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**'THE VOICE OF
SMALL BUSINESS'**

**SMALL FIRMS
ASSOCIATION**

SMALL FIRMS ASSOCIATION

PRE-BUDGET 2012

SUBMISSION

“FORMULA FOR SUCCESS”

Presented to:

**MINISTER FOR FINANCE,
Michael Noonan, T.D.**

KEY ISSUES

1. Restore Confidence

Unlock the savings and get people to spend. Communicate 4 year fiscal adjustments to give certainty.

2. Rebalance Austerity Programme with Growth Plan

Reach target of €3.6bn reduction through expenditure cuts, not tax increases. SME Credit Guarantee Scheme, targeted supports for domestically facing small businesses and changes to public procurement essential.

3. Public Sector Reform

Stop incremental pay increases. Croke Park deal needs to deliver specific measurable savings within a determined timeframe.

4. Social Welfare Reform

Self-Employed and Business Owners must have same welfare safety net as employees. Remove disincentive to work within the system.

5. Tax Policy

No change to corporation tax, income tax or VAT. Increases only in property taxes.

The SFA welcomes the opportunity to present our pre-budget 2012 submission to the Minister for Finance, Michael Noonan, TD, and to share with him our experience, insight and knowledge of the small business community, which in spite of the ongoing difficult economic climate, still amounts to some 200,000 businesses, employing almost 700,000 people, half the private sector workforce.

There is certainly still a two-tiered economy being experienced, with exporters doing extraordinarily well winning business market share on international markets through innovation, enhanced service and having achieved improved cost competitiveness in Ireland in recent years. However, within the domestic market, things are much more mixed, with some businesses holding their own and even considering investment, expansion and development once more, particularly where they still have their own cash reserves. But many others are treading water in an effort to survive the continuing low consumer demand sentiment, cashflow shortages, business costs which are still too high, a social welfare system which is acting as a disincentive to work and indeed is now promoting a new hidden economy.

Notwithstanding a substantial number of issues which are important to the small business community and which we are actively engaged with Government on through the Small Business Advisory Group, we have chosen to focus our discussion on 5 key issues, which we believe will be critical to restoring economic growth and to solving the unemployment crisis, and which will in the main be cost-neutral to implement.

1. Restore Confidence – Clear Messaging

The SFA believes that in Budget 2012, the Minister should use the opportunity to restore business and consumer confidence and place jobs and enterprise centre-stage. It is clear that the Government does not have the financial resources to kick-start the economy itself with a broad-ranging stimulus package, but by clear economic communications, about what the implementation of the fiscal adjustment outlined in the EU/IMF MoU will mean at household level in the form of additional taxes, charges and social welfare benefit reductions over the next 4 years; it will encourage householders and businesses who have the true wealth in the country to start spending again, as they will have certainty around what's facing them. Notwithstanding the very high unemployment rates, there is still a lot of money in the country. Our savings rate is estimated to be around 13%, when for an economy like ours the ideal is 5%. If just a few more of those percentage points were spent

in the domestic economy, it would create real growth and jobs. Clear communications from government will allow this capital to be released.

2. Rebalance Austerity Programme with Growth Plan

The Government must rebalance its policy priorities from balancing the books through its austerity programme with the need to restore economic growth. In relation to Budget 2012, we believe that the Government should meet its Troika target of €3.6bn reduction, but that this should primarily be done through expenditure cuts, rather than tax increases on a 3:1 basis. Since the onset of the crisis, the Government has been too reliant on taxation increases, which has turned Ireland into a relatively high tax economy, and has killed both consumer and business confidence. This must be redressed in Budget 2012.

Whilst the SFA broadly welcomed the measures announced earlier this year in the Jobs Initiative, we believe that the Minister should go further in Budget 2012 with a comprehensive package of support measures to create an economic stimulus and return the economy to a growth curve.

We would like to emphasise 3 areas that we believe the Government should prioritise to assist small businesses in surviving and thriving.

The first and biggest challenge facing small businesses at present is **access to credit**. We have long called for the introduction of a **Government SME Credit Guarantee Scheme**, and welcome your decision to now implement this. We are working with your consultants on its design and believe it should specifically address the market failure which exists across all sectors at present – that is the lack of sufficient collateral and security due to present market conditions, which is making the banks too risk averse to what otherwise would be very bankable business opportunities. It is also clearly needed for the long-standing financing issues with novel markets, that is the difficulties banks have in assessing new innovative products/services/processes that they do not have the skills to understand fully. The scheme should be open to all banks, be transparent and well-established under comprehensive financial regulation. Government involvement and a high subsidy by government will be critical to its success.

Secondly, we need a **one-stop shop for all state support services for small businesses**, and a broadening of the remit of Enterprise Ireland, to support those companies who have more than 10

employees, and thus are beyond the scope of the Enterprise Boards, but who are not currently exporting. Many such businesses, if given more targeted supports to encourage innovation, develop managerial capability and improve output, could ultimately successfully trade in international markets, but need this in-between support framework. We understand that EI are currently working on this and would ask that the Minister endorses the allocation of substantial resources to this initiative.

Thirdly, in relation to **public procurement**, we are very concerned that Government policy on the need to save money is working completely at odds with its enterprise support and job creation agenda. In its pursuit of the cheapest price, the Government is neglecting the fact that this will not deliver either the quality, cost in use savings or service levels it desires. In circumstances where contracts are awarded to large enterprises whose ultimate shareholders are not normally resident in Ireland or foreign companies, this results in lost jobs here at home. The new rules make it increasingly more difficult for small innovative companies to compete and this means a serious potential loss of business, as the public procurement market is valued at €14bn, or 11.5% of GNP. If the Government wants to see small businesses survive, then they should be placing orders with them.

3. Public Sector Reform

Real and urgent reform of the public sector is needed to cut out the waste, whilst improving service delivery, just as we in the small business community have already done. It is scandalous that the Government is still paying out **€240mn a year in incremental pay increases to staff**, at a time when there's supposed to be a public sector pay freeze.

The **Croke Park reform agenda** outlines proposals for greater efficiency gains to provide greater cost savings within the public sector. However, past experience does not provide much optimism. Successive public sector pay agreements have not delivered on change that was intrinsic to those agreements. To succeed, the deal may have to be revisited as it must deliver specific, measurable savings and have a firm, published implementation timetable. Without this we cannot be sure that the process will be any different from previous experiences.

4. Social Welfare Reform

We also require a complete overhaul of the social welfare system to remove its many **disincentives to work**, and to tackle **social welfare fraud** which is rife.

At a time when we should be encouraging more people to take risks and create employment for themselves, through setting up a business or becoming self-employed, it is vital that they have the same welfare safety net as employees. Business owners who are willing to pay a voluntary additional PRSI payment, should be allowed to do so, in order that they may qualify for all Social welfare benefits as their employees do.

We need a Social Welfare system that is fit for purpose – that looks after people well in the first few months after they have lost their jobs, and then that reduces their payments substantially after that in order to incentivise a return to work. SFA members throughout the country are frustrated in their efforts to create jobs and recruit staff due to the disincentive created by real increases in social welfare payments, falling wages and higher labour taxes. The system needs to be simplified with a single social assistance payment for those of working age. The complete integration of welfare payment and employment services into a one-stop shop in the National Employment and Entitlements Service must be speeded up.

We welcome the actions of the Minister for Social Protection thus far in tackling social welfare fraud. It is estimated that 3% of payments a year are lost across all social welfare categories, which amounts to €660m each year – this needs to stop. We are proposing a 90 day Social Welfare amnesty whereby all Social Welfare recipients would be advised of the amnesty and given the opportunity to admit any fraudulent claims. If an admission is not made within this period of time and the recipient is subsequently found to have made a fraudulent claim/s, the maximum penalties should be applied without exception.

5. Tax Policy

OECD Research shows that whilst changes in corporation tax and income tax have a significant impact on GDP, consumption taxes have some impact and property taxes have limited impact. Therefore, it is their contention and ours that if tax rates need to increase, then the introduction of domestic rates and a broadly based private property tax are the best approach to increasing tax revenue whilst minimising the negative impacts on economic growth. This is also the area where Ireland is most out of line with tax policy across the developed nations.

There should be no increases in corporation tax, income tax or VAT.

In Conclusion

The SFA would like to reiterate its contention that the primary rationale in framing this year's budget should be to create an economic environment going forward which is conducive to small business growth and job creation and that it restores consumer and business confidence by following fundamentally sound economic principles.

We have come along way since the IMF moved in. We are honouring our commitments and though the future of the Irish economy looks challenging and will continue to require prudent policy decisions and strong leadership from Government, we believe that we are well on the way to creating a better, more sustainable, economic future.