The purpose of this contribution is an examination of some broad issues emerging from the recent review of aged care in Australia. Attention is directed to five elements. First, there is an appraisal about who bears the risks in the operation of the aged care arrangements in Australia at present and how might these risks be redistributed between the Australian Government, the suppliers of aged care services and the users of those services. The second theme is about the influences and interests bearing upon the development and application of policy measures. The third feature is about the way in which users of aged care services contribute to the funding of aged care facilities. This very complicated issue is about the contribution of residents to funding provision of accommodation given some minimum level of assets. The fourth is about the ways the interests of users should be represented and protected especially when those users are not capable of judging all their needs owing to illness; for example, associated with Alzheimer’s/Dementias. Finally, there are issues with the tax exemptions granted to public benevolent institutions.
Some general issues from the aged care review
by
Warren Hogan

1. Introduction

Some general issues about policy directions and purposes arose during the course of the recent Review of aged care in Australia. Those matters are taken up in this paper rather than more specific themes dealing directly with residential aged care and related items such as domiciliary care. The recommendations were conveyed to the Australian Government in April, 2004. Since then further thinking on aged care matters has been conveyed in various lectures and publications including the 2004 Shann Memorial Lecture. Moreover, a very recent report from a Senate committee endorsed unanimously major recommendations from the Review.(Senate, 2005)

The five themes treated here are of broader moment than what occupied the Review even though illustrations of issues will draw upon aged care experiences. The five items are about risks, influences on policy development, user funding, monitoring and protecting users, and tax exemptions for public benevolent institutions.

However, before proceeding further brief mention should be made of the Review. The main focus was on the long-term prospects for the industry bearing particularly on efficiency and productivity, management and workforce themes, funding and pricing arrangements. Its

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1 The Report came in a summary version of the recommendations presented in February 2004(Hogan, 2004a) and the main report in April 2004(Hogan, 2004b).
2 Apart from the Shann Memorial Lecture(Hogan, 2004c), there are two publications(Hogan, 2005a and 2005c) and the most recent conference paper(2005b)
recommendations comprise a series of proposals for implementation over the next few years along with further suggestions for longer term developments from 2008-09. Very complicated regulatory arrangements were in place at the time the Review was announced. Their complexity was matched by the limited knowledge of how the industry was organised. A transition phase through to the end of 2007-08 fiscal year was relevant to some recommendations from the Review because of the large number of relatively small facilities characterising residential aged care activities and depicted as a “cottage industry”. On reflection these worries about difficulties in this transition may have been overemphasised.

An extensive array of matters were taken into consideration including user contributions, relationships between residential care and other aged care programmes, structural and regulatory matters, including disincentives, as well as the role of markets. Little or no work on the economic and financial circumstances of the industry had been undertaken in the past.

The lack of any previous studies on the workings of the aged care industry and its efficiency and productivity meant two distinct tasks for the Review. One was the usual work expected of any review on the ways in which the industry worked, was regulated and responded to policy measures. The other was the creation of a comprehensive economic and

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3 Despite the word “pricing” in the title of the Review, the word “price” does not appear anywhere in the terms of reference. However, pricing features cannot be divorced from considerations of efficiency and resource allocation.

4 A background paper provides insights on the complicated nature of the legislative framework. (Review, 2003b).

5 The knowledge at the time the Review began its work was summarised in the first background paper published by the Review. (Review, 2003a) Even so some of the data in that paper had not been published before so had not previously been in the public arena.
financial basis on the ways the industry worked which so surprisingly lacking. This need for pioneering explorations into the empirical evidence on aged care activities brought an extension of time. This meant completion of the work in early April, 2004 rather than at the end of 2003 as originally intended.⁶

2. Risks: Financial and Otherwise

Attention to questions of risk in relation to aged care arose from a review of the resident classification scale (RCS) which began in August 2002 just over a year before the Aged Care Review started. (ACEMA, 2002). The official response to this appraisal of the RCS included some matters referred to the Aged Care Review. (DoHA, 2003) Included amongst them was a reference to the sharing of risks. To understand the issues involved some basic relationships in aged care must be explained.

Aged care activities are divided between three main groupings. Government, mainly in the federal sphere, is the main source of funding as well as the legislative basis for these activities. The suppliers of aged care services purchased and regulated by government are known familiarly as “providers”. They divide into two main groups. There are the “not-for-profit” entities comprising religious, charitable and community-based facilities as well as state and local governments ones. The “for-profit” entities amount to a little over a quarter of the total number of facilities in Australia but the proportion varies state by state. The third group covers the users of these services. These are the residents and potential residents along with their families.

⁶ More work on the data base would have been possible but the essential need was to analyse data sufficiently to allow completion of the Report.
Central to all this is who bears the risk in aged care activities. Failure to clarify this question lies at the core of controversies on ways to offer effective aged care.

The funding of aged care is tied to bed allocations. Thus the determination of a bed allocation to a provider brings a flow of revenue to the provider to support the particular standing of the resident as specified by the appraisal of her or his needs and condition. Hence the total expenditure commitment of the Australian Government is brought about largely by the total number of beds allocated and the classifications of residents on the RCS schedule as determined by an Aged Care Assessment Team (ACAT). An additional feature is the funding of domiciliary care whereby community aged care packages and similar provisions are determined administratively.

With capacity utilisation in residential aged care at 96 per cent or thereabouts, there is little scope for variability in the fiscal commitments. The control of bed allocations establishes a fiscal constraint not to be influenced by demand for beds. Thus the fiscal risk to government is minimised; unforeseen claims for funds are no more than a modest contingency possibility.\(^7\)

This low risk to fiscal stability meets the needs of the administrative leadership in its quest for certainty in budget planning. The political leadership is not in the same position because political risk may be enhanced by low fiscal risk. Where access to aged care facilities is restricted because bed allocations are controlled rather than responsive to

\(^7\) Should providers fail to act promptly with construction when allocated beds then budget underspending is the likely outcome. This possibility, witnessed in some measure recently, might add to the political risks referred to in the next paragraph.
demands for facilities, a mounting dissatisfaction over availability becomes a political risk.

Providers do not have much discretion in pricing and investment arrangements by which they work. The revenue stream is largely determined by legislation and regulation laid down by the Australian Government. Investment decisions by board and management are applications for bed allocations with the actual decision settled by the Australian Government. The only flexibility in the system is a decision not to go ahead after receiving a bed allocation.

Accordingly, providers work in a low market risk environment. Their revenue stream is guaranteed through the bed allocations and payments are one month in advance. Financial viability is determined by managing costs and staffing turnover. Investment determinations are cocooned in the same environment which generates modest fiscal risk for the administrative leadership.

Different circumstances apply where board and management decide to build ahead of a bed allocation in the expectation of one being made when the project is at or soon after completion. In this situation risk comes from the expansion of productive capacity ahead of a revenue stream provided by government with alternative revenue sources contained by regulation. However, there is a secondary market for bed allocations where recipients may sell an initial bed allocation. In this way
boards and management can secure a market solution to relieve financial risk associated with investment.\textsuperscript{8}

Users and their families bear the brunt of risks. These are matters of access, availability and choice. The certification of need by an ACAT is not a guarantee of a place in residential or community care. All it offers is a certification for entry should a place be available. The costs of an unrequited demand for support are concentrated on families and friends.\textsuperscript{9} These costs may be reflected in income foregone by supporting family members as well as direct costs of help provided in various ways.

Restraints on available choices in residential aged care have repercussions. These are most obvious in the supply of domiciliary measures whether in terms of the familiar community aged care packages (CACPs) or the extended care offerings to test the extent to which comprehensive support can be offered. In many respects what is now being witnessed is the substitution of domiciliary measures for the residential low care facilities if not some high care categories.\textsuperscript{10}

3. Policy Influences

Given the need for a rapid growth of aged care facilities over the next few decades, attention must be directed to the means by which strategies and

\textsuperscript{8} The initial issue of bed allocations is determined administratively. However, these allocations may be sold thus allowing unsuccessful applicants for them to meet their requirements. Prices in this secondary market indicate the value of the initial allocation to the successful applicants.

\textsuperscript{9} Unsatisfied demand is not necessarily a function of an administrative allocation system alone. A market system will have imbalances between demand and supply in the process of adjusting to an equilibrium which may not be realised in a dynamic situation which may witnessed in circumstances of an ageing population as found in Australia.

\textsuperscript{10} Prior to the 1997 legislation the hostels, now low care facilities, offered secure accommodation to residents with relatively little care and other support. The provision of CACPs and similar offerings such as "meals on wheels" means that retirement villages under present arrangements may be more akin to the old hostel arrangements than present low care offerings.
the policies giving expression to those strategies, might be put in place. Measures do not emerge as if by magic. Rather they reflect comprehensive and, quite often, complex processes of interaction and negotiation between individuals and groups within the political and administrative leaderships.

Some bases for complications may be explained. An initiating unit of government will be required most likely to negotiate with other units where some topics for which new initiatives are sought must be reconciled by central policy departments at political and administrative levels. There is every prospect the new initiative may not be in accordance with the perceived priorities and needs of those now drawn into devising new legislation and funding provisions.

A simple example may suffice to illustrate possibilities. A new measure about some activity may include proposals for expansion of education and training by way of scholarships to expand the numbers of professional and technical people as well as additional facilities whereby the numbers being educated and trained are raised. However, the unit of government responsible overall for education and training may not perceive the priority in quite the same light because this new initiative might unbalance a longer term development programme taking account of the broad needs of the economy and society. Issues of judgement and forecasting quickly arise.

The influences bearing upon judgement should be explored. Notions reflecting the status quo are a strong influence on decision-making and a reflection of wishes to preserve existing arrangements unless good reasons can be advanced for revising procedures already in place. This is
reinforced by circumstances whereby existing measures and practices are best understood overall. This is not a reflection of an innate conservatism but an awareness of how change can bring unintended consequences.

No less influential are the limits to knowledge. This is about the extent to which decision-makers are informed about potential choices from which determinations are to be made. Much of what concerns the development of public policy in this context is the way in which choices are informed by knowledge. This means questions how choices to be made are determined.

Before taking this up reference must be made to another development apparent in government during the past two decades. This is the way the political leadership has taken to itself the exploration of policy alternatives and ideas rather than continuing to foster these possibilities at the administrative level. The effects of this very subtle longer-term process have been two-fold. One has been to bring a concentration on process and management of issues by the administrative leadership at the behest of the political leadership.\textsuperscript{11} This has meant foregoing commitment to establishing the range of choices and more on what to process and manage. The second influence has been to foster the role of ministerial staffs in initiating ideas and applications of those ideas in processes of policy formation.

Where informing choice arises, the implications for how this is brought about are critical. Policy needs do not emerge at some regular and measured pace. Reliance on reviews and inquiries must be limited owing

\footnotesize{\textsuperscript{11} A careful reading of the recent Palmer Report bears plenty of witness to the dominance of process rather than its purposes. (Palmer, 2005)}
to the time required for their conduct. They may best be confined to some specific theme identified well in advance or otherwise confined to strategic themes and perceptions of scope for superior outcomes compared with present arrangements. Even efforts by consultants, often responding to department requirements, to throw up possibilities may be marred by short-term deadlines. Effective understanding of issues and possibilities for policy suggests a need for regular exposure to closely related topics to appreciate fully the context in which consultants are asked to work. This would suggest consulting groups might benefit by working with officials. Yet consultants working closely with them may easily take on the limited experiences of their mentors.

All too often decisions on future prospects reflect optimism about judgements on prospective outcomes. In part this relates to the quality of knowledge held by decision-makers and lack of awareness of other possibilities yet to be detected. A natural optimism is endemic in most appraisals of future possibilities. Finance markets reveal all too well how this optimism leads to estimates of future gains out of all proportion to likely general outcomes. For example, if all the individual estimates of share prices by various analysts associated with broking houses and investment (or merchant) banks were added together the implications for the growth of the share price indices would be far in excess of any likely experience. The sum of the parts in the totality of forecasts far exceeds an aggregate forecast for the same sector or market.

Issues arising from a sense of optimism and limits on knowledge may be the sources for overconfidence when determining what measures are appropriate. The lessons to be learnt from such experiences, supposing them to be understood and thus learnt from, are bound up with the
support for groups within the political and administrative structures having their main purposes the preservation and extension of knowledge of policy opportunities. The aim must be to foster links between policy experiences and policy opportunities so as to enhance the range of choice within hierarchies rather than have them rely overwhelmingly on external sources.

Failure to provide an internal stimulus to foster ideas on policy within the administrative leadership has consequences. Most obvious and probably most important is the ways in which focus on process and management comes to dominate performance while questions about what is to be processed and managed are settled elsewhere.

The rise to prominence and separateness from the administrative leadership, of ministerial staff in the last decade, and probably longer, is not to be seen as accidental when viewed in this context. This diminished and narrower role for the administrative leadership has lessened its attractions to those whose talents can be exercised fully and rewarded fully in other activities. The ranks are thinned of policy inspiration. Process and management become the focus rather than the purposes of process and management.

This is the context in which the role of reviews and inquiries are now to be understood. They reflect the opportunity to “shake the tree” for policy opportunities by subjecting existing structures to close scrutiny. They are a means of inducing change or, at the very least, establishing the basis for considering strategic changes in policy.
However, as noted earlier, recourse to reviews and inquiries cannot be commonplace for policy exploration. With the diminished role of the administrative leadership, the process of policy development now rests with ministerial staffs and those seeking to influence them. The implications not well understood. Proposals advanced from outside the various strands of government should be more complete and more policy robust than before. This need stems from the loss of standing across the administrative leadership.

4. User Funding

Aged care offers an opportunity to explore issues linked to user contributions towards the provision of services. Historically, government has contributed to supporting the indigent elderly and then a broader segment of that population. Federal authorities have been committed increasingly during the past half century.\textsuperscript{12} Only with the long-term shift in the age structure of the population has the user contributions towards the costs of aged care services been brought into a sharp focus. Given the funding arrangements in aged care under conditions existing in 2003-04, the relative costs to the Australian Government would rise four-fold in terms of proportion of Gross Domestic Product over the next four decades. While any long-term appraisals must be treated as indications of trends rather than forecasts of outcomes, there is no question about the very elderly being 85 years of age and above, being the fastest growing segment of the Australian population and reliance on a relatively diminishing proportion of the population being in the workforce.

\textsuperscript{12} A detailed examination of the development of aged care arrangements at the federal level is contained in Background Paper No. 4 from the Review. (Cullen, 2003)
Provisions ensure full support in aged care for those who qualify as concessional and assisted residents being pensioners or part pensioners. They may be required to contribute up to 85 per cent of their pensions towards their upkeep. In broad terms it is those elderly who have substantial incomes and assets who may be called upon to contribute towards their upkeep in aged care facilities and help fund the capital costs of providing the accommodation. While the contributions towards upkeep for those having significant incomes relative to pensions may be understood and accepted, perhaps grudgingly, it is the contributions towards capital costs which is a source of anguish about user contributions.

What should be understood is the determination of a minimum value of assets before any provision of funds to support capital contributions may be put in place. An understanding of the issues associated with user contributions in aged care, attention must be given to the chosen instrument at the centre of any analysis.

a) Financial Instrument
Accommodation bonds are a financial instrument devised as one means of contributing to the funding requirements for investment in aged care facilities. (The device is commonplace not just in aged care activities but is widespread amongst retirement village efforts.) They are akin to corporate debt but provided by residents and potential residents and subject to special conditions about repayment. Unlike a corporate bond the owner does not receive interest on it. There is an assets test indicating the potential resident has sufficient wealth with which to provide an accommodation bond. At present the bulk of the bond is repayable on
departure subject to some minimum sum deducted annually but for no more than five years being a charge to service capital costs.

The very complicated nature of this bond should be grasped. It is a liability to the borrowing entity but the instrument confers value on the recipient quite apart from the deductible charges. The issuer of the bond and not the owner receives the interest, or other earnings, generated by the asset matching the liability. Thus the entity enjoys an income stream which in other markets would accrue to the asset holder! Hence the net present value of this income stream is an asset in the hands of the liability holder. They do not apply uniformly across different types of residential care.

They are not the only basis for residents to contribute towards construction costs because daily charges or their equivalent can be put in place to have some of the same, or similar, effects. New directions in aged care strategies point to the need for greater flexibility and choice. Both providers and users of services and their families should have opportunities to offer choices as in the case of providers and make choices as with users. Just because providers are able to accept accommodation bonds it does not mean they must do so. However, one specific feature of the accommodation bond not found with daily charges is the balance sheet impact. The bond offers a stability in funding beyond

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13 This may help some to understand why the selling price of an aged care facility accepting bonds includes a premium based on the value of the liabilities being accommodation bonds!

14 Providers may require accommodation bonds of residents in low care facilities. In contrast residents in ordinary high care are not required to provide accommodation bonds. There are major exceptions to this “black and white” distinction; those places known as extra service high care facilities, are allowed to seek accommodation bonds. The same applies effectively to residents initially in low care who elect to “age in place” whereby they remain in the same location while receiving what amounts to high care. A substantial proportion of residents in low care are “ageing in place”.

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that associated with a bank overdraft. No surprise then to note the value of outstanding bonds as at least $3.7 billion.\

b) Implications

The provision of an accommodation bond by a resident should be treated as a loan contribution towards the cost of the provision of a residence in an aged care facility just as contributions of a minimum payment and the servicing costs of a mortgage secure accommodation in a domestic residence. The holder of a mortgage on a residence is subject to some low risk of the occupier not meeting service charges. Similarly, the aged care resident has some risk the entity owning the facility will be unable to meet the repayment of the bond on his or her departure.

The securing of a place in a residential facility by provision of an accommodation bond is a means of gaining accommodation in the same way as the purchase of a house provides for accommodation. Needs are met at different stages in a person’s life.

There appears to be some difficulty with grasping the similarities depicted in the preceding paragraph. Much is made of the concept of the “family home” in the discussion of accommodation bonds and the valuation of assets. Indeed a brief reflection on the requirements for accommodation at different stages in life would suggest there is no specific reason why a family home should be exempt from an asset valuation assessment. On reflection very instances would be found where a parents’ home, the “family home” in other words, was occupied by a sibling.

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15 All these bonds are issued with the imprimatur of legislation enacted by the Australian Government so there is a substantial moral hazard at stake to which the taxpayer is exposed.
The discussion of asset valuation exemptions and the role of the “family home” bears upon a quite separate issue. There is a question of whether or not the resident should contribute to the capital costs as well as the operating ones. There are the interests of siblings in the value of the estate of the resident when deceased. There is potential conflict of interest with the needs of the resident. Out of this possibility one may gain understanding of those financial planning activities designed to minimise assets attributable to potential residents most of all. In this way claims for accommodation bonds may be thwarted.

5. Information

Information about the availability and types of aged care services is not shared equally across the participants. The providers of services have much superior knowledge compared to the users of services. Government is less well placed than providers despite being the purchaser of services on behalf of users and these shortcomings have been documented. (Hogan, 2005c) That maldistribution of information is familiar in many markets where the users of services are not experienced with what is on offer. Moreover, about half the users of aged care services require access as a result of some incident leading to entry to hospital. Hence preparation by way of securing information about availability of services is minimal and may most often be undertaken by relatives and friends rather than the potential resident. Another category of resident arises with those people who no longer have a grip on capacity to make decisions such as arises with Alzheimers/Dementia sufferers. Relatives and friends must act for them.
In these circumstances requirements for providing information about the workings of individual residential facilities should cover the financial position as well as the level of performance with quality of care including instances where shortcomings have been notified. There are no strong reasons for thinking these requirements to be onerous. Within the industry some providers are offering this information already and going further by conducting surveys of residents and their families to determine the effectiveness of the efforts of management and staff.

On these grounds the Review recommended an expanded role for the Australian Standards and Accreditation Agency (ASAA) being the major entity responsible for the application of standards on a rigorous basis.\(^{16}\) This should be accompanied by a substantial increase in provisions to inform users and potential users and their families about the quality of facilities available. This includes exploration of new ways of advising publicly on the quality of individual residential aged care services. This should bring a shift from some perceived minimum standards to one where gradations may be noted.

On the same grounds a detailed provision for monitoring and supervision of accommodation bonds incorporating a scrutiny of entities accepting accommodation bonds for their financial viability was advanced. The lack of transparency and scrutiny of the financial condition of entities taking in bonds remains a major concern. The basis for the worries is revealed by the number of entities where ownership has been transferred in recent times solely or largely on the basis of the acquiring entity assuming the liabilities embodied in the bonds.

\(^{16}\) The complaints procedures should remain in place but the better integration of federal and state measures should mean less burdensome repetitive monitoring.
The relatives of residents should have an interest in the prospects of repayments of much of the bond or to recognise their interest in the financial condition of the entity offering aged care facilities. That interest should be a basis for a comprehensive private monitoring of the operating condition of each entity taking bonds.

6. Taxation and Public Benevolent Institutions (PBIs)

Government has been involved in support of arrangements to care for the elderly and indigent from the early days of the Sydney colony. The Benevolent Society of New South Wales must be amongst the oldest institutions in our midst tracing its origins back to 1813 and firmly established under the patronage of Governor Lachlan Macquarie in 1818.\(^{17}\) Mention is made of this feature to emphasise the long-standing roles of government in activities bearing upon aged care and to recall the ways institutions may change through the ensuing decades. This last-mentioned feature is important to any consideration of the relationship between taxation and provision of services to the elderly.

Exemption from taxation had its origins in circumstances much different from present arrangements. Religious orders and other groups committed to meet the needs of the elderly and other disadvantaged groups in society worked in circumstances where the recipients of that help were not beneficiaries of state pensions. Altruistic effort and inspiration motivated those working in these institutions while income came from bequests and donations. Much has changed in the past three decades.

\(^{17}\) The history of the Society may be consulted for information on these early colonial experiences. (Rathbone, 1994)
Participation in religious orders has diminished greatly. Pensions are universal. Government buys services at uniform prices. Aged care activities are no longer the sole province of religious and charitable institutions. Care of the elderly, especially the infirm amongst them, is no longer the task of the family.

Inevitably the historically familiar religious and charitable organizations are taking on the characteristics of the business model. Institutional structures are adapting to become incorporated entities registered as not for profit. The workforce in aged care is no different in its aspirations from other service activities whether in hotels and resorts, cleaning services, food services and hospitals.

There is a need to be clear as to what constitutes the residential aged care industry in Australia. The structure may best be understood as comprising six “ownership” groups. Operational beds or places offer the best measure of relative contributions to aged care from the various types of provider. The religious provide about 38 per cent of all facilities while the community-based entities some 16 per cent. Both groups enjoy tax exemptions. The charitable ones provide about 10 per cent leaving state and local governments have 9 per cent. The private “for profit” providers contribute over 27 per cent. The position of the charitable institutions with tax exemptions is less certain though most would enjoy at least a partial tax-exempt status. Should that apply then nearly two-thirds of the entities providing aged care services enjoy the largesse offered by taxpayers.
The distribution of places across Australia is not uniform. The religious are more prominent in most states other than South Australia and, most of all, Victoria where the percentage is a low 24.0 per cent. In contrast private providers are most prominent in Victoria as is also the case with facilities provided by the state government. The Victorian government plays a major role being the single largest provider in that state just as Uniting Aged Care is the largest provider in New South Wales.

a) Taxation Distinctions
Central to the appraisal is whether or not providers are deemed to be public benevolent institutions (PBIs).\textsuperscript{18} If this status is granted to an entity providing aged care services then certain tax concessions are available to them the most important being exemption from income taxation on any corporate earnings and some considerable relief from taxation of fringe benefits granted to employees such as household spending and provision of motor vehicles. Apart from Income Tax on the earnings of the entities, this exemption from Fringe Benefits Tax (FBT) allows entities to grant payments additional to the established wage payments to the workforce. Other types of tax exemptions may apply to charitable organisations which are not formally recognized as PBIs.

At the outset it is necessary to establish the basis of distinctions made for tax purposes between the “for profit” and “not for profit” entities. This depends substantially but not completely on whether or not the entity works to gain profits. If the answer is “yes” then it cannot be a PBI. How then is such an entity defined?

\textsuperscript{18} An earlier analysis was offered in a relatively recent publication though the topic had been explored in some conference papers earlier. (Hogan, 2005d)
A PBI is an entity established for the relief of poverty, sickness, suffering, disease, misfortune, destitution or helplessness; makes it services available without discrimination; is administered without purpose of private gain; and provides direct relief for the benefit of the disadvantaged. This PBI status governs the extent of tax exemptions available to the entities providing residential aged care. With that status entities are exempt from income taxation and may secure relief from Fringe Benefits Tax (FBT) to enhance the incomes of their workforce. The critical feature in this definition is this purpose of relief of distress and like conditions as listed. Unless this main purpose is clearly identified then an entity does not qualify as a PBI. An entity may pursue activities which involve the relief of distress and suffering but should those be ancillary to some other activity then it cannot qualify as a PBI.

There is a limit to how much may be paid to members of the workforce through the Fringe Benefit Tax exemption. This is set at just over $30,000 being the grossed-up value of the benefit. By that is meant the total sum as the gross value equivalent of the net sum paid to the individual. The relationship between the grossed-up value and the net sum paid depends in some measure on the ways the fringe benefit has been extracted. In general the net sum paid is near to half the grossed-up value, usually about a maximum of $15,450. The potential impact of the tax exemption is very substantial being a significant percentage of the total wages payment for most members of the workforce. The practice is now widespread and not just the management group.

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19 A full explanation is offered in the Fringe Benefits Tax Guide. (ATO, 2004)
20 This feature fosters shifts towards incorporated entities because PBI status may be preserved for a subsidiary company in a group leaving other separately incorporated activities to be pursued on a “for profit” basis. Many religious and charitable may not be able to split activities in this way.
b) Issues
The worries with the preferred tax arrangements for the PBIs is whether or not this induces a lax approach to efficiency and productivity. The frequent question asked during the Review and subsequently was how could a profit-oriented entity exist against a PBI given the tax exemptions enjoyed by the latter on income tax as well as the Fringe Benefit Tax concessions to allow bolstering of salaries and wages? This assumes the two types of entity work to similar cost structures and production functions. The evidence from the analysis of labour costs points to some very different approaches to operational arrangements.\(^{21}\) This suggests the “for profit” entities have adapted to their relatively inferior position by seeking other approaches to managing aged care.

There are questions to be answered about the advantages to be enjoyed by society, especially the taxpaying part of it, from the tax exemptions and hence additional competitive margins granted to PBIs. Any response or evidence suggesting the benefits of tax exemptions were extracted by the quiet life of lax efficiency and productivity should be unacceptable.

Two distinct features about these exemptions should be treated. There is the general question about the continued existence of any exemptions given that the original basis for these exemptions lies in the historical and much different past and the Australian Government contracts for services at one price whoever is the provider. Quite separately there is the more specific question directed to the segmented market for provision of residential aged care which analyses those parts where the “for profit” and “not-for-profit” entities perform face to face. The most obvious

\(^{21}\) The Report provides abundant evidence on the variability of labour costs between different types of providers.(Hogan, 2004b, pp.30-33)
segment lies in the extra service high care sphere which is the only part of high care services where accommodation bonds may be required and additional charges applied.

This activity is not associated with the poor and indigent in Australian society. Reasons can be advanced for insulating this service into a separate entity amongst a “not for profit” group and subject to the usual tax provisions rather than exemptions. One test would be whether or not the “not for profit” entities providing extra service high care were using the margins earned on this activity to cross-subsidise their services in ordinary high care and others such as low care and respite care.

This exploration of issues around tax arrangements and their discriminatory impacts should not be treated lightly. Future questioning as to benefit is essential as it is inevitable.

7. Comment

Five themes have been developed in this contribution. Most have a more general applicability than the confines of residential and domiciliary care. Tax themes raise very specific issues drawn from aged care but applying to all instances familiar across the range of social welfare activities. The basis for policy appraisals explored in the third section does stretch a long bow. However, understanding policy dimensions and the ways they are formulated and bounded is important.

The needs of residential aged care are not the topic under consideration. What has been treated related to general issues applicable broadly and not confined to aged care themes alone. In aged care the most critical theme
is about generating resources to sustain the great need for investment in facilities to meet rapidly growing demands in years ahead. That is a separate topic.

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