Funding and stimulus to support the aged care sector

The redesign of the aged care sector

May 2020
About this report

This report was not possible without the generosity and commitment of the CEOs and Executives of aged care providers who gave up their time throughout March – which we now know was the beginning of the COVID-19 crises – to help shape this report.

Our thanks are also extended to the Grant Thornton Partners and staff who participated in the workshops, webinar and review processes.

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National Head of Health and Aged Care
April 2020
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Introduction

The Royal Commission into Aged Care Quality and Safety is a once in a lifetime opportunity to establish a “new norm” in supporting older Australians as they access services towards the end of their lives.

Purpose of this report

The purpose of this report is to explore options for improving the funding model for the sector, by stimulating aspects of the industry using taxation, superannuation and other measures. The results of this analysis indicate that some ideas had previously not been considered, while others that are discussed as solutions in the public domain may not be as effective as believed or may have an impact within limited time and place.

It is not a comprehensive model for funding the industry, rather it is a reflection on funding models that can be used as levers by Government. The analysis of these models has highlighted that there will be both positive and negative impacts that result from applying them in particular circumstances. This is documented in the analysis contained herein.

These models were developed in collaboration with Grant Thornton’s leading Taxation Partners Paul Banister, Peter Berg, Elizabeth Lucas, Paul Dawson, David Hawkes and Adam Alexander, as well as our superannuation specialist Partner Denis Eagles, and tested in provider workshops held across the country.
Easier or harder with COVID-19?

There is a great deal of disruption occurring in society, economics and health and aged care as a result of national and international responses to the outbreak of COVID-19. The COVID-19 pandemic is a significant health phenomena affecting global populations. It is disruptive to society. Contagion management has seen the closure of sovereign borders between countries and – in Australia – borders between States. The measures being undertaken, including social distancing, closing non-essential businesses, special economic responses, will contribute to a slowing of global and local economies. This will be devastating to many individuals and governments. It will take many years to recover from the economic impacts of this health crisis.

The restructuring of the aged care sector, informed by the Royal Commission and implemented by government will be undertaken in this fiscally and socially constrained environment. The aged care sector will be competing more fiercely for funds from future governments confronted with having to repay the debts incurred in responding to COVID-19 and from consumers and their families who may have suffered financial hardship.

Indeed, it will be difficult for the Royal Commission not to acknowledge and respond to the added complexity that COVID-19 will bring to aged care sector operating in an economy that will need itself to be restructured over the long term, to recover from COVID-19.

Included in Appendix 1 is an overview of VUCA, a management consulting methodology used for considering significantly complex problems, with multiple stakeholders, where the situation is changing rapidly. It is included to assist readers in considering the high degree of complexity facing those tasked with redesigning the sector in these most difficult of circumstances.

When we started out thinking about funding options for the aged care sector, at the end of 2019, we did so on a "business-as-usual" basis. COVID-19 brings a completely unpredictable dimension to aged care services and how they will be funded post the impacts of the disease.

Certainly, long term recovery responses from government are likely to factor in more general taxation reform and higher taxation rates to repay the stimulus being pumped into Australia’s economy through this process. Commonwealth and State governments are making daily announcements on societal and economic support.

In this environment we believe that it may be harder to promote a single aged care levy in the longer term, and that a broader package of supports using the taxation system and extending the direct funding from budget will be required as part of a broader recovery package for Australia over the longer term.

Acknowledgements

We would like to acknowledge the significant commitment and ongoing dedication of the aged care workforce as the industry navigates the COVID-19 pandemic. Without each and every one of the people on the front line of aged care services doing their jobs, our elderly would be at significantly higher risk than they are today. All Australians owe them a debt of thanks.

We also acknowledge that many of the concepts in our report were developed and designed before the ramifications of the pandemic clearly unfolded. While this may mean implementation may be delayed, or other priorities must come to the fore, we stand by these concepts as part of the long-term sustainability and viability of the aged care sector.

Funding options

When analysing funding options, the impacts on stakeholders was considered. These stakeholder groups included consumers, workers, service providers, investors, the community and government. Balancing the various needs and expectations of these groups will always be challenging and will require thoughtful analysis. This report seeks to provide this.

The funding options fell into groups depending on which stakeholders were impacted most. This led the design team to the conclusion that different funding models could be used to stimulate different outcomes that may be required at different phases of the transformation, and for different purposes. The “stimulus domains” fell into the following categories:

- Employment stimulus, initiatives that seek to increase participation in the workforce.
- Retiree stimulus, initiatives that incentivise those individuals who can afford it, to contribute more to their accommodation and possibly care, as they age.
- Provider stimulus, initiatives to directly incentivise providers to deliver better quality services.
- Industry rationalisation stimulus, initiatives to incentivise provider rationalisation to prevent market failure.
- Investment stimulus, initiatives to incentivise the development of new facilities, including current RACF styled developments and also new models of providing age appropriate accommodation.
- Government stimulus, options for funding aged care services and meeting community expectations into the future.

Grouping the models provided a focus for, and clarity about, the overall impacts that could be achieved in using these models as levers for stimulus in funding aged care initiatives.
Stimulus domains

The workshop series identified six domains of economic stimulus that would support the aged care industry. These are explored in turn here.

It is important to note that several of these initiatives can be combined to provide a greater impact, however for the purposes of clarity they have been analysed separately.

Employment stimulus

In June 2018, the Chair of the Aged Care Workforce Strategy Taskforce, Professor John Pollaers OAM, released “A Matter of Care, Australia’s Aged Care Workforce Strategy.” This seminal document reflected the collective wisdom of thousands of people, representational bodies, providers, individuals, consumers and their families. The report highlighted 14 key strategies to grow and sustain the workforce. Providers rightly believe that the strategy is the correct one, however the indicative time-frame for execution of one to three years seems optimistic in the current environment.

Australia has a cultural blind spot and many Australians do not value older people or the contributions they have made throughout their lives. As a result, aged care in Australia is not seen as a desirable place to work by many health care workers and is often seen as a place to go when you are close to retirement, rather than an active career choice. This leads to not only a thinning labour market for providers across the board, it also means the quality of workforce is potentially diminished. Current funding models do not allow providers to compete with health and disability sector’s rates of pay. Australia needs to fundamentally change the way we think and feel about older people.

In March 2020, providers are reporting that thin labour markets are growing, in urban, near urban, and rural and remote Australia. This is leading to an increase in attraction and retention difficulties of clinical and care staff. Providers are concerned that their workforce is ageing and available qualified people, who can meet the aspirations of consumers and the expectations of the community, are diminishing.

Negative media resulting from the Royal Commission has further reduced the desirability of the sector as a meaningful career pathway. Increasing regulation and oversight by the Department and its agencies is seen as reducing the opportunity to exercise initiative, critical thinking skills and decision making capabilities of workers. Competition for labour is increasing, particularly from the disability and health sectors that are seen as better funded. Providers have never been able to complete with the health sector’s rates of pay. This inequality further compounds the perception that aged care is not a ‘good’ career choice for emerging practitioners, making attraction of younger people with a genuine desire to make aged care their career, more difficult. Increasingly, qualified and experienced workers, managers and leaders with a passion for aged people are harder to attract to the sector.

While 1.3 million people currently access or use some form of aged care, the Productivity Commission (2011) forecast this to grow to 3.5 million by 2050. 366,000 people are currently employed in aged care, or 3% of the workforce. A direct correlation would see the workforce grow to 1.7 million in 2050, or 9,280 new workers per annum, net of those departing.

Therefore new ways of attracting workers is required. The following analysis looks at existing taxation mechanisms to attract and retain workers for the sector. This is not a comprehensive list of all that needs to be done, rather some ideas to stimulate interest in aged care employment and to attract more people to the workforce.

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The redesign of the aged care sector in Australia

The majority of exemptions are available only to not-for-profit organisations at this time. Certain not-for-profit entities such as registered public benevolent institutions and health promotion charities, are entitled to an exemption from Fringe Benefits Tax (FBT) for the first $15,900 of salary sacrificed benefits provided to each employee.

The concept is to extend the benefits of salary sacrificing to employees in the aged care sector in a number of ways:

• Firstly, extending the benefit from the current cap of $15,900 to a higher amount, say $30,000, or more

• Secondly, extending the benefit to include all aged care workers including those who work in for-profit providers.

Utilising salary sacrificing arrangements to attract and retain workers

“A salary sacrifice arrangement is also commonly referred to as salary packaging or total remuneration packaging. It is an arrangement between an employer and an employee, where the employee agrees to forgo part of their future entitlement to salary or wages. This is in return for the employer providing them with benefits of a similar value.”

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How the exemptions work

The exemption applies to the employer who passes it on to the employee. In most instances the employers pass the benefit on to employees in full. Some employers pass on minus an administration charge.

It is a commonly held view that salary sacrifice arrangements were introduced to compensate workers in the not-for-profit sector for shortfalls in wages that were paid to them compared to what they would be paid in the for-profit sector. In reality, some very limited salary packaging benefits are available to workers in the for-profit sector as well. The administration of these benefits are onerous on providers and often not offered to employees beyond superannuation.
Raising the salary sacrifice benefits cap

In the first instance this would see an increase in the capped amount for salary sacrifice. At the moment this is $15,900 and would apply to most not-for-profit employees. An increase of this amount could reduce the taxable income of those workers who choose to take it up, therefore realising a tax saving, or benefit, for them.

This will improve the financial position of this group. Further, salary sacrifice is seen to be an incentive for workers to work in the not-for-profit sector, and higher caps will be more attractive to them. This benefit applies directly to the worker, in that they can exercise choice in taking up employment where the benefit applies and then choose to adopt or not adopt the benefits.

Salary sacrifice benefits can be a key factor in attracting talented professionals to this sector, particularly for higher paid positions where VET and tertiary qualifications and experience are required.

Providers will be able to market these benefits in attracting these workers to their organisations. There are some workers that work for multiple organisations and an increased salary sacrifice benefit would encourage them to stick with the one employer, for ease of administration where the benefits were adopted.

Consumers of services and their families benefit from staff being more incentivised in their roles and the community gains an economic benefit from the higher spending power of the workforce.

Of course, this exemption currently applies to workers employed by certain not-for-profit providers, with lesser benefits (there are still some salary sacrifice benefits) available in the for-profit sector. Increasing the exemption in the not-for-profit sector would increase the disparity between parts of the industry when there is an overall need to attract workers to careers in aged care services.

Another concern is that lower paid workers, particularly casuals, who earn less than $37,000 per annum (2019 estimate) do not benefit from the current salary sacrifice arrangements and would not benefit from these proposed changes. In addition many other workers either do not understand the exemption and how to access it, or are suspicious of employers promoting the arrangements.

There will be an increased administrative burden on providers to ensure that exemptions are accurately calculated and that formal agreements are appropriately documented in employment contracts. There is a reported low take up of salary sacrifice benefits currently, circa 20% of the workforce. Providers and government will need to do more to educate and train workers on the benefits and encourage them to do so to optimise their remuneration.

The Government would need to fund this through the federal budget and there would be a reduction in revenue resulting from the increase in benefits attributed to workers in the sector. Further, with workers exercising choice in taking up or not taking up the benefit, there will be less certainty in determining the impact of the revenue reduction on the budget.

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7 Reported by CEOs of Providers attending the workshops

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The redesign of the aged care sector in Australia
Extending salary sacrifice FBT exemptions to for-profit providers

Salary sacrificing FBT exemptions have been a contentious issue in the aged care sector. Not-for-profit providers argue that the exemptions are to compensate for the ability of for-profit providers who can pay more. They argue that for-profit providers have access to capital markets which allow them to raise capital and create more effective financial structures, allowing them to pay higher wages. For-profit providers maintain that they are just more efficient and make more money allowing them to pay more for workers, although some for-profit providers advise they are struggling to compete with the not-for-profit sector for labour.

The aged care sector is also competing with health and disability services who pay higher wages again. It is critical to attract more people to the aged care sector as numbers of people requiring services grows.

The benefits of extending the current FBT exemption for salary sacrifice benefits from the not-for-profit sector to all aged care workers is designed to attract more workers to the sector, to increase the trained and experienced pool of workers that can be accessed by all providers.

FBT exemptions would be available for all care workers. It will attract more talent to the sector as a whole. This will contribute towards ensuring all providers can better compete with intersecting services, such as the hospital, health and disability sectors. It will create competitive neutrality for labour within the sector, providing an opportunity for the sector to work together to increase the overall trained and qualified aged care workforce. There would be an increased administrative burden on providers to manage the benefits and ensure appropriate payments were made. Consideration may be required to acknowledge salary packaging in employment agreements, Enterprise Agreements and other industrial instruments.

The benefits are diluted the less you earn and for low paid workers, particularly casuals, it may not be sufficient incentive to bring them into the aged care sector from intersecting services or the broader labour market. Some workers may not be able to take advantage of all fringe benefits available under the current regime and therefore not utilise the limits. Current take up in the aged care sector is limited and will require information and training to be made available by providers and government (the ATO) to ensure employees understand the financial advantages and how to access the benefits.

Alternatives to salary packaging for all workers

An alternative for the Government to provide certainty is to reduce or eliminate salary packaging benefits and increase funding to providers to pass onto workers. This interposes the provider between the workers benefit and the incentive, and therefore has the inherent risk that increased aged care funding provided for this purpose would not be fully passed through to the workforce.

\[^{7}\text{These services can be outsourced to specialist salary packaging service providers}\]
Efficiency – myth or magic

The idea that for-profit providers are more efficient than not-for-profit providers is an interesting concept, although not very helpful in understanding the differences between the two business models.

There are for-profit providers who reportedly have low cost of care ratios,\textsuperscript{1} say 65%. This is often reported as being efficient, however some of the well-known providers also have sanctions in their portfolio. It could be argued that this efficiency comes at the cost of community expectations of quality and safety of care. This efficiency is often linked to the imperative to pay dividends to shareholders.

Not-for-profit providers, including faith based and secular enterprises, have a mission based model which create the imperative to invest in missional purposes. This is often attributed to higher levels of labour or additional services,\textsuperscript{2} pastoral support for faith based services for example. It becomes a choice by missional enterprises how to invest in their mission through their business activities. In this context it is useful to think of this choice as paying a social dividend.

In conclusion it is more useful to think of these organisations resolving the tensions of these two imperatives along a scale where one seeks to minimise its outlays in favour of returns to investors, and the other seeks to invest to provide returns to its community and stakeholders.

Notes
1. The cost of care ratio is the cost of care labour divided by the care revenue
2. Additional services is just that and not intended to align with the definition in the aged care act.
How zone offsets could be used to attract and retain workers in rural, remote and very remote communities

Australia’s Aged Care Strategy, identified the need for establishing a remote accord to assist providers in rural, remote and very remote settings to continue to provide the care that communities expect.

The remote accord will lead the industry in harnessing place-based opportunities to utilise local community workforces, design training and education experiences suited to people in remote settings, work with community to support the safety of the aged care workforce, work with governments on appropriate program and policy setting for remote aged care service delivery.

Of concern to providers is how to attract and retain staff in these settings in the first place. Existing tax measures include zone offsets to compensate workers who experience a lower standard of living as a result of their choosing to work in the bush. We will explore how the measures could be modified to attract and retain aged care workers to these providers.

What is a Zone Offset?

The zone tax offset is a tax rebate for taxpayers in remote areas, or in the case of defence or UN personnel, who have had a tour of duty within a designated overseas location.

This tax concession is provided as a reduction of tax which is not refundable if it exceeds total tax payable. For the 2020 financial year the benefits are established as offset claims made up of a fixed amount, plus a percentage of dependants offset base amount values (additional benefits where the taxpayer supports dependants).

- Zone A offset value is $338 + 50%
- Zone B offset value is $57 + 20%
- Special zone areas offset value is $1,173 + 50%
- Overseas forces offset value is $338 + 50%

There is a requirement to reside or work in the zone for more than 183 days per year.

Announced in the 2015 Budget and now enacted – from 1 July 2015 “fly-in fly-out” and “drive-in drive-out” workers are excluded from claiming the zone rebate where their normal residence is not within the specified tax zone. Until 30 June 2015, it was sufficient for a taxpayer to reside or work in a specified zone for more than 183 days of an income year.

For the purpose of this analysis the focus is on the application of Zone Offsets.

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Increasing the zone offset (rebate) for aged care workers

The Zone Offset (previously known as the zone rebate) is an existing taxation mechanism that is understood, at least by those workers that qualify for it and use it. Currently, the benefit is limited and would have limited appeal to many. Further, the current zones are very remote. There are no qualifying zones in the ACT and Victoria, for example. The Zone Offset is considered much simpler for workers to understand and access, compared to salary sacrificing benefits. Workers benefit by claiming the Zone Offset directly and therefore there is no administrative impost on providers.

The Zone Offset could be used as an incentive to attract workers to rural remote and very remote settings, by significantly increasing the quantum of the rebate to make it a true incentive for services located in these areas. Higher zone rebates would make it more attractive for new migrants to want to live and work rurally, in addition to any requirements attached to VISAs. Communities in these settings benefit by having more residents, and more people with qualifications and experience in their areas who can spend locally.

Further extending the zones for aged care workers to identified thin labour markets, would enhance the incentive. This is not suggesting that urban and near urban thin labour markets be incentivised in the same way, although this option has been suggested (see comments on an Industry Offset below). This may require more zones to be established with different benefits that are relevant to the labour market and geographical distance from major centres.

The Government would have to fund this as there would be a reduction in revenues collected for the federal budget, from the reduction in tax payable by employees who take up the benefits.

The proposed increases in the quantum and geographic cover of the Zone Offset will not fully compensate for the cost of living issues that arise in rural, remote and very remote settings, and additional stimulus will be needed to address the workforce shortage now and into the future.

Creating an Aged Care Industry Offset (rebate) in the same style as the Zone Offset

In workshop discussions regarding the modification of Zone Offsets to encourage more workers to rural, remote and very remote areas, the idea of an Industry Offset arose. This would be in addition to the Zone Offset and be available to all aged care workers. The idea arose as the proposed modifications to the Zone Offset does not address thin labour markets in urban and near urban settings. The Industry Offset would operate in the same way as the Zone Offset.

All aged care workers would benefit from the Industry Offset by claiming it as a reduction to the tax that they pay. It would be claimed directly by the individual worker and providers would not be exposed to increasing administrative burdens as a result of its introduction. It would be more attractive to lower paid workers than a salary packaging benefit due to its simplicity. The introduction of an Aged Care Industry Offset would not differentiate between urban, near urban and rural, remote and very remote settings and will therefore have limited benefits in attracting workers to the bush.

Many providers provide a mix of aged care, community services and disability services and therefore it may create an administrative burden for workers in establishing their credentials as an aged care worker meeting the requirements to be eligible.

For financially vulnerable providers this will provide workers with a real pay rise without the associated payroll investment. Communities in these settings benefit by having more residents, and more people with qualifications and experience in their areas who can spend locally.

The Government would have to fund this as there would be a reduction in revenues collected for the federal budget, from tax payable by employees who take up the benefits.

Conclusion

The combination of enhanced Zone Offsets and the introduction of an Aged Care Industry Offset has real appeal in that it directly benefits without increasing the cost of care for providers. There is also the significant potential to attract more workers and increasingly higher qualified workers to the sector.
Retiree stimulus

Incentivising the self-funding accommodation and care for those that can afford it

The Australian community is having a significant debate about the benefits or otherwise of the baby boomer generation downsizing. There has been a plethora of research into the reasons baby boomers choose not to downsize. We know the societal benefits of freeing up housing for new comers to the market, aligning the needs of the resident with the space they occupy and freeing up capital for use in retirement. However downsizing considerations are larger than that. “Rather than simply positioning ‘housing an ageing population’ as a specific area of policy interest, equally important long-term strategic questions are tied more to better understanding how the decision-making and challenges facing this cohort (the baby boomers) will increasingly shape wider housing system and market issues.”

A number of issues have been identified that currently inhibit downsizing in this cohort:

1. The market, regulatory, and taxation environment encourages wealth to be maintained in housing assets. This inspires reduced mobility among older Australians.

2. Friction costs of moving including real estate agents fees, legal costs, removalist costs and stamp duty. The last of these has been recognised in policy considerations, with the Henry Tax Review identifying the role of stamp duty in discouraging households to move. An examination of some of the discounting and policy changes to stamp duties, concluded many seem to target development of specialised retirement facilities, rather than mobility among older Australians more generally.

3. Where relocation results in the release of significant money from a housing asset (i.e. the new house is less valuable than the originating house), there are disincentives to having additional wealth outside housing. Specifically, means testing of pension entitlements excludes home ownership from means tests. In policy terms this is offset by pension rates excluding housing costs. Thus, drawing down on that asset could both reduce the incoming pension and, in the case of rental, increase the outgoing living expenses.

4. Further the desire to age in place, a reluctance to move, less mobility resulting from a lack of necessity to move, and the use of space for recreational purposes, add to the motivation to remain in the originating house.

Current downsizing rules

Under the current downsizing regime, the Principal Place of Residence (PPR) needs to be held for 10 years or more to be eligible for the $300,000 (each) ‘roll over’ into the superannuation fund. It may be important to address and recommend relief where the PPR is sold and the consumers enter into a retirement village (and then into aged care). There are various ATO requirements regarding minimum pensions that need to be considered and how this interacts with the ‘pension account’ and this aged care pension balance.

To overcome these emotional, financial and practical motivations to remain in the originating house, significant incentives need to be applied to encourage baby boomers and others to downsize. We examine some incentives here.

Operators of retirement villages may benefit from this as this becomes a more attractive downsizing opportunity with specific aged appropriate design. We also know that the Government will receive a benefit for those that do choose to downsize to a retirement village by delayed entry into aged care, less hospital visits and fewer visits to general practice.

These initiatives will not benefit all, however they are predicated on the principle that those that can pay, should pay.

Aged Care Super Accounts – lump sum contributions for aged care needs

Lump sums of cash, freed up from downsizing housing is “rolled” into an account to be held in an individual’s superannuation fund and preserved for future accommodation and aged care needs. Downsizing means selling the originating house (usually the home where the family was raised) and acquiring a smaller home with design more amenable to ageing in place, for example a retirement living unit, strata titled apartment, or smaller low set house within a community. In effect this is an extension of the lump contribution cap implemented on 1 July 2017. A mechanism that considers a lump sum investment would be for those people who can realise cash from downsizing.

The money in the account can be invested in the same way as other superannuation funds, however it can’t be withdrawn for any other purpose. If it is withdrawn for another purpose, income from the investments in the “aged care account” become taxable as they are drawn down. This could prevent those retirees that churn through their house sale funds, who might otherwise have been able to fund their own living, purely in order to qualify for the pension.

Drawdowns would only be permitted for hardship, until after reaching the retirement age. The funds would not be considered part of the assets test in the same way as the family home is exempt, allowing the retiree to retain pensions, healthcare cards and other benefits.

This can support intergenerational wealth transfer by allowing the [smaller] family home to be retained, and those that can pay for aged care services will have funds set aside to do so. There is informed speculation that intergenerational conflict will be reduced. In effect there are a number of options for downsizing, including retirement living, strata title, and self-forming cohorts.

Retirees gain a significant benefit by not losing the pension and pension benefits once cash is freed up from the disposal of larger housing and acquisition of smaller housing. It creates a mechanism for preserving capital against future care and accommodation needs, particularly where residential aged care accommodation becomes necessary. It provides choice and control over the application and extent of the investment required. For some retirees, the amount invested may not be enough and existing mechanisms would contribute care and accommodation to the extent they are required. There may be additional fees paid to superannuation fund managers and trustees to oversee these specifically allocated investments. To access the funds for aged care accommodation and services, a disbursement would be made from the aged care super account to approved providers in accordance with approved care plans.

Ideas for aged friendly design

Easy on the hands.
Ensuring wall furniture (door knobs, light switches etc) are easily handled by older hands.

Friendly floors.
Using surfaces that grip, using non slip mats and removing mats and other trip hazards. Walker friendly surfaces.

Safe stairs.
Handrails are a must, together with good lighting.

A well-lit place.
Make sure there’s adequate lighting in every room, hallway, and doorway. Entryways are especially dangerous.

Landing places.
Fumbling with keys, packages and mail enhances falls risk. Have a table and space.

Better baths.
Shower grab rails, no floor obstacles, and no slip surfaces.
The redesign of the aged care sector in Australia does not seem to lose anything in this strategy. They forego tax revenues on the investment incomes, however this capital currently remains locked up in housing and is not generating any taxable income. Government stands to benefit where retirees do draw down this capital for non-aged care purposes creating a taxable income, albeit this will likely be deferred for some time. We know that 7% of people over 65 (it is about 15% of men over 85 and 30% of women, with both rates declining) will use permanent residential aged care in their lives and therefore a reasonable proportion of the investments into aged care super accounts will be drawn back down and become taxable. The retiree still achieves a benefit in deferring this tax payable possibly until such times as incomes are lower and the final tax payable will be less. Governments will get access to the income for taxation purposes.

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The Government receives a knock-on benefit in that money that is saved by it in the provision of care for this cohort currently could be applied to a broader safety net for less advantaged groups. The application of this aged care super fund would only be available for accommodation and care services procured from approved aged care providers, and could potentially be “pledged” to particular providers in advance and in the event retirees capacity is compromised, providing some surety for the provider.

To be successful it will need the support of financial planners, superannuation funds and an understanding from the broader community that this creates a mechanism where those than can afford to fund aged care themselves do pay, and also that it does not create a universal benefit for all retirees as many do not have sufficient assets to invest. There will need to be an education program and supports for retirees to navigate the benefits.

It may alleviate the risk to older women at risk of homelessness where they do not have sufficient earning capacity on the pension to afford mortgage repayments. They are subsequently forced to divest properties with the remaining equity converted to cash which eliminates their pension entitlements, until that money is spent. Under this model the cash realised could be preserved in superannuation amounts and pension entitlements retained.
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In the same way as a separate account is set up in a superannuation fund for lump sum amounts, an aged care superannuation accumulation account would be established with the funds invested preserved for the purpose of funding aged care accommodation and care in the future. If the funds are drawn down for any other purpose, the investment income would be taxed as income in the hands of the taxpayer. Drawdowns would only be permitted for hardship, similar to existing legislation, until after reaching the retirement age. After reaching retirement age, the funds would not be considered part of the assets test in the same way as the family home is exempt, allowing the retiree to retain pensions, healthcare cards and other benefits.

The concept of attributing an additional voluntary payment over and above the superannuation guarantee will require changes to superannuation’s Concessional Contribution Caps from the current limit of $25,000. Table 1 shows the effects of adding additional amounts to superannuation over a 40 year period, in contribution increments of $1,000. The rate used for this is the long term average superannuation fund growth rate of 8.3%.

This payment would be treated as an additional salary sacrifice amount over and above the current thresholds ( notwithstanding other measures considered in this report). It would be treated in the same way, except it would be quarantined in a separate fund for the purposes of funding aged care accommodation and care in the future. A suitable cap needs to be established by actuarial calculation.

This will allow future retirees to more effectively plan their ageing and provides all workers an incentive and opportunity to self-fund their aged care needs after retirement. It provides benefits in providing more innovation and opportunity to plan their self-funded retirement, and a degree of choice and control over their long term investment strategy and preserves some of their yearly income to meet their aged care needs. To access the funds for aged care accommodation and services they would be disbursed from the aged care super account to approved providers in accordance with approved care plans. This initiative provides an incentive for workers to save for their care through the taxation benefits.

It is unlikely that younger Australians would take up the option until that point in time that retirement becomes a reality. The availability of the First Home Super Savers Scheme would suggest any saving would be invested in this initiative ahead of an aged care super accumulation account.

Providers would not be expected to pay this as an increase in the Superannuation Guarantee, it would be self-funded by the worker. There may be an incremental burden for the provider in the administration related to making the payments to superannuation funds.

The Government would have to fund this as there would be a reduction in revenues collected for the federal budget, from tax payable by employees who take up the benefits throughout their careers. Once retired however, there will be less required to fund the aged care services. This deferred benefit will take some time to realise.

The Community would benefit from an increased realisation that people will save to self-fund and lessen the funding requirement from the “public purse”. Where savings are only sufficient to meet part of the costs, the safety net would contribute to ensure essential care services are delivered. There is a belief that an education program is required to improve the overall financial literacy of the community.
Negative mortgage

There are a number of negative mortgage products offered by banks that allow consumers to draw down the equity in their homes. They are not widely promoted as banks do not wish to be put in a position where they are required to call the mortgages in, and potentially recover debts from the infirmed or deceased estates.

Understandably, after the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry\textsuperscript{25} banks are reluctant to enter into any debt arrangements that could paint them in a poor light. It has therefore been suggested that a loan scheme similar in nature to the Higher Education Loan Program\textsuperscript{26} be developed for the aged care sector so that the elderly could draw down the equity in their homes for use in aged care accommodation and care.

Retirees benefit from freeing up equity in their houses without having to liquidate the asset. There could still be an issue with retirees and families feeling that they worked hard to pay for their house and paid tax all of their lives, and now having to pay back the debt incurred in the receipt of aged care and accommodation. It could be seen as another form of the Pension Loan Scheme\textsuperscript{27}.

Governments take a risk on recovery and also the optix of exercising their rights to recover debts under the scheme\textsuperscript{27}.

Aged Care Super Accounts – Lump sum / accumulation contributions for all health needs

The concept of either a lump sum or accumulation super account held for the purposes of self-funding aged care accommodation and care, held a high level of appeal with workshop attendees. Alongside this was a belief that it could be extended to be applied for all health services as we near death. This would work with existing safety nets across aged care, health in the public system, and supporting private health insurance.

Retirees would benefit by having a source of funds to meet gap payments\textsuperscript{28} on health services, particularly larger costs rising from hospitalisation, surgery or extend stays for care. They may be able to fund some aspects of their current care that is met by the public system.

The Government would have to fund this as there would be a reduction in revenues collected from the federal budget, from tax payable by employees who take up the benefits of either the lump sum or accumulation opportunity. Once retired however, there will be less required to fund the aged care and health services. This deferred benefit will take some time to realise.

\textsuperscript{26} The Department of Education Skills and Employment. \url{https://www.education.gov.au/increased-higher-education-loan-program-loan-limit-some-aviation-courses}
\textsuperscript{27} Department of Social Services. \url{https://guides.dss.gov.au/guide-social-security-law/}
Uncap income tested fees – annual and lifetime

The myagedcare website describes the "Income Tested Fee" as an amount payable for your aged care services if your income exceeds certain limits.

The means-tested care fee is an ongoing fee that you pay towards the cost of your personal and clinical care. Personal care can include help with bathing, dressing, grooming, and going to the toilet. Clinical care can include services like specialised nursing services, medication assistance, or catheter care.

There are annual and lifetime caps that apply to the:

- income-tested care fee for people who commenced receiving home care after 1 July 2014.
- means-tested care fee for people who entered an aged care home after 1 July 2014.

If the consumer has not already reached the cap when it is indexed, then the new indexed cap will apply. Once the cap is reached, the consumer cannot be asked to pay any more income-tested or means-tested care fee until the next anniversary of when they first started receiving aged care. The service provider can still ask the consumer to pay the basic daily fee, accommodation costs and any other fees outlined in the care agreement. The maximum income-tested care fee and means-tested care fee a consumer can be asked to pay in your lifetime is $66,610.90.

Any income-tested care fee paid while the consumer is in home care will also be counted towards the annual and lifetime cap if they move into an aged care home. This cap is indexed on 20 March and 20 September every year.

Providers will receive less income once caps are reached for delivering the same services. Currently this creates an inequity in the funding model that “averages” the care given to all residents or people in care. Depending on the mix of care recipients this can create lumpy income and uncertainty of care funding.

Removing the caps will provide a benefit to providers in creating certainty and lift the funding available to support better care outcomes for care recipients. Consumers of services will benefit from the higher average funding received by providers and directed towards better care.

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Provider stimulus

While all of the initiatives and opportunities described in this report will ultimately provide some benefit for the providers of aged care accommodation and services, they will also benefit consumers of these services as more funds will be available to deliver more care. Here we analyse initiatives that will directly benefit providers, incentivising them to deliver better quality services.

Creating an aged care education rebate for providers

**Consumers** would benefit from enhanced care services. The community would benefit from knowing that providers are investing in development of the workforce for the direct benefit of the elderly.

**Providers** would benefit by reducing the burden they experience to find money to support workforce development, something that is increasingly more difficult in the current financial climate. There would be an additional cost of oversight while graduates and workers with increased capabilities adapted to their new responsibilities. Consideration needs to be given to attracting younger clinicians seeking to make aged care a career choice who are adequately supported to develop the right skills to do so.

**Workers** would benefit from the additional training and education and the opportunity for career progression. The Higher Education Loan Scheme could play a part in tertiary qualifications, although the significant cost (of say a Degree in Nursing) and subsequent HELP repayment, remains an impediment for many.

**The Government** would have to fund this as an investment, adding to budget outlays, however tax collections would incrementally increase as higher qualifications were gained by the workforce leading to increased productivity and higher wages being paid.

Payroll tax exemptions

The removal of payroll tax exemptions that applied to for-profit aged care providers in 2014 created a significant debate in the sector. At the time, publicly listed for-profit providers were making profits in line with market and investor expectations and governments made the decision to remove the exemption.25

Fast forward to 2020 with increasing financial stress on the sector, difficulties in attracting and retaining workforce, increasing workforce competition from other sectors, including disability services, and the disparity that resulted in differentiating for-profit and not-for-profit enterprises, and restoring the exemption for all providers may be warranted.

There is an increasing view that a level playing field for the workforce will attract more workers to the industry. The re-introduction of payroll tax exemptions would certainly stimulate more interest and provide a vehicle for further investment in workforce attraction. The removal of the payroll tax exemption could be linked to increased training and education.

This will directly benefit for-profit providers in the industry and indirectly not-for-profits providers as they reap the benefits of a larger pool of trained and qualified workers.

State governments would have to agree and endorse the process as payroll tax is a state based tax. Alternatively the Commonwealth could restate their payroll tax rebate schemes for all aged care service providers.
Industry rationalisation

The sector is experiencing significant financial uncertainty with many providers reporting losses and many also reporting negative cash flows. With 3,000 approved providers in Australia across 9,000 services, that include residential care (873), home care (928), flexible care (119) and Commonwealth Home Support Programme (CHSP) (1,458) there is a real concern that market failures will take place. There are examples in the market where enterprise value has been eroded beyond the point that the organisations can be saved through a structured divestment process, there is a reluctance to acquire the businesses. Some assets are already coming onto the market, however the fear remains that many will hold on too long. This raises the question as to how to incentivise organisations to exit the sector before enterprise value is eroded and directors and officers liabilities are realised.

Industry rationalisation

There are some real sensitivities around the concept of, and the need for, rationalisation in the aged care sector. Some operators think that it will be focused on removing smaller operators, however that is not the intention. It is about creating lifelines for providers.

There may be a need to break up a larger provider that is unable to meet community and regulatory expectations for quality and safety of services. Smaller operators may merge to form larger entities within a regional market. Some less viable operators may feel that being part of a larger entity will give them access to better resources, more training and stronger governance.

What is less desirable are providers failing in smaller communities where they may be the largest employer in the region, and where the facilities are unlikely to ever re-open. These market failures would be painful for communities, families and the elderly being served.

There is further analysis on rationalisation in ‘A mode for transformation and governance - the redesign of the aged care sector’.

Reconsidering the application of transfer duties to incentivise rationalisation

One of the disincentives for purchasers of assets is the payment of stamp duties, otherwise known as transfer duties. In most States not-for-profit organisations can request an exemption from the Government for paying it. As a tax that was introduced in 1694 to raise money for the English war against France, it has enjoyed a long life, however does it remain relevant in today’s society and particularly where there seems to be a particular need for rationalisation of this industry?

Stamp duties are typically established by State governments in stepped scales. In Queensland, for example, the highest transfer duty rate is 5.75% for transactions above $1,000,000.

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Exemption from transfer duties on businesses

While it is attractive for transfer duties on land to be removed, it is more attractive for the transfer of an aged care business to be exempt from transfer duties. This will create a far larger incentive for providers to exit with dignity and make it easier to find exit solutions that align with their entity’s purpose. This will make assets more attractive from a purchaser’s perspective. Acquisitive providers will increase and create a larger market for assets.

State governments would meet the cost as this is a State tax. It would take time to negotiate a national approach with all States and Territories, to ensure consistency of application.

If the States don’t agree, the Federal Government could establish a duties rebate scheme where providers are repaid for any duties incurred at the State level. This would also ensure that there is consistency of rate and approach between States. There may be a need to ensure that residential care is fundamentally, a social housing service for the elderly.

Exemption from transfer duties on land for approved aged care developments

A reduction in transfer duties on land will reduce the overall cost to develop aged care facilities, and improve the feasibility. The benefits are likely to accrue more broadly to the for-profit sector as States generally offer exemptions for the not-for-profit sector. There is a question of timing – was the development approved in advance of the land being purchased, or did the land get purchased prior to the development being approved? In the latter case the duty may need to be reimbursed. This may make it easier for providers who are experiencing distress to divest surplus land holding to assist in survival strategies.

For-profit providers will get a benefit for the reduced cost of development.

State governments would meet the cost as this is a State tax. It would take time to negotiate a National approach with all States and Territories, to ensure consistency of application.

If States don’t agree, the Federal Government could establish a duties rebate scheme where providers are repaid for any duties incurred at the State level. This would also ensure that there is consistency of rate and approach between States. There may be a need to ensure that residential care is fundamentally, a social housing service for the elderly.

Safety net for equity shortfall on transfer of account assets

A key consideration for the vendors of aged care assets, is protection from liabilities, if they dispose of an asset and the legal entity has a negative enterprise value. The Federal Government already has a safety mechanism that guarantees refundable accommodation deposits (RADs)38. In an insolvency event, where the guarantee is required to be used to repay RADs this may have the effect of transferring the liability from the resident (or their estate / family) to the Commonwealth. In any event residual liabilities can trigger insolvent trading provisions. It would be useful for the guarantee to be extended to vendors of distressed aged care assets to encourage these vendors to seek suitable purchasers and exit the sector. This may be particularly relevant in rural, remote and very remote settings.

It would also be beneficial to extend no or low interest loans to purchasers for their working capital requirements to “reboot” the businesses they take on.
CGT Relief on transfer of aged care assets

In certain instances the sale of capital assets, such as aged care facilities, can give rise to capital gains tax for the vendor upon disposal and will often form part of the decision making process of vendors in deciding whether to dispose of the asset.

The capital gains tax legislation can be complicated and different asset sales will give rise to different obligations in relation to capital gains tax depending on the circumstances and structure of the vendor.

The implementation of a capital tax exemption for aged care assets could give rise to a number of benefits and ultimately lead to a clearer pathway for both vendors and purchasers of aged care assets. Some of the impacts could be:

- One less decision point for vendors in relation to the disposal of an aged care facility where a vendor strategically or operationally wants to exit the market.
- Tax relief for for-profit entities and therefore increased appetite to sell.
- Increased market activity through greater level of participants in the market place which will give improved conditions for a vendor to exit.

Whilst it is acknowledged that not-for-profits are largely exempt from tax, and therefore capital gains tax, the greater market opportunities could give rise to a benefit for not-for-profits.

All assets that have been acquired since tax on capital gains started (on 20 September 1985) are subject to CGT unless specifically excluded.

Not-for-profit entities are excluded from paying capital gains tax, however they are not immune from the benefit that would arise from providing CGT relief on the sale of aged care asset, particularly if they are acquiring a for-profit entity, or asset held by a for-profit entity that has a capital gain.

Relief from CGT will incentivise for-profit vendors to exit the industry, particularly if their operations are marginal. Many assets, especially land and buildings have appreciated in value of the last 20 years (the average age of a residential care facility is estimated at 27 year. Notwithstanding the offset of liabilities and particularly RADs, the underlying assets are likely to have appreciated significantly. Boards and executives are realistically concerned about leaving behind a CGT liability if they divest these assets.

Acquiring providers benefit from CGT relief in that the for-profit assets being transacted will potentially be cheaper to acquire. Divesting Providers benefit by not crystallising a CGT liability on disposal that may not be able to be paid once cash flows from operations are transferred with the disposal.
The redesign of the aged care sector in Australia

Investment stimulus

The concept of investment stimulus is predicated in increasing demand for the development of residential aged care facilities.

Current forecasts have been developed by the Aged Care Financing Authority in its Seventh Annual Report published in July 2019. "Using only the current target provision ratio to project the future supply of residential aged care, and not taking into account the impact of increased home care on the demand for residential care, the sector would need to build over 88,000 places over the next decade. At the same time, the sector would need to rebuild or refurbish a substantial proportion of the current stock of aged care facilities. It is assumed that over the next decade around a quarter of the existing stock of buildings, covering around 54,000 places, would need to be rebuilt or refurbished (at an even rate over the period)."

This would indicate a demand of new residential places of 8,800 per annum over the next ten years and rebuilding and refurbishing them at a rate of 5,400 over the same period.

There has been significant discussion about this forecast demand with the majority of providers believing it’s significantly overstated. The view is that increasing home care and family care, will reduce this forecast demand. Further media coverage and the reporting of the Royal Commission into Aged Care Quality and Safety has been harmful on the community’s perception of all aged care providers, exacerbating the effect.

Further, with diminished financial performance, reduced occupancies, increased regulatory burden resulting in higher costs of doing business, and heightened uncertainty over the outcomes from the Royal Commission, capital for investment is shrinking. Even if demand were validated, the ability of the sector to respond in any timely way is limited.

Investment stimulus is about how to get additional funds into the sector and to somewhat remediate the idea that only the for-profit sector can raise capital for developments. Incentives need to be developed to allow future planning and long term commitment to develop new facilities.
Capital investment bonds

Capital investment bonds are a mechanism to bring new capital to the sector where traditional debt lenders are reluctant to invest. They are a vehicle for attracting private capital through a financial relationship between the investor and the approved provider developer.

**Government’s role**
The Government may or may not be involved, depending on the terms of bond established between the provider and the investor, however it is anticipated that there would be a fixed return component and a variable return component dependent on the achievement of agreed outcomes.

Individuals and organisations can claim a tax deduction for an investment into a capital investment bond, issued by the approved provider and to be used for capital development. The bond holder pays a fixed “dividend” and the Government may pay an additional amount based on performance against specified criteria. The return of the invested capital, either in a lump sum or instalments, becomes taxable in the hands of the investor at the time it is received. Income paid on the bond throughout its life is taxed in the normal way.

The benefit for the investor is that they can smooth out lumpy incomes and manage their tax affairs over time. It is likely they would receive a greater investment return than if they left the money in the bank. They may just be content to have a long term yield. There is a view that there is a large block of funds available in the hands of investors for this type of product to work. The investor will need to plan and manage future tax liabilities that arise from these arrangements. The benefits would only be available for investments with approved providers.

**Other uses of capital investment bonds**
Capital investment bonds can be used for a large range of investment needs such as social housing, care hotels infrastructure required for home care, and other initiatives. Could it be used for technology investments?

The benefit for the provider is that it is able to attract new capital to the sector, and may be able to avoid more onerous conditions from traditional debt lenders. Developments may be fast-tracked as a result of capital being available more quickly and the financial and legal relationship more personal and direct. With providers reporting reduced RADs to fund developments, this may be a viable alternative. This may be part of a larger financial strategy by individual providers to reframe their balance sheets.

There is a need for government to address a perceived policy gap to allow this type of investment. It may add complexity for smaller providers and not be attractive to them. The bond itself will need legal and financial mechanisms to monitor performance on both the investor and provider side.

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Social impact bonds

Social impact bonds could be readily adapted to funding aged care services and supporting services. To develop meaningful social impact bonds an organisation needs to understand its impact on the particular problem being solved. This becomes a vital task at the enterprise level, and also the program or project level, as it is used to determine the investment return on the bond. Several Australian governments have been using social impact bonds for social programs, although they are open to many investors.

Other uses of social impact bonds

Social impact bonds can be used for a large range of investment needs such as social housing, care hotels infrastructure required for home care, and other initiatives. They could also be used for innovative technology investments?

Impact Investing Australia says: “Impact investing is a growing field of investment that is helping to finance solutions to many of society’s most pressing challenges. Impact investments are investments made into organisations, projects or funds with the intention of generating measurable social and environmental outcomes, alongside a financial return. Impact investments are different from grants because a financial return is expected, and different from mainstream finance because measurable social and environmental benefits are expected. Impact investing is a response to the growing awareness that the challenges facing society are too large and complex to be solved by government, philanthropy and not-for-profit organisations alone. Impact investing expands the total pool of funds we have available for social and environmental purposes; it encourages innovative approaches to solving old problems and brings greater accountability for the outcomes achieved.”

The current COVID-19 environment has brought this into sharp focus as many hospitals seek assistance from older care facilities to house older patients during the crisis. Many are relocating patients to permanent or respite care shifting the burden of care to the provider.

In aged care one example is the development of community based wellness centres that target at risk local older people for prevention and re-ablement services. Referral would be through GPs, Allied Health Professionals, and Home Care / CHSP providers. There are many other services that would benefit from this approach, however our focus here is on the aged care sector.
Consumers benefit in that innovative social programs can be launched where in other circumstances they would not proceed. Wellness centres may delay entry into residential care facilities and / or hospitals for many who access prevention services. Those that access re-ablement services may return home rather than become entrenched in the residential care setting.

To incentivise residential care facilities to re-able respite restorative care residents, an incentive needs to be devised that renumerates them for this. Currently RACFs are rewarded for keeping these residents as long as possible.

Investors will likely receive a higher return than current investment options, and particularly where the outcomes are achieved, and the kudos of meeting necessary social services. These vehicles also allow investors to meet their own defined corporate social responsibilities.

Cost of a hospital bed
Reported rates vary significantly depending on the State and the hospital, however AIHW reports a minimum of $1,000 per bed per day for same day admissions in 2011. Once complex medical services are added this cost ranges up to approximately $11,000 per bed per day.

The return on the social impact bond would be paid by governments who receive a significant benefit in not having this cohort in expensive hospital beds.

When thinking about wellness centres as an example, the benefit for the provider for accepting a social impact bond investment is that the provider is able to attract new capital, and may be able to avoid more onerous conditions from traditional debt lenders. The costs of that capital are tied to the social outcomes that are agreed between the investor and the provider. These types of investments would operate more transparently, effectively and efficiently in the presence of an integrated aged care model where transitions between current silos are broken down and operate seamlessly.

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**Consumers**

**Investors**

**Cost of a hospital bed**

**The return on the social impact bond would be paid by governments who receive a significant benefit in not having this cohort in expensive hospital beds.**

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Waiving local authority development charges and standardising processes

Discussions with providers revealed widely divergent experiences when it comes to local authority development charges and processes. The fortunate few, have development projects in Council areas, where there are exemptions for aged care facilities, where the aged care sector is well understood, with clear town plans and timely approvals. This is not always the case and the inconsistency across all local authorities requires investments in town planners, architects, engineers and other professionals to navigate sometimes complex politicised systems. In the worst case scenario significant delays in initiating developments, high costs of consultants and uncertainty over approval outcomes has seen projects abandoned or simply not proceeded with.

Local authorities have the responsibility for their local town plans and the processes they require to see a development through to completion. State governments provide the frameworks that guide the local planning activities. For example, in Queensland the Department of State Development, Manufacturing, Infrastructure and Planning has the responsibility for the Queensland Planning System\(^4\). The Brisbane City Council has given a clear mandate to reduce infrastructure charges for retirement villages and aged care facilities, to help stimulate investment in these assets\(^5\). Other councils do not.

In order to stimulate investment across the sector and throughout Australia, the approach to charging or not charging infrastructure or development charges needs to be consistent. The States have the ability to mandate a reduction or removal of these charges through their planning frameworks. This needs to be done with a sense of urgency to stimulate the investments required to meet the looming demand\(^6\). Ultimately waiving these charges altogether will make a reasonable difference to the feasibility of many of these projects.

Further, the development application and approval processes are inconsistent and decision making can be a haphazard affair; yet the necessary steps in the process are the same. Appeal processes take ages and legal actions are dependent on court availabilities adding to the delays. State governments need to standardise the planning application and approval processes through local authorities, and provide clear timeframes for the necessary steps. This would include the appeal processes. There has been plenty of work done on this already\(^7\), however results do not seem to be consistently applied. State governments will need to step in and add this to their planning frameworks.

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\(^4\) DSDMIP. (2020) Queensland’s Planning System. [https://planning.dsdmp.qld.gov.au/]


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Consumers in local communities will benefit from getting access to infrastructure more quickly. Communities will benefit from the economic impacts of the developments and subsequent operations of facilities including employment opportunities.

Consumers of aged care services will benefit from their ability to access services constructed with contemporary design principles.

Providers will benefit from the increased certainty over development costs and timelines, stimulating more investment. Project feasibilities will improve.

Local governments will benefit from increased certainty (although the increased accountability might put more pressure on resources) and the ability to access rateable businesses more quickly.
Extension of development charge exemption to other development costs including support for consulting fees

Further to the call to reduce development and infrastructure charges and standardise the development application and approvals processes is the need to standardise the technical requirements from developers in the process. Providers are reporting that they currently engage specific consultants, for example, architects, engineers from local jurisdictions in order to interpret and understand local variations to planning and development requirements. The introduction of standardised “residential aged care facility” design requirements, would ensure that consultants costs are kept to a minimum and providers can access standardised design guides to build their facilities.

At the moment some local authorities are stimulating the development of residential aged care services by waiving or reducing the cost for developers to develop land and build the facilities.

The issue with how local authorities treat development charges in aged care is that it is not consistent across all jurisdictions [usually larger councils that can afford to do it] leading to disincentives for providers to develop services where they may be needed.

There are other costs that are required in the development of facilities and the sector needs support to meet the costs of consultants such as architects and engineers. Providers are reporting that these costs are growing and becoming a larger part of the overall project costs.

**Consumers** in local communities will benefit from getting access to infrastructure more quickly. Communities will benefit from the economic impacts of the developments and subsequent operations of facilities including employment opportunities.

**Consumers** of aged care services will benefit from their ability to access services constructed with contemporary design principles.

**Providers** would benefit from reduced consultants charges for their planned developments.

**Local governments** would benefit as there would be clear guidelines for project evaluation in the approval process and a bank of issues and concerns would soon build up across all local authorities that would be shared to provide insights into how they were resolved. Over time contentious issues would be reduced significantly. This would also encourage standardisation and adoption of universal access principals.
Notwithstanding the recommendations from the Royal Commission, there needs to be a recognition that funding will increase to meet community expectations of providers delivering aged care accommodation and services.

There are a number of ways that revenue can be raised by governments to cover the increased investment required for aged care into the future. The chosen mechanism, or cluster or mechanisms, will need to be flexible to accommodate changes in demand from time to time, have longevity, that is, to be a sustainable model that will fund the changing demographic of Australia’s ageing population into the middle of this century and potentially beyond, deliver clear unequivocal certainty to providers so that they can plan and develop long term investments with confidence, and with the reasonable expectation that investment returns will be guaranteed, and above all guarantee the quality and safety of services to the elderly. The funding package will need to clearly demonstrate that providers can meet or exceed the expectations of the Australian community now and into the future.
Universal aged care levy

There is a high level of attraction in implementing a universal aged care levy to fund the changes that will be required to transition the sector in accordance with the recommendation of the Royal Commission and the subsequent response from government.

A levy is simple, it is clear and it will increase certainty for consumers, providers and the Government for funding aged care over the longer term, if the levy is permanent. Levies by their very nature are not designed to be permanent. They are usually for a specific purpose or to cover particular unanticipated budget cost. In recent times we have had the flood levy, the gun buy back levy, the dairy levy, and others. These have come and gone when the need expired. The only levy that has been in existence for a great length of time is the Medicare levy\(^5\). Medicare has been in existence since 1975 (under the name Medibank) which was a universal health scheme set up by the Whitlam Government. It has been through a number of iterations to become the publicly funded universal health insurance scheme in Australia\(^5\).

The use of a levy is a fair and equitable system for all, however there will need to be some consideration at what level of income, it becomes payable by the taxpayer (a safety net for lower income workers). The existing taxation system will ensure that administration of the levy, including collection remains simple. It will be more palatable for the community than a tax rate increase and more politically acceptable for governments.

There is a concern that the rate will need to adjusted, and readjusted, periodically to meet the increasing proportion of the population requiring aged care accommodation and services, relative to the number of workers paying tax. There are currently five people of working age to support each person aged 65 years and over, compared to 7.5 working aged people per aged person in 1970. This is projected to fall further, with only 2.7 people of working age to support each Australian aged 65 years and over by 2050.\(^6\) The use of an aged care levy needs to be considered in light of this trend.

Providers have a concern that a specific aged care levy, in the context of the Royal Commission’s interim report\(^5\), and possibly the final report which we are yet to see, will create a perception in the broader community that they are having to pay for the failures of a few providers. A negative perception and link between an aged care levy and this perception may be politically difficult to address.

Secondly, Australia has shown that it doesn’t value older Australians as other societies do. Our society is guilty of age discrimination and elder abuse, and a universal levy might bring this to light. Thirdly, taxation levies are usually relatively short in duration. For an aged care levy to be successful, as the only funding measure used, it would have to have a life in excess of the current Medicare levy.

Younger Australians will have to come to terms with paying for aged care when they won’t receive benefits for years to come. As is the case with the health industry and Medicare, the community will need to understand that for-profit providers are entitled to make returns on their investment in the sector, distributing some of the profits to shareholders. This cannot be an impediment to the appropriate use of this mechanism.

The introduction of an aged care levy will require the bi-partisan support, the support of Treasury and the Department of Finance.

An alternative is to use an aged care levy to support the transformation of the industry from its current state to the future state where a long term sustainable funding model is developed and implemented.\(^5\)
Using Medicare concepts to support the sector

There are certain aspects of the Medicare system that are appealing to providers of aged care accommodation and services. First and foremost Medicare is a universal publicly funded health care insurance scheme.

"Medicare is Australia’s universal health insurance scheme. It guarantees all Australians (and some overseas visitors) access to a wide range of health and hospital services at low or no cost."

The scheme operates by defining medical services in the “Medical Benefits Schedule (MBS)” and allowing providers to draw on the schedule at the time the services are provided. There is a clear link between the service being provided and the payment of the fee for that service. Consumers are often asked to pay out of pocket expenses and/or the gap between prices charged by service providers and the scheduled benefit. There is an argument that in a universal health system this could be extended to services provided to Australians as they age rather than have a separate “aged care system”. Of course there are services that are delivered to the elderly, that are not medical in nature (think social supports), that technically do not fit within the ambit of healthcare.

For Medicare to be used in this way one of two things would need to happen. Firstly, the definition of Medicare would be expanded to allow for non-medical services to be included in the MBS (or perhaps a new schedule alongside the MBS) or secondly, a parallel system be established to incorporate services provided for CHSP, HCP and residential care, that allows the services to be claimed in the same way as medical services, effectively a duplication of the systems and processes for the aged care system.

The second aspect of Medicare that would benefit the aged care sector, is that it is an efficient payments system. Services can be claimed and paid at the point of sale through the Medicare card, with refunds being applied almost immediately.

Rebates for services provided would be available immediately. If the use of a Medicare styled aged care system were paired with needs based care services (rather than packages) the Medicare system could easily manage and report expenditure against the assessed need.

Consumers of services would benefit as they would not be required to manage, or arrange the management of care services, their administrative burden would be less.

There would be an enhanced benefit for consumers who choose approved providers who “bulk bill”, that is providers who claim the available insurance rebate and do not ask a co-contribution from the consumer.

The Government would benefit as it would be able to see, with great clarity, the services that are being consumed by both individuals and the entire cohort, giving it meaningful data to future plan health serve demand and also budget expenditure. Current unspent funds held against home care packages would remain in the system for use immediately.

Approved assessors, with the appropriate qualifications and expertise would provide a detailed care plan with the item numbers listed as a “prescription” for consumers to purchase, and the system to pay. This assessment process would form part of the funded expenditure in the needs assessment and be paid through the same mechanism. This would eliminate the need for Aged Care Assessment Teams (ACAT) and Regional Assessment Services as we know them, or at least have them funded on a unit price basis as with other aged care services.

This could be seen as an aged care version of the current NDIS model. Some of the current problems being reported by consumers and providers in the NDIS will need to be addressed. While there are certainly similarities, this would be more strongly modelled on Medicare, rather than the NDIS. Further, the relationship with private health insurance would require consideration. Certainly this would broach certain inequities by having two systems funding different aspects of care for individuals.

"Given the essential demographic phenomenon of our time, the rapid ageing of the population, our findings lend increased urgency to understanding and addressing the interaction between ageing and health care spending.

Personal health expenditure also rises sharply with age within the Medicare (US) population. The oldest group (85+) consumes three times as much health care per person as those 65–74, and twice as much as those 75–84 (Fuchs 1998)."
GST reform

Goods and services tax (GST) is a broad-based tax of 10% on most goods, services and other items sold or consumed in Australia. Generally, businesses and other organisations registered for GST will include GST in the price they charge for their goods and services and claim credits for the GST included in the price of goods and services they buy for their business. Most basic foods, some education courses and some medical, health and care products and services are GST free, that is, GST applies to these at the rate of 0%. The tax was introduced by the Howard Government and commenced on 1 July 2000, replacing the previous Federal wholesale sales tax system and designed to phase out a number of various State and Territory government taxes, duties and levies such as banking taxes and stamp duty. The GST pool raised by the Commonwealth totalled $68.1b in 2018-19 of which, $66.6b was distributed to States in 2018-19.

In line with the Council of Australian Governments (COAG) arrangements for GST, the money raised by the Commonwealth is used to compensate states for giving up state based taxes such as sales tax, and other taxes. For any funds to be diverted from raising the GST rate or extending GST to all supply (those goods and services currently GST-free, as well as possibly those that are exempt from GST) the States would have to agree to the proposal.

Rate reform

Increasing the rate of GST from 10% to a higher rate would generate substantial additional revenue. For example, the current GST rate in New Zealand is 15%. This is still substantially lower than the corresponding rates in European countries (although much higher than the rates in Asian countries and the Middle East).

Each 1% increase in the GST rate would raise approximately $6.6billion per annum (based on 2018-19 figures above). This amount would continue to increase as a result of increasing consumption of goods and services. An increase by 1% would adequately fund the aged care sectors requirements for the increased in cost of the aged care system to deliver quality and safe aged care services and meet community expectations.

The capture of the revenue aligns with groups who are spending, including the elderly. An increase in the GST rate will require a strong political response and effort by all parties to communicate the benefits to the broader Australian community. State Governments would also have to agree to this.

Consumers and providers benefit from the certainty over the source of funding and the attribution of this money directly to the sector. The benefits to governments are that the systems and processes, including legislation are already in place and little if any additional expenditure would be required to raise the additional revenue.

There is a concern that linking a GST rate increase with the needs of the aged care sector, will raise the question whether it will create a perception that the community is paying for the problems that have been identified by the Royal Commission. A negative perception and link between an increase in the GST rate and this perception may be politically difficult to address.
Extend cover to all supply

Changes to the GST to broaden the base to cover all, or substantially all supplies of goods and services could fund the increased costs of the aged care system to deliver quality and safe aged care services. There is an argument that extending the GST to all currently exempt and GST free supplies will raise as much revenue as changing the rate from 10% to 15%.

“Base broadening versus adjusting the rate?

In this scenario, we have focussed on the desirability of a broad-base and uniform rate for the GST (in combination with a progressive income tax) regardless of the GST’s headline rate. If both the base and rate are in play, the choice set for policy-makers will be broader. A 12.5% GST rate applied to food, health and education, for example, might raise a similar amount of revenue as a 15% GST with no base change. The former option, however, will distort consumption less, be simpler to comply with and administer and, over time, be more sustainable. This last judgement stems from the fact that, since its introduction in July 2000, the GST’s base has gradually narrowed as GST free goods and services have accounted for a growing share of household budgets. Political considerations, however, are likely to support the 15%, no base change approach. Experience from other countries, including the United Kingdom, suggests that rate changes are more likely to be accepted than applying the tax to previously untaxed supplies.”

The capture of the revenue aligns with groups who are spending, including the elderly. An increase in the GST rate will require a strong political response and effort by all parties to communicate the benefits to the broader Australian community. State governments would have to agree. There is a concern that linking a GST base broadening (with or without an increased GST rate) increase with the needs of the aged care sector, will raise the question whether it will create a perception that community is paying for the problems that have been identified by the Royal Commission. A negative perception and link between the broadening of the GST base and this perception may be politically difficult to address.

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The redesign of the aged care sector in Australia...
Conclusion

A multi-faceted approach

Aged care services are delivered in a complex interdependent environment comprised of “wicked problems”. John Camillus said “wicked issues are different because traditional processes can’t resolve them”. The temptation is to develop a “silver bullet” that will solve all issues, however a multi-layered and multifaceted approach will provide a basket of stimulus opportunities (or levers) that can be used at different phases to drive change in different components of the system.

The purpose of researching and publishing ‘Options for the redesign of the aged care sector: An analysis of alternate models of aged care funding’ was to provide the Royal Commission and others with a bundle of initiatives that could be used together to address different aspects of the sector. The use of taxation and superannuation measures as levers to incentivise the behaviors of parts of the system that includes workers, retirees, investors, consumers and providers.

The use of a group of supporting mechanisms rather than a single “big bang” approach addresses the concern that at some point in time tools like an aged care levy will need to be “topped up” as the ratio of workers to people requiring aged care diminishes. Applying a bundle of levers can stimulate different parts of the complex system and de-risk the overall structural change. The approach can better support the use of resources when you effectively connect these resources and stakeholders. It will enable a systematic approach in analysing issues and offering comprehensive solutions for different problems. The increased granularity achieved from the use of a basket of measures will provide more insight for Governments on where money is spent. The focus would clearly be on how each component of the basket of measures contributes to the overall funding of the sector.

A multi-faceted approach is not without its difficulties – it will be more complex. It will be more difficult than a single tool approach and it will take effort and thought to understand the consequences of applying a range of solutions to a complex problem. Cherry picking options may limit other considerations that would be symbiotic and would enhance the whole reform.

Whatever the solution, there needs to be long term measures put in place to allow providers to plan and implement long term investments in facilities and services and give assurance over the funding of aged care. This will include user pays services for those that can afford it. Consumers need to understand the aged care system before they begin to access it, there needs to be a societal education program as described in the ‘Perspectives on the Future of Ageing and Age Services in Australia’.

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The redesign of the aged care sector in Australia
Appendix 1 – VUCA 65

The idea of seeing this situation through the VUCA lens, is helpful. VUCA describes situations that are Volatile, Uncertain, Complex and Ambiguous. The keys to responding in a VUCA environment are identifying and accessing sources of current relevant data, and planning around possible scenarios so that response times for initiatives are minimised. We are seeing this approach emerging from the offices of Commonwealth State Chief Medical Officers.

“These elements (VUCA) present the context in which organizations view their current and future state. They present boundaries for planning and policy management. They come together in ways that either confound decisions or sharpen the capacity to look ahead, plan ahead and move ahead. VUCA sets the stage for managing and leading.

The particular meaning and relevance of VUCA often relates to how people view the conditions under which they make decisions, plan forward, manage risks, foster change and solve problems. In general, the premises of VUCA tend to shape an organization’s capacity to:

• Anticipate the issues that shape.
• Understand the consequences of issues and actions.
• Appreciate the interdependence of variables
• Prepare for alternative realities and challenges.
• Interpret and address relevant opportunities.

For most contemporary organizations – business, the military, education, government and others – VUCA is a practical code for awareness and readiness. Beyond the simple acronym is a body of knowledge that deals with learning models for VUCA preparedness, anticipation, evolution and intervention.”

Complexity

**Characteristics:** The situation has many interconnected parts and variables. Some information is available or can be predicted, but the volume of nature of it can be overwhelming to process.

**Example:** You are doing business in many countries, all with unique regulatory environments, tariffs, and cultural values.

**Approach:** Restructure, bring on or develop specialists, and build up resources adequate to address the complexity.

Volatility

**Characteristics:** The challenge is unexpected or unstable and may be of unknown duration, but it’s not necessarily hard to understand; knowledge about it is often available.

**Example:** Prices fluctuate after a natural disaster takes a supplier off-line.

**Approach:** Build in slack and devote resources to preparedness - for instance, stockpile inventory or overbuy talent. These steps are typically expensive; your investment should match the risk.

Ambiguity

**Characteristics:** Casual relationships are completely unclear. No precedents exist; you face “unknown unknowns.”

**Example:** You decide to move into immature or emerging markets or to launch products outside your core competencies.

**Approach:** Experiment, Understanding cause and effect requires generating hypotheses and testing them. Design your experiments so that lessons learned can be broadly applied.

Uncertainty

**Characteristics:** Despite a lack of other information, the event’s basic cause and effect are known. Change is possible but not given.

**Example:** A competitor’s pending product launch muddies the future of the business and the market.

**Approach:** Invest in information - collect, interpret, and share it. This works best in conjunction with structural changes, such as adding information analysis networks, that can reduce ongoing uncertainty.
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