns. The Group is of the view that alcohol is not an ordinary grocery product and it must be treated differently (p.22). See also RAND Europe, 2009, Technical Report on *The Affordability of Alcohol Beverages in the European Union* prepared for the EU Commission

⁷⁵ The Department of Health is expected to publish recommendations regarding alcohol misuse as part of the forthcoming National Substance Misuse Strategy. Minister of State Roisín Shortall has indicated a desire to advance proposals in relation to alcohol pricing, including tax increases and minimum pricing

⁷⁶ A recent Oireachtas report noted ongoing concerns over the level of competition in the market and the power of retailers over suppliers (Joint Committee on Enterprise, Trade and Innovation, Matters Concerning the Retail Trade in Ireland, February 2011)

- Tesco has the largest share of the Irish retail market followed by Dunnes Stores, Supervalu and Superquinn. These four account for 77.2 per cent of the Irish retail market.
- A number of new entrants have joined the Irish grocery retail market in recent years and continue to grow their market share (Lidl 5.5 per cent and Aldi 3.6 per cent).
- ASDA and Sainsbury's have an estimated combined share of 1.7 per cent of the Irish market - although they do not have a physical presence in the State.

The retail cap has a role to play in regulating the growth of players in certain segments and in certain locations through the setting of physical footprint restrictions. The associated retail planning guidelines provide for an assessment of retail impact which takes account of potential trade diversion with the introduction of a new operator in a given location⁷⁷. However the guidelines do not have a role in regulating how large a player can become with respect to overall market share. This is the concern of general competition law which applies to retailing as it does to other markets.

We are of the view that an informed medium to long-term perspective should be taken with regards to the potential structure and development of the grocery retail sector given current trends, and the impact in social and economic terms. This review should specifically consider the currently unmeasured impacts of continuing consolidation on small businesses in local communities.

Proposed Action

- In the context of the review of the retail planning regulations as part of the EU/IMF Reform Programme, undertake an assessment of potential future scenarios for the structure and development of the grocery retail sector in Ireland and the potential economic and social impacts of increases in market share in the sector and policy requirements. [DJEI]

Helping Businesses to Help Themselves

Improving Cash Flow - Releasing Working Capital for Businesses

The challenge that small firms face in accessing finance is exacerbated by cash flow difficulties that the owner/Managers and CEOs face on a day to day basis. Times are tight - they are waiting to get paid and are under pressure themselves to meet payment deadlines - they need to pay the weekly wages, to keep their suppliers on side and to meet their tax obligations. ISME, in a survey of its member firms, found that debtor days has increased to 73 on average⁷⁸. This is unsustainable.

Cash flow - or the lack of it - is a real threat to the survival of some small firms.

We have identified a number of initiatives which would go some way toward alleviating these severe difficulties and help to sustain jobs. Some involve the government directly, and acting upon them would release much needed funds to circulate in the economy through small businesses.

⁷⁷ The Competition Authority recommended that the level of importance that planning authorities place on trade diversion when considering the retail impact assessment process should be reduced

⁷⁸ *Credit Watch Survey*, Summer 2011, ISME

Prompt Payments

We propose a number of aspects for prompt payments, thinking beyond the current public sector-direct supplier relationship in place today.

Firstly, the extension of the 15 day rule to all public sector bodies and agencies represents real progress although it did not include commercial semi-states. We welcome the DJEI commitment to maintain a quarterly reporting system to monitor compliance. It is critical that full implementation of the new rule is achieved so that small firms do gain the cash flow benefit as intended. To support compliance, we recommend that small businesses attach an Official Notice of the new payment requirements to relevant invoices. Small businesses themselves will refer instances of non-adherence to relevant Ministers and departments.

Secondly, small firms that are sub-contracted by the main contracting party with the State do not achieve the same benefits. The relationship between a private sector state contractor with its subcontractors is not subject to the new payment arrangements. The UK has introduced a *Fair Payments Charter* to address a similar problem associated with public sector construction contracts⁷⁹. We believe there is merit in developing a Supply Chain Charter for Ireland modelled on the UK charter to cover all public sector works contracts throughout the supply chain.

Thirdly, we think that the prompt payments concept can be taken further. The proposed legislation in the form of the Construction Contracts Bill aims to address issues related to delayed or non-payment that have been particularly acute in the construction sector⁸⁰. There is an opportunity for *all* businesses to play their role in supporting each other, by voluntarily subscribing to a Code of Conduct for Payments⁸¹. We don't intend that it adheres to a 15 day payment period, but ask that it be reasonable. For small firms, the certainty regarding receipt of payment itself helps them to manage their overall cash flow better. Such a Code would have to allow a certain degree of flexibility so as not to disadvantage firms in an international context.

Another related aspect is the high reliance in Ireland on cheques for payments. Not only does this result in costs for businesses, it also slows down the overall payment process - through from issue/posting of cheque, to receipt, lodgement and clearance⁸². Annual savings from a switch to electronic payments in the Irish context has been estimated at up to €1 billion⁸³. The Department of Finance has previously highlighted the potential for savings within the public sector through the use of electronic payments. The reality is that all parties would benefit from the increased use of electronic payment methods⁸⁴.

⁷⁹ *A Guide to Best Fair Payment Practices*, Office of Government Commerce, UK, 2008

⁸⁰ It is aimed at protecting small building contractors that have been denied payments by larger companies and provides for payment schedules under construction contracts, payment disputes/ adjudication and the right to suspend work in the event of non payment

⁸¹ This would need to be achieved in a coordinated way - otherwise the lead businesses will find increased pressures on their own cash flow for a period of time until others align

⁸² Ireland's use of electronic payments is less than one-third of the EU average in value terms, and although declining, cheque usage remains significantly above the EU average: Ireland used 22.8 cheques per capita in 2009 compared to an EU average of 10.9, *Annual Review*, Irish Payment Service Organisation (IPSO), 2010

⁸³ Target 2013: Modernising Payments in Ireland, National Irish Bank, September 2010

⁸⁴ A report was submitted to the Department of Finance in 2009 by the National Payments Implementation Programme Advisory Group. The Minister for Finance has requested the Central Bank to lead the development of a National Payments Plan (NPP) to increase the use of electronic payment instruments. The Central Bank is establishing a Steering Committee and project management structures for the NPP

Proposed Actions

- To support full compliance of the new 15 day Prompt Payments rule for all public sector bodies and agencies, an *Official Notice* should be made available (including online) to industry representative associations that can be used by their members (for example, to accompany invoices and/or referral in instances of non adherence). [DJEI]
- Develop a *Supply Chain Fair Payment Charter* modelled on the Fair Payment Charter that exists in the UK (and with reference to the process involved), to cover all public sector contracts that involve second and third tier providers. [DJEI/NPS]
- Develop a private sector Voluntary Code of Conduct on Payments, which would be industry led, and should include all commercial semi-state organisations. [Business Representative Associations]
- Mandate the introduction of electronic payments by all Government Departments and State Agencies by end 2012. [DoF]

Advance Payment of Taxes

We accept the rationale for the advance payment of taxes required by firms. Nevertheless, these practices also impact on cash flow. By taking targeted action, government can help to alleviate the situation to some extent for small firms - helping businesses to help themselves. There are two avenues available to the Government in relation to the taxation system and specifically, the advance payment of taxes.

The Professional Services Withholding Tax (PSWT) impacts service providers such as accountants, legal services, communications, PR, management consultancies, many of whom are sole practitioners or small businesses. PSWT is currently withheld by the State at 20 percent, even if the professional service provider is tax compliant. There is an opportunity for firms to apply for an early repayment of the PSWT subject to certain qualification requirements⁸⁵.

In general, however, the tax impacts negatively on business cash flow, while providing a temporary cash flow boost to the State and little benefit beyond this as Irish tax compliance remains high. Removal of the PSWT would require legislative change and involves up-front interest cost and a temporary cash timing difference to the State [Appendix 3]. On the other hand, it is a relatively low cost way to effect a tangible cash flow benefit to cash-strapped small businesses in the current environment.

A second area refers to the preliminary payment of Corporation Tax. Many small companies are facing declining profits and as a result have lower corporation tax liabilities. The provision for small companies to base their preliminary corporation tax payment on 100 percent of the previous year's liability can represent a significant excess over their actual liability for the current year. There is an obvious impact on cash flow in this circumstance. Small companies have the option to pay 90 percent of the tax liability for the current accounting period, but this presents other issues:

⁸⁵ In cases of ongoing businesses, commencing businesses and in cases of particular hardship, subject to certain qualification requirements, *Statement of Practice* No SP-IT/3/90, Revenue Commissioners

- Uncertainty - leading to overpayment of tax liability to avoid paying interest. This reduces companies' cash flow as excess income is not returned until six months after the liability has been paid⁸⁶.
- Payments are made on basis of estimates taken from unaudited management accounts for ten months. In cases where the remaining two months are the peak in a seasonal business, it's even more challenging to calculate accurately in the current economic environment.
- The payment of preliminary corporate tax requires the calculation of tax liability twice - which adds extra costs to the small firm for the professional services required.

Proposed Actions

- Amend Part 18 of the Taxes Consolidated Act, 1997 to remove Professional Services Withholding Tax for service providers where evidence of tax clearance is obtained.
 - If an interim step is required, the deduction for companies should reflect the standard rate of corporation tax (currently 12.5 percent) instead of the standard rate of income tax (currently 20 percent). [DoF/Revenue Commissioners]
- Consider a reduction in the preliminary tax requirement from 100 percent to 75 percent of the prior year's liability for small firms until 2013. [DoF/Revenue Commissioners]

Managing out of the Crisis - a Coordinated Approach for Advisory Services

Many small companies are living day-to-day concerned about the (in)ability to pay wages and/or creditors. The owner/manager feels highly stressed and isolated, and often afraid to admit to the seriousness of the situation in which he finds himself. In fact, some are even unaware of the depth of the problem they face because they don't keep management accounts.

Many owner/managers that are running businesses today have been operating during a boom period - responding to high levels of demand. Many companies invested in non-core activities during the boom years. Strong management capability was not necessarily required in order to succeed. Previous relationships with bank managers were based on a push to gear or borrow, to one where personal/working relationships may be somewhat strained. Banks are seeking greater assurance on repayment capacity for credit facilities and companies are over-exposed.

Now, when faced with severe difficulties, many

Facing the crisis is personal....

My business has been my life, and my family home was at risk....

My family relies on me, and I felt that I was failing them...

I thought that I was the only one facing such problems

*I'd say to anyone in difficulty
Face the problem - ask for help - and tackle it - sooner, rather than later*

Anon

⁸⁶ In addition, the interest returned for overpayment is significantly less than the interest charged for underpayment - four percent compared to ten percent annualised rates

owner/managers don't have the confidence to see their way out of the problem, or even where and how to start tackling it.

This is a very serious and real issue. We need a quick and timely response to address concerns specific to an individual company⁸⁷.

In these situations, an owner/manager needs:

- A good sounding board - the facility to talk to someone with business experience who can understand their specific issue (sometimes a telephone conversation will be enough);
- An experienced person who can spend more time getting to the extent of the problem, and developing a path-way out of it - developing a survival plan. In some instances, it may be too late, and it may be more about helping someone to recognise that, and to set out the path-way to closure;
- An experienced business person who can help to negotiate on their behalf - with banks, with the Revenue, with key creditors - to get a reasonable 'breathing space' while they navigate the turbulence and place themselves in a better position for growth; and
- A monitoring and/or follow-up service to ensure that commitments are honoured.

The reality is that when firms are in this position, they do not have the resources to pay for such services. Often their personal and business finances are inextricably linked. It is a catch 22 situation.

Looking to what is currently available for small firms *specific* to crisis management:

- The CEBs provide information, advice, training and mentoring to firms employing less than 11 people at a relatively small cost (involved primarily in manufacturing and internationally traded services). They actively respond to the need for crisis management advice with their client cohort. They have recently developed a common approach to mentor management generally, and engage private sector providers as appropriate. They provide a locally based, on-the-ground access point for firms.
- Smallbusinessadvice.ie⁸⁸ is a free advisory service focused specifically on managing out of a crisis. It works with small and micro companies from all sectors - the corner retail shop, hairdresser, taxi driver etc. A programme manager matches needs of business with a mentor and the service is promoted through national and regional media. It is limited to 5 counties at the moment;
- The banks provide mentoring services to small businesses⁸⁹ (although often the issue for firms is *with* their bank - so this may not always be seen as the most appropriate avenue by owner/managers in times of crisis);

⁸⁷ Actions identified to address this issue should not be interpreted as replacing initiatives to stimulate demand and take-up of more structured management development and capability building programmes/courses/mentoring which is dealt with separately

⁸⁸ Supported and run by Bord Gais and Plato. See also a similar model in the US called SCORE - Counsellors to America's Small Business (www.score.org). It offers free services and has been in operation for over 35 years (although not specific to crisis). It is a non-profit association. Based on a web-site review, its sponsors appear to consist primarily of banks and credit unions

⁸⁹ Ulster Bank - Small Business Can; Bank of Ireland - Enterprise Builder; AIB Small Business Recovery Scheme

- A range of on-line business tools is available. A good example is Fáilte Ireland's toolkit that includes an easy step-by-step approach with commentary/advice. Some contend that this is a 'generic' approach to crisis management - however many business people are likely to find it very useful to help them start to manage their own way out of a situation. Others *do* need the personal touch.
- Some industry associations and business communities have put in place ways of providing hands-on help to struggling businesses. Examples include the Irish Hotels Federation's Business Assist 'buddy system'⁹⁰ and the Barry Group works proactively with its broad cohort of business customers.

Yet, with all of this in place, there still appears to be an unresolved business need, based on comments from firms that are not part of the agency client cohort, or members of industry associations. It unclear as to the extent of the gap in supply - and it is difficult to determine the extent of unmet demand. There certainly appears to be a gap in awareness of what is available to small firms. The reluctance to seek out help at an early stage is a genuine issue as well.

In this instance, given the urgency for action, we suggest that a proactive and flexible approach be taken. Our recommendation involves the establishment of a 1800 free-fone number and its advertisement to all small firms for crisis management advice. It requires the assignment of a small number of agency resources⁹¹ in the first instance for a limited period of 12-18 months, working with the existing range of advisors and mentors (public and private) currently available⁹².

The key contact person is crucial to the success of this initiative. As well as having strong business expertise, the individual needs to be able to elicit the information required through active listening.

Confidentiality, Credibility and Trust

These are vital elements for the crisis management services to work effectively and to encourage owner/managers to lift the phone and to ask for help.

Owner/managers need to be secure in the knowledge that they are working in a safe space.

Jim Barry, The Barry Group

Proposed Actions

- Assign 2 -3 people with experience in working with small businesses to act as a first port of call for *any* small company owner/manager or CEO (regardless of sector) that is currently facing a difficulty arising from the economic crisis. A free-phone service should be established, advertised and promoted, and branded clearly as a crisis management service *only*.
 - The experienced individuals would be equipped to ask the appropriate questions to elicit exactly what type of support is needed, can act as a sounding board, and would re-direct the caller to the most appropriate mentor/advisor resource - whether provided by the public or private sector. They would effectively operate as liaison managers. This service should be limited to a period of two years.

⁹⁰ This involves a panel of 7 industry practitioners. The distressed business calls an external retired officer of the Federation who listens to the sole trader, and then marries the business to the most appropriate mentor

⁹¹ These should be individuals that have on-the-ground experience in working with small business, operating at a mid manager level at a minimum within either the CEBs or EI

⁹² This is not intended to displace professional service providers. It is a targeted, focused and limited intervention to assist firms overcome immediate crisis issues at a time when they are cash strapped

- Given that it is difficult to predict whether or not what additional resources might be required in terms of mentors/advisors to address an increase in demand (assuming that demand would increase if promoted), we suggest that an active monitoring system be put in place to facilitate real-time assessment of demand/supply. If additional mentors or liaison managers *were* required, this could be addressed as needed⁹³. [DJEI/CEB Coordination Unit]

Supporting actions should also be taken to include:

- Actively promote what *is* available - whether provided by the public or private sector - and include embedded links on agency web-sites, industry associations and chambers. [DJEI/CEBs]
- Business networks and associations that have introduced buddy systems could share their approach and learnings with others perhaps working through Chambers, Industry Associations etc., and extending the model to a wider cohort of firms. [Industry Associations & Networks]
- A simple one-page guide could be developed and widely circulated (through banks, CEBs, BICs, MABs, LAs etc) that sets out the warning signs and encourages small businesses to ask for help and outlines the *crisis management* services available. Certain sole traders are not computer literate and the internet may not be their first port of call. [DJEI]
- Introduce plug and play tools to assist in forecasting and cash flow modelling as a matter of urgency that would include self-help tutorials with relevant information. [Credit Review Office]

Management Development

A successful and sustainable business does not just happen. At the same time, a failed business does not mean it was badly run - many entrepreneurs learn from the past and continue to thrive. We know from the research that there is a strong relationship between management practice and business performance. Improved management practices are associated with large increases in productivity, sales growth and return on capital employed⁹⁴.

Successful business is about people - people who have the ambition and the smarts to know what needs to be done to grow revenues, to manage costs and to get the best out of employees.

Management Capability - Key to Success in Small Business

Strong managers will manage the uncertainty, the challenges and the opportunities - all that the business world can throw at them.

Strong managers will know their own capabilities and will complement them with the range of skills needed to run a successful business.

Conor Healy, Chambers Ireland

⁹³ In various fora we hear of the willingness of business people (some retired) and entrepreneurs to help others during this economic crisis - a call could be issued if/as needed for additional mentors to elicit interest. The assignment of additional liaison managers may also be required which should be manageable from within the enterprise development agencies

⁹⁴ *Management Matters in Northern Ireland and the Republic of Ireland*, McKinsey & Co and Forfás, 2009

Strong managers will know and understand the value of embracing ICTs, of investing in re-skilling and up-skilling themselves and staff and of encouraging and investing in innovation - to develop new routes to market, new pricing models, new products and services and/or process improvements.

Management - *Start Right*

Certain people are more suited to starting and running a business than others. It requires more than a core skill in a certain discipline. It needs a certain mind set, ambition, attitude to (managed) risk, aptitude and competences. A Start Your Own Business Course (SYOB) helps people to ask the question of themselves before they embark on the tricky road of starting and running a business - but, neither the course, nor a competence assessment is mandatory. This means that many people set-up businesses without any experience, basic understanding of what is involved, advice or support at the very early stages.

We do not want to put barriers in the way of the entrepreneur - and want to maintain Ireland's strong ranking internationally for the ease of starting up a business. At the same time, we know that management capability across the board in Ireland is not at the standard that it could be, as evidenced in the report of the MDC and McKinsey research.

SYOB courses *are* widely available (see also Start-Up Boot Camps run by Oak Tree, LEADER Partnerships). We'd like to encourage greater take-up so that best practice is embedded from the start. It could also raise awareness of the importance of management development and the need to regularly refresh skills and capabilities. We're also aware that there may be duplication and/or a lack of structured approach in the provision of such courses.

The next phase of our deliberations will focus more on entrepreneurship - in crystallising the initiatives and approaches needed to stimulate more start-ups with increased longevity. The aspect of mentoring, networks, international advisory panels, buddy systems, role models etc., is particularly important. We would like to build on more recent initiatives put in place by Enterprise Ireland as well as private sector initiatives, and will look to models being used in other countries including e.g. The TAM (Turnaround Management) Programme for the European Bank for Reconstruction and Development. In the immediate term the following actions should be taken:

Proposed Actions

- Use Company Registration Office (CRO) business name/company registration as a trigger to direct applicants (or formation agents, as conduit) to information on SYOB courses or advisory services (CEBs/EI) and enable registration there and then (via web link). [CRO/Agencies]
- Review range of providers of SYOB courses and introduce a structured approach and mechanism for the approval of providers, ensuring consistency of content and standards; and consider concentrating their delivery through one agency (CEBs, EI, VCs, LEADER, Solas etc.)⁹⁵ [DJEI]

Note: CEBs have a common/standard 10 module template agreed to ensure consistency in SYOB standards and delivery - but this may not be consistent across other providers. See also Hidden Economy re Start Right (tax) initiative and embed content as part of the SYOB course.

⁹⁵ No review has been undertaken as to the effectiveness, appropriateness and/or consistency of standards for SYOB courses. Although limited to those provided by CEBs the evaluation of start up supports that is underway by Forfás, may provide valuable insights. Concentration of delivery of SYOB courses relates to state funded agencies

Managing for Sustainability and Growth

High-growth small and medium businesses are net job creators and drivers of economic growth. Research by McKinsey and Co estimated that bringing the lowest rated two quartiles of firms in Ireland up to the average level of management capability could be worth between €500m and €2.5 billion of increased GVA in the manufacturing sector alone⁹⁶.

Despite the benefits for companies and enhanced public supports and infrastructures for training, the level of participation by Irish SMEs in management development activities tends to be sub-optimal. Research by the Management Development Council⁹⁷ (MDC) indicates that this is due to a number of factors, including:

- A lack of appreciation for the need for and benefits of management development;
- A perceived lack of relevance of programmes to the needs of micro and small firms;
- Confusion amongst customers over the range and quality of the courses on offer, as well as a lack of certainty over the content of the various courses;
- Limited regional access to relevant management development courses; and
- Financial and time constraints.

Overcoming these challenges needs concerted efforts across the board, from:

- Owner/managers and CEOs themselves, in identifying their needs and in setting aside the time to engage in developing their own competencies;
- Industry bodies, in raising awareness and brokering demand and supply;
- Development agencies in continuing to support training and development initiatives for their client companies in the context of transformational change;
- Training providers in ensuring relevance, timeliness and facilitating ease of access; and from
- Government, in stimulating increased uptake in the short term by the broader cohort of small firms.

There is a broad range of private sector providers and of relevant courses, examples of which were set out in the report of the MDC. Supply, in general is well catered for, and more recent initiatives such as Enterprise Ireland's Leadership for Growth programme are proving to be very effective. The MDC considered that greater involvement by the third level sector would be welcomed and would also help to address some of the concern about limited availability of courses in regions throughout Ireland⁹⁸.

In order to stimulate greater participation by SMEs in management development the MDC recommended the establishment of Management Development Networks (MDNs). These are similar

⁹⁶ Management Development in Ireland - the Report of the Management Development Council, February 2010

⁹⁷ The Management Development Council was established in 2007 to advise Government on the adequacy and relevance of management development provision and to promote a coordinated approach to building awareness and appreciation in SMEs of the value of and need for upgrading leadership and management skills See *Management Development in Ireland - the Report of the Management Development Council*, February 2010

⁹⁸ The Institute of Technologies' Flexible Learning Initiative is a prime example of a move toward the flexible provision which will be required if the third level sector is to increase its management development offerings

to existing training networks. It would involve a partnership approach, encompassing all key stakeholders and trade associations, *under the auspices of an existing agency*. The MDN would provide a guidance service for SMEs, sourcing training that matches the companies' needs. In addition, the MDN would oversee the promotion of the management agenda, improvement of information flows and the development of an appropriate diagnostic tool. It's a practical solution to get engagement by a large number of SMEs, and involves a combination of bottom up firm-led activity and a top down, target driven approach led by the network manager.

We would like to see progress being made in this regard that would involve an allocation of funding from the National Training Fund - to which firms contribute.

Proposed Action

- Deliver on the MDC recommendations to progress a national system for management development, incorporating reform of supply, demand, and funding.
 - In particular, allocate further funding for SME Management Development Networks through the National Training Fund, as recommended by the MDC. The Report of the Management Development Council, February 2010, requested the allocation of funding starting at €10-€12 million per annum to fund management development networks. In the current economic climate the introduction of a pilot programme would be a welcome first step, with funding in the region of €1.2 million. [DJEI/DES]

Making it Easy to Access Information

A Plain English Campaign

A recurring theme for small businesses in Ireland is that it is difficult to get the information they need, as and when they need it, and in a way that is easy to understand. The owner/manager of a small business and entrepreneur needs to get to grips quickly with a broad range of areas so that he is well informed from the start. In this internet era there is a plethora of information available online, accompanied by down-loadable guides, brochures and documents.

However the information available is not necessarily written in *Plain English*, nor is it written specific to the target audience, often being overly legalistic, technical or complex.

The main principles of what qualifies as *Plain English*⁹⁹ include:

- The use of everyday English, avoiding jargon;
- Consistent and correct use of punctuation and grammar, and break-up of dense text;
- The use of lists;
- An average sentence length of 15 - 20 words;
- The use of 'active' rather than 'passive' verbs;
- An explanation of technical terms, abbreviations and acronyms;
- Avoiding Latin and French expressions;
- Use of clear headings, standing out from the text, and emphasising other text carefully;
- The use of words like 'we', 'I' and 'you'; and
- good type size and clear typeface.

⁹⁹ National Adult Literacy Agency (NALA) and the UK Plain English Campaign

We're aware of some initiatives in other countries, including the US and the UK. A Plain Writing Act was introduced in the US in 2010 which requires that federal agencies use "*clear Government communication that the public can understand and use*"¹⁰⁰. In the UK the Plain English Campaign, advocated by a private sector commercial entity, resulted in almost all UK Government departments and public bodies having received a Crystal Mark - which is the Plain English Campaign's seal of approval¹⁰¹.

There are some examples of the use of *Plain English* in Ireland. The 'Guide to Your Rights' on the website of the Data Protection Commissioner¹⁰² is a good example, and has been approved by the National Adult Literacy Agency (NALA)¹⁰³. Interesting also is that the Courts Service in Ireland has received a (UK) Crystal Mark¹⁰⁴. NALA coordinates a *Plain English* campaign, and over 100 organisations have received the NALA Plain English Mark.

There is an opportunity now to enhance the level of information available and the format in which it is produced through a *Plain English* initiative involving all government departments and agencies dealing with small businesses.

Considerable benefits could be achieved, from what is a relatively low cost initiative:

- Improved small business capability with strong understanding of the need to know basics;
- Enhanced understanding of regulations and tax compliance in particular, which should result in stronger compliance and a reduction in firms (sometimes inadvertently) operating outside of the system, for example in employment matters. Firms will be better equipped to *Start Right*¹⁰⁵;
- Improved communications between government and businesses - increased clarity, and reduced frustrations;
- Reduction in government spending and resources - less resources used in answering calls and explaining already available pieces of information. In the UK the Plain English campaign has saved the Government an estimated £500 million in the last two decades¹⁰⁶.

Proposed Actions

- Implement *Plain English* initiatives by relevant Government Departments, the Revenue Commissioners, enterprise agencies, and the CSO, with a view to updating to *Plain English* all content and communication to business within the next 18 months.
 - This should cover all areas relevant to small businesses and entrepreneurs including starting a business, basics of cash flow management, health & safety, employment law, taxation, commercial property law, etc.

[Department of An Taoiseach/All Departments]

¹⁰⁰ See: <http://www.gpo.gov/fdsys/pkg/PLAW-111publ274/pdf/PLAW-111publ274.pdf>

¹⁰¹ Over 170 public bodies have received a crystal mark in total

¹⁰² Data Protection Commissioner,
<http://www.dataprotection.ie/ViewDoc.asp?fn=/documents/rights/RightsPlainEnglish.htm&CatID=16&m=r>

¹⁰³ NALA's main role is to ensure people with literacy and numeracy difficulties can fully take part in society and have access to learning opportunities that meet their needs

¹⁰⁴ <http://www.courts.ie/courts.ie/library3.nsf/PageCurrentWebLookUpTopNav/Home>

¹⁰⁵ See also Sections on Hidden Economy and Management Development (*Start Right*)

¹⁰⁶ Plain English Campaign, www.plainenglish.co.uk

- A pilot initiative could be instigated which would set out the best approach - we have already identified potential areas including, Revenue Tax Guide and SME Procurement Templates:
 - Work with NALA or other plain English experts in converting existing information into *Plain English*¹⁰⁷.
 - Validate content and ease of use with a focus group of small business owners
 - Use step-by-step 'what I need to do' instructions in all guides and forms where relevant and add links to other sources of relevant information.
 - All new pieces of information should also be available in *Plain English* from the outset.
- [Relevant Government Departments/Revenue Commissioners/Industry associations/enterprise agencies/CSO/in consultation with NALA and other Plain English experts]

A Web Portal for Small Business : One Place to go for All You Need to Know

As highlighted above there is an overabundance of information available via the internet. Coupled with that, the range of bodies/agencies/providers (both public and private) makes for a very busy and complex space for entrepreneurs and for small firms to navigate.

Existing websites include: Basis.ie, pointofsinglecontact.ie, DJEI, Gov.ie, Enterprise Ireland, enterpriseboards.ie¹⁰⁸, individual CEB's websites, Udarás and Shannon Development. There are limited or no cross referrals or links between the agency websites. There are also other bodies involved in providing business services or promoting awareness, for example, Citizens Information Board, the banks (Bank of Ireland Enterprise Builder, Ulster Bank - Small Business Can), local authorities, revenue.ie, and a number of private sector initiatives, including startingabusinessinireland.com., smallbusinessadvice.ie; nubie.ie etc.

It is not readily clear (on the home page) that Enterprise Ireland works primarily with internationally trading firms, or that CEBs cater primarily to manufacturing and internationally trading services firms that employ less than 10. Search engines are not optimised to respond to the range of queries that one might expect from firms today that seek help out of a crisis, want to start a business etc.

A note of caution however - a web portal should not be looked upon as a complete solution - it will be one part of the wider system - reducing the current frustrations being expressed '*Where do I go to?*'. Owner/managers, entrepreneurs and prospective start-ups will continue to need advisory services and supports and the CEBs provide an 'in locale' access point for businesses.

Proposed Actions

- The ultimate aim is to put in place a one-stop-shop information web portal for small business:
 - Establish a working group led by (DJEI/CEB coordination unit/EI), utilising a small industry focus group to identify specific needs, functionality and content of a small business portal (incl. interactive tools, and standardised policies/contracts similar to Health and Safety statements) - developed from the user perspective (*not the service providers*), and building upon (not duplicating) existing websites. A proposal should be

¹⁰⁷ Further information can be found on NALA's plain English website, www.simplyput.ie

¹⁰⁸ County Enterprise Boards

completed by end December 2011 with a view to implementation by Q1 2012.

In the Immediate Term:

- State agency and local authority websites should incorporate a standard roadmap that gives a clear pathway to which agency is most suited to a firm's or aspiring entrepreneur's needs - with embedded links to the relevant websites.
- State Agency enterprise related websites should include cross referrals and provide greater clarity (on the home page) regarding what cohort of company they provide services to [*this could also include Bord Bia, Fáilte Ireland etc*]
- The enterprise related State agencies should review search engine optimisation on all websites.
- If a company is redirected from one agency to another (for whatever reason) mandate normal practice that ensures that an introductory call/email is provided from one agency to an individual in another so that the company is not 'cold calling'. [DJEI/Agencies]

Improving the Availability of Data for Small Business

If we are to fully understand the potential for small business in Ireland it crucial that consistent, relevant and up to date statistics and on key sectoral and market trend are available. Up-to-date statistics on small business are not only of value in terms of building our understanding of the trends in business start-ups and activities but also in terms of assessing Ireland's performance vis-a-vis our European counterparts. Robust policy development requires robust statistical analysis.

We are particularly concerned that the *Small Business in Ireland* publication was discontinued since the 2008 edition. Although the Business Demography database was made available in 2007, there are data limitations in that it does not provide data on turnover and/or exports. It also means that rather than an easily accessible comprehensive report being available, individual interests have to generate tables/outputs specific to each query they may have. The Minister for Small Business, John Perry, T.D. has already communicated our concerns to the Central Statistics Office (CSO), given their central and valuable role in this regard.

Proposed Actions

- Re-launch the CSO's *Small Business in Ireland* publication and consider how data can be made available on a more timely basis. Size categories across *all* of the charts/analysis should be consistently applied - including a breakdown between medium and large categories (where data for firm size of greater than 50 employees is provided).
 - If, because of resource constraints, our request cannot be prioritised we suggest that, in the short term, a dedicated Small Business Portal be established to enable easy access to a listing of directly relevant releases and a suite of core tables/graphs.
- Monthly reporting on Tourism and Travel statistics¹⁰⁹ should be re-instated at the earliest opportunity, to assist industry in making timely and informed business decisions, and to better inform strategic policy choices over the short, medium & longer term. [CSO]

¹⁰⁹ Releases for Tourism and Travel statistics are now collated on a quarterly rather than monthly basis

Insolvency and Debt Resolution

Personal Insolvency - Bankruptcy & Non Judicial Debt Resolution

Now more than ever before, we need to support the potential in people to embark on new business ventures, and not engender a 'fear of failure'.

We welcome the recent enactment of the remaining new bankruptcy provisions contained in the Civil Law (Miscellaneous Provision) Act 2011¹¹⁰. These reforms are critically important for small firms, and for sole traders in particular¹¹¹. The reduction in the discharge period from 12 to five years will go some way to encouraging individuals to take on the challenge and risk associated with entrepreneurship and may encourage others to try again. We are keenly aware that the new provisions in relation to the discharge period, while representing a tangible advance, will still leave Irish law somewhat out of line with other jurisdictions.

The reality is that firms do and will fail, often with considerable debt owing, in these very difficult economic times. The closure of any business is stressful - and for proprietors that have personal loan guarantees in place, it is even more so. They face real personal difficulties that impact on their families and homes. Personal guarantees are often required even in circumstances where the firm has been established as a limited company. There are also many cases where individuals without business backgrounds obtain personal loans to undertake small-scale business ventures, often without first obtaining appropriate legal or accounting advice¹¹².

The Law Reform Commission (LRC) has published detailed proposals for a complete reform of personal insolvency law¹¹³, which in many respects represents the development of a completely new system¹¹⁴. The proposals reflect the need for a non-court/mediation system that would be open to individuals where personal debt levels are relatively modest (including small business-related debts). The LRC is of the view that given the impact of bankruptcy procedures (not least the high costs involved), they should be a last resort after other solutions to debt disputes have been explored. In this vein they further recommend that the minimum debt level required to bring a creditors bankruptcy petition be increased from the current €1,900 to €50,000.

The commitment within the EU-IMF Agreement to provide for a new structured non-judicial debt settlement and enforcement system that provides for an alternative to court supervised proceedings needs to be advanced as a matter of priority. [DoJE]

¹¹⁰ The new provisions enacted on the 10th October 2011 provide i) for the reduction of the application period to the court for discharge from bankruptcy from 12 years to 5 years, subject to the same conditions that exist at present, and (ii) the automatic discharge of bankruptcies on the 12th anniversary of the bankruptcy adjudication order

¹¹¹ Individuals operating as sole traders do not benefit from limited liability, and so remain personally liable for all of the debts incurred by their businesses *Report on Personal Debt Management and Debt Enforcement*, LRC, December 2010

¹¹² Ibid

¹¹³ Minister Shatter has acknowledged the need for continuing reform in the area of personal insolvency and has indicated that further reforms are forthcoming in early 2012 as part of the commitment made in the EU-IMF Agreement

¹¹⁴ *Report on Personal Debt Management and Debt Enforcement*, LRC, December 2010

Corporate Insolvency - Small Business Schemes of Arrangement

The issue of costs associated with corporate debt resolution for small businesses in difficulty is a real concern. Many need significant restructuring/recapitalisation in order to survive; however there are considerable and often prohibitive costs involved in pursuing the examinership route, as opposed to a direct liquidation, or alternative schemes of arrangement¹¹⁵.

We are aware that DJEI has advanced proposals in the context of the preparation of the new Companies Bill, an aspect of which could have the effect of reducing the costs of examinership for the company. The draft Bill includes a provision that increases the threshold at which an examinership hearing can take place in the Circuit Court (as opposed to the far more costly High Court) - from the existing €317,432 to €500,000. We believe that this adjustment is necessary and should be enacted, however we also believe that more can be achieved. In the first instance consideration should be given to increasing this threshold further (although we acknowledge that further analysis may be needed to determine the most appropriate threshold that would have the desired effect).

The LRC proposal to bring small businesses within the provisions of a new non-judicial debt settlement system is welcome and if implemented could keep more small businesses operational where there are sound business fundamentals.

The AGSB will be maintaining a strong focus on the area of insolvency and debt resolution and will give more detailed consideration to the emerging proposals in relation to both personal and corporate insolvency, from the Department of Justice and Equality, and DJEI respectively.

On another note, many self employed business owners that face closure have no alternative source of income. Because they contribute at a lower S1 Class for PRSI¹¹⁶, they do not qualify for social welfare benefits when they find themselves out of work. This causes added stress and hardship at a personal level. Many owner/managers and directors would be more than willing to contribute more to PRSI to address this stark reality. We will be considering the options for action to address this issue in the coming months.

Given the difficult economic conditions for small businesses at the present time, it is essential that implementation of the necessary reforms to improve the Examinership process is accelerated.

We will endeavour through our deliberations as a Group, to inform the process underway.

At a time when more people should be encouraged to create employment for themselves, we need to look at ways to reduce the risks and provide them with some security.

Business owners who are willing to pay a voluntary additional PRSI payment should be allowed to do so, so that they can qualify for the same social welfare benefits as employees do

Patricia Callan, Small Firms Association

¹¹⁵ Pre-petition for full examinership typically costs €30,000 to €40,000 and the examinership itself typically costs €80,000 to €150,000, IBF presentation to Sub-Group 4 - Examinership Light: Credit Supply Clearing Group, October 2009

¹¹⁶ There is no ceiling on contributions for the self-employed and the threshold at which the self-employed are liable to PRSI is lower than for employees

Section 5 Next Steps

The next phase of our deliberations will look at how we can accelerate the development and growth of small companies and stimulate net new employment.

We will concentrate on identifying ways that will help firms to:

- Increase productivity - including, for example, re-skilling and upskilling, lean systems and processes, and use of ICTs. We will consider sector specific aspects where such analysis will add to our understanding;
- Become more involved in innovation - across the innovation spectrum and including product, service and process innovation - so that innovation becomes embedded as part of the day job;
- Realise more potential through linkages, networks and collaborative action; and
- We will also put the spotlight more on entrepreneurship - building from the ongoing initiatives with the CEBs and Enterprise Ireland. We will also look at what alternative sources of funding are available, particularly to support entrepreneurs and early stage start-ups¹¹⁷.

We will build on existing studies and research and where necessary will 'get in behind the numbers' to deepen our understanding of what aspects will make a difference - across the broad spectrum of small companies. We will attempt to disaggregate our analysis across size, sector and market focus where that will add value. We will report in phases as each strand of work is completed.

We will also continue to monitor progress against the actions outlined in this report.

¹¹⁷ Including, for example, private equity and new initiatives such as crowd financing as well as existing initiatives such as the Seed Capital Scheme and BES

Appendices

Appendix 1

Small business data

Table 1: Number of active enterprises, persons engaged and employees - all small firms (0-49 persons engaged), 2006 to 2009

	Persons engaged size classes	2006	2007	2008	2009	% change 2007-2009
Active Enterprises (Number)	Under 10	179,074	184,459	180,674	180,199	-2.3
	10 - 19	12,204	12,568	12,062	10,360	-17.6
	20 - 49	6,694	6,990	6,754	5,630	-19.5
	Total	197,972	204,017	199,490	196,189	-3.8
Persons Engaged (Number)	Under 10	383,076	399,941	386,795	350,533	-12.4
	10 - 19	163,107	168,368	161,410	138,785	-17.6
	20 - 49	198,881	207,560	200,594	166,511	-19.8
	Total	745,064	775,869	748,799	655,829	-15.5
Employees (Number)	Under 10	263,124	278,670	271,522	242,561	-13.0
	10 - 19	158,700	163,984	157,272	135,547	-17.3
	20 - 49	197,333	205,962	199,107	165,533	-19.6
	Total	619,157	648,616	627,901	543,641	-16.2

Source: CSO, Business Demography (Database Direct)

Table 2: Enterprise births and survival rates

	All employee size classes	0 employees	1-4 employees	5-9 employees	10 or more employees
Enterprise births in 2009 (Number)	13,810	11,687	1,999	104	21
Survival rate - 1yr to 2009	85.76%	84.11%	90.95%	86.70%	82.26%
Survival rate - 2yrs to 2009	75.67%	74.12%	81.69%	76.09%	77.27%

Source: CSO, Business Demography (Database Direct)

Table 3: Number of small enterprises by region*, 2009

Region	Micro <10	10 to 49	Share of all Small enterprises
Border	18,860	1,168	10%
Midlands	9,514	562	5%
West	17,079	1,272	10%
Dublin	51,716	5,471	30%
Mid-East	20,595	1,494	11%
Mid-West	14,737	1,210	8%
South East	17,971	1,310	10%
South West	27,197	2,254	15%

Source: CSO Business Demography (Database Direct)

*Note: Data is indicative only - due to confidentiality reasons, data was suppressed in the Small category for some counties. Data for Tipperary is not divided by North and South Tipperary. The total figure for Tipperary has been divided by two and added to the figures for the South East and Mid-West.

Table 4: Small firms (0-49 persons engaged) Sectoral breakdown*, 2009

2009	No. small firms 0-49	No. engaged in small firms	No. employees in small firms	Active Enterprises		Employees	
				As a proportion of all firms nationally (%)		As a proportion of all employees nationally (%)	
				Micro 0-9	Small 10-49	Micro 0-9	Small 10-49
Business economy *	196,189	655,829	543,641	90.4	8.0	20.4	25.3
Mining and quarrying (B)	336	1,561	1,478	80.6	7.3	10.0	14.2
Manufacturing (C)	12,128	57,342	52,439	81.9	13.0	9.4	18.5
Electricity, gas, steam and air conditioning supply (D)	270	319	277	94.3	1.1	1.6	1.2
Water supply; sewerage, waste management and remediation activities (E)	803	3,642	3,392	82.6	13.8	13.9	31.0
Construction (F)	44,807	103,702	75,283	96.1	3.5	48.5	29.6
Wholesale and retail trade; repair of motor vehicles and motorcycles (G)	43,410	191,705	169,340	86.0	12.3	21.6	31.1
Transportation and storage (H)	10,878	34,433	26,974	91.3	7.5	15.9	20.2
Accommodation and food service activities (I)	15,941	90,127	78,395	80.8	16.0	20.5	36.4
Information and communication (J)	9,061+	12,654+	10,078+	92.1	na	15.6	na
Financial and insurance activities excluding activities of holding companies (K-642)	4,898	17,032	16,274	87.2	9.7	7.4	10.1
Real estate activities (L)	10,721+	14,704+	6,086+	98.1	na	49.6	na
Professional, scientific and technical activities (M)	30,474	76,515	57,440	94.4	4.9	36.1	28.8
Administrative and support service activities (N)	11,651	35,629	29,802	90.6	7.2	13.1	18.6

Source: derived from CSO, Business Demography (Database Direct)

*Note: Sectors represent NACE rev 2 categories B to N, less 642 (excluding activities of holding companies), and excludes NACE rev 2 categories A (agriculture, fishing & forestry) and categories O to U (which includes public admin, education, health & social work, arts, entertainment & recreation, and a number of other activities). Note: '+' indicates that some data is unavailable and therefore the actual figure is higher than that reported in the table.

Table 5: Small Firms (0-49 persons engaged), Sectoral Breakdown*, 2007 - 2009

Number of Active Enterprises	2007	2008	2009	% Change 2007-09
Mining and quarrying (B)	314+	362	336+	7.0
Manufacturing (C)	12,256	12,152	12,128	-1.0
Electricity, gas, water supply (D&E)	914+	886+	1,073+	17.4
Construction (F)	58,750	53,584	44,807	-23.7
Electricians and Plumbers	10,572	10,499	10,138	-4.1
Wholesale and retail (G)	42,365	42,364	43,410	2.5
Motor Trade & Repairs	6,664	6,754	6,894	3.5
Grocery Retailers	2,776	2,711	2,860	3.0
Petrol Stations	1,202	1,181	1,167	-2.9
Transportation and storage (H)	11,241	10,922	10,878	-3.2
Taxi Operators	1,129+	1,061+	1,114	-1.3
Accommodation (I -55)	2,102	2,040	2,141	1.9
Hotels & similar	812	811	874	7.6
Food & Beverage Services (I-56)	13,121	13,371	13,800	5.2
Restaurants & mobile food	5,576	5,949	6,193	11.1
Publicans	6,977	6,844	6,984	0.1
Information and communication (J)	9,034+	9,146+	9,061+	0.3
Financial and insurance activities (K-642)	4,381	4,421	4,898	11.8
Real estate activities (L)	9,515+	9,090+	10,721+	12.7
Professional, scientific and technical activities (M)	28,271	29,046	30,474	7.8
Legal Activities	4,007	4,132	4,388	9.5
Accountants & Tax Consultants	4,650	4,726	4,984	7.2
Architects and Engineers	6,724+	6,916+	6,902+	2.6
Administrative and support service activities (N)	11,380	11,530	11,651	2.4
Recruitment/HR	961	969	985	2.5
Travel Agents & Reservations services	486+	487+	527+	8.4
Total	204,017	199,490	196,189	-3.8

Source: Derived from CSO Business Demography (additional sector breakdown provided by the CSO). *Refer to Note at Table 4 - Total includes suppressed data so may be greater than the sum of the categories above.

Appendix 2

Summary of Initiatives in Place for Small Business

Finance

Enhanced BES and SCS Schemes (Small Business Forum, 2006 - SBF Rec)

- Schemes extended to 2013
- Individual investment ceiling and investment ceiling per company increased

Development agency supports: VC Funds

The Seed and Venture Capital Schemes were launched to improve access to finance for small and medium sized enterprises and to further develop the Seed and Venture Capital Industry in Ireland. They are supported from Exchequer and European Commission monies,

Up to December 2009 seven new funds were launched under the current Scheme which runs from 2007-2012. The cumulative size of these funds is approximately €525 million, of which €79 million is specifically mandated for small start-up firms.

Further development of Business Angels (SBF Rec)

Four regional business angel programme managers have been supported by Enterprise Ireland, based in the BICs in Dublin, Cork, Galway & Waterford. In agreement with EI, a National Director funded by InterTradelreland for the Halo Business Angel Network (HBAN) was appointed in 2009. The focus of the national Director is to deliver larger angel syndicate investments as well as coordinate the national Business Angel programme.

Tax

VAT registration threshold increased (SBF Rec)

VAT registration threshold increased to €75,000 (goods) and €37,500 (services).

Preliminary Payment of Corporation Tax (SBF Rec)

Allows the preliminary payment of corporate tax based on the previous year's assessment where the tax for the previous year is less than €200,000

Threshold for using the 'cash basis' of accounting for VAT raised to at least €1m (SBF Rec)

About 65% of traders are now accounting for VAT on the case basis rather than the invoice basis.

Corporation Tax Relief

Start-up Companies who commenced trading on or after 1 January 2009 and whose tax liability for each year does not exceed €40,000 are exempt from tax (including capital gains tax) in each of the first three years of trading. Finance Act 2011 extended this to start-up companies which commence a new trade in 2011. The scheme was also modified so that the value of the relief will be linked to the amount of employers' PRSI paid by a company in an accounting period subject to a maximum of €5,000 per employee. If the amount of qualifying employers' PRSI is lower than the

reduction in corporation tax liability otherwise applicable, relief will be based on the lower amount.

R&D Tax Credit

A 25% tax credit is available for qualifying R&D expenditure for companies engaged in qualifying R&D undertaken within the EEA - increased from 20% in Budget 2009. Unused credits may be set off against corporation tax from previous years, carried forward against future corporation tax liability or refunded by Revenue. The base year for calculating the incremental qualifying R&D expenditure incurred is 2003.

PRSI Exemption (temporary measure to end 2011)

The Employer Job (PRSI) Incentive Scheme exempts employers from liability to pay their share of PRSI for certain employees¹¹⁸ for 12 months. The scheme is open to employers who create new and additional jobs in 2010 and 2011 up to a maximum of 5% of the existing workforce or, for smaller companies, a maximum of 5 new jobs.

Regulation

Audit threshold increased to EU limit (SBF Rec)

In August 2011 the Minister increased the turnover threshold for audit exemption to include companies with a turnover of less than €8.8 million (up from €7.3 million and an original €1.3 million) and a balance sheet of less than €4.4 million (up from 3.65 million). This initiative is expected to save Irish SMEs up to €5 million per year

Prompt Payments

All central Government Departments are now required to pay their business suppliers within 15 days of receipt of a valid invoice. In line with the commitment made under the National Recovery Plan & EU/IMF Programme, the Government has extended this 15-day prompt payment rule to the Health Service Executive, the Local Authorities, State Agencies and all other Public Sector Bodies, with effect from 1st July 2011.

HSA 'BeSMART'

The Health & Safety Authority has developed a simple online tool to assist SMEs with carrying out their Risk Assessment and Safety Statement. The initiative will deliver potential savings of c. €53 million annually for companies.

Online filing of accounts

The Companies Registration Office is now facilitating companies who wish to submit their accounts in pdf format; and Directors may also now use their ROS eSignature to sign off on these accounts electronically with the CRO. The simplifications represent potential savings for companies of €29m annually.

¹¹⁸ People that are participating on the FÁS Work Placement Programme or are in receipt of Jobseeker's Benefit; Jobseeker's Allowance, One-Parent Family Payment or Disability Allowance for a minimum of six months

Cost of Professional Services Withholding Tax

The monthly gross PSWT receipts levels have remained broadly similar over the past three years, though it is possible that the profile may have altered given the engagement of non-resident consultants since the onset of the financial crisis. As expected, gross PSWT receipts are higher than the monthly average in December and January reflecting the payment cycle arising from the cash receipts basis of accounting. It is also of interest to note that there has been an 83 percent increase in annual gross PSWT receipts collected between 2002 and 2008, which would reflect an increase in the level of expenditure on professional services.

PSWT withheld can be taken into account when making preliminary tax payments for income tax or corporation tax in the year PSWT would be withheld. Taking this into account, the interest cost is estimated to be between €10 million to €12 million per annum¹¹⁹.

Given the prevalent use of calendar year end for company accounts and that 79 percent of individuals filed their income tax return online in 2010, the December PSWT receipts appear to be a reasonable basis upon which to estimate the cash timing difference. A range of cash timing difference estimates are presented given that the gross PSWT withheld in December 2010 was almost 20 percent greater than in 2009. The cash timing difference ranges from €38 to €60 million, the upper range of €50 to €60 million using gross PSWT receipts and the lower range of €38 to €46 million if the interim refund profile is applied assuming the claims could be processed within one month. Gross PSWT receipts in December have been 9 to 31 percent greater than the November amount over the past three years, hence there could be scope to reduce the impact by encouraging the public bodies to seek and settle professional service bills earlier. It is important to note that any income or corporation tax due on the PSWT withheld would be payable in the preliminary tax payments the following year.

¹¹⁹The estimated interest cost is based on the gross PSWT receipts, excluding the interim refunds, using the 5.83 percent composite interest rate. If the net PSWT receipts were used, then the estimated interest cost would reduce by approximately €1-€2 million

