



CPA Ireland Economic Report





About the Author

Jim Power

Jim Power is a graduate of University College, Dublin with a BA in Economics & Politics, and a Master of Economic Science Degree. During a career within the financial services industry, he has worked as Treasury Economist at AIB Group and Chief Economist at Bank of Ireland Group Treasury and Friends First Group (now Aviva Ireland). In October 2000 he testified before a UK House of Lords Committee on Economic & Monetary Affairs on Ireland's experience in EMU. He argued with prescience that the Irish political elite would not be capable of managing a small open economy in a monetary union and suggested that Britain would be ill-advised to join the Single Currency. He has taught Financial Management to under-graduates in Dublin City University; Economics on the Local Government MBA at Dublin City University. He currently teaches Business Economics on the Full Time MSc Management and the Full Time MBA programme at the Michael Smurfit Graduate School of Business, University College Dublin.

He writes regular columns in The Irish Examiner and contributes to numerous other newspapers and magazines on an occasional basis. He is also a frequent contributor to radio and TV on a variety of different shows. He is a board member of Love Irish food.

Finally, Jim edits the SIMI quarterly motor industry update, and he regularly contributes to podcasts such as THE STAND and Win Happy.

Foreword

The impact of COVID-19 has been dramatic on economies across the globe, setting immense challenges for policy makers and for businesses alike.

Acting in the public interest, CPA Ireland has a strong track record of commissioning research which supports economic growth and policy development.

On this occasion, CPA Ireland has leveraged off the unique insights of CPA accountants to bring together a comprehensive analysis of the impact of COVID-19 on business in Ireland, particularly on SMEs, and on professional accountancy practices. Of course, Ireland is a microcosm of many global economies where SMEs have such an important role in economic activity and in the creation of sustainable employment. In that regard the insights and recommendations from this research can be highly relevant in other jurisdictions.

In an already volatile and uncertain external environment, COVID-19 has added unprecedented challenges both for lives and for livelihoods. Governments across the globe have struggled to balance the protection of lives with the protection of economies.

It is heartening to see that CPAs, based on their unique insights into businesses, believe, in the main, that Government supports in Ireland have been adequate and timely albeit there is scope for improvement, particularly when it comes to communication with SME owners. It is also encouraging to see how SMEs, where possible, are adapting their business models at great speed, moving online and doing everything possible to remain in business. CPAs are certainly going that proverbial extra mile to guide businesses at this critical time and their blend of financial and strategic skills are having a positive impact.

Of course, it must be acknowledged that the impact of this pandemic is very much unequal and many have suffered at both a personal and at a business level. And yet, our research points to great



resilience and optimism that things will get better even in the face of this unprecedented uncertainty. I would like to express my gratitude to the CPAs who took the time to engage with the surveys that underpin this report. Again and again, CPAs bring unique insights which support policy development and the business environment. This report is certainly strong on informed recommendations for Government, for CPA practices and for business, and for SMEs in particular.

The report also acknowledges that the pandemic has, understandably, diverted attention from two other significant challenges in the external environment, namely Brexit and the societal demand for sustainability in business. CPAs have not lost sight of either challenge and continue to advise the businesses they serve in both regards.

Finally, on behalf of CPA Ireland, I express heartfelt gratitude to Jim Power, Economist, for bringing his vast knowledge and experience to this report, particularly in respect of his informed analysis and practical recommendations.

I commend this report to CPAs, to the businesses you serve and to policy makers alike.

John Devaney
President, CPA Ireland

Executive Summary

- Certified Public Accountants (CPAs) play a key role in Irish economic and business life. Those in practice provide strong support and a valuable service to the Small and Medium Enterprise (SME) sector, and many others work directly in the SME sector.
- In early October, CPA Ireland commissioned an extensive business survey amongst its members in practice and in industry. The survey covered a wide range of issues such as the impact of COVID-19, Brexit, remote working, online trading, sustainability, government support for business, and business conditions in general. The results provide a very strong picture of the challenges facing accountancy practices themselves, and their clients at the moment. The results are also consistent with official statistics, and what we can observe anecdotally. Some sectors of the economy and their employees are doing well through the Pandemic, such as the FDI base, financial services, grocery retail, and the public sector. Others such as non-essential retail, personal services, construction, hotels and restaurants, and real estate, are finding life more challenging.
- The SME sector is an integral part of the Irish economic model. SMEs dominate the business landscape in numeric terms; they support significant employment; they have a broad regional footprint; and they engage in a diverse range of activities. They are in many senses, the lifeblood of Irish economic and social life.
- In 2018, there were 270,344 active enterprises in the Irish economy. Of these 269,687 or 99.8% are classified as SMEs. Within the SME category, 248,333 (92.1%) are Micro enterprises; 18,077 (6.7%) are Small enterprises; and 3,277 (1.2%) are Medium enterprises. The

SME sector employs 1.085 million people, which is equivalent to 67.5% of total business employment in the economy. SMEs are numerically dominant in industry, construction, distribution, services, and financial & insurance.

- The economic impact of COVID-19 has been quite dramatic. Once COVID-19 was declared a global pandemic, a significant segment of the Irish economy was forced to effectively shut down, and many elements of economic activity fell off a cliff.

Once COVID-19 was declared a global pandemic, a significant segment of the Irish economy was forced to effectively shut down, and many elements of economic activity fell off a cliff.

- The overall impact on the economy and the different sectors has been very different. The FDI base; professional services; the public sector; essential retail; and financial services have generally performed strongly. On the other hand, sectors such as non-essential retail; hospitality; personal services; NGOs; arts and entertainment; events; and international travel have suffered serious damage.

COVID-19 has basically altered the whole environment in dramatic fashion, and its impact is likely to be felt for some time to come.

- Irish policymakers and business owners are facing immense challenges. Brexit remains a significant source of uncertainty, but there are now a number of new challenges and uncertainties. These include the very uncertain outlook for the economy and business conditions; the challenges posed by remote working and technology; the challenges of building an effective online business model; the challenges involved in keeping the sustainability agenda on track; and the challenges of getting paid for goods and services. The outlook on many fronts looks very complicated at this point in time. COVID-19 has basically altered the whole environment in dramatic fashion, and its impact is likely to be felt for some time to come.

The CPA member survey shows that CPA practices and their clients are being forced to adapt to a much more challenging environment as a result of COVID-19 and Brexit.

- The survey of members in practice demonstrates that CPA practices are very concerned about the future of their businesses and the future of the clients that they serve. This is why it is crucial that Government continues to support business as happened in the budget, but Government will need to remain focused for some time to come. COVID-19 and Brexit represent fundamental business and economic challenges, and Government must be pro-active in helping SMEs through these challenges. The CPA

member survey shows that CPA practices and their clients are being forced to adapt to a much more challenging environment as a result of COVID-19 and Brexit. Issues such as sustainability are also very important, and unfortunately COVID-19 is distracting many businesses from developing a longer-term sustainability strategy.

- CPA members clearly provide their clients with significant business support during 'normal' times, but there has been a considerable increase in demand for services during the COVID-19 crisis.
- The Industry survey results demonstrate clearly the massive impact that COVID-19 is having on business and how uncertain the future is due to COVID-19 and Brexit. The survey not only shows just how resilient business owners are, but also that the role played by Government has been, and will continue to be, incredibly important. Hence, the further measures introduced by Government in Budget 2021 are positive and much needed, but importantly, Government will have to continue to play a key role in supporting business through what are clearly very challenging times.

The survey not only shows just how resilient business owners are, but also that the role played by Government has been, and will continue to be, incredibly important.

The Significance of the SME Sector in the Irish Economy

The Small and Medium Enterprise (SME) sector is an integral part of the Irish economic model. SMEs dominate the business landscape in numeric terms; they support significant employment; they have a broad regional footprint; and they engage in a diverse range of activities.

They are in many senses, the lifeblood of Irish economic and social life.

In an Irish context, a Small and Medium Enterprise (SME) is defined as an enterprise with less than 250 persons engaged. The SME sector can be further split into Micro enterprises, which have less than 10 persons engaged; Small enterprises, which have between 10 and 49 persons engaged; and Medium enterprises, which have between 50 and 249 persons engaged.

CSO data shows that in 2018, there were 270,344 active enterprises in the Irish economy. Of these, 269,687 or 99.8% are classified as SMEs.

Within the SME category, 248,333 (92.1%) are Micro enterprises; 18,077 (6.7%) are Small enterprises; and 3,277 (1.2%) are Medium enterprises.

- The **SME sector** employs 1.085 million people, which is equivalent to 67.5% of total business employment in the economy.
- **Micro enterprises** employ 413,076 people, equivalent to 38.1% of SME employment or 25.7% of total business employment in the economy;
- **Small enterprises** employ 354,298 people, equivalent to 32.6% of SME employment or 22% of total business employment in the economy.
- **Medium enterprises** employ 317,862 people, equivalent to 29.3% of SME employment or 19.8% of total business employment in the economy.
- The **average SME** employs 4 persons, compared to 795 for large enterprises.

	Number of Enterprises	% Total	Number of Persons Engaged	% Total
Micro	248,333	91.9%	413,076	25.7%
Small	18,077	6.7%	354,298	22.0%
Medium	3,277	1.2%	317,862	19.8%
SMEs	269,687	99.8%	1,085,236	67.5%
Large	657	0.2%	522,675	32.5%
Total	270,344	100.0%	1,607,911	100.0%

Source: CSO, Business in Ireland 2018, 23rd October 2020

SMEs by Sector

Industry

- In Industry, SMEs account for 99.1% of total business enterprises, and 51.4% of total employment.
- The average employment per SME in Industry is 7 persons, compared to 692 persons for large enterprises.

	Number of Enterprises	% Total	Number of Persons Engaged	% Total
Micro	16,117	86.2%	28,500	11.4%
Small	1,814	9.7%	38,272	15.3%
Medium	596	3.2%	62,015	24.7%
SMEs	18,527	99.1%	128,787	51.4%
Large	176	0.9%	121,848	48.6%
Total	18,703	100.0%	250,635	100.0%

Source: CSO, Business in Ireland 2018, 23rd October 2020.

Construction

- In Construction, SMEs account for 99.9% of total business enterprises, and 92.7% of total employment.
- The average employment per SME in Construction is 2.3 persons, compared to 504 persons for large enterprises.

	Number of Enterprises	% Total	Number of Persons Engaged	% Total
Micro	55,616	96.5%	85,502	59.2%
Small	1,811	3.1%	33,247	23.0%
Medium	178	0.3%	15,183	10.5%
SMEs	57,605	99.9%	133,932	92.7%
Large	21	0.1%	10,589	7.3%
Total	57,626	100.0%	144,521	100.0%

Source: CSO, Business in Ireland 2018, 23rd October 2020.

Distribution

- In Distribution, SMEs account for 99.8% of total business enterprises, and 71.3% of total employment.
- The average employment per SME in Distribution is 5.6 persons, compared to 989 persons for large enterprises.

	Number of Enterprises	% Total	Number of Persons Engaged	% Total
Micro	41,340	86.5%	90,615	24.2%
Small	5,575	11.7%	108,063	28.8%
Medium	765	1.6%	68,482	18.3%
SMEs	47,680	99.8%	267,160	71.3%
Large	109	0.2%	107,808	28.7%
Total	47,789	100.0%	374,968	100.0%

Source: CSO, Business in Ireland 2018, 23rd October 2020.

Services

- In Services, SMEs account for 99.8% of total business enterprises, and 70.9% of total employment.
- The average employment per SME in Services is 3.8 persons, compared to 746 persons for large enterprises.

	Number of Enterprises	% Total	Number of Persons Engaged	% Total
Micro	127,351	92.6%	198,203	27.1%
Small	8,324	6.1%	163,546	22.3%
Medium	1,595	1.1%	157,319	21.5%
SMEs	137,270	99.8%	519,068	70.9%
Large	286	0.2%	213,295	29.1%
Total	137,556	100.0%	732,363	100.0%

Source: CSO, Business in Ireland 2018, 23rd October 2020.

Financial and Insurances

- In the Financial and Insurance sector, SMEs account for 99.2% of total business enterprises, and 34.4% of total employment.
- The average employment per SME in the Financial and Insurance sector is 4.2 persons, compared to 1,063 persons for large enterprises.

	Number of Enterprises	% Total	Number of Persons Engaged	% Total
Micro	7,909	91.2%	10,256	9.7%
Small	553	6.4%	11,170	10.6%
Medium	143	1.6%	14,863	14.1%
SMEs	8,605	99.2%	36,289	34.4%
Large	65	0.8%	69,135	65.6%
Total	8,670	100.0%	105,424	100.0%

Source: CSO, Business in Ireland 2018, 23rd October 2020.



The Economic Context for CPAs

General Economic Background

2020 has proved to be the most challenging year that the Irish economy and Irish business have faced in at least a decade.

At the beginning of the year, policymakers and business owners were concerned about Brexit; the threat to global free trade posed by the trade dispute between President Trump and China; the challenges posed by an economy approaching full employment, with its consequent impact on wage pressures, and recruitment and retention of employees; and the impending general election, with the potential for associated political uncertainty and policy changes.

A hard Brexit was avoided and postponed at the end of January; the US and China backed off from the intense hostilities that were a feature of 2019; and the general election delivered an outcome that was not eventually resolved until July. However, all of these issues have paled into insignificance when viewed through the prism of COVID-19.

It is not an exaggeration to suggest that once the UN declared a global pandemic in early March, the world changed in a dramatic fashion, and unfortunately Ireland has not been immune. It is also not an exaggeration to suggest that global and domestic policymakers are faced with challenges and decisions that would never have been thought possible.

Once COVID-19 was declared a global pandemic, a significant segment of the Irish economy was forced to effectively shut down, and many elements of economic activity fell off a cliff. The overall impact on the economy and the different sectors has been very different. The FDI base; professional services; the public sector; essential retail; and financial services have generally performed strongly. On the other hand, sectors such as non-essential retail; hospitality; personal services; NGOs; arts and entertainment; events; and international travel have suffered serious damage.

Some respite was delivered as the economy gradually re-opened over the summer months, but even then, many customer-facing businesses were forced to implement costly and capacity-limiting health restrictions. Then as we moved into September, localised restrictions were introduced in a number of counties as the level of infection increased. Unfortunately, this culminated in the whole country moving into Level 5 restrictions from midnight 21st October for a six-week period. This will clearly have a devastating impact on large swathes of the business economy, entering into what is for many businesses the most important time of the year. The hope is that these businesses will be able to resume some semblance of commercial normality for the month of December, but there are good reasons for being concerned about what might happen in the early months of 2021.

The economic impact of COVID-19 has been very mixed, but the impact on the public finances, the labour market, tourism, and parts of the retail sector have been very significant.

The Public Finances

Coming into 2020, Ireland was running a small budget surplus, which was expected to increase in 2021. However, the response to COVID-19 changed that scenario in dramatic fashion.

COVID-19 continues to have a significant impact on the public finances. In the first 10 months of the year there was an Exchequer deficit of €11.7 billion, which compares to a deficit of €1.7 billion in the same period in 2019. The increase of €10 billion is due to substantial increases in voted current and capital Government spending, and some softening of tax revenues.

Total net voted Government expenditure was 24.8% higher than last year. Current spending was up by 25.5%, and capital spending was up by 19.2%. Health was up by 15.9%, and Employment & Social Affairs was up by 71.3%. Health, and Employment & Social Affairs accounted for 58.2% of total net Government expenditure in the first 10 months of the year.

In Budget 2021, the Government announced the setting up of a COVID Restrictions Support Scheme (CRSS), which will provide a payment of up to €5,000 per week (based on company turnover in 2019) to closed or effectively closed business due to COVID-19 restrictions. In October, the Revenue Commissioners held back €275 million from Income Tax receipts and €275 million from Corporation Tax receipts to help pay the CRSS cash payments to businesses in November. Consequently, the reported receipts for Income Tax and Corporation Tax are each €275 million lower than they would otherwise be. The Table below shows the tax receipts in the first 10 months of the year, net of this €550 million held back for CRSS payment purposes.

Total tax receipts are 5.3% lower than last year. Income tax is down by 3.3%, but when account is taken of the €275 million held back for the CRSS, the annual decline would have been just 1.7%. This is a strong income tax performance, reflecting the sectoral hit from COVID-19, which is most adversely affecting lower paid service-sector workers.

Tax Revenues (January-October 2020)

HEADING	€ (M)	% OF TOTAL	YEAR-ON-YEAR (%)
Income Tax	17,013	39.9%	-3.3%
VAT	10,143	23.8%	-19.2%
Corporation Tax	7,667	18.0%	+11.4%
Excise	4,301	10.1%	-12.1%
Stamps	1,770	4.2%	+40.9%
Capital Gains Tax	346	0.8%	+5.8%
Capital Acquisitions	256	0.6%	-8.5%
Customs	216	0.5%	-25.1%
Motor Tax	810	1.9%	-2.7%
Other	86	0.2%	N/A
Total	42,608	100.0%	-5.3%

Source: Department of Finance, Fiscal Monitor, October 2020.

Consumer Behaviour

Consumer confidence has been adversely affected by the health crisis. Confidence collapsed in March from 77.3 to 42.6 in April, which was the largest monthly drop in consumer confidence in the survey's 24-year history. It improved to 52.3 in May; to 61.6 in June and to 62.6 in July. It slipped back by 5.9% in August to 58.9, before improving modestly to 60.7 in September. In October it collapsed by 13.3% to 52.6 as a result of rising virus cases and heightened restrictions. Consumer spending power is strong as evidenced by the ongoing strong growth in household savings, but sentiment is very fragile.

There has been a strong rebound in retail sales since the re-opening of the retail sector. The volume of retail sales declined by 12.5% in March, and by 35.8% in April.

However, there was an increase of 32.4% in May, 38.7% in June, 4.5% in July, 1.1% in August, and

1.5% in September. The volume of retail sales in September was 9.7% higher than September 2019, and was 10.7% higher than pre-COVID levels in February.

Despite the recovery, retail sales are still considerably lower than in 2019. In the first 9 months of the year, the volume of retail sales was 4.8% lower than the first 9 months of 2019. At a sectoral level, the real pain is being experienced by department stores (-22.2%); automotive fuel (-17.4%); textiles, clothing & footwear (-24.9%); furniture & lighting (-6.6%); the motor trade (-11.5%); and books, newspapers & stationery (-30.7%). Food sales in the first 8 months were 11.3% higher.

The move to Level 5 restrictions in October will have a significant impact on non-essential retail.

Volume of Retail Sales by Sector – Year-on-Year Growth September 2020 & Jan-Sep Period

	SEPTEMBER (% YoY)	JAN-SEPT (% YoY)
Motor trades	+17.6%	-11.5%
Non-specialised stores (Inc. Supermarkets)	+8.9%	+11.3%
Department stores	-0.6%	-22.2%
Retail sale of food, beverages and tobacco in specialised stores	+12.4%	+11.8%
Retail sale of automotive fuel	-10.2%	-17.4%
Retail sale of pharmaceutical, medical and cosmetic articles	+6.0%	+1.2%
Retail sale of textiles, clothing and footwear	+3.9%	-24.9%
Retail sale of furniture and lighting	+17.0%	-6.6%
Retail sale of hardware, paints and glass	+31.3%	+7.7%
Retail sale of electrical goods	+29.6%	+13.6%
Retail sale of books, newspapers and stationery	-11.6%	-30.7%
Bars	-49.3%	-53.5%
Retail sale of food	+9.3%	+11.3%
All retail businesses	+9.7%	-4.8%
All retail businesses, excluding motor trades	+7.4%	-1.3%

Source: CSO

The Labour Market Impact

In the week to 1st December, 351,424 people were on the COVID-19 Pandemic Unemployment Payment (PUP) scheme. This is 246,576 lower than 5th May, but it has increased sharply since the national Level 5 restrictions were introduced on 21st October. Accommodation & Food Services (29.1%), and Wholesale & Retail Trade (16.2%) account for 45.3% or 159,214 of the total numbers in receipt of the PUP.

Sectoral Breakdown of Pandemic Unemployment Payment (1st December 2020)

SECTOR	NUMBER	% OF TOTAL
Agriculture, Forestry, Fishing, Mining & Quarrying	4,502	1.3%
Manufacturing	15,555	4.4%
Electricity, Gas, Water & Sewage	1,130	0.3%
Construction	21,368	6.1%
Wholesale & Retail Trade	56,893	16.2%
Transportation & Storage	9,249	2.6%
Accommodation & Food Services	102,321	29.1%
ICT	7,609	2.2%
Financial & Insurance Activities	7,143	2.0%
Real Estate Activities	5,437	1.5%
Professional, Scientific & Technical Services	13,241	3.8%
Administration & Support Services	29,917	8.5%
Public Administration & Defence	5,331	1.5%
Education	10,187	2.9%
Human Health & Social Work	10,215	2.9%
Arts, Entertainment & Recreation	12,036	3.4%
Other Sectors (e.g.: Hairdressers & Beauty Saloons)	31,361	8.9%
Unclassified	7,929	2.4%
Total	351,424	100.0%

Source: Department of Employment & Social Affairs, 1st December 2020.

On 1st December, 48.2% of those in receipt of PUP were under the age of 34 (169,419); and 25.4% (89,254) were under the age of 25. Young people, and those working in customer-facing businesses like retail and hospitality have been worst affected by the crisis. Full employment is no longer an issue of concern.

Age Profile of Pandemic Unemployment Payment (1st December)

AGE CATEGORY	NUMBER	% OF TOTAL
<25	89,254	25.4%
25-34	80,165	22.8%
35-44	76,356	21.7%
45-54	60,091	17.1%
55+	45,558	13.0%
Total	351,424	100.0%

Source: Department of Employment & Social Affairs, 1st December 2020.

In the year to the end of September (Q3), the unadjusted level of employment stood at 2,295,200. This is 1.4% or 31,700 lower than a year earlier. Accommodation and Food Services (-28,600); Administration and Support services (-14,600); and Construction (-13,200) saw significant declines. When adjusted for COVID-19, employment stood at 2,078,058 in the third quarter.

Annual Sectoral Change in Employment (Q3 2020)

(000s)	2019 Q3	2020 Q3	CHANGE
Agriculture, forestry and fishing (A)	99.4	98.7	-0.7
Industry (B to E)	294.3	301.2	6.9
Construction (F)	149.9	136.7	-13.2
Wholesale and retail trade, repair of motor vehicles and motorcycles (G)	300.9	307.5	6.6
Transportation and storage (H)	103.8	102.9	-0.9
Accommodation and food service activities (I)	177.0	148.4	-28.6
Information and communication (J)	130.8	128.9	-1.9
Financial, insurance and real estate activities (K,L)	114.3	123.7	9.4
Professional, scientific and technical activities (M)	132.8	142.1	9.3
Administrative and support service activities (N)	109.2	94.6	-14.6
Public administration and defence, compulsory social security (O)	114.3	118.8	4.5
Education (P)	183.8	188.1	4.3
Human health and social work activities (Q)	291.2	293.4	2.2
Other NACE activities (R to U)	119.4	106.6	-12.8
Not stated	5.6	-	-
All NACE economic sectors	2,326.9	2,295.2	-31.7

Source: CSO Labour Force Survey, 17th November 2020.

Tourism and Travel

Air and sea travel to and from Ireland remains dramatically weak. There were just 254,400 arrivals into Ireland in September, which is 86.4% lower than September 2019; and there were 236,700 departures from the country, which is 87.3% lower than September 2019. In the first 9 months of the year, there were 4.03 million arrivals, which is 74.3% lower than last year; and 4.01 million departures, which is 74.5% lower than last year.

External Trade

The overall export performance continues to be very strong. In the year to September, merchandise exports increased by 11.7%. The Chemical & Pharmaceutical sector, which accounted for 66.1% of exports in the first 9 months of the year, and which recorded annual growth of 15.1% in the first 9 months, is continuing to drive the export sector.

For the remainder of the export sector, the trade environment continues to be challenging. The FDI sector generally, but the Chemical & Related Products sector in particular, is providing very solid support for the economy and the public finances in a challenging environment.

Merchandise Exports (Jan - September)

SECTOR	€M	% YEAR-ON-YEAR	% OF TOTAL EXPORTS
Food & Live Animals	8,528	-1.3%	7.0%
Beverages & Tobacco	1,025	-16.0%	0.8%
Chemicals & Related Products	80,919	+15.1%	66.1%
Machinery & Transport	16,975	+0.1%	13.9%
Other	14,913	-10.0%	12.2%
Total	122,361	+7.6%	100.0%

Source: CSO, 16th November 2020.

COVID-19 is clearly having a profound impact on the overall economy and almost every business and household within the economy. The future looks very challenging at this juncture as a result of COVID-19 and Brexit. Ongoing Government support will be required for the foreseeable future as COVID restrictions are likely to persist for some time.

CPA Member Survey

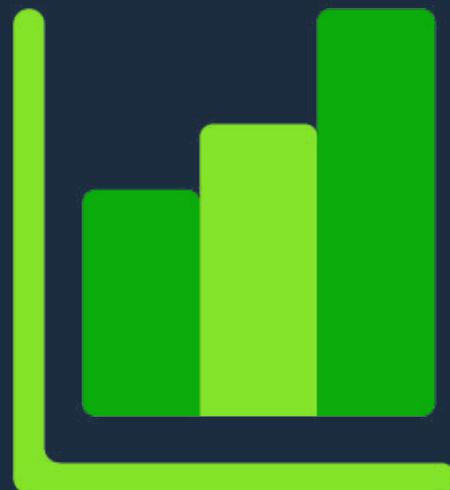
The foregoing analysis shows in vivid fashion the impact that COVID-19 has had and continues to have on the Irish economy and Irish business. Some sectors have been very badly affected, while others have seen very limited impact. However, it is clear that COVID-19 has fundamentally altered the economic landscape.

As we move towards 2021, Irish policymakers and business owners are facing immense challenges. Brexit remains a significant source of uncertainty, but there are now a number of new challenges and uncertainties. These include the very uncertain outlook for the economy and business conditions; the challenges posed by remote working and technology; the challenges of building an effective online business model; the challenges involved in keeping the sustainability agenda on track; and the challenges of getting paid for goods and services. The outlook on many fronts looks very complicated at this point in time. COVID-19 has basically altered the whole environment in dramatic fashion, and its impact is likely to be felt for some time to come.

In early October, CPA Ireland conducted an extensive business survey amongst its members

in practice, and its members in industry. As such, it provides a good insight into the issues facing accountancy practices themselves as they deal with their clients and manage their businesses in a very different environment; and the issues facing CPA members who work in businesses. Two different perspectives are provided, but the results and issues are very similar.

The survey covers a wide range of issues such as the impact of COVID-19, Brexit, remote working, online trading, sustainability, government support for business, and business conditions in general. The survey results are very interesting, but heavily reflect what is happening out there in a very challenging economy at the moment. It is important to bear in mind that this survey was conducted prior to Budget 2021, and the national move to Level 5.



CPAs in Practice

Theme: COVID-19 and CPA Practices

For members in practice, 88.5% of respondents suggest that COVID-19 has had an adverse impact on their practice since March.

It is telling and significant that 50% of respondents suggest that the situation had improved in recent weeks, with just 15% saying the situation had deteriorated; and 35% reporting no change. This increased optimism reflects the re-opening of the economy, but clearly the move to Level 5 will damage this positivity.

CPA members suggest an average decline of 14% in turnover since March.

31% of members are currently working from home.

In terms of the issues experienced by members in practice since March:

- **69.2%** of members are spending more time with clients;
- **53.9%** are having issues with payment for services;
- **36.5%** report technology difficulties with working from home;
- **30.8%** are experiencing difficulties with leading remote teams,
- **26.9%** report a loss of business;
- and somewhat worryingly, **21.2%** report cashflow difficulties.

It is clear from the response to this question that CPA members are providing very important support to their clients during these very challenging times. However, practices are challenged in dealing with the new business reality caused by COVID-19. They continue to provide support to their clients despite concerns over how clients will pay for these services.

Since March, 38.5% of practices have experienced an increase in new clients. This is an indicator of the valuable role that CPA practices provide to business, and how demand for their skills and expertise increases during challenging times.

The pressure that COVID-19 is putting on CPA practices is causing considerable concern about the future.

- 69.3% of respondents are either very concerned (5.8%) or somewhat concerned (63.5%) about the outlook for their practice.

CPA members have a significant number of concerns about the weeks and months ahead.

The key concerns include:

- risk of localised lockdowns (67.3%);
- difficulty getting paid (65.4%);
- poor economy (57.7%);
- risk of National Lockdown (53.9%);
- loss of clients (40.4%);
- remote working (36.5%);
- lack of pricing power (15.4%);
- and lack of resources to address client needs (15.4%).

Since the survey, there has been a move to a Level 5 national lockdown, so this will clearly put further significant pressure on CPA practices.

In terms of employment prospects for 2021, it is interesting that 73% of respondents expect to have an unchanged level of employment in the practice next year; 17.3% expect to increase employment; and 9.6% expect to reduce employment.

In the current challenging environment, this is a clear indication of the resilience of practices, and also the growing demand for their expertise from clients in a challenging business climate.

While there is obvious concern about the economy in 2021, it is perhaps somewhat surprising that the level of concern is not more pronounced. Almost 27% of respondents are very concerned about the economy in 2021, while just over 63% are moderately concerned. While these numbers are high, one might have expected greater concern, but obviously the imposition of further restrictions and the uncertain outlook for the virus have the potential to lead to a much greater level of concern over the coming months.

50% of respondents believe that their clients have experienced difficulties due to COVID-19. The only surprise here is that this number is not higher, but it does demonstrate that some sectors have been much less negatively affected than others.

Theme: COVID-19 and CPA Member Clients

Respondents believe that 22% of their clients have adopted to online trading.

CPA members in practice responded that 28% of their clients have availed of the EWSS.

CPA members in practice responded that 44% of their clients have availed of other COVID-19 supports.

CPA members in practice responded that 25% of their clients are currently working from home.

CPA members in practice responded that 13% of clients have experienced an increase in turnover since March.

CPA members in practice responded that 66% of clients have experienced a decrease in turnover since March.

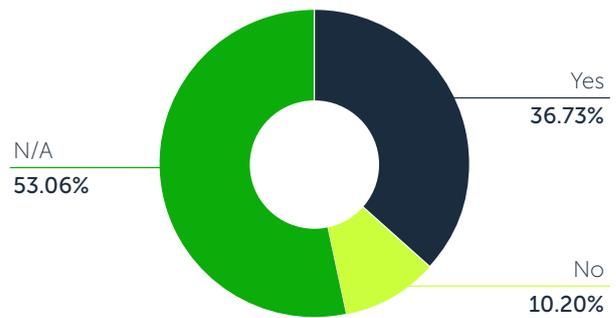


Theme: Sustainability

Environmental sustainability as it relates to business is about making responsible decisions that will reduce a business’ negative impact on the environment. Effectively it is a business approach to creating long-term value by taking into consideration how a business operates in the ecological, social, and economic environment. Sustainability is built on the assumption that the development of appropriate and effective strategies will foster company longevity. In reality, official policy and popular expectation will drive a sustainability agenda, and those businesses that do not respond, will inevitably suffer.

69% of respondents state that they have not been assisting clients to adopt an environmental sustainability plan. This is surprising, and can be interpreted in a number of ways. Perhaps businesses are already doing it, but it is more likely that for many SMEs, the environment is so challenging that sustainability is not top of the agenda. If this is the case, it will have to change. For CPA practices, there has to be a significant business development opportunity in this area.

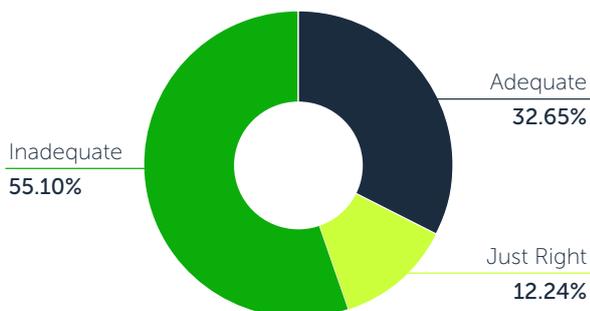
Has COVID-19 delayed the implementation of environmental sustainability strategies for your clients?



Almost 37% of respondents state that COVID-19 has delayed the implementation of environmental sustainability strategies for their clients. Just 10% respond that it has had no effect, but for 53% of respondents, the issue is not believed to be relevant.

Theme: Government Support for SMEs

Do you believe Government communication on supports for SMEs is:



CPA practices clearly believe that there is an issue with Government communication to SMEs in relation to available supports. 55% of respondents believe that communication is ‘inadequate’, with just 12% believing it is ‘just right’. Clearly, there is a strong message here for Government.

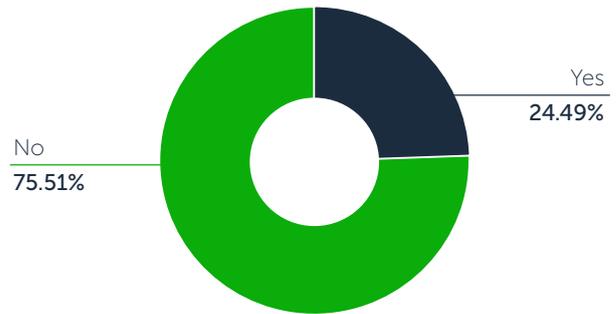
Theme: **Brexit**

Since June 2016, Brexit has been a dominant theme for Irish business and policy makers. The UK left the EU on 31st January 2020, and then entered the transition mechanism, which will end on 31st December 2020. During the transition period, the UK is technically not a member of the EU, but can continue to operate as if it were a member. This transition mechanism was designed to allow space for the EU and the UK to negotiate the trading and broader relationship that will pertain from 1st January 2021 onwards. The negotiations have been difficult. If a trade deal is not done, the UK will operate on the basis of WTO trading arrangements, with significant tariffs on a considerable amount of the bilateral trade between the EU and the UK. Even if an agreement is reached and the WTO tariff regime is avoided, Brexit will fundamentally change the trading relationship between the EU and the UK.

For Irish businesses who deal directly with the UK, or import or export through the UK, Brexit represents a major change and a major challenge, whatever the outcome of those trade negotiations. Irish business needs to be well prepared in advance, but time is running out.

Just over 67% of CPA practices believe that their clients are moderately prepared for Brexit, and 33% believe they are not prepared. No respondent believes that their clients are well prepared. This is somewhat concerning.

Do you believe Government Brexit supports for SMEs are adequate?



24.5% of respondents believe that Brexit supports for SMEs are adequate, while 75.5% believe they are not.

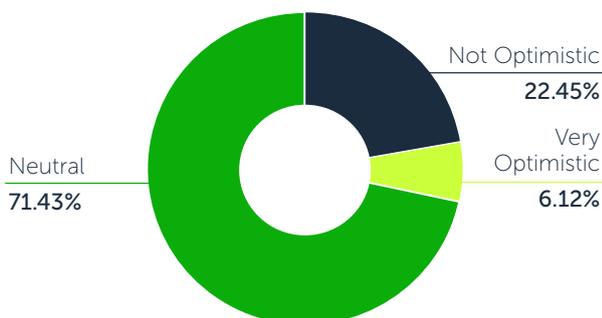
In Budget 2021, a Recovery Fund of €3.4 billion was announced. This will relate to infrastructure development, reskilling and retraining, and supporting investment and jobs. This fund will be related to COVID-19 and Brexit effects. In addition, the Government is focused on accessing EU funding for sectors adversely affected by Brexit.

Theme: The National Economic Plan

In mid-November the Government is publishing its medium-term economic recovery strategy. This National Economic Plan is intended to set the priorities and objectives for Ireland's medium-term economic recovery, and to ensure that the short-term responses to COVID-19 and Brexit are consistent with longer-term goals.

Almost 92% of respondents believe that further initiatives will be required from Government to sustain businesses in the long term.

Are you optimistic that the National Economic plan will help the SME sector?



- 6.1% of respondents are very Optimistic that the National Economic Plan will help the SME sector.
- 71.4% of respondents are neutral.
- 22.5% are not optimistic.

In summary, CPA practices are very concerned about the future of their businesses and the future of the clients that they serve. This is why it is crucial that Government continues to support business as happened in the budget, but Government will need to remain focused for some time to come. COVID-19 and Brexit represent fundamental business and economic challenges, and Government must be very proactive in helping SMEs through these challenges. The CPA member survey shows that CPA practices and their clients are being forced to adapt to a much more challenging environment as a result of COVID-19 and Brexit. Issues such as sustainability are also very important, and unfortunately COVID-19 is distracting many businesses from developing a longer-term sustainability strategy.

CPA members clearly provide their clients with very significant business support during 'normal' times, but there has been a considerable increase in demand for services during the COVID-19 crisis.

CPAs in Industry

Theme: COVID-19

For CPA members in industry, it is clear that COVID-19 is having a dramatic impact on business performance in 2020.

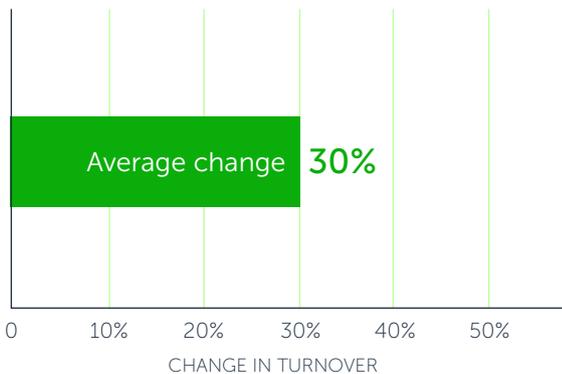
73.53% of businesses surveyed report stagnant or declining business conditions in 2020:

44% of respondents report stagnant business conditions

29.5% of respondents report declining business conditions

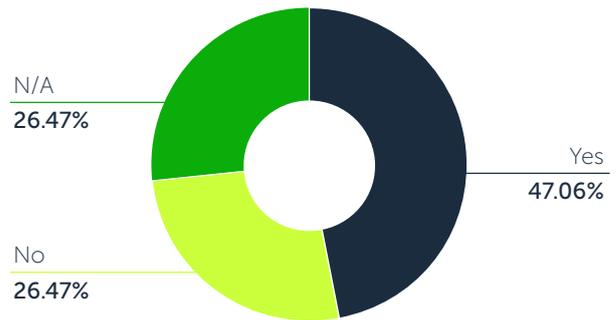
26.5% of respondents report growing business conditions

What % change in turnover has your business experienced in 2020?



51% of employees/colleagues working from home.

Has your business adopted to online trading?



47% of businesses have adopted to online trading in 2020, but 26.5% have not.

It is clear that COVID-19 is impacting business in a significant way. Many difficulties are being experienced, and with the move to Level 5 and with the possibility of ongoing restrictions into 2021, until either a safe and effective vaccine is delivered, or until the virus becomes treatable through medication, it is difficult to see these difficulties abating. In terms of the issues that businesses have experienced since March:

50% of respondents cite loss of business.

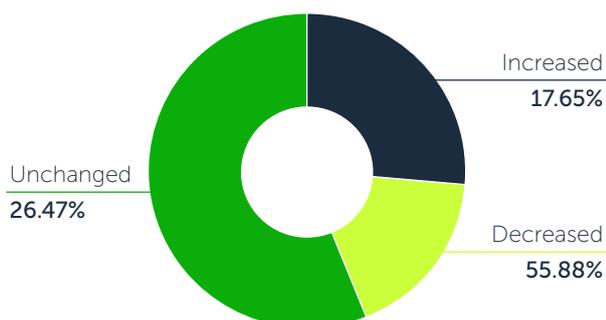
- 41.18% cite weaker economic demand
- 35.29% cite cashflow issues
- 32.35% cite challenges in leading remote teams
- 35.29% cite difficulties getting paid
- 17.65% cite supply chain issues
- 23.53% cite technology issues with remote working.

Theme: COVID-19 contd.

There is clearly deep concern amongst businesses about the coming weeks and months. A significant number of challenges have been identified by respondents.

- 58.82% cite a poor economy
- 29.41% cite a reduction in customer numbers
- 52.94% are concerned about localised lockdowns
- 61.76% are concerned about Brexit
- 52.94% are concerned about a national lockdown
- 23.53% are concerned about business closure.
- 20.5% of respondents are concerned about currency issues
- 23.5% are concerned about remote working.
- 11.76% of respondents availing of EWSS
- 14.71% of businesses are availing of other COVID-19 supports

Consumer spending was identified as follows:



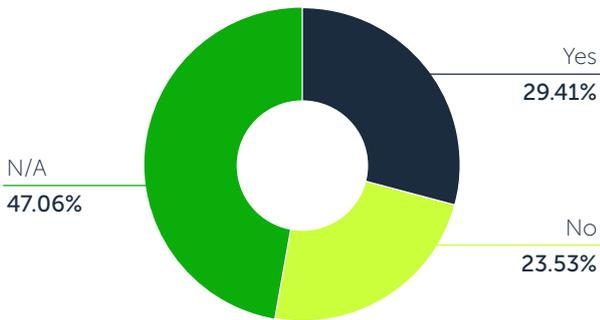
In relation to changes in consumer spending in the business sector in which they are involved, 55.88% of respondents report a decrease in consumer spending in their sector; 26.47% report unchanged consumer spending, and just 17.65% report an increase.

A massive 97% of respondents believe that further initiatives will be required from Government to sustain businesses in the long term.

This is a clear indication of how challenging the environment is at the moment and how businesses view the future.

Theme: Sustainability

Sustainability is not as high on the business agenda as it should be. Just 38.24% of respondents have an environmental sustainability plan in place and 61.76% do not. There will be significant pressure on all businesses to have a sustainability plan in place as Ireland seeks to accelerate its environmental agenda.



- 29.41% of respondents indicate that COVID-19 has delayed the implementation of an environmental sustainability strategy.
- 23.53% of respondents indicate that COVID-19 has not delayed the implementation of an environmental sustainability strategy.
- 47.06% of respondents say that an environmental sustainability strategy is not applicable to their business.

Theme: National Economic Plan

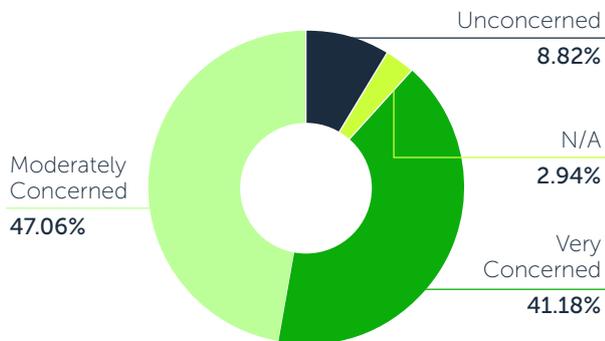
- Just 5.88% of respondents are very optimistic about the likelihood that the National Economic Plan will help their business.
- 82.35% are neutral.
- 11.76% are not very optimistic.

Theme: The Business Environment in 2021

Not surprisingly in the context of Brexit and COVID-19, there is significant concern about the business environment in 2021.

- 35.29% of respondents are very concerned about the economic environment in 2021.
- 58.82% are moderately concerned.
- 5.88% are unconcerned.

Theme: Brexit



There is significant business concern about the impact of Brexit.

- 41.18% of businesses are very concerned about Brexit.
- 47.06% of respondents are moderately concerned.
- 8.82% of respondents are not concerned.

70.5% of respondents believe that Brexit will affect their business.

A number of concerns have been expressed about the potential specific implications of Brexit. The key issues of concern are supply chain issues, restrictions on movement of people, tariffs, and currency volatility.

- 52% of respondents are concerned about supply chain issues.
- 24% are concerned about restrictions on movement of people.
- 56% are concerned about tariffs.
- 36% are concerned about currency volatility.
- 16% are concerned about legal issues

The level of business preparedness for Brexit is low and concerning. Brexit will have a fundamental impact on the Irish economy and Irish business, and adequate preparation is essential.

- 52.9% of respondents say they are moderately prepared.
- 5.9% say they are not prepared.
- 17.7% of respondents say they are well prepared.
- 23.5% answered n/a

44.12% of respondents believe that Government supports for Brexit are inadequate.

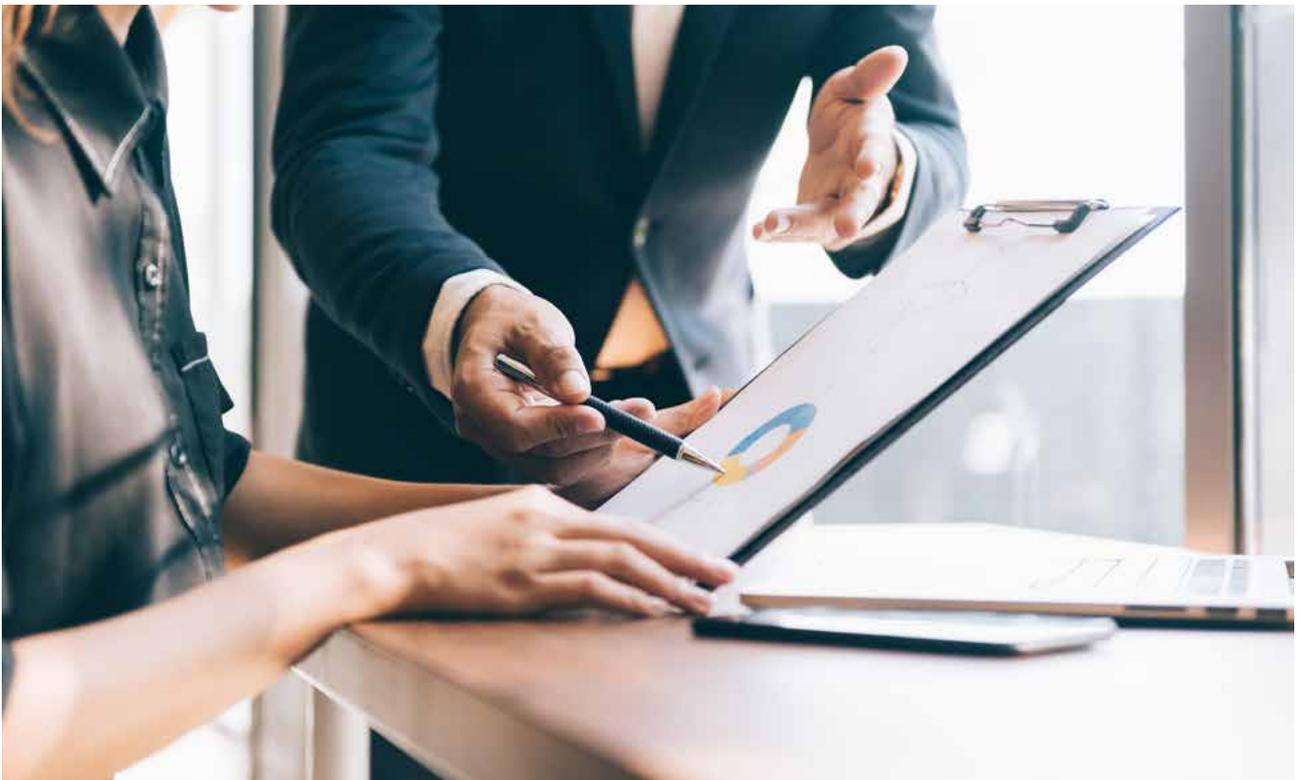
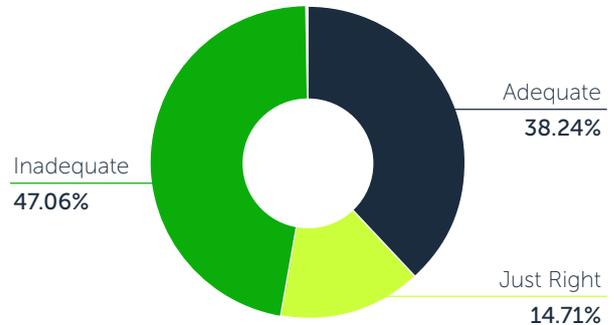
55.88% believe that supports are adequate.

Theme: Government Support

67.5% of respondents believe that Government has not done enough to support the economy over the past 6 months.

In relation to Government communication on support for SMEs,

- 52.94% of respondents believe it is adequate or just right.
- 47.06% believe it is inadequate.



In summary, the Industry survey results demonstrate clearly the massive impact that COVID-19 is having on business and how uncertain the future is due to COVID-19 and Brexit. The survey also shows just how resilient businesses owners are, but also that the role played by Government has been, and will continue to be, incredibly important. Hence, the further measures introduced by Government in Budget 2021 are positive and much needed, but importantly Government will have to continue to play a key role in supporting business through what are clearly very challenging times.

Conclusions and Recommendations

The survey results demonstrate very clearly the issues and challenges facing CPA practices and SMEs in Ireland.

Some of these challenges are immediate in nature such as COVID-19 and Brexit. Others are more long-term and strategic in nature such as sustainability planning.

The challenges posed by COVID-19 include payment for services; online presence; the challenges of remote working and associated technological capability; and weaker demand in the economy.

The key challenges posed by Brexit include the free movement of people; the potential for tariffs on trade between the UK and Ireland; supply chain issues; the economic impact; and currency volatility.

CPA practices will have to play a very strong advisory role in helping their SME clients through these challenges, while at the same time ensuring that their practices remain viable.

Government support will be crucial for SMEs.

Government support will be crucial for SMEs until COVID-19 is somehow brought under control and business becomes free from COVID restrictions. The EWSS will be a crucial ingredient; but other financial aid to enable business deal with issues such as building online capability; adapting remote working capability; dealing with a weaker economy; and coping with the consequences of whatever type of Brexit materialises. It would be important to conduct intensive research on the Irish SME sector to identify

characteristics such as dependence on the domestic market; export performance; export characteristics; technical capabilities such as financial management, IT capability, marketing capability, innovation; staffing levels and qualifications; risk identification and management; research capability; and strategic planning. These capabilities would need to be developed along with a clear understanding of how economic developments such as Brexit, growing protectionism, migration, interest rates and exchange rates, and macro-economic developments impact on business performance.

SMEs need access to and incentives to engage in training and development. The objective of Government policy must become more focused on a number of objectives:

- Creating an SME sector that is dynamic and innovative.
- Broadening the enterprise and export base to ensure that the economy is resilient, diversified and adaptable.
- Supporting the internationalisation and market diversification of Irish enterprise in order to make the economy more resilient to external market shocks, such as Brexit.
- Grow the capacity of local firms to absorb and implement new technologies.
- Improve management quality and training in smaller enterprises in order to foster innovation in order to evolve into new products, new markets and new sectors.
- Allow SMEs to scale up.

From a regional economic perspective, SMEs make a very important contribution across a range of sectors and activities. This contribution can be expanded and would be totally consistent with Government's policy aim of promoting regional economic growth and development.

The key skills that would need to be developed would include:

- Business and commercial law
- The tax system
- Wages
- Technology absorption and software packages
- Engineering skills
- Marketing skills
- Treasury skills
- Research and Development capability
- Staff training
- Market research
- Intergenerational business transfer

The development of such skills would upskill and educate owner-managers and help create a more dynamic and resilient SME sector. CPA members must play a key role in this process.

The bottom line is that many SMEs are now under considerable pressure and need as much assistance as possible.

An issue facing CPA practices and the accounting sector in general at the moment is the lack of qualified accountants. CPA Ireland recently pointed out that in the decade from 2008, the number of new accountancy students fell by 27%, and the numbers have not recovered. It estimates a shortfall of 15,000 trainee accountants.

Accountancy is on the critical skills list, and employers are struggling to source qualified accountants.

The situation is being exacerbated at the moment by the economic difficulties that are being faced in many sectors of the economy, and a lack of training options due to COVID-19. Efforts will have to be made to facilitate remote training of accountants.

It is estimated that over 4,000 CPA members advise more than 100,000, or almost 40%, of Irish SMEs. CPA members are playing and will have to play an even more important role in providing advisory services and helping business recovery.

CPA members will also have to play a key role in helping business devise and implement sustainability strategies.

A shortage of accountants would be disastrous for Irish business and the overall economy.



The Institute of Certified Public Accountants in Ireland

17 Harcourt Street, Dublin
D02 W963, Ireland
Phone: 01 425 1000
Email: cpa@cpaireland.ie

Unit 3, The Old Gasworks
Kilmorey Street, Newry, Co. Down
Northern Ireland, BT34 2DH
Phone: +44 (0)28 305 50000

www.cpaireland.ie