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IPA National Congress: Day three highlights

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9 minutes

The century of change that's heading for small business, the challenge of reducing the economy's inflationary pressure, and an examination of the Quality of Advice Review – day three has held essential insights for the profession.

(l–r) Andrew Klein; Paul Bloxham, Chief Economist, HSBC (Australia, New Zealand & Global Commodities); Mike Mortlock, Managing Director, MCG Quantity Surveyors; John Kehoe, Economics Editor, Australian Financial Review; Stephanie Flechas, Associate Director – Strategic Policy and Reform, NSW Treasury

At day's two's Gala Dinner, an absolute highlight of the IPA National Congress was celebrating the IPA Member of the Year, WA-based Sharon Roots FIPA FFA, and Practice of the Year, SA's Assurance Business and Wealth Advisors Pty Ltd.

Both were present to accept their awards and share a little of their stories, and you can expect to read more about how they have earned their clients' and peers' accolades here on Public Accountant in the coming weeks.

What does the next 100 years hold for small business?

Panel:

- Bruce Billson GAICD, Ombudsman, Australian Small Business and Family Enterprise Ombudsman
- Professor George Tanewski, Director and Research Lead, IPA-Deakin SME Research Centre
- Anne Nalder, CEO and Founder, Small Business Association of Australia
- Facilitator: Andrew Klein

Bruce Billson started the session by sharing demographic data related to small business owners: The average age is 50, and most are male.

“Often, there is a real demographic challenge among small and family businesses. There's 8% of the small business-owning community that’s under the age of 30 – it was 17% in the ’70s.”

He did identify some insights that may not be reflected in that cohort-level view – a growing cohort of younger, female small business owners whose businesses are part-time endeavours, and mature-age workers who, Billson said, are more likely to be self-employed than they are to be employed by someone else.

But, even as a growing cohort of young entrepreneurs comes through, succession planning is challenging.

Billson says young people have seen the experiences of those reaching retirement age and are not keen to go through it themselves. The people who might take over family businesses, he explained, have seen their parents work incredibly hard, but may not have seen rewards equal to that effort.

“The rewards aren't always connected with that commitment at the moment – it’s 43% of small and family businesses in the last tax reporting year that aren't making a profit. And it’s 72% whose income from their full time business is actually less than full-time average weekly wages,” BIllson said.

“There’s more headwinds than winds in the sails of enterprising young men and women,” Billson said – meaning there is more pressure against them than behind them.

On whether that is likely to change, Tanewski identified one great challenge in predicting the future.

“There are trends that have occurred over the past 100 years,” Tanewski said. “But I can only speak on a general level … things can happen so quickly, so rapidly.”

He identified three things that are changing, and which require small businesses to adapt, or to prepare to adapt.

- Climate change: “The first trend from the past, which we know will play out in the future, is climate change and sustainability. Businesses will have to become very sustainable.”
- Economics slowing and volatility: “We know economic growth is slowing. And it's not only slowing; it’s becoming more and more volatile. One year it's 2%; the next year, it’s down to 0.5%. Some years, it may be 3%; other years there will be negative growth. So, we will see very volatile growth.”
- AI: “AI is going to change how we work, how we function. It's also going to change the nature of the workforce. We will need to invest in human capital – we will need to invest in very skilled labour.”

Amid this change and challenge, Nalder suggests those in small businesses should reduce their pace.

“I think we have been moving very, very fast – too fast, as a matter of fact,” Nalder said. “We're going to go the opposite eventually where we will not allow technology to dictate to us how we get going. I think we are actually going to slow down because we cannot continue at the pace that we have been going.”

She also sees an assured, albeit altered, future for small businesses as an important part of the Australian economy.

“As long as people make things, it doesn't matter whether they produce, goods or services, that will take place. And small business, I believe, is at the forefront.”

Nalder cited 2.5 million trading small businesses – outnumbering big businesses in Australia.

“They have a heart and a soul. They're committed to their communities. And they are needed in all these areas.”

Billson noted that the future of entrepreneurialism, however, will be stronger with a lesser regulatory burden.

“We’ve become world-class regulators,” he said. “Do we want to be the bee's knees of every compliance thing that's going on? Or do we actually want to energise enterprise and give smaller businesses half a chance to contest?”

Economy: Inflation, interest rates, and supply and demand

Panel:

- Paul Bloxham, Chief Economist, HSBC (Australia, New Zealand & Global Commodities)
- Mike Mortlock, Managing Director, MCG Quantity Surveyors
- John Kehoe, Economics Editor, The Australian Financial Review
- Stephanie Flechas, Associate Director – Strategic Policy and Reform, NSW Treasury
- Facilitator: Andrew Klein

Bloxham began by noting his surprise for the year in the local economy: housing prices increasing alongside interest rates. He cites immigration as the cause.

“Every analyst in town thought that when interest rates were going up, house prices would fall because that's normally what happens,” he said. “But it turns out that actually if you have a really large influx and very large support for population growth at the same time, interest rates can go up but house prices can rise as well.”

So is the government doing enough to ease inflationary pressure? Kehoe noted that supply-side shocks are pushing up prices, and that the supply side is slow to change. The demand side is addressable in a more timely manner, but the actions here are not necessarily as effective as they could be.

“Just focusing on the demand side, there's a Federal and State level to this. The Federal Government, it says it's helping the Reserve Bank by not spending all these revenue windfalls it's getting from high commodity prices and very low unemployment,” he said.

“Well, that's helpful, I'd say. It's not doing a bad job there. It's banking roughly about 80% of those revenue upsides. But at the same time that means it's still spending roughly, give or take, 20% – so it's still putting some additional money into the economy.

Flechas identified a shift from supply-driven inflation to demand-driven inflation, particularly driven by a service economy.

“At the beginning of 2022, mainly there wasn't high demand for goods and services. And we had supply constraints,” Flechas said. “We have moved away from that.”

She noted that people will continue to consume services – education, healthcare, housing – despite cost of living pressures. That ‘inelastic’ demand makes the inflationary pressure of services very hard to address.

“So the story has changed now in the economy, we have seen on the services side, a very resilient inflation,” Flechas noted.

Bloxham, asked later whether the RBA can get inflation back down, without pushing unemployment up by more than 1%: “The hard bit is getting services inflation to improve – it’s quite ambitious to think this is going to be achieved.”

Mortlock noted a shift in the source of inflation in construction, though a different change

“We saw material prices just basically go through the roof in certain sectors, structural timber and things like that. At the moment, that's regulated. We're having some cost pressures in and around diesel [...] but materials have really softened. It's the labour that's the biggest price increase,” Mortlock noted.

After the session ended, IPA-Deakin SME Research Centre Director and Research Lead Professor George Tanewski noted that energy is underrated as a driver of economic inflation.

“Energy is the basis of our economy,” he noted, citing the reliance of every industry, from agriculture to manufacturing, and service and transport, on energy. “Probably 80% of our inflation rate is made up of energy costs.”

Finally, the mandatory question – will interest rates go up?

Kehoe believes the next rate announcement will not hold bad news for mortgage-holders, but is less positive about subsequent months. “We're definitely not going to get a rate rise in December, that's for sure,” he said. “But my gut feeling is … inflation is going to be lingering, it's going to be sticky.

“While the RBA hopes it's done raising rates … I think there is still a reasonable possibility in Australia that we do get another interest rate rise early next year.”

Nor does Bloxham forecast an interest rate decrease through all of 2024: “We should all expect the rates aren't coming down anytime soon.”

Flechas noted that the recent interest rate changes have not had the intended impact on inflation.

“The effect of those inflation rates has not fully flowed to the economy,” she said.

“So what happened is the RBA increased those interest rates, but there are a lot of us that are still on fixed rates, which means that we haven't not yet responded to that effect.”

Exploring the Quality of Advice Review

Panel:

- Bronny Speed, Director and Founder, Accountants IQ
- Sarah Abood, CEO, Financial Advice Association Australia
- Peter Burgess, CEO, SMSF Association
- Vicki Stylianou, Group Executive Advocacy and Policy, IPA

Vicki Stylianou started by setting the scene, reiterating Stephen Jones' argument that Australia is facing a retirement crisis, with 5,000,000 Australians planning on entering retirement in the coming years.

This is placing great pressure on advice, just as advisers are leaving the sector for a range of reasons, including additional qualification requirements and increased costs associated with regulation around providing advice.

(l–r) Bronny Speed, Director and Founder, Accountants IQ; Peter Burgess, CEO, SMSF Association; Sarah Abood, CEO, Financial Advice Association Australia; Vicki Stylianou, Group Executive Advocacy and Policy, IPA

"We would love to see the review achieve what we're trying to do – get more high quality, affordable advice to more Australian consumers," Abood said. "There are a lot of ways that we can do that. But I think that that is the overall goal and that's the thing that we need to keep our minds focused on."

Abood would like to see the costs associated with providing advice reduced – arguing that this is an effective way of reducing the cost of advice to consumers.

“We've got lots of slightly different laws that essentially are trying to do the same thing, but they're driving up costs in the back office of advice practices,” she said.

Bronny Speed agrees: “We've got a big cost issue.”

“If the Quality of Advice review was to actually address that in full, by not having to have 78-page documents called a Statement of Advice or not having to go through some of the systems and processes that we have to go through … that would reduce cost to consumers,” Speed said.

“There's a big cost of additional study, and there's the cost of actually practising.”

Abood adds that reducing red tape and costs will also go a long way to address attrition from the sector. Stylianou shared trends in IPA member data that backed this prediction.

“We do know from surveying our members that the main reason for dropping out of the sector was the lack of profitability,” Stylianou said. “Like you say, it's regulated to the ‘Nth’ degree.”

The cost of regulation causes behavioural change for those left in the sector, pushing them to work with high-net worth individuals.

An advice gap is left by this attrition and behavioural change, and Burgess shared his disappointment not to see accountants featured in the Quality of Advice Review as a solution.

“We think that's a missed opportunity,” he said, citing retirees’ need for quality advice and the need to consider the role that accountants can play in helping to reduce or meet that need.

“This is not about allowing accountants to incorporate financial advice and investment advice. It's about allowing you to do more in terms of tax advice around financial products in a limited set of circumstances,” Burgess said.

“I think a good example of where that could work is in relation to self managed super funds. If you think about it as a tax benefit, if you think about the advice accountants provide to small business owners in business restructuring, SMSFs feature very prominent in those discussions.

“It makes no sense to us why accountants give advice on a range of different tax structures, but when it comes to SMSFs, they can't give that advice.”

“It’s in the interest of clients to ensure that their financial planner and their accountant are connected and aligned,” Abood said. “I think the potential for conflict is if the client could obtain a better service cheaper elsewhere.”

Speed, who is both an accountant and a financial adviser, agreed.

“Financial advisers have a great role to play in this industry. And the sooner that accountants and financial advisers work more closely together [...] the industry will be better off. But the industry is not the most important thing, and really it's clients that will be better off. The public will be better off. The community will be better off,” Speed said.