Aged & Community Services NSW & ACT

AGED & COMMUNITY SERVICES NSW & ACT

SUBMISSION

ON

ISSUES PAPER RELEASED ON REVIEW OF LOCAL GOVERNMENT RATING SYSTEM REVIEW OF RATE EXEMPTIONS

MAY 2016

ABOUT AGED and COMMUNITY SERVICES NSW and ACT (ACS)

Aged & Community Services NSW & ACT represents church, charitable and Not For Profit 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.

The distinguishing responsibilities of ACSs members are as custodians of values, leaders of innovation, champions of volunteerism, providers of pastoral care and proponents of wholesale community benefit. There is a commitment to people and values rather than shareholder return. Any surplus is reinvested in improving services, keeping people actively connected in civil society; delivering unprofitable services in otherwise-unviable markets, and operating where there is no capacity for the disadvantaged in our society to receive care in existing markets.

ACS and its members foster an environment that promotes innovation and ensures that effective programs and practices are implemented. We cover the range of services to older people, including preventative health, wellness, palliative care with particular emphasis on the needs of rural, remote and disadvantaged older populations.

NFPs provide greater accessibility of services in locations across Australia including remote, rural and regional areas.

- Not-for-profit facilities are located in all locations in Australia, 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 Australia. Small residential aged care facilities are predominately not-for-profit.
- The NFP sector operates approximately 64% of retirement villages in Australia 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.
- Not-for-profit providers deliver 83% of the National Aboriginal and Torres Strait Islander Flexible Aged Care Program.

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).

However, it should be noted that NFP status does not mean an organisation is immune to business and competitive pressures. NFPs are among the most efficient aged care providers nationally. The difference between the NFP and the for-profit sector can be conceptualised as one of objective rather than of method: rather than seeking to return profits to shareholders, the NFP sector can be considered as returning profits to the community through its benevolent focus.

ABOUT AGED CARE IN NEW SOUTH WALES

In 2014/15:

- 238,944 people aged 65 years and over (50 years and over for Indigenous Australians) accessed Home and Community Care (HACC) services, which helped enhance the independence of frail older people and their carers through the provision of basic maintenance, support and care . (*2014-15 Report on the Operation of The Aged Care Act, p50)*;
- 19,452 people accessed home care packages, which provide home-based care that can improve older Australians' quality of life through coordinated packages of services tailored to individual care needs. (*2014-15 Report on the Operation of The Aged Care Act, p59)*;
- 66,224 people accessed permanent residential aged care (*2014-15 Report on the Operation of The Aged Care Act, p69);*
- In NSW around 65.4% of operational residential places were provided by the NFP, church, charitable and community sector; 33.4% FP; 1.2% Gov. *(2014-15 Report on the Operation of The Aged Care Act, p49)*; and,
- Across NSW and ACT there were 55,413 residents living in the 743 Retirement Village sites, of which 31.1% are NFP. This equates to around 5% of the over 65 years population. *(2014 Property Council of Australia, National Overview of the Retirement Villages sector report, p15)*

Australian Government expenditure for aged care throughout 2014–15, including aged care support and assistance provided under and outside the Act, totalled $15.2 billion, an increase of 7.1 per cent from the previous year. (*2014-15 Report on the Operation of The Aged Care Act, p2)* Roughly one third of aged care is delivered in NSW.

As at 30 June 2015, 15% of Australia's population were aged 65 years and over (3.6 million people) and 2% were aged 85 years and over (473,000 people). By 2025, it is estimated that 17% of the population will be aged 65 years and over (4.9 million people) and 2.2% (621,000) over the age of 85.

In 2015, 342,800 people in Australia were estimated to be living with dementia. Dementia is one of the major reasons why older people enter residential aged care or seek assistance to remain living at home. (*2014-15 Report on the Operation of The Aged Care Act, p8)*

RESPONSE TO YOUR ISSUES PAPER

Section 5 of your issues paper examines rate exemptions, concessions and rebates. We will be focussing on section 5.1 in this response to your paper. Our response will address each of the principles you have included.

(1) Who receives the benefits of the exemptions?

Older Australians want to stay in their own communities, close to their current support systems, friends and families. People living in the local community want to stay connected to their older people, even if their needs have changed and they now need assisted accommodation. This means that older Australians are not migrating into new areas, they want to stay put in the communities to which they have contributed, and are still contributing to. Therefore, in the main, the benefits of aged care accommodation and care are local.

In fact, if people move into aged care accommodation or a retirement village they will decrease their use of council services. Purpose built accommodation commonly provides libraries, community centres, recreation and leisure, and subsidised hairdressers, shops and day activities, as well as transport. Thus we are reducing demand on council services both directly and through such indirect means as reduced road traffic.

The aged care sector is also meeting a need for affordable accommodation for older Australians and generating local jobs, so we are addressing key objectives of councils and creating local economic activity providing a direct benefit. See Attachment 1 - Case study undertaken by SGS Economics, demonstrating the local economic benefit of having an aged care organisation in the local government area.

Therefore, the benefit of exempting NFP aged care facilities from rates accrues overwhelmingly to the local region:

- Older local residents
- Residents' families
- Local employers
- Local employees
- Local businesses – supporting councils' economic development strategies

In accordance with the principles laid out, therefore, this calculus of benefits provides a strong case for rates exemptions to continue to be applied – local concessions promote local benefits, an efficient outcome.

(2) Efficiency

In your issues paper you reference hospitals as an example of an organisation that produces economic efficiencies; an aged care facility or retirement village is also a vital part of the social infrastructure.

We again reference the case study in Attachment 1. This shows how the local aged care services, and charity, has direct economic benefits:

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)*

The issues paper also raises a question of ensuring that the exemption does not stop the land being put to "its best use." This is a vitally important consideration, and needs careful definition. In a previous paper, Deloittes referred to this as being about 'greater economic value'. We would argue that this risks being a misleadingly narrow definition of best use. Best use has to consider the wider impacts of social benefits such as social capital, eg volunteers, local employment, social inclusions and the provision of affordable housing. Consequently, best use must be wider than Return on Equity (ROE) or Return on Assets (ROA). Such a criterion would always exclude charitable services in general and aged care in particular. Charitable organisations provide so much of aged care because there is a market failure. The current ROA across the sector (on a Net Profit Before Tax basis) is 2.1%. (RSM Aged Care Sustainability Review, 2016, p 17). Aged care meets vital community obligations to look after its vulnerable people; this example highlights the limitations of a narrowly financial assessment of 'best use'. We also argue that given the projected demographic changes, the economic value of aged care facilities is likely to be higher in future than it is today (since there will be more demand for the facilities). This suggests that a backwards-looking assessment of value (such as ROA or ROE) will fail to adequately account for likely future changes in land use - suggesting that "best use" needs to be assessed on a forward-looking basis.

Noting that the discussion paper cites hospitals as an example of an economic efficiency, we suggest that aged care organisations represent an analogous case where exemptions are an economically efficient response to service provision requirements.

(3) **Equity.**

Older Australians have already paid their taxes and contributions to support local and regional infrastructure. At this time of their lives they are experiencing the greatest pressure on their resources, with no ability to replenish their funds. Keeping costs of aged care accommodation affordable is critical. This is particularly important in rural and regional locations where the funding for aged care facilities is often provided through community donations and contributions, or their operations are subsidized by NFP providers with facilities in metropolitan areas.

Not for profit aged care providers do not pay their surplus to shareholders, they reinvest into their local communities. Charitable aged care providers operate with their mission and charitable objectives being their primary driver and this means helping those in the community that are in need. (As charities they are scrutinised by the ACNC to ensure they are meeting their charitable objectives stated in their constitutions.)

Most aged care facilities in the regional and rural areas are run by charitable institutions because there is not enough money to be made to entice For Profit providers. These charitable providers are creating employment opportunities for local rate payers (both ongoing direct work as well as construction and maintenance employment) which has a flow on effect to local businesses and eventually the Council.

Not for profit organisations provide subsidised services, taking in a greater number of concessional people and set their prices at a lower rate without decreasing quality of service. They deliberately provide for those who are least able to provide for themselves, for example, in a development currently underway in a lower socio-economic area of Sydney 30% of the 158 unit development will be made available for rental to pensioners, rather than the more usual Retirement Village models that require buying in.

The profitability of the aged care industry is declining, with the bottom quartile of providers running at an increasing loss (RSM Aged Care Sustainability Review, 2016, p16). A greater proportion of those providers who are performing poorly (running at a loss) are the NFP providers in rural and regional areas (Aged Care Financing Authority, Financial Issues Affecting Rural and Remote Aged Care Providers, Feb 2016, p xv). This means that these providers of vital social services have limited ability to pay.

From an equity perspective, therefore, it is clear that exemptions and concessions for aged care providers in general (and NFP providers in particular) ought to be retained – the beneficiaries are overwhelmingly those Australians with the least capacity to meet higher costs, and who are at greatest risk of being priced out of market-based services.

(4) Simplicity - Exemptions should be kept to a minimum to promote simplicity, and only granted, or retained, where there are clear net benefits from doing so

Clear benefits include the actual provision of care when commercial operators will not provide a service in the community due to insufficient ability to generate returns on investment. Benefits also include the social inclusion for disadvantaged individuals; employment opportunities; and training opportunities. This leads to people staying in their community rather than having to leave to find employment elsewhere.

For simplicity, we support the retention of the definition in section 556 of the Local Government Act, as stated in the table of your issue paper on p28.

Please note, the changes made in 2010 have already greatly complicated the rate exemption process by introducing an element of allowing for some of a site to have rates applied, due to so called commercial business activities.

From a simplicity perspective, concessional rates treatment of NFP organisations is advantageous – in both an administrative and a conceptual sense, the benefits are clear and there is little scope for regulatory complexity. The pre-2010 situation shows clear simplicity advantages over the current situation, and highlights the challenges of a piecemeal approach to concessions.

(5) Sustainability – particularly in rural and remote local government areas

As demonstrated above, rural and remote locations would not have aged care services available if they were not operated by charities, and those services are typically running at a loss. The enormous cost to a local community from losing their aged care facility would exceed the ongoing general rate relief. The services are paying their sewerage and waste costs.

(6) Competitive neutrality and the Not-for-profit sector

NFP providers operate under a significantly different business model to for-profit providers – the absence of equity as a funding source restricts NFP providers to supporting their services through operating cash-flow or through debt financing. This inability to access equity funding places the NFP sector at a potential competitive disadvantage relative to the for-profit sector, and should be borne in mind when considering an equitable taxation treatment of the two sectors.

In addition, the importance of the NFP sector to governmental finances should not be under-estimated. The provision of services to the disadvantaged and vulnerable by the NFP sector frees government from the obligation to support these citizens directly. If the NFP sector were unable to maintain these service levels, it is likely that significant funding would be required from government to replace the services. In this way, support to the NFP sector can be considered a means of reducing government expenditure.

NFP and charitable aged care providers go where they are needed and not only where they can maximise their financial returns. Charities service a sector of the community that commercial operators avoid, that is, the elderly that are financially disadvantaged and cannot always pay the listed entry price and rely upon Government assistance by being a supported resident. Charitable operators do not pay a dividend and therefore reinvest their funds back into the communities that they service.

For example, and as a case study to demonstrate the point, one large NFP provider provides at least 10% of its retirement living accommodation on a rental basis, without direct government assistance. They also provide higher 'low means' residential aged care accommodation than required (i.e. run higher than minimum concessional ratios). They estimate that the combined cost of this subsidisation is currently in the order of $5M p.a.

The concept of isolating and charging rates for any 'commercial' enterprise on the site is flawed. Overall, any returns are reinvested on site, in accordance with the charitable objects for the organisation, as required by the ACNC and ATO. However, it must be noted, there is seldom a 'profit/surplus'. These services such as cafes and hairdressers are generally heavily subsidised and provided as a quality of life activity for the people living there, who typically have limited mobility and would otherwise not be able to access those services. On-site child care is subsidised and is becoming a highly valued part of providing contact with children for the older people and much desired contact with older people for the children, it is part of the model of care to help manage the behaviours of people with cognitive issues, not a profit generating exercise.

Therefore, NFP and For Profit providers are different. The For Profit retirement villages and aged care providers cater to a different market segment, and typically charge different rates. The For Profit have access to equity funds to support new developments, which the NFP sector does not have.

While overall an NFP large scale organisation may run at a surplus, this is reinvested in their villages and services, and in delivering on their mission or charitable purposes. They do not have access to equity funding to undertake new developments, these need to be internally funded or money borrowed. Consequently, if NFP providers were to leave the sector, many lower socio-economic developments would not proceed because of the uncommercial rate of return.

ANSWERING YOUR QUESTIONS:

10. Are the land uses currently exempt from paying council rates appropriate? If a current exemption should be changed, how should it be changed? For example, should it be removed or more narrowly defined, should the level of government responsible for providing the exemption be changed, or should councils be given discretion over the level of exemption?

1. ***Are the land uses currently exempt from paying council rates appropriate?***

In terms of the exemption under 556 for aged care charities - **Yes**

Without NFP provision of aged care, local communities and many vulnerable people will suffer. As our population ages, the role of NFP aged care provision is going to become even more important and yet the data is showing that ‘profitability’ is decreasing which means we are struggling to sustain the operations of many services. (RSM Aged Care Sustainability Review, 2016, p5)

2. ***If a current exemption should be changed, how should it be changed? For example, should it be removed or more narrowly defined, should the level of government responsible for providing the exemption be changed, or should councils be given discretion over the level of exemption?***

The apolitical process, and certainty of decision making of the current system should be retained. The current inconsistent management of planning controls and levies is extremely problematic and we would not wish to see this replicated.

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.

References:

1. Aged Care Sustainability Review, RSM, April 2016
2. Financial Issues Affecting Rural and Remote Aged Care Providers, Aged Care Financing Authority, Feb 2016.
3. National Overview of the Retirement Villages Sector report, Property Council of Australia, October 2014
4. Report on the Operation of the Aged Care Act 2014/15', Department of Health, November 2015
5. Not for Profit sector in Aged Care Industry, SGS Economics and Planning, for ACS NSW and ACT, October 2014