Catholic Health Australia's response to the

NATIONAL PRODUCTIVITY COMMISSIONS STUDY INTO CONTRIBUTION OF THE NOT FOR PROFIT SECTOR

Catholic Health Australia (CHA) welcomes the opportunity to provide initial comment regarding the *Contribution of the Not for Profit Sector – Issues Paper.*

We ask to be kept informed of the progress of the outcomes of this initial paper and request that CHA be included on the foreshadowed Roundtables.

The following provides a brief outline of Catholic Health Australia and initial comments addressing selected Terms of Reference

Summary Points:

- Catholic Health Australia agrees that as a matter of public policy it would be desirable to have a more complete understanding of the not for profit sector's contribution to Australian society, including improved measurement of this contribution.

- There is a case for the streamlining of reporting and disclosure for not for profit bodies in Australia. Yet reform for reform's sake should not be undertaken - reform should only be pursued when the not for profit sector agrees on the benefits of reform. An understanding of the true contribution made to community by not for profit bodies would be a benefit many would rally behind.

CATHOLIC HEALTH AND AGED SERVICES IN AUSTRALIA

Catholic Health Australia (CHA) represents the largest non-government grouping of not-for-profit health and aged care services in Australia. CHA is a national peak membership organisation representing Catholic health and aged care providers.

Catholic providers comprise the largest non-government grouping of health and aged care services in Australia. Within the CHA membership there are service providers who manage:

- 9,500 beds across 21 public and 54 private health care facilities;
- 550 aged care services comprising 19,000 residential aged care beds,
- 6,000 retirement units, and 14,000 aged care or community care packages.

These services represent more than **13%** of health and aged care services in Australia, and are operated by different bodies of the Catholic Church.
By way of response to the *Contribution of the Not for Profit Sector – Issues Paper* we submit the following in relation the scope of the review.

Comments on Terms of Reference

The Commission is to:
Assess the extent to which the not for profit sector's contributions to Australian society are currently measured, the utility of such measurements and the possible uses of such measurements in helping shape government policy and programs;

Consider alternatives for, or improvements in, such measurements or further quantitative and/or qualitative means of capturing the not for profit sector's full contribution to society;
In relation to this question, the focus should be as much on identifying and agreeing the areas in which NFPs contribute to society, as on agreeing the methodology for measurement of their contribution. For example the not for profit (NFP) aged care sector may provide the bulk of aged care in rural settings -

they go where the private for profits will not go. Anecdotally it is believed that when ACATs come across difficult clients that require accommodation they often contact the NFP first, as the NFPs tend to take on the more difficult client group. In this way the NFP sector provides a contribution to the community. The NFP aged care sector also take on the clients who are classified as more difficult to house and look after generally, such as the homeless alcoholic groups and psycho geriatric clients. The NFP groups also provide pastoral care and bereavement services as part of their mission and values base. In this way they are further contributing the health and well being of the community in which they operate.

It should be noted that any surplus that is gained through the NFP work is to put back into the service, through cross subsidisation, in order to expand the services. For example in the health service delivery area any surplus' produced are used to expand the mission, such as outreach to the homeless and pre and post natal programs for young indigenous women, by way of two examples.

NFPs provide for generation of greater social capital. For example it would be useful to measure the benefits of volunteerism and the links into communities. Our members have the ability to leverage off their not for profit status to engage the support of volunteers to improve the range and quality of their services. This not only extends to supporting the marginalised and the isolated, but also in relation to mainstream services by forging a closer association between the service and the community, thereby adding to the level of local social capital and community welfare. It would be useful to measure the benefits of volunteerism to developing such social capital. The increasingly central role that social capital plays in Australian public policy calls for empirical measures, not necessarily economic ones.

Identify unnecessary burdens or impediments to the efficient and effective operation of community organisations generally, including unnecessary or ineffective regulatory requirements and governance arrangements, while having regard to the need to maintain transparency and accountability;

It is CHAs experience that governance arrangements generally follow the same reporting requirements as under ASIC and state /territory corporations law. However any regulatory changes that may be proposed should make it easier for the sector to operate in, not more difficult.

Consider options for improving the efficient and effective delivery of government funded services by community organisations, including improved funding, contractual and reporting arrangements with government, while having regard to the need for transparency and accountability;

Response to this term of reference is largely dependent upon the size of the NFP in question. There is a great deal of variation across the sector. For example with CHA membership there is no need to change their existing funding, contractual or reporting arrangements as health and aged care operate in a competitive environment and funding and reporting is treated in the same way as for profit funded services with regard to these issues.

Catholic NFP hospitals are also subject to a plethora of duplicated, inconsistent reporting regulations on issues such as safety and quality, costing studies etc. They are required to provide this information to health funds and state and federal governments. This duplication of reporting requirements is inefficient and impedes the ability of the sector to focus on its mission objectives.

Examine the changing nature of relationships between government, business and community organisations in recent times, their general impacts, and opportunities to enhance such relationships to optimise outcomes by the sector and its contribution to society;

There is an issue with "short termism" in the relationship with government. Because NFPs in the health and aged care sectors operate services that require significant capital investment they are dependent upon the whim of government. To avoid this short term thinking CHA would advocate for more accountability from government for the decisions that impact on the viability and continuity of health and aged care services operated by NFPs.

There are increasing pressures applied to Catholic public hospitals by state governments in their dealings with the sector. The recent announcement by the ACT government of its intention to purchase the

Calvary Public Hospital and the tight funding of Catholic public health services is illustrative of this tension between health funders and Catholic providers.

Examine the extent to which tax deductibility influences both decisions to donate and the overall pool of philanthropic funds; and

It is observed that donors do favour NFP groups that attract tax deductibility. This factor does assist with donations and is taken into account when planning for fundraising. It would appear that it is an important factor to continue.

Examine the extent to which tax exemptions accessed by the commercial operations of not-for-profit organisations may affect the competitive neutrality of the market.

In considering this question it is necessary to consider the community wide benefits that the NFP deliver – please see response to the first term of reference. CHA provide two additional comments to this particular term of reference. In relation to commercial operations it should be noted that what may be considered as "commercial operations" may be an integral part of delivering a care service. Secondly CHA believe there is a need to expand out what is often considered under the phrase "competitive neutrality" and question the validity of some of these assumptions.

In relation to existing tax concessions there appears to be at times inconsistent policy rationale applied. The complexity of the current arrangements leads to increased administrative costs and compliance costs. This issue has been previously highlighted in the 2001 *Report of the Inquiry into the Definition of Charities and Related Organisations*

CHA in its budget submission requested government increase and index the Fringe Benefits Tax capping limits for Public and Not-for-Profit Hospital employers to the limit provided for Public Benevolent Institutions at a cost of $93 million in year. A copy of part of this submission can be found at **Attachment 1**. The initiative was proposed because the most challenging issue confronting health and aged care services today is the identification, training, employment of and retention of staff. Australia has too few health professionals. In years ahead this problem will worsen. By proposing this modest cost measure that the Commonwealth can fund will help address the health workforce shortages over the longer term.

Attachment 1

Increase and index the Fringe Benefits Tax capping limit for Public and Not-for Profit Hospital employers

The existing capping limit for Public and Not-for-Profit Hospitals can be increased from $17,000 per annum per employee to $40,000 per annum as a means of providing incentives for employment within public and not-for-profit hospitals.
The existing cap was introduced from 1 April 2000 and has not been increased. This limit has not be increased despite the following statement from the then Treasurer at the time of implementation

The Government has further agreed to review the level of the cap from time to time in the light of general salary movements.[1]
The CPI has increased by 30.3 % in the period June 2000 to June 2008. The Senate Standing Committee on Finance and Public Administration made the following recommendation[2] in June 2008:

The committee recommends that the government consider the appropriate level of the cap on FBT-exempt benefits for NFP sector employees and whether the cap should be indexed to the CPI.
The use of the FBT exemption is a significant tool for hospitals to attract and retain staff. This sector is under extreme pressure and will continue to be under increasing pressure over coming years because of the aging Australian population, skills shortages and changing demographics.

Rationale
The Henry Review has been requested to review the FBT arrangements for hospitals. A report by the Review to the Treasurer is not due until the end of 2009. Any changes or actions are therefore unlikely before mid 2010 at the earliest. It is important that action is taken as soon as possible to increase the existing limit to $40,000 and to maintain this with indexation.
Moreover, the sector is critically short staffed and experiencing considerable skills shortages which can be addressed immediately. One important and proven factor to support the sector is by providing FBT exemptions to employers.

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1 Media Release 022 of 2000 – Treasurer – P Costello - Fringe Benefits Tax: Charities and Non Profit Organisations (http://www.treasurer.gov.au/DisplayDocs.aspx?doc= pressreleases/2000/022.htm&pageID= &min= phc&Year= 2000&D ocType= 0)
2 Inquiry into the Families, Housing, Community Services and Indigenous Affairs and Other Legislation Amendment (2008 Budget and Other Measures) Bill 2008