Aged & Community Services NSW & ACT

# AGED & COMMUNITY SERVICES NSW & ACT

SUBMISSION

ON

IPART DRAFT PAPER RELEASED ON REVIEW OF LOCAL GOVERNMENT RATING SYSTEM REVIEW OF RATE EXEMPTIONS

OCTOBER 2016

## ABOUT AGED and COMMUNITY SERVICES NSW and ACT (ACS)

Aged & Community Services NSW & ACT represents church, charitable and Not-For- Profit (NFP) organisations providing housing, residential care, community care and home support services to older people, younger people with a disability and their carers.

ACS represents 300 organisations managing 2,000 services to more than 100,000 people. Our members range from large multisite, multiservice organisations to the small metropolitan, rural and regional organisations across NSW and the ACT.

Not-for-profit aged care organisations are responsible for providing services to those older Australians who are most in need. As at 30 June 2015 not-for-profit organisations delivered 65% of residential aged care services; 85.5% of home care packages and 73% of Commonwealth Home Support Program service in NSW. (*2014-15 Report on the Operation of The Aged Care Act, p50-69)*

These organisations are visible and highly accessible in the community and as a result, the public relies on them for service, support and care. The broad scope of services provided by ACS's membership, and the leadership they display, gives us unique insights into the challenges and opportunities that come with the ageing of the population.

## THE NOT FOR PROFIT DIFFERENCE

Church, charitable and Not-For-Profit aged care organisations play a significant role in the Australian community by providing care and support in a time of crisis and when help is most needed. Not-for-Profits (NFP) are committed to promoting choice, wellbeing and quality of life for older Australians. NFP organisations are visible and highly accessible in the community resulting in the public relying on NFPs for service, support and care.

NFPs provide greater accessibility of services in locations, particularly in places of market failure including remote, rural and regional areas.

- Not-for-profit facilities are located in all locations in NSW, while for-profit providers are concentrated in the major cities with smaller numbers in inner regional and outer regional locations.
- Not-for-profit providers deliver 65% of residential age care places in NSW. Small residential aged care facilities are predominately not-for-profit.
- The NFP sector operates approximately 40% of retirement villages in NSW and they are more accessible to people with low to moderate incomes requiring lower upfront fees and weekly rental. NFP retirement villages tend to be smaller than the For Profit ones.

In NSW, the NFP sector provides the majority of aged care services. This sector has a particular focus on the disadvantaged members of the community, reflecting its status as a benevolent service provision sector (rather than a profit-making sector). The NFP sector can be considered as returning profits to the community through its benevolent focus.

There were many claims in submissions to the IPART issues paper that it is easy to register as a PBI. The ACNC and ATO processes to acquire PBI status are robust and difficult to satisfy for registration or for ongoing monitoring and reporting. We reject the claim that an organisation would try or succeed in becoming a charity simply to avoid paying tax. The status is a reflection of the community value of a charity and its contribution to the physical, social and economic health of the community.

*Church, charitable and PBI status is not irrelevant and should be considered in determining council rates or differentiating between NFP and For Profit services. It is a well understood, transparent and clean definition supported by the community.*

- Our objectives are tested by the ACNC and audited to ensure compliance with the organisation's purpose.
- Typical purpose of an organisation providing aged care is support vulnerable older or disabled people and promote social cohesion, to be there when no one else is.
- We avoid disrupting family support systems.
- Any surplus is reinvested in care and support of the community.
- We operate in places of market failure, even if we operate at a loss.
- Many charities are only viable due to community support and donations, which are not intended as a payment to government.
- We subsidise those in the community who cannot afford other options.
- We reduce the demands on the public purse.

***Therefore we believe PBI status is not irrelevant and we reject the proposal to remove all exemptions from church charitable and NFP accommodation services.***

Several submissions make reference to removing exemptions as a way to promote the best use of the asset – being land. This is a spurious assertion. The best use of land is not simply an economic return.

- Best use of land must never be based simply on economic value which will always exclude charitable purposes or social objectives.
- Assessment of best use must include social capital such as volunteers, local employment, social inclusion, community cohesion, diversity and affordable housing. As demand for accommodation for older people increases, the value and best use of the land will also increase.
- Positive externalities exist with aged care accommodation. It provides comfort of knowing options exist near me should I or my loved one need it. These will be an increasingly important issues as the population ages.
- A large metropolitan council suggested that the 'burden' of not charging rates for all NFP residential aged care use (aged care facilities and retirement villages) was $2.20 per dwelling per year. A low cost for an invaluable community infrastructure that enhances the value of land in the area.

## ROLE OF LOCAL GOVERNMENT

Many submissions argued that local government has no role in 'welfare' and therefore exemptions and rebates should be funded by an alternative level of government. We reject that premise. All levels of government have a duty to support community cohesion and protect the most vulnerable people within that community.

Local Government (in 1993) proudly expanded beyond a roads, rates and rubbish role. The Local Government charter explicitly requires the council:

- *to provide directly or on behalf of other levels of government, after due consultation, adequate, equitable and appropriate services and facilities for the community and to ensure that those services and facilities are managed efficiently and effectively …*

and

- *to exercise its functions in a manner that is consistent with and promotes social justice principles of equity, access, participation and rights*

Clause 23 of the Act states: "*A council may do all such things as are supplemental or incidental to, or consequential on, the exercise of its functions*". Clause 24 states that: *"A council may provide goods, services and facilities, and carry out activities, appropriate to the current and future needs within its local community and of the wider public, subject to this Act, the regulations and any other law."*

In the introduction to Chapter 6 of the Act it explicitly: "*confers on councils their service or non-regulatory functions. Examples of these functions include the provision, management or operation of:*

- *community services and facilities*
- *housing*
- *industry development and assistance …*

Therefore we believe it is appropriate for local government to make a small contribution to the support of people living in the area, particularly given that the aged care sector is often one of the largest employers and a significant purchaser. (see also Attachment 1 showing the local economic impact). In fact the NFP sector has been stepping in and providing these services on behalf of local government since we can provide them more cheaply and with great community engagement and support.

***Councils have a role to support vulnerable people living in the local government area.***

## RESPONSE TO IPART DRAFT RECOMMENDATIONS

*The draft recommendations to remove exemptions based on land use, which means that all residential purposes should not be exempt are rejected.*

As mentioned above, the role of the Not-For-Profit sector is complementary and vital to the health of the local government area. Therefore we reject a blanket decision to consider PBI to be irrelevant.

A major concern we have with the proposals are that they are based on a flawed understanding of the nature of aged care services. Many council submissions used 'aged care facility' interchangeably with a retirement village. They are vastly different services, and both are much lower users of council services than the other form of charitable accommodation services – social and community housing.

**Aged Care Facilities.** Aged care facilities, previously called nursing homes, are very similar to a hospital and are part of the health care system. Providers must strive to provide a home like environment, but it is increasingly difficult to do given various regulations, the frailty of the residents and their high care needs. Key features of the service include:

- An aged care facility in NSW must comply with 144 pieces of legislation.
- You cannot elect/choose to enter a facility. To enter an aged care facility you have to be assessed by an independent government run service, entry is dependent on assessed need. A significant barrier to entry.
- They are a non-discretionary purchase providing low cost support to people unable and/or unsafe to stay in their homes.

- Supply is capped by the Commonwealth government, you need a license for each bed to operate a facility that attracts government subsidies (otherwise known as an approved provider).
- There are 66,224 operational aged care beds in NSW.
- The Commonwealth government provides over 70% of the funding for the services.
- The bulk of the remainder comes from 85% of the resident's aged care pension to pay for living expenses eg food, cleaning etc. This fee is regulated and must be paid.
- Residents are means tested, and if assessed as able to pay, they pay a Refundable Accommodation Deposit – 100% refundable to them or their estate. If they can't pay the full price, they will pay a daily accommodation fee. The prices are regulated by the Commonwealth. The uses of the funds are heavily regulated. There is no discretion to add rates in as a fee, such a shift would need a federal legislation change.
- Over 59% of residents are aged 85 years or older
- Over 53% of residents have dementia
- Over 83% are assessed as needing high levels of care
- 94% of discharges are due to death
- Around 59% die within 6 months of admission
- Essentially we provide end of life care, on an average government subsidy of $165-200 per day compared to $1250 (average $1400 in NSW) per day in a hospital.
- There are currently 66,224 operational aged care beds in NSW. Using the NSW average of $1400, if just 1% of those residents were shifted to the state hospital system the cost to the State government would be around $926,800 per day. So if they were admitted for 4 days (which is around half the usual Length of Stay for sub-acute patients) the state government would need to spend $3.7M more from the public purse.
- These residents have no need of council services, over and above their previously paid contributions for roads etc. The facility is self-contained, but pays for waste and water.
- The cost of building a new facility is $250,000 per bed
- NFP providers supply 65% of aged care beds in NSW; For Profit around 33%; government the balance
- In 2015, 75% of NFP facilities achieved an average surplus of $2.11 per bed per day or $770 per resident per annum (prpa). The bottom quartile of providers ran at a significant loss.
- A For Profit facility makes on average a 40% greater profit than not-for-profit facilities.
- There are no options to pass the rates to the resident. The payment of rates would reduce services, and in some cases may be the tipping point that leads to closure of the facility. If a facility closes it will displace people to a hospital or force them to relocate away from families, which typically hastens death and increases grief.

**On the basis of the principles contained in box 6.1, we believe Aged Care Facilities with PBI status should be exempt. They provide a public benefit, just like hospitals. Requiring them to pay rates would result in them reducing their services below a socially optimal level or close down.**

If the competitive neutrality principle is to be applied, the exemption could be extended to For Profit facilities, in the same way as the report recommends extending an exemption to a private hospital. Retaining rate exemptions for aged care facilities with PBI status is simple, equitable and efficient.

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**Retirement Villages** exist in many different forms, sizes and levels of luxury. Typically the not-for-profit village will be smaller, and is more likely to have 10-30 units. The NFP village is typically developed to meet the need of a community of interest, and has a solid basis of community support and volunteering.

- Not-For-Profit retirement villages are usually not like the advertised 'over 55's living'. Average age on admission is 76 years, although many people are older.
- Increasing trend for people entering a village being frail and needing support and services to avoid entering an aged care facility or hospital, therefore the move to the village keeps them self-funding and avoiding a call on the public purse.
- Admission usually triggered by health scare, loss of a partner, fears around safety or inability to stay in own home.
- Average length of stay 7.7 years, with people either dying at the village or moving to an aged care facility.
- Source of income for most residents (77%) is the pension or a government allowance.
- Around 40% are provided by Not For Profit providers in NSW.
- Covered by NSW State legislation, with limitation around setting annual budgets with residents and application of operating costs to the weekly fees they pay.
- Charitable village operators discount the prices or do not pass on all operating costs in order to make the accommodation affordable to low income people.
- Members who are NFP village operators report that on average around half or more of the residents have accommodation below market value and/or are on rental agreements as the occupant cannot afford the admission fees.
- It is congregate accommodation, with an opportunity for separate living and many shared spaces, dining, movies etc as well and assistance with activities.
- People living in a village have lower use of council services. Most villages contain all required services eg garden/park, pool, library, gym, community hall/spaces, chapel, café, hairdresser, mini bus and planned activities to go out significantly reducing demand on council services.
- Villages build and maintain their own roads, kerb and guttering, stormwater management, street lighting, parks, halls etc. Despite this most, villages pay s94 contributions for the wider community infrastructure that the residents will seldom if ever use.
- Villages provide an affordable accommodation choice to allow older people to downsize, which frees up needed housing for others in the LGA.
- Village units are not strata title, or transferrable (licence to occupy). They are not similar to a unit in terms of market forces.
- In keeping with charitable purposes, surpluses are reinvested into community services or used to subsidise older people who cannot otherwise afford entry to the village.
- Villages are a local economic stimulus, employing people and generating local economic activity.
- If council rates are imposed they will need to be passed on to the people living in the village.
- Not all retirement villages are alike. Some will be high end and designed to meet the desires of older people with significant disposable incomes. If a charitable organisation operates a high end village of this nature, any surplus is used for their other charitable works (please see the excellent submission made by Anglicare).
- There needs to be a different consideration for those villages catering to people from socio-economic disadvantage.

Villages are a community of interest as defined in Chapter 5, and as set out in box 5.1:

> *An area would have a different 'community of interest' if it is within a contiguous urban development, and it has different:*
> - *access to*
> - *demand for, or*
> - *costs of providing council services and infrastructure (when compared to other areas in that development).*

However, most NFP villages are very small and it is unlikely councils would be willing to apply a special rate given the size of the site. Requiring each village to seek a special rate also breaks other taxation principles: it is complex, inefficient, lacks transparency and it is potentially inequitable to have many village operators all negotiating different rating levels.

***Not for Profit Retirement Living services should be rate exempt. They are not operated as a commercial enterprise, they are part of the wider scope of charitable services for the local community.***

***As a minimum we seek an IPART recommendation that NFP retirement villages be considered a community of interest and have a special rate determined at the local level.***

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**Social, community and affordable housing** – as included in the above section on the role of local government, councils have an explicit role in the provision of housing. Without a range of housing options the community will find it is unable to supply essential service workers, will lose diversity and will inhibit economic activity.

- Various forms of affordable housing are desperately needed community services. This is well recognised across NSW and is creating a crisis in many areas.
- In 2015 Sydney ranked second to Hong Kong as the most unaffordable housing in the world.
- Without housing no other support services can be delivered to the individual, generating a spiral of disadvantage, poor health and potential inappropriate behaviours and community unrest.
- It is more efficient for charities to provide the residential options than for government, hence the transfer that is underway.
- These housing options provide for diversity across communities, rather than pockets of disadvantage.
- Key worker strategies, as well as older people who are at risk of homelessness, depend on these options.
- The imposition of rates would seriously restrict the provision of NFP housing.
- We note that NSW Housing is apparently currently paying rates. With stock transfers, Community Housing providers wouldn't have the benefit of public funds to pay a recurrent rates bill, making the provision of community housing less viable. Perhaps NSW Housing needs to make recurrent transfers of funding to allow the rates to be paid.

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## Other matters

**Growth of revenue from rates should not occur as a result of changes to the exemptions**. This is the approach taken in your report and we commend it. At the IPART hearing in September several councils argued, and it was stated that the point ‘had been taken on board’, that with the removal of the exemptions the rate revenue should increase. The argument was along the lines that councils have been deprived for years of revenue from properties that they think should have been paying rates.

The approach in the draft IPART report is more equitable. If in fact there has been a party ‘deprived’, it is the other property owners, not Council. The Council’s budget is set and adopted based on community consultation and if the community thought more funding was needed the community would have been more receptive to attempts to increase rates. Obtaining a revenue increase through cancelling exemptions is not transparent and it is **not supported**.

**The proposed cut of the pensioner rebate is not supported**. Most people on a pension are living near or below the poverty line and many report that they are making choices between buying food or filling a prescription and/or going without heating in winter or fans in summer.

Pensioners who have managed to save and sacrifice immediate gratification throughout their lives in order to ultimately own their own homes are often asset rich but have very limited disposable income, and no way to increase that income. They can’t find the funds to pay the full rate without considerable hardship. As reported at the IPART hearing, they do not take the option of encumbering their estate. The values of their generation will not support that action and the culture of the generation is to ‘go without’ even if that makes them unwell. Removing this small subsidy will be a significant burden on the pensioners and will have a disproportionate impact on their quality of life.

**Attachment 1**

**Cowra case study: an extract from the SGS Economics and Planning report, "Not for profit sector in the aged care industry", October 2014.**

### 4.10 Value of not for profit

As part of this research project SGS undertook an economic assessment to understand the value of a not for profit organisation in regional NSW.

An economic impact analysis (EIA) examines the effect of an event on the economy in a specified area, ranging from a single neighbourhood to the entire globe. It usually measures changes in business revenue, business profits, personal wages, and/or jobs. The economic event analysed can include implementation of a new policy or project, or may simply be the presence of a business or organization. An economic impact analysis is commonly conducted when there is public concern about the potential impacts of a proposed project or policy – or when there is a need to justify an investment through measuring its wider economic impact or benefit.

Using a structure of upstream and downstream linkages in the local economy an economic 'multiplier' can be estimated for a particularly industry sector. This essentially means that if a stimulus (for example a major construction project) is introduced into the local economy there will be a range of second round effects which will result in an indirect impact (i.e. uplift) to the local economy. These indirect impacts can be defined as:

**Production induced** which represents the indirect impact resulting from expenditure from the project, company or industry sector (i.e. expenditure on suppliers).

**Consumption induced** which represents the indirect impact resulting from consumption induced by the project, company or industry sector (i.e. expenditure from the wages and salaries of the new employees).

The size of this indirect impact will be influenced by how inter-connected the sector is with the local economy. That is, if it relies heavily on local suppliers to input into the production process then there will be a larger indirect impact.

There are three distinct indicators produced by this type of modelling, which include:

**Economic output** is akin to the turnover of a company. This impact represents the total economic activity produced as a result of the stimulus;

**Value added** is a measure of 'net output' and is akin to the 'profit and wages' of a company. Perhaps the most useful indicator. Value added is the net output (benefit or cost) that the stimulus has on the regional economy; and

**Employment:** simply refers to the number of full time employment (FTE) jobs that the stimulus action creates.

It should be noted that these three indicators are capturing the same underlying effect and hence should not be added together.

SGS has developed a methodology to customise input-output models to small areas in order to model industry inter-linkages at a small geography. The SGS model is designed to assess industry sectors at a detailed level of classification that covers 109 industry sectors as used by the ABS in generating the national input-output tables

The following is a case study example demonstrating the economic impact of Cowra Retirement Village

**Case study - Cowra Retirement Village (including Bilyara Hostel)**

- Largest Residential Aged Care provider in the catchment area and only provider of Independent Living Units in the community
- 95 FTE staff
- 120 people cared for (84 Residential care (14 bed dementia specific); 32 home care packages in the community
- 2012/13 operating budget of $4,619,721 and expenses of $4,417,251
- Other factors:
    - Purchase 85% of produce locally
    - Estimated volunteer hours 20 hrs per week

**Economic Impact of Cowra Retirement Village**

We compare the national pattern at a LGA level and looked at this sector compared to other sectors that operate in the area.

Using Cowra LGA as the region, the IO estimates are that the residential facility adds:

- $12.5 million in value added (wages, salaries, supplements and GOS for businesses)
- 131 total jobs (including the 95 people employed at the facility)
- $18.9 million in total output (including initial expenditure of $10.8 million at the facility)

If this facility were no longer in the region the assumptions we can make are that we would lose this economic stimulus but more importantly we would lose the social benefits such as social capital, eg volunteers, local employment, social isolation or re location of elderly people to areas they are not familiar with and loss of social networks.