THE MCKELL INSTITUTE

# MEETING THE SHORTFALL:

## How clubs can provide affordable social services in our communities

# About the McKell Institute

The McKell Institute is an independent, not-for-profit, public policy institute dedicated to developing practical policy ideas and contributing to public debate. The McKell Institute takes its name from New South Wales' wartime Premier and Governor–General of Australia, William McKell.

William McKell made a powerful contribution to both New South Wales and Australian society through significant social, economic and environmental reforms.

**For more information phone (02) 9113 0944 or visit www.mckellinstitute.org.au**

# Background

**This paper was undertaken in association with ClubsNSW to assess the potential for not-for-profit registered clubs to engage more broadly with the social services sector.**

The paper has been prepared with the aim of producing policy proposals which could help facilitate further investment by the clubs industry into the aged care and child care sectors.

The authors of this paper have utilised a range of publicly available information and our own analysis in compiling this paper, along with information provided from several NSW clubs already engaged in the provision of social services.

***ClubsNSW had no part in the direction, analysis or findings contained in this paper.***



# Contents

# Foreword

Australia is entering a period of shifting demographic sands.

As Australia grapples with the challenges of an ageing population, the number of new births is increasing.

Roughly 850 new babies are born every single day, a rate that is 25% higher than one decade ago. This growth in new births is expected to increase, eventually reaching 1260 a day by 2061.

We also know that the over 85 age group is now Australia's fastest growing demographic. Over the next two decades, there will be a 1.5 million increase in the number of Australians aged 85 and above.

The growth in these two demographics will underpin a substantial increase in demand for aged care and child care services. As this occurs, the proportion of working age to non-working age Australians is expected to shrink.

In 1970 there were 7.5 people of working age for every person over the age of 65. By 2010 this had fallen to a ratio of 5 to 1. By 2050 there will only be 2.7 workers to support every individual over the age of 65.

The policy challenge for government will be how it deals with this increase in demand for services at the same time that revenue growth is shrinking.

How are we going to manage the demographic challenges that lie ahead of us?

How are we going to provide high quality services to both our oldest and youngest members of society?

Who will supply the services to meet this bulging demand?

As Government budgets are increasingly strained by changing demographics, new partnerships will need to be forged with the not-for-profit sector in order to meet the demand for affordable and accessible social services.

Clubs sit on the edge of this reservoir of need, dipping their toe in the waters in only a handful of areas.

As not-for-profits with vast amounts of real-estate, a huge workforce and loyal, faithful membership - they are perfectly poised to meet this nascent demand.

In particular, clubs' strong connections with their communities leaves them well placed remain well placed to deliver social services across many of the low income or regional parts of NSW that are currently facing chronic shortages in both aged care and child care.

While some clubs are already engaged in the provision of aged care and child care services, there is strong potential for them to do more. While many clubs are keen to diversify into social services, too many are put off by poor regulation and a tax system that fails to assist with the significant upfront costs of infrastructure development.

This report identifies a number of low-cost policy changes that could be implemented to help facilitate a new wave of investment into social services by the NSW clubs industry.

**The Hon John Watkins**
CHAIR,
MCKELL INSTITUTE

**Sam Crosby**
EXECUTIVE DIRECTOR,
MCKELL INSTITUTE

# Executive summary

There is a considerable body of reporting from government, policy institutes and the private sector that show that Australia's demographic profile will shift substantially over the next 50 years. Of particular interest has been the increasing proportion of Australians who will be aged over 65 in future years.

These bodies have written extensively about the effects of an ageing Australia on its economic output and the consequences for government budgets and policy settings. As the number of senior Australians increase proportionally, Australia's labour force participation rate will contract, which will have implications for economic growth and national income.

This growing fiscal pressure will coincide with increasing demands on the level of government expenditure required to service the ageing population, particularly with regards to health care, aged care costs and pensions.

Spending at current levels, and within contemporary policy settings, will result in a significant structural budget deficit and increasing government debt.

Planning to address this challenge needs to commence now.

Governments need to identify new partners who can offer cost effective business models, particularly in the not-for-profit (NFP) sector, to assist in relieving some of the financial burden from the public purse.

Clubs, as NFP member-based community organisations with significant revenue from hospitality and gaming, already work with governments at all levels and community groups to identify, fund and deliver affordable social services.

As our population ages, Australia's licensed club industry will be well positioned to join with government in delivering affordable aged care solutions, particularly in the seniors living and low care residential space, provided there are appropriate adjustments to regulatory and tax settings.

Policy action taken to support Australia's participation rate will also be critical to countering the fiscal impact of an ageing population. The availability and affordability of child care facilities will be a critical determinant of workforce participation rates as our population ages.

In recognition of this, the Federal Government has instructed that the boosting of participation rates be a primary focus of the Productivity Commission as it completes its *Review of Childcare and Early Childhood Learning.*

As community organisations with strong connections to their local communities, many clubs have the potential to engage with the provision of child care services. Specifically, many clubs are well placed to provide these services to communities that are currently experiencing a shortage of child care services, including low-income and regional areas of NSW.

There are strong demographic drivers behind the forecast growth in demand for both aged care and child care services, though the capacity for government to meet that demand is low.

This paper examines how governments and clubs can work together to meet that demand.

# The New South Wales clubs industry and its connection to our community

According to the 2011 NSW Clubs Census, there are approximately 1471 clubs spread across NSW comprising around 5.7 million members – roughly one membership per NSW adult.

Some of these clubs have more than 100,000 members and generate revenues of more than $60 million per annum, while other venues operate with less than 50 members and produce revenues of less than $20,000 per year. Close to one third of clubs operate with revenues in excess of $1 million per annum.

In 2011, NSW clubs generated approximately $5.0 billion in revenue from which they paid approximately $1.4 billion in taxes. NSW clubs also spent approximately $1.4 billion on wages to employees and contractors and $660 million on capital expenditure.[1]

**SIZE OF CLUBS IN AUSTRALIA BY EGM REVENUE**


SOURCE: 2011 NATIONAL CLUBS CENSUS (2012)

In that same year, NSW clubs made social contributions worth approximately $1.2 billion - including $83 million in cash donations and $24 million on in-kind support - with more spent on contributions that are difficult to quantify such as the provision of courtesy buses, memorial areas, subsidized concerts, low cost meals and programs for seniors.[2]

In that context, the $1.2 billion spent on social contributions represented roughly 24% of total industry revenue, one third of total revenue after tax, or nearly two thirds of total revenue after tax and wages.

In 2011, NSW clubs contributed 0.7% to NSW state GDP - approximately $3.2 billion worth in economic contributions - with registered clubs employing some 41,400 people across the state including 20,000 in regional areas.[3]

Clubs also provide a range of social services to the NSW community including entertainment venues, social sporting clubs, fitness centres, swimming pools, child care facilities and aged care facilities.

In addition to this, some 719 clubs provide bowling greens, 353 offer golf courses, 100 provide tennis facilities and 96 have sporting fields.[4]

As the Principal Partner of the NSW Institute of Sport, ClubsNSW has provided over $1 million each year in sponsorship support annually since 1996, and donated over $17 million in support for five summer Olympic and Paralympic Games, four winter Olympic and Paralympic Games, and four Commonwealth Games campaigns.[5] ClubsNSW has also been a major sponsor of the Special Olympics, the Australian World Dwarf Games, and Icebirds – the Australian Women's Bobsleigh Team.

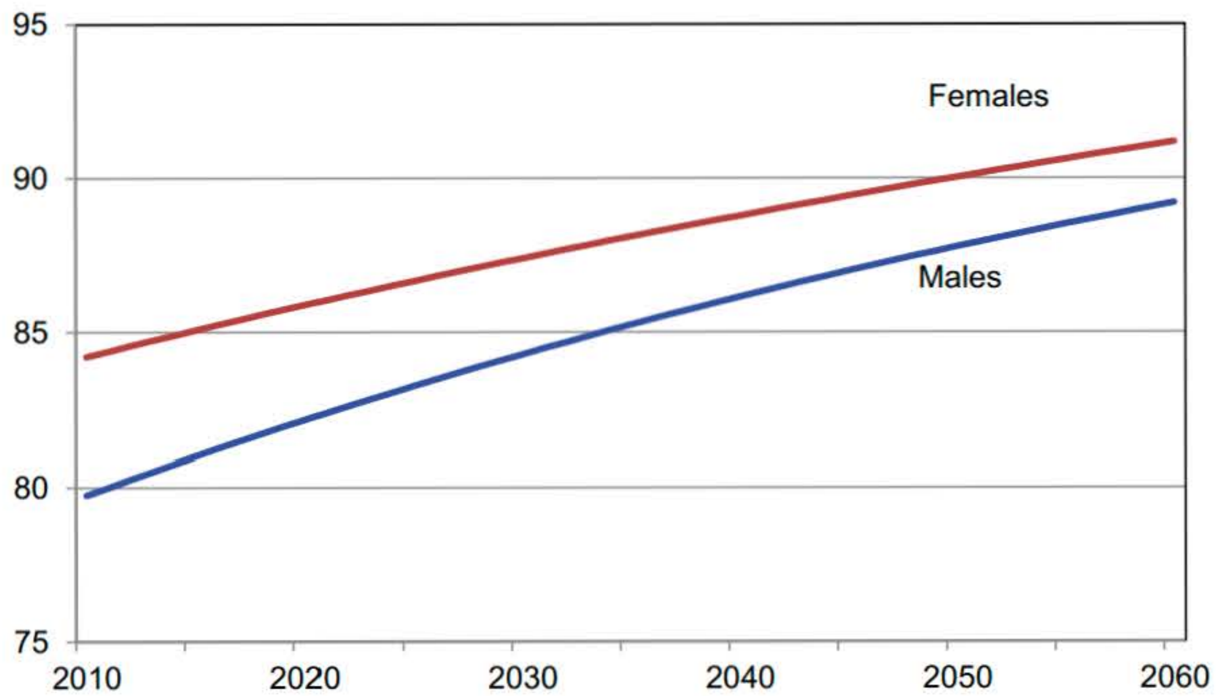
The leagues clubs play a vital role in fostering the sport of Rugby League at all levels in both NSW and Queensland. These clubs provide substantial support in the form of funding, equipment, infrastructure and facilities to more than 400,000 seniors and juniors that play Rugby League in these states. AFL clubs play a similar role in Victoria and South Australia.

Clubs also provide similarly substantial support for a wide range of other sporting activities, including rugby union, soccer, cricket, hockey, netball, swimming, athletics, cycling, tennis, AFL football, and a number of indoor sports.[6]

# Senior Australians are growing in number and living longer

Our population is ageing. A number of different government reports from the Productivity Commission[7], ABS[8], and Federal Treasury[9] all forecast substantial growth in the proportion of Australians living beyond 65 years.

**LIFE EXPECTANCY ESTIMATES**
LEE-CARTER METHOD, 2009-10 TO 2059-60

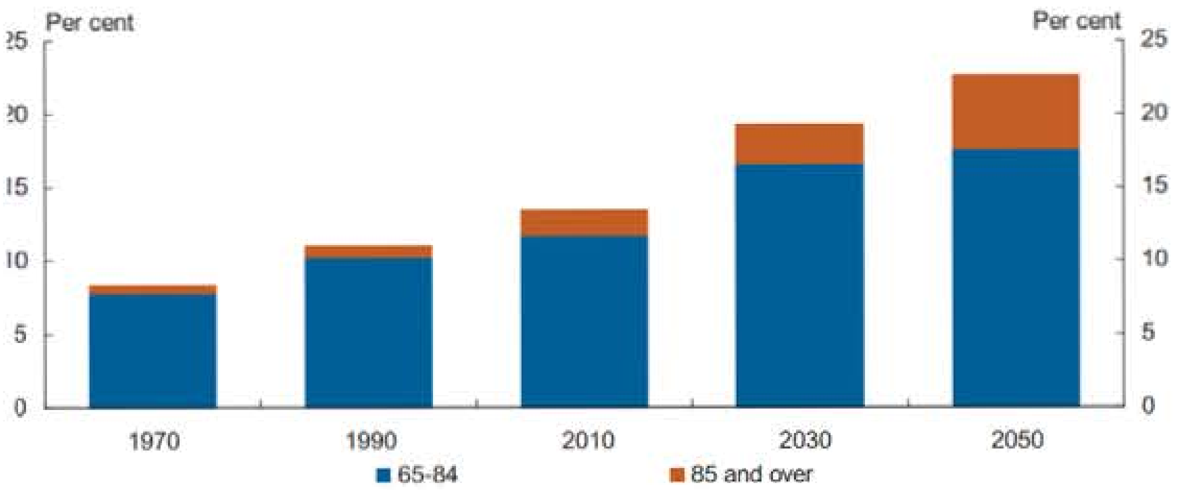



SOURCE: PRODUCTIVITY COMMISSION: AN AGEING AUSTRALIA (2013)

The Productivity Commission estimates that Australia's population is projected to increase to around 38 million by 2059-60, 15.5 million higher than Australia's population in 2012.[10] Capital cities, particularly Sydney and Melbourne, will be the engines of this growth, and significant investment in services will be required to accommodate these increases.

Population ageing will accelerate: the proportion of Australians aged 65 and over will increase from 1 in 7 (2012) to 1 in 4 by 2060.[11] A female born in 2012 can expect to live, on average, 94.4 years. Every year, life expectancy for Australians increases by approximately 3 months.[12]

**AGEING IS A CHALLENGE FOR FUTURE ECONOMIC GROWTH**
– THE PROPORTION OF THE POPULATION AGED OVER 65 IS INCREASING




SOURCE: FEDERAL TREASURY INTERGENERATIONAL REPORT (2010)

By 2060, the number of Australians aged 75 and over will increase by 4 million, and the ratio of the number of newborns compared with the number of people aged 100 and over will shift from 1:100 (2012) to 1:4 (2060).[13]

According to the Australian Bureau of Statistics (ABS), the fastest growing demographic is the 85 years and over age group.[14] In 2012 an estimated 1.8% of the total population - or 42,300 people - fell within the category of Australian residents aged 85 years and over.[15] This category is expected to grow from 1.8% of the population in 2012 to 5% by 2041.[16]

The most recent Intergenerational Report has forecast that the ageing of our population will see the total number of people aged 65 to 84 years more than double between now and 2050, while the number of people aged 85 years and over will more than quadruple.[17]

Currently, three in ten Australians over 85 years have dementia. By 2050, without a medical breakthrough, Alzheimer's Australia estimates around 900,000 Australians could have the disease.[18]

# Our participation rate will fall and the ratio of workers-to-retirees will contract

Australia's ageing population has already begun to impact on our workforce participation rate. In 1970 there were 7.5 people of working age for every person over the age of 65. By 2010 this had fallen to a ratio of 5 to 1.

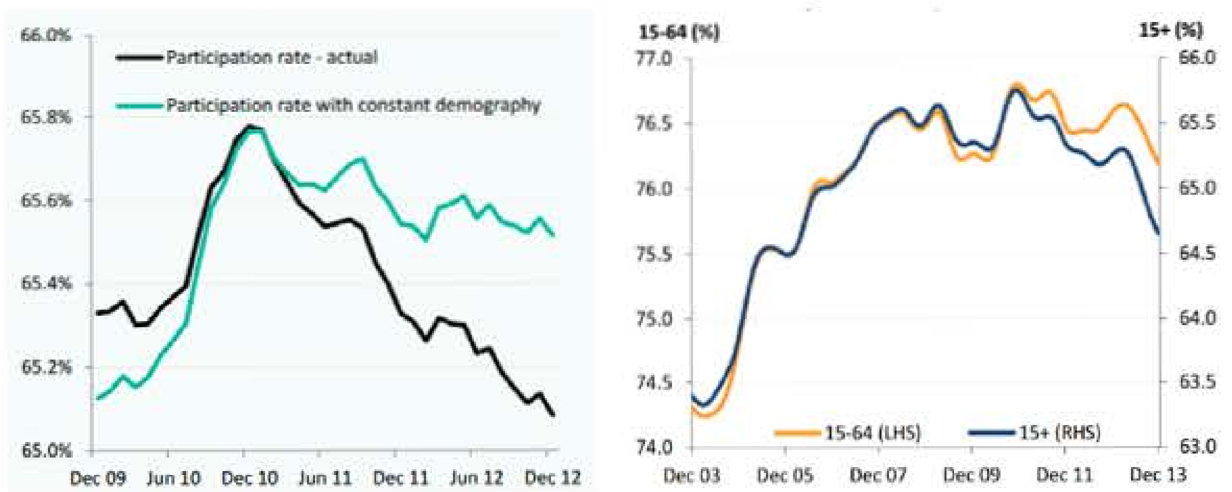
By 2050 there will only be 2.7 workers to support every individual over the age of 65.[19]

This demographic shift has huge implications for the federal budget. As Australia's population continues to age, there will be significantly less income tax available to service the needs of a growing cohort of senior Australians.

Recent ACTU research shows that if Australia's demographics had remained static between December 2010 and August 2013, the participation rate would have fallen by only 0.1% versus the 0.8% as recorded in ABS Labour Force Statistics.[20]

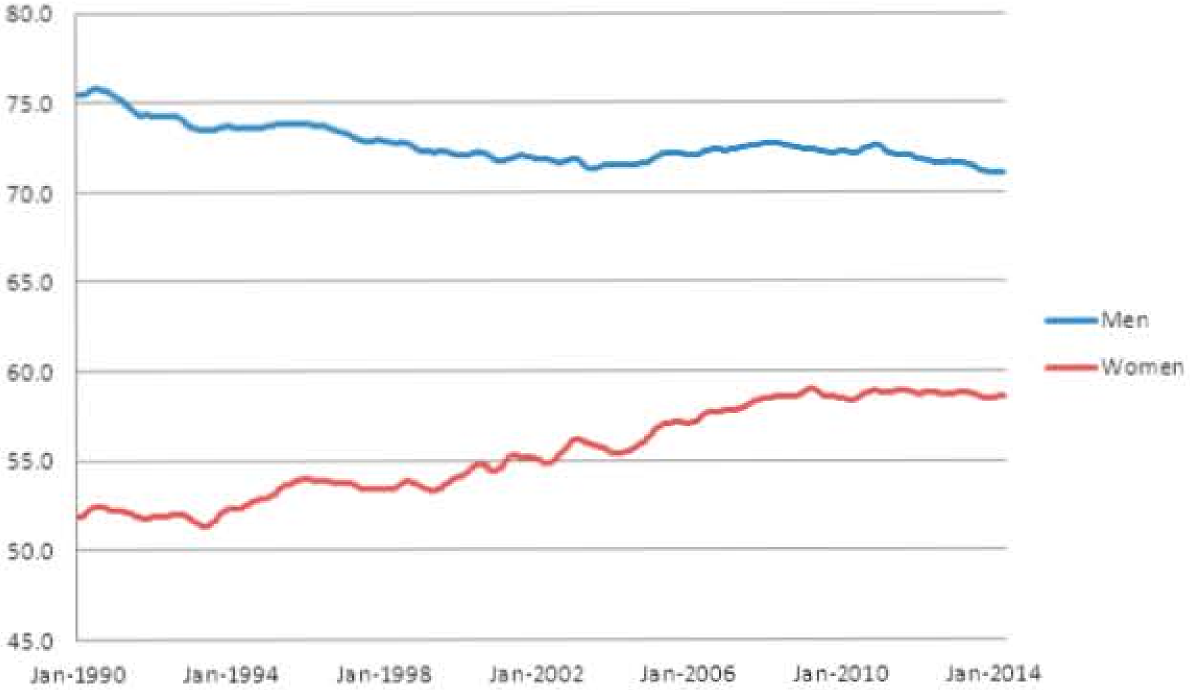
The Productivity Commission reports that although labour participation rates are likely to grow significantly for older workers, including because of deferred retirement, aggregate labour force participation rates will decrease as ageing shifts more people into age groups with traditionally lower participation rates.

**PARTICIPATION RATE WITH AND WITHOUT THE EFFECTS OF DEMOGRAPHIC CHANGE**




SOURCE: ACTU FEBRUARY JOBS REPORT (2013) AND FEBRUARY ECONOMIC REPORT (2014)

**MALE AND FEMALE PARTICIPATION RATES IN NSW (%)**




SOURCE: ABS LABOUR FORCE STATISTICS

Labour participation rates are projected to fall from 65% to 60% between 2012 and 2060, while overall labour supply per capita is also expected to contract by 5%.[21]

The net impact of this change is a dramatic decline in the number of taxpaying Australians relative to the number of non-working age Australians. Additionally, although the participation rates of older workers will increase, this demographic has a greater likelihood of pursuing part-time employment, so the projected hours worked per capita will fall by around 4.5% from 2012 to 2060.[22]

The biggest change in Australia's labour force participation over the past thirty years has been amongst female workers. With only around 59% of female participating in the workforce, the participation gap between men and women remains around 12.6% nationally, while in NSW it is 12.3%.[23]

While this figure is a significant improvement on the 21% participation gap that existed 20 years ago, the fact that some 42.3% of women are not engaged with the Australian workforce indicates that there is capacity to partially offset the impact of an ageing population with an increase in female work rates if barriers are removed.

This paper notes that there is currently a 6% gap between Australia's rate and that of leading OECD countries.[24] In a 2012 report, the Grattan Institute calculated that a 6% increase in Australia's female workforce participation rate would deliver an increase to our annual GDP worth approximately $25 billion.[25]

The Grattan Institute also noted that one of the biggest determinants of female participation rates was the affordability of child care. Future affordability of child care will likely have an impact on birth rates, which in turn will determine how much Australia is able to offset the proportional decline in its working population over the medium-to-long term.

# Government budgets will be challenged by rising costs and shrinking revenue

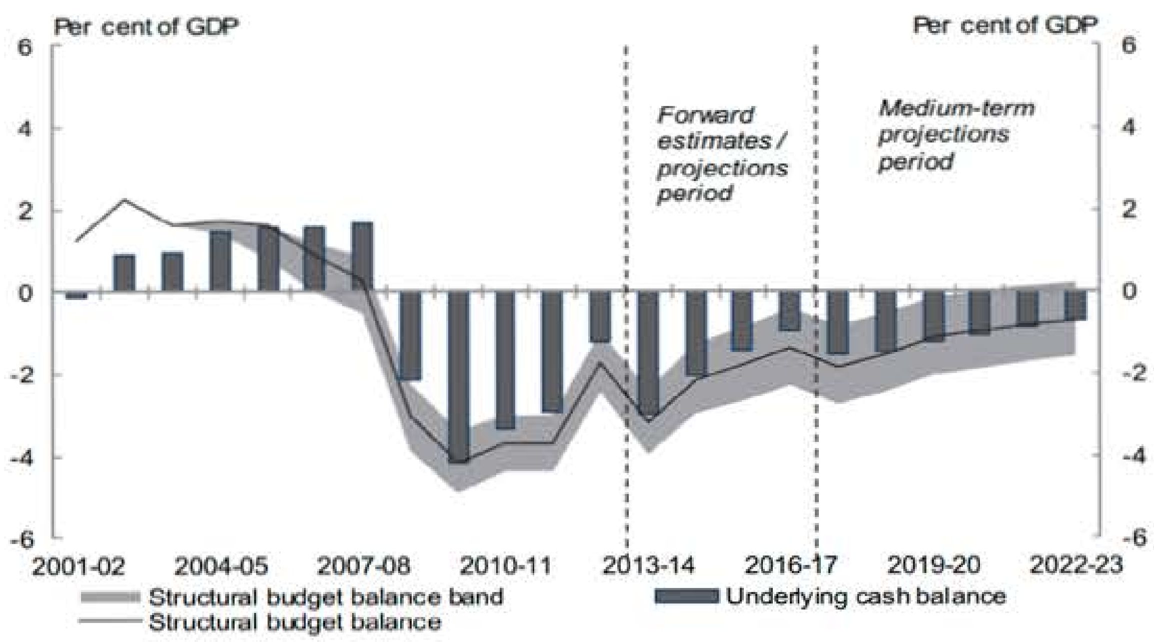
Shrinking tax receipts associated with the decrease in Australia's labour force participation rate, rising costs associated with new healthcare technology, increased infrastructure spending and increased welfare and pension expenditure will burden all governments with additional budgetary pressures.

An ageing population will inevitably mean higher costs for all levels of government. The 2010 Intergenerational Report from Treasury noted that ageing and health pressures are projected to result in an increase in total government spending from 22.4% of GDP in 2015-16 to 27.1% of GDP by 2049-50.[26]

Similarly, the Productivity Commission estimates that additional pressure on federal and state budgets for health, aged care and pension expenses will be the equivalent of 6% of GDP by 2060.[27]

Other economic forecasts have predicted that there will be a significant deterioration in the Federal Government's budget balance between 2015-16 and 2023 worth approximately 4% of GDP.[28]

**MYEFO STRUCTURAL BUDGET BALANCE ESTIMATES**




SOURCE: MYEFO (2013)

According to the 2013-14 Mid-Year Economic and Fiscal Outlook, the structural budget balance fell into deficit after 2007-08 with a structural deficit of between 3% and 4% of GDP forecast for 2013-14.

Though MYEFO is more optimistic in its budget outlook than the Grattan Institute, its current projections nevertheless indicated that the Federal budget is not expected to return to structural surplus in the medium-term.

Specifically, MYEFO forecasts that the budget will remain in deficit even if tax as a share of GDP is allowed to expand through fiscal drag – including through income tax bracket creep – with no tax cuts for the next decade.

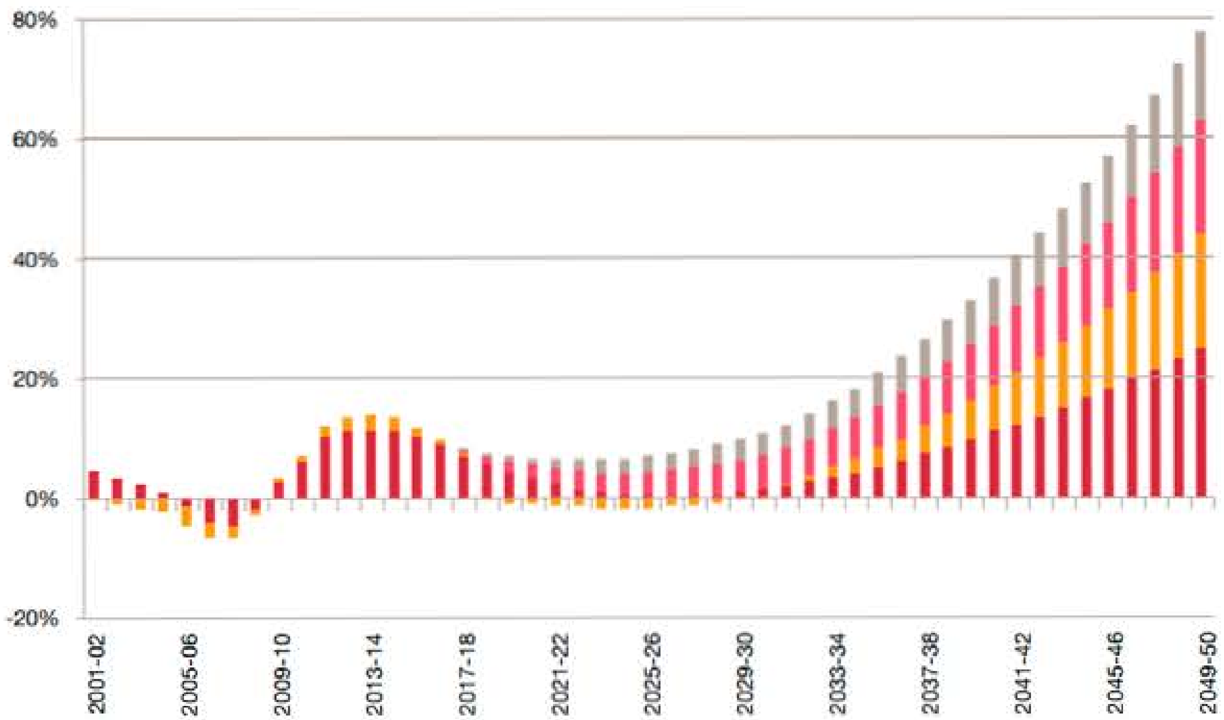
Over the longer term, figures contained in both the 2010 Intergenerational Report and separate research conducted by PwC concluded that the Federal Government will move towards a budget structure that delivers persistent deficits of 2.5% to 3% every year by 2050.[29]

PwC also estimated that the combined deficits of federal and state/territory governments will exceed 5.5% of GDP during this period, with total public net debt increasing to approximately 80% of GDP.[30]

Were this forecast to eventuate, the interest costs associated with government debt would grow to approximately 34% of GDP, representing an annual interest burden of close to $550 billion in today's dollars.[31]

**TOTAL PUBLIC NET DEBT**

COMMONWEALTH AND STATE/TERRITORY GOVERNMENTS, WITH PUBLIC DEBT INTERST CAPITALISED FROM 2016-17, % OF GDP

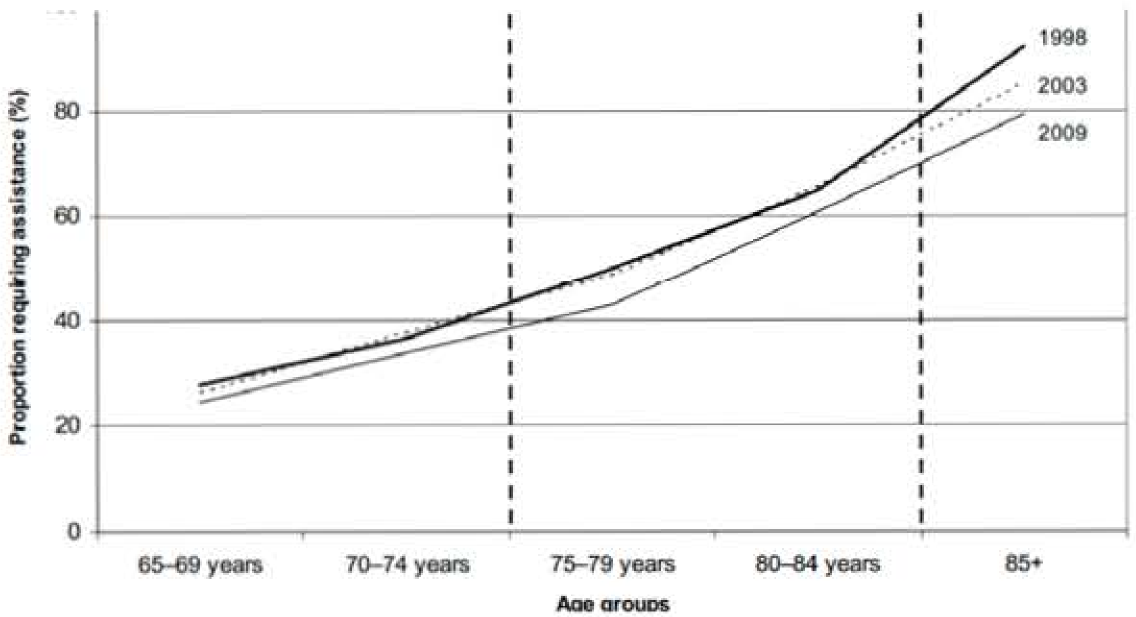



SOURCE: PWC PROTECTING PROSPERITY (2013)

# Demand for aged care facilities will soar and fees will need to rise

There are already roughly 3.3 million Australians aged 65 years and over including some 438,000 Australians that are aged 85 or above.[32] In 2008, the Productivity Commission estimated that by the time an Australian reached the aged of 85, there was an 80% likelihood that they would require some level of assistance with their everyday activities.[33]

**NEED FOR ASSISTANCE BY AGE OF OLDER PERSONS**




SOURCE: PRODUCTIVITY COMMISSION TRENDS IN AGED CARE SERVICES (2008)

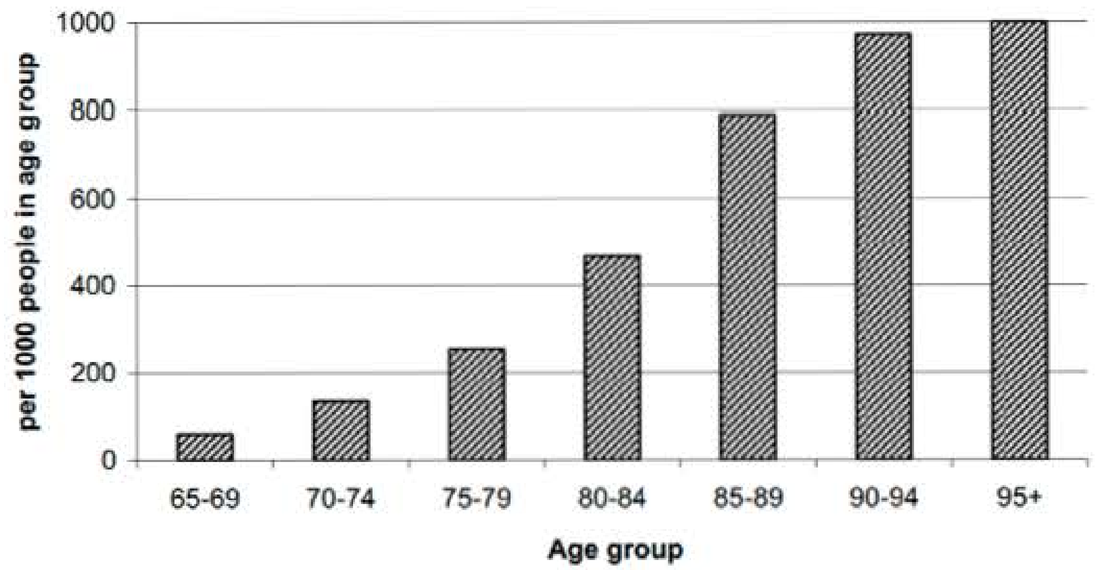
Aged care services range from residential care (nursing homes) to services provided to individuals within their own homes. The most common aged care services are those provided to consumers in their own home, known as 'community care programs'. The delivery of community care services, helping the ageing population to remain at home longer, has been targeted by the Federal Government for major expansion.

However, there are eventual limitations to the effectiveness of aged care service delivery within the home setting. For older people with higher levels of functional dependence, complex care needs, and limited informal support networks, more intensive care services are often necessary.

As those 3.3 million Australians aged 65 and over continue to age, the growth in demand for residential aged care services is expected to strengthen. Leading Aged Services Australia (LASA) recently estimated that 83,000 beds would need to be built in Residential Aged Care over the next 9 years to satisfy demand.[34]

At 30 June 2012 there were 420,300 people aged 85 years and over in Australia. Using medium life expectancy scenarios, the ABS forecasts that this demographic will increase in size to 1.9 million by 2033. The projected 1.5 million person increase in this demographic over the next two decades will underpin a substantial increase in demand for aged care services. The complex care needs of people within the 85 years and over age group, such as onset dementia, are likely to drive higher levels of demand for residential care as people experience greater longevity.

**USE OF AGED CARE SERVICES BY AGE GROUP**
USE IN 2008 PER 1000 PEOPLE IN AGE GROUP a




SOURCE: PRODUCTIVITY COMMISSION CARING FOR OLDER AUSTRALIANS (2011)

Ensuring that there will be sufficient supply to meet the growing demand for aged care services was a major focus of the Productivity Commission's Caring for Older Australians report released in 2011.[35] The report agreed with earlier research by Grant Thornton which suggested that the then regulatory and pricing system was insufficient, overly restrictive, and unlikely to facilitate the expansion required to adequately meet demand.[36]

## Research into the financial viability of aged care

In 2008, Grant Thornton conducted an Aged Care Survey which at the time was the largest independent study ever undertaken into the financial performance of the residential aged care industry. This research, along with its 2012 update and the Productivity Commission's *Caring for Older Australians* report, concluded that for the majority of Australian providers, the provision of aged care services in modern facilities was not financially viable.

This was largely due to the over-regulation of pricing of services under the *Aged Care Act 1997*. Grant Thornton found that the cost of establishing and operating new modern, predominantly single room facilities was substantially greater than older, multi-bed facilities, and that this increase in cost had not been met by an allowable commensurate increase in revenues. These anomalies created a disincentive to build new aged care facilities except where markets support service provision under an 'extra service' environment, which incurs less pricing restrictions for a minority of facilities.

Grant Thornton estimated that to cover the cost of capital alone, the Earnings Before Interest, Taxes, Depreciation, Amortization and Rent (EBITDAR) of a new aged care provider would need to be in the range of $25,225-$32,204 per bed per annum, assuming an efficient operating model.

However, Grant Thornton also found that the top quintile of aged care providers achieved an average EBITDAR of only $12,830 per bed per annum in high care facilities. The implication of this was that it was rarely viable for industry newcomers to build aged care centres, even if the new entrants were NFP entities.

In response to this research, the Federal Government requested that the Productivity Commission examine whether Australia's existing aged care framework was structured to adequately service the needs of an ageing population and to make recommendations on reforms that could enhance the sector's capacity to deliver new aged care services.

### KEY RECOMMENDATIONS FROM THE CARING FOR OLDER AUSTRALIANS REPORT

1. Uncap the restrictions on accommodation charges for non-supported residents, providing residents with more control over their service environment and delivering more appropriate returns to providers who meet that demand.
2. Remove the distinction between high care, low care and extra services, allowing all residential aged care facilities to charge accommodation bonds.
3. Introduce the Australian Aged Care Home Credit Scheme, allowing consumers of aged care services to draw down on the value of their principal place of residence without having to sell their property. For those who do sell, an Aged Pensioners Savings Account scheme would allow them to deposit surplus proceeds while preserving their pension entitlements.
4. Introduce an entitlements-based assessment and funding system in which consumers have choice in relation to the services they receive and the environment in which they receive them.
5. Gradually remove supply constraints on both residential aged care and community care, whilst increasing allocations during the transition period.

In response to the Productivity Commission's report, the Federal Parliament passed a number of reforms to aged care in June 2013. These reforms are likely to increase the number of aged care services available and address some of the unmet demand in the system.

Among other reforms, the legislation outlines new ways for care recipients who enter residential care or certain flexible care from 1 July 2014 to contribute to the cost of their accommodation.[37] It enables care recipients to elect to pay for their accommodation by periodic payment, lump sum or by a combination of both. This is in contrast to the previous system, in which users were required to purchase a bond that often bore little to no resemblance to the actual cost of accommodation.

The other reforms included the following:[38]

- Consumer Directed Care packages, rolled out nationwide to provide people with more control over the care they receive;
- Almost $1 billion in new funding for home care, which will see the number of home support packages almost double from 60,000 to 100,000 over five years;
- Tailored care packages to people with dementia receiving home care, and new funding to boost dementia care;
- Increased funding to residential aged care, with 30 000 new places over the next five years and $480 million for aged care homes to significantly upgrade their facilities; and
- A single gateway to all aged care services, to make them easier to access and navigate.

While these reforms will provide greater access to aged care, this paper notes that the Productivity Commission has estimated that the recent reforms will increase the fiscal pressure on the Australian Government for aged care by greater than that estimated by the 2010 Intergenerational Report, with costs now expected to rise from 0.8% of GDP in 2012 to 2.6% in 2060.[39]

# Australia will need a Home Equity Release Scheme to help fund aged care

While the 2013 reforms will go some way towards improving the viability of Australia's aged care sector, there is one key initiative that should have been pursued by the Federal Government following the release of the Productivity Commission review.

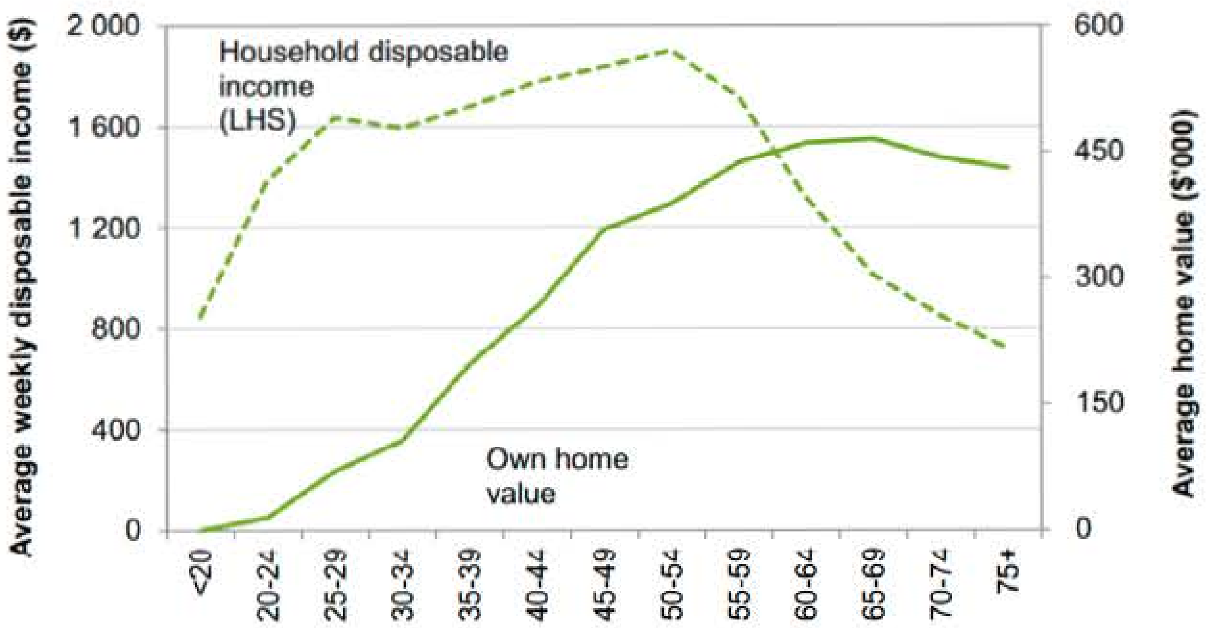
Specifically, the omission of a government-regulated equity release scheme is a missed opportunity that will deny many older Australians a secure way to release the equity in their homes to assist with the cost of aged care.

Many older Australians have experienced growth in their net wealth; however, at the same time, many Australians aged over 65 have incomes that place them in the lowest income brackets. These Australians are asset rich but income poor.

Most individuals already save for retirement, including through compulsory superannuation; but seniors and retirees rarely use the equity stored in their home, in part because of regulatory barriers which hinder easy access to this wealth.

As government budgets come under increasing pressure, the need for increased co-payment by individuals will grow. The Australian Aged Care Home Credit scheme was a key recommendation of the Productivity Commission report.

**OLDER AUSTRALIANS ARE OFTER INCOME POOR BUT ASSET RICH**
2009-10




SOURCE: PRODUCTIVITY COMMISSION AN AGEING AUSTRALIA (2013)

Given that some 84.6% of people over the age of 65 own their own home, including 78.1% who own it outright[40], the decision not to proceed with an equity release scheme represents a lost opportunity to fund a significant expansion in aged care through the single largest source of wealth available to ageing Australians.

The Productivity Commission estimates that having individuals contribute even half the annual real increase in their home values could reduce government expenditure in aged care by approximately 30%.[41]

The capacity for licensed clubs to engage in the provision of aged care services would be greatly enhanced by the new Federal Government revisiting the original recommendations on equity release as put forward by the Productivity Commission.

## FEATURES OF THE PROPOSED AUSTRALIAN AGED CARE HOME CREDIT SCHEME

1. Eligible individuals would be able to access a government-backed line of credit secured against their principal place of residence (or their share, generally 50%, where a couple is living in the home).
2. Flexibility would be provided regarding the line of credit which could be drawn on to a specified limit (assessed at the time of the loan) provided it was applied to aged care services, including residential aged care accommodation charges.
3. Relatively low up-front charges.
4. Preferential interest charges (equivalent to the consumer price index), calculated on a daily basis and accrued on the loan outstanding (not the undrawn portion of the maximum amount).
5. Payment of the loan from the person's estate upon death (unless a partner, carer or child still lives in the house). In the latter situation, the outstanding balance of the line of credit would be repayable when the spouse, partner or dependent child ceases to permanently reside in that home or ceases to be a dependent.
6. Once the loan amount is drawn down (together with interest charges) and reaches the maximum allowable amount, no further equity could be drawn and no further interest charges would be applied – in effect a no-negative equity guarantee, with a minimum guaranteed level of remaining equity.
7. Access to funds through the scheme would not be treated as an income stream (therefore would not adversely affect any pension benefits) provided the funds were used for approved expenses and not accumulated.
8. Design features to allow the scheme to operate with the existing and potential private market rather than as a competitor.

# Low cost service delivery will be vital to protecting our retirement wealth

As individuals age, their consumption patterns change. The Productivity Commission estimates that health services consume about 45% of expenditure for those aged over 75, compared with 8% for those aged 40-44. Governments will continue to meet much of the costs of ageing, but the likelihood of greater individual co-contributions will increase as fiscal pressures build.

The Federal Government's $3.7 billion Living Longer, Living Better Bill represented a comprehensive 10 year plan to reshape aged care and address the future challenges associated with an ageing population. However, as the proposed reforms unlock new supply in aged care, it should not be automatically assumed that these services will be affordable or conveniently located for all Australians.

As Grant Thornton's research has shown, fees will need to rise substantially if supply is to increase. These costs will not be absorbed solely by government, though many Australians would be able to contribute to these fee increases should the government implement changes that would more easily allow them to access the equity stored in their own homes.

Given the substantial gap identified by Grant Thornton between the revenue streams that would be required to sufficiently cover the cost of capital associated with establishing a new aged care facility and the level of revenue currently being received aged care providers, the proposed equity release scheme would need to be structured in a manner which provides sufficient financial sustainability for providers.

Grant Thornton estimated that to cover the cost of capital alone, EBITDAR of a new aged care provider would need to be in the range of $25,225-$32,204 per bed per annum, assuming an efficient operating model.[42]

However, Grant Thornton also calculated that the top quintile of aged care providers were only achieving an average EBITDAR of $12,830 per bed per annum in high care facilities.[43]

Government will likely choose to cap the level of equity that can be draw down through the proposed home equity release scheme. This is a reasonable safeguard to protect against the possibility of a homeowner entering negative equity should property prices unexpectedly collapse.

If the Government does choose to implement a cap on the level of accessible equity, this paper strongly recommends that the cap be set at a level which ensures that aged care providers are able to comfortably cover their operating costs.

For housing and income-poor Australians, some support will continue to be provided by the government, but for many middle income Australians who are neither wealthy nor asset-rich, nor disadvantaged enough to receive the full quantum of support for aged care, rising fees have several significant implications.

Even if seniors were able to tap into the value of their own homes in order to reverse mortgage their retirement, the impact of rising aged care costs would inevitably lead to a reduction in accessible capital that would otherwise be available for discretionary spending during the final years of life. Given the high health costs associated with these

later years, recreational and 'quality of life' spending is likely to be significantly affected by the increasing costs of aged care.

Efficient low cost service delivery is likely to become increasingly important to ensure that affordability can be maintained whilst accessibility is expanded.

Importantly, Grant Thornton noted that cost efficiency was achieved when providers were able to deliver scale (ideally 76-100 beds per facility) and when providers were able to leverage resources from other operational areas.[44]

The ability to provide single storey facilities was also a factor in low cost service deliver, implying that entities with significant land holdings might be able to more effectively contain operational costs than other aged care providers.

That Grant Thornton specifically identified the capacity to deliver scale and the ability to leverage resources as two key factors in ensuring low cost service delivery is positive news for the NSW club industry.

The total value of land and building assets owned by NSW's 1471 different clubs is $7.1 billion, with land holdings representing roughly 21% of the NSW club industry's total assets.[45] The significant land holdings of many NSW clubs indicates a strong potential for clubs to engage in low cost service delivery should they decide to engage with the provision of aged care services.

The ability to leverage resources from existing organizational operations has already helped Richmond Club improve the financial viability of an aged care facility that it acquired in 2005.

## THE RICHMOND CLUB and HAWKESBURY LIVING HEALTH AND WELLBEING

**The Richmond Club has a membership of just over 21,000, which represents around 50% of the adult population in the Hawkesbury region. About 8,500 of the members are over the age of 60 and members are mainly from Richmond, North Richmond, Windsor, Bligh Park and Kurrajong.**

The Club currently maintains a retirement village and a 138 bed licensed nursing home, including a 22 bed memory care unit, palliative care, speech pathology services, physiotherapy and an oncology and infusion centre – the provision of which assists Hawkesbury Hospital by freeing up resources and reducing instances of access block. The Richmond aged care facility includes high care and independent living units as well as Hawkesbury's first specialist dementia ward.

The significant need for these aged care facilities is reflected in the fact that the beds have an occupancy rate of 99.8%. Having these facilities in the Hawkesbury region means that the aged can remain within their community and near their families, which is of benefit to their physical and emotional wellbeing.

Furthermore, the Club has partnered with Kidney Health Australia to provide health screening services, while playing an instrumental role in the provision of gerontology services, saving many older people having to travel to Penrith or Westmead hospitals. The Hawkesbury Living Cancer Foundation was rolled out in 2009 and delivers top quality care to local residents.

The Club's gym (Active8) program also delivers an active living program deliberately tailored to promote the participation and health of older members. The 'Living Longer, Living Stronger' program is a strength training program for over-50s. This program is endorsed by the Council on the Ageing (COTA). The gym is near capacity with its 1089 members.

The Richmond Club represents a perfect example of how a club with land, resources to leverage, and an ability to offer scale of product have all combined to deliver an invaluable piece of social infrastructure that is highly valued by the community. More remarkably, this service has been provided in a location that would otherwise be unlikely to see any investment either by a for-profit provider or through new government spending.

Whilst the Richmond model is unlikely to be rolled out in all regional areas, it provides a compelling argument for why many regional clubs would be well placed to diversify into aged care provision, either directly or through partnerships with other NFP providers.

While the Richmond Club case study provides a good example of how clubs can engage in the direct provision of aged care services to their community, this paper acknowledges that the direct provision of aged care services is unlikely to be a viable option for every single club.

Other NSW clubs have decided to pool their resources while partnering with local government to create a Public Benevolent Institution to service the frail and aged within the Bankstown Local Government Area (LGA). The following case study is a good example of how clubs can combine their resources to provide affordable aged care services to their communities.[46]

## BANKSTOWN CITY AGED CARE LIMITED

**The Bankstown City Aged Care Limited is a Public Benevolent Institution created when 14 separate organisations came together to deliver aged care services to a region of Sydney badly in need of affordable aged care.**

The Bankstown LGA is an area in which the residents possess income levels substantially lower than the Australian average. The region also has a larger proportion of older residents than most other LGAs. More than 50% of the population have one parent overseas born or speak a language other than English at home.

Created in 1972, the Bankstown City Aged Care Limited is an aged care charity whose membership comprises the State Government (in the form of local hospitals), local Government, two of the largest registered clubs in Australia (Bankstown Sports and Revesby Workers), Bankstown Trotting Recreational Club, five of the six RSLs in the LGA (Bankstown, Bass Hill, Chester Hill/Carramar, Panania Diggers and Revesby Heights Ex-Servicemen's Memorial Club), the three Lions Club in Bankstown (Bankstown, Greenacre and Yagoona) and the only Rotary Club in Bankstown (Bankstown Rotary).

The company is now worth $66m and looks after 600 residents including 350 in residential care, 200 clients and home and 50 clients on a daily basis through a dementia day care centre. The company also employs over 250 people - the majority of whom are from non-English speaking backgrounds.

Since 1972, The Commonwealth Government has donated approximately $2.5m in capital grants and around $9m in capital subsidies to the Institution. Over the same period, the registered clubs have donated more than $4.5m, while the local Council has granted almost $2.5m. The general community and the service clubs have also contributed approximately $1.5m.

This has enabled the company to develop a state-of-the-art 150 bed residential facility – *Gillawarna Village* – at Georges Hall. The facility has 50 beds for high care clients, 50 beds for dementia specific clients and 50 beds for low care clients.

In addition, the company has developed a purpose built dementia day care centre which was delivered with no government funding and was entirely sponsored by the registered clubs and the local community.

The centre has been a model which other providers have copied and the Commonwealth Quality Reporting Auditors have asked to use as a best practice model for other home based providers.

# Australia will need to invest in child care to boost its participation rate

In the Labour Supply section of this paper it was noted that Australia's female participation rates rate lags behind leading OECD countries by approximately 6%.[47]

In its 2014 review of the child care sector, the Productivity Commission revealed that parents of one in six children were struggling to access child care services in their area, with just over one half of parents indicating that a failure to secure child care was hindering their ability to meet work commitments.[48] This would indicate that an expansion of child care services would result in an increase in Australia's participation rate.

Investing in child care to enhance Australia's participation rate could deliver a substantial economic windfall for the Australian economy.

A recent UK study calculated a return of £7.20 on every £1 paid to a child care professional, the bulk of which is generated from an in improvement in the parent's ability to engage in employment.[49] Similarly, a Quebec study found a return of $6 from every dollar spent on Early Childhood Education (ECE).[50] Australia's economy would benefit substantially from an expansion in child care facilities, particularly within those areas where shortages currently exist.

This paper notes that as a proportion of GDP, Australian expenditure on ECE and child care is already one of the lowest in the OECD. In Australia we currently spend only 0.3% of GDP on early education and care, compared to an OECD average of 0.7%.[51]

The net impact of this underspend has been a shift in the cost burden away from government and towards individual households. Australia currently has the second highest rates of parental expenditure in the OECD, with parents contributing approximately 48.6% of the total cost of care vs. an OECD average of 18%. In New Zealand, parents pay approximately 17.1% of the cost of care.[52]

This higher price burden is negatively impacting the ability of families to afford child care services. Despite recent increases in government funding to the sector, the Productivity Commission has recorded an increasing numbers of families that are report difficulties with the affordability of child care.[53] In 2008, 22.5% of children did not access the care required due to cost. By 2011, 24.5% of children either could not attend any formal care, or could not attend the full quantum of care required by their parents.[54]

This has significant implications for workforce participation, with 51.1 per cent of parents citing work-related reasons as the primary driver of their need for additional child care in 2011.[55]

In order to maximize workforce participation rates, it is likely that measures will be needed to improve both the supply and affordability of child care, particularly in lower income regions of NSW. However, existing fiscal constraints will make it difficult for government to fund measures that would improve affordability at the same time as introducing new measures that would improve the supply of child care facilities in areas where shortages currently exist.

As is the case with aged care, governments will need to identify new partners who can offer cost effective business models, particularly in the not-for-profit (NFP) sector, to assist in relieving some of the financial burden from the public purse.

This paper notes that many of the factors which support the provision of low cost aged care – including access to available land, the ability to leverage resources, and the ability to provide services scale – are also factors which support the provision of low cost child care services. As such, child care services represent another area in which clubs could help provide much needed social services.

As with aged care, this can be done either through the direct provision of a child care services, or by partnering with other organisations in order to provide that service to the community.

# ST MARYS LEAGUES CLUB *and the* GO BANANAS PROGRAM

**The Go Bananas Family Entertainment Centre at St Marys Rugby League Club is another example of how registered clubs have been able to partner with social service providers in order to deliver affordable services to their community.**

The area of St Marys is one of the lowest socio-economic areas in Sydney. According to the 2011 census, the medium weekly household income in St Marys is $996, compared to the NSW average of $1,237. Labour force participation rates are amongst the lowest in Sydney, with St Marys having a substantially higher unemployment rate than the rest of NSW. In St Marys, 8.2% of people are unemployed compared to 5.9% across NSW. The percentage of single parent families in St Marys is double the state average and 80% of all single parents are female.

After identifying that child care and after school care was unaffordable for many in the St Marys community, St Marys Leagues Club partnered with Go Bananas to develop a state-of-the-art child care centre – the largest of its kind in Australia – located adjacent to the club and catering for children between 0-14 years.

Go Bananas operates under the National Quality Standard and Education and Care Services National Regulations and provides before and after-school care during term time, vacation care and excursion days during school holidays. The centre is Child Care Benefit (CCB) approved, allowing eligible parents to claim the Child Care Tax Rebate (CCTR). In April 2013 Go Bananas was voted winner of the Children's Services category at the Australian Small Business Champion Awards 2013.

In low income areas or areas with high numbers of single parents – such as St Marys – having a child care facility with longer opening hours is critical to boosting workforce participation rates.

In recognition of this, the Go Bananas facility operates a before school program that operates from 7am and which sees children safely dropped at school afterwards. The facility's after school care program operates until 6:30, giving single parents sufficient time to work a full day and subsequently pick up their children on the way home.

The club's longer opening hours is critical to its popularity within the community, making it easier for parents with long commutes and varied working hours to drop off and pick up their children.

Of equal importance to the club's popularity is the relatively affordable price of care. For children aged 0-8 months, entry to the facility is free, whereas for children aged between 9 months and 4 years, the cost is just $10 on weekdays and $12 on weekends. For children aged 5 to 14 years, entry is $12 on weekdays and $14 on weekends.

St Marys was fortunate in that it already has access to land and capital infrastructure that were readily convertible for the development of a child care centre, allowing a facility to be built which could offer child care service on scale. Other clubs with larger land or infrastructure holdings would also be well placed to follow the St Marys example.

# Parts of NSW are already experiencing severe child care shortages

Facilities like Go Bananas can be especially important to those parts of NSW which are currently experiencing a shortage of child care facilities. In ten large local government areas (LGAs) - including Blacktown, Parramatta and Liverpool - long day care providers have reported that less than 30% of four to five year olds are accessing an ECE program delivered by an early childhood teacher.[56]

The previous Federal Government argued that some of those LGAs which were experiencing shortages were doing so in part because of local planning restrictions that effectively limited the number of places available within any individual child care centre.[57]

Some councils have placed a cap on the number of places that can be included in a development proposal for new child care centres before the council will assess the application.

Placing a cap on the number of child care places available within a given facility will constrain the ability of providers to offer services on scale, potentially impacting affordability. Other projects may simply not go ahead because they have been rendered financially unviable.[58]

Despite the current restrictions on supply that have emerged within some LGAs, this paper notes that the shortage of child care facilities is not an entirely new phenomenon to NSW.

NSW preschools experienced a state funding freeze from 1989 to 2006. Almost no new services were established during this period with many preschools struggling to survive and some forced to close.[59] The funding freeze coincided with rapid population growth and the opening up of new growth areas.

Consequently, large areas of the state, especially the western, south-western and north-western suburbs of Sydney and the coastal strip running from Newcastle to Moruya have major ECE participation gaps.[60]

In response to this crisis of availability, the O'Farrell Government commissioned a Review of NSW Government Funding for Early Childhood Education.[61]

The review, also known as the Brennan Review, examined the adequacy of NSW's scope and quantum of child care funding. The recommendations were accepted in full and are currently being implemented.

Under the new model:[62]

- 95% of preschools will see an increase in their base funding rate for 4 and 5 year olds;
- The minimum base rate will increase by 44% and the maximum base rate will increase by 75%; and
- No preschool service will be worse off as a result of the new model in 2014 and 2015 while transition funding will be provided in the first two years so that no service receives less funding as a result of these policy changes.

This new model of funding will help to ensure that child care services continue to grow at a fast rate. In areas with higher levels of social disadvantage, the burden of service delivery is particularly likely to fall on the NFP sector because of the need to provide more affordable care.

The NSW Government is also implementing a capital works program to assist with the cost of constructing child care centres. This program will be established to assist NFP services operating in areas where:[63]

- There is a shortage of places for children in the year prior to school;
- The market has not responded; and
- Eligible providers can demonstrate that capital funding would be instrumental in addressing these shortages.

The Brennan Review recommended that the program operate until sufficient ECE places are made available to meet demand and to ensure achievement of the state's participation targets. Although the NSW Government has currently committed $5 million to this program[64] , this paper argues the quantum of funding required to adequately tackle the shortage of childcare facilities already being experienced in different regions across the state is likely to be significantly higher.



# Government will need to work with NFPs to deliver affordable child care

A critical factor in determining the scale of new supply will be whether the Federal Government chooses to use its resources to leverage even greater investment into social infrastructure by NFP entities such as clubs

One way that Federal Governments could encourage further investment into the child care sector is to establish a capital grants funding program to co-fund new investment – for example, an incentive program where government matches a NFP provider's infrastructure expenditure dollar-for-dollar.

Another commendable recommendation contained within the Brennan Review was that the NSW Government lobby the Commonwealth Government for changes that would make financial contributions to NFP ECE providers tax deductible. This would make donations to ECE providers tax deductible in the same way that donations by parents or others to non-government school building funds are already deductible.[65]

The Productivity Commission is currently undertaking a review of Australia's child care sector, the recommendations of which will guide the Federal Government's approach to funding child care into the future. This paper is hopeful that the recommendations of this review will contain new measures that can be put in place to assist NFPs with the delivery of child care services.

Whether or not the Federal Government pushes ahead with reforms following the release of the Productivity Commission report, the benefits for clubs considering a diversification into child care service delivery remains strong. The decision by St Marys Leagues Club to provide child care services in its area has been extremely well received by the community and is proving a much needed social services in an area of high need.

This paper notes that the child care services industry is expected to grow by 4.1% per annum between 2013 and 2018, driven in part by moderate increases in Australia's participation and birth rates.[66] The population of Australian children aged 0 to 14 years is forecast to grow by 1.9% per annum through to 2018, higher than the 1.3% rate experienced in the five years to 2013.[67]

Given both the accelerating birth rate and the shortage of child care facilities that already exists across much of NSW, clubs would be well placed to help fill the shortfall of affordable child care services.

Where possible, governments should help facilitate this engagement in order to ensure that child care facilities are made accessible and affordable for all NSW families.

# Many NFPs are already engaged in delivering social services

In 2010 the Productivity Commission identified that over the last few decades there has been a marked expansion in the extent to which NFPs were being funded to deliver human services on behalf of government.

One early and broad indicator of this trend was that total government funding to the NFP sector increased from $10.1 billion in 1999-2000 to $25.5 billion in 2006-07.[68]

According to the Productivity Commission, prior to the budget downgrades delivered by the 2007 Global Financial Crisis, the NSW Government provided over $1.5 billion in annual funding to around 2300 human services non-government organisations (NGOs) in order to deliver ongoing community-based services across NSW. Many more NFPs in other sectors, such as the arts and sport, also received funding from NSW Government agencies.

More recently in 2011–12, the NSW Department of Family and Community Services directed over $2.35 billion of its $5.3 billion budget to more than 2000 NGOs across NSW to provide a wide range of services. This indicates a significant increase in funding to NGOs in recent years.[69] Given the reforms to current disability and out of home-care services, this contribution is expected to grow by a further 30% over the next four years.[70]

In its most recent annual report, the NSW Department of Family and Community Services highlighted the current State Government's ambition to increase its collaboration with the non-government sector:

> *Change cannot be achieved in isolation. Non-government organisations have the capacity to create social capital in a way that government and the private sector cannot. The non-government sector's crucial contribution requires government facilitation and support. Only by working in genuine partnership with service providers and local communities can the whole sector, including government, increase and leverage social capital.*[71]

In 2013, an independent industry analysis calculated that the community services sector had grown at an annual rate of 7.6% between 2008 and 2013.[72] The report also predicted that future growth would remain strong with an annualised rate of 6.7% forecast for the period 2013 to 2018. The analysis concluded that the level of competition within the community services sector remains minimal, while barriers to entry for new players are considered low.

| Barriers to Entry checklist | Level |
|---|---|
| Competition | Low |
| Concentration | Low |
| Life Cycle Stage | Growth |
| Capital Intensity | Low |
| Technology Change | Low |
| Regulation & Policy | Heavy |
| Industry Assistance | High |

SOURCE: IBISWORLD DEMOGRAPHIC DEMAND (2013)

There is strong potential for registered clubs to provide affordable social service delivery across a range of areas, particularly within the spheres of aged care and child care.

# Clubs are supporting social services and are well placed to help further

NSW clubs have a long history of providing financial support to the social services sector. Australia-wide, the revenue from clubs is believed to account for around 20% of the entire NFP sector's non-government income.[73]

In its 2008 review of the NSW clubs industry, IPART concluded that the industry's net social contribution to society is positive. It found that NSW clubs have a positive impact on sport participation rates, that they make significant contributions to charity when compared to their interstate counterparts, and that they provide considerable intangible social benefits which, while difficult to quantify consistently and reliably, should not be ignored.[74]

IPART attempted to quantify the value of clubs' contribution to social infrastructure and estimated that the total contribution made by clubs to NSW in 2007 was approximately $893 million.[75] Using a similar methodology, current contributions in NSW are estimated to be around $1.2 billion per annum.[76]

Under the ClubGRANTS scheme, NSW clubs that earn in excess of $1 million in annual gaming machine revenue are offered tax deductions on the basis that they fund community programs. The deductions are on a dollar-for-dollar basis up to 2.25% of taxable gaming machine revenue. Historically, clubs have often contributed above and beyond that which is required under the scheme.

According to a recent Auditor-General's report, a total $417 million in ClubGRANTS tax rebates have been provided to registered clubs since 2002.[77]

All up, the ClubGRANTS scheme has delivered almost $1 billion in funding for NSW community groups, sporting organisations and charities since its establishment. Funding provided last year was more than double the amount required.[78] This represents a significant investment by the clubs industry into their local communities.

NSW clubs are funding several healthcare and ageing related initiatives through the ClubGRANTS scheme including:

- $75,000 from the Blacktown Workers Club for equipment used to detect and treat esophageal cancer – the first of its kind in Western Sydney.[79]
- $670,000 from 33 clubs in Newcastle to 100 community organisations and charities such as Newcastle Alzheimer's Network, Glencare Special Needs Association and Maycare Community Centre.[80]
- Smithfield RSL Club's contribution of $10,000 towards specialised electric high-low adjustable beds at the Braeside Hospital in Fairfield.[81]
- $112,000 from Revesby Workers Club to Bankstown City Aged Care Ltd, which is aiming to construct a 60-bed aged care facility in Revesby.[82, 83]
- Wests Leagues Club's contribution of $20,000 to Project Parkinson's, a non-profit group committed to improving the quality of life for people affected by the disease.[84]

- The Dubbo RSL Aged Care Association's provision of 148 self-care units, a 62 bed hostel, a 60 bed high care facility, and a 46 bed nursing home in Wellington some 40 kilometres outside of Dubbo.[85]

With government support likely to be increasingly targeted at the lower end of the income spectrum, many middle income users could find themselves increasingly exposed to a dichotomy of increasing costs from private operators and diminishing access to government support.

It is within this space that NFP organisations like clubs are well placed to deliver affordable access to social services, particularly given their existing connections to the community in many regional and disadvantaged areas. In NSW some 43% of clubs are located in regional areas, making them potential providers for social services in areas that have traditionally been underserviced by existing operators.[86] The lower returns required by clubs, coupled with their ability to cross-subsidise products, enhances their potential to offer services at an affordable level for those who need it most.

Whilst NFPs already receive a degree of support from the Federal Government through their preferential tax status, this support alone may be insufficient to leverage the necessary level of spending required to ensure adequate growth in aged care and child care services.

The upfront capital costs associated with providing the physical infrastructure alone is likely to be significant, while land taxes, planning regulations and other costs continue to act as a disincentive to investment.

# Clubs would benefit from a stronger engagement with social services

## Club revenue remains heavily exposed to taxation and regulatory frameworks.

For example, the ban on smoking in clubs in 2007 saw a significant reduction in revenues from NSW gaming machines, with revenue reducing 10.6% from $3.2 billion to $2.9 billion in the first year of application. Since this time, gaming has recovered in nominal terms though in real terms, EGM revenues remain well below levels generated prior to the introduction of indoor smoking bans.[87]

Based on the results of the 2011 KPMG Census, 51% of clubs nationally appear to be in some form of financial distress. One in three clubs is either 'solid' or 'flourishing', though it should be noted that larger clubs are significantly less likely to be suffering financial distress than other smaller clubs.

**FINANCIAL VIABILITY OF CLUBS BY SIZE**


SOURCE: 2011 NATIONAL CLUBS CENSUS (2012)

Many clubs currently face increasing competitive pressures from hotels, pubs and casinos. For this reason, industry analysis suggests that revenue growth within the social clubs sector will be low over the coming few years. At the same time, real disposable household income is also expected to grow more slowly, the impacts of which are likely to lead to a reallocation of funding priorities amongst the broader population.[88]

## INDUSTRY REVENUE

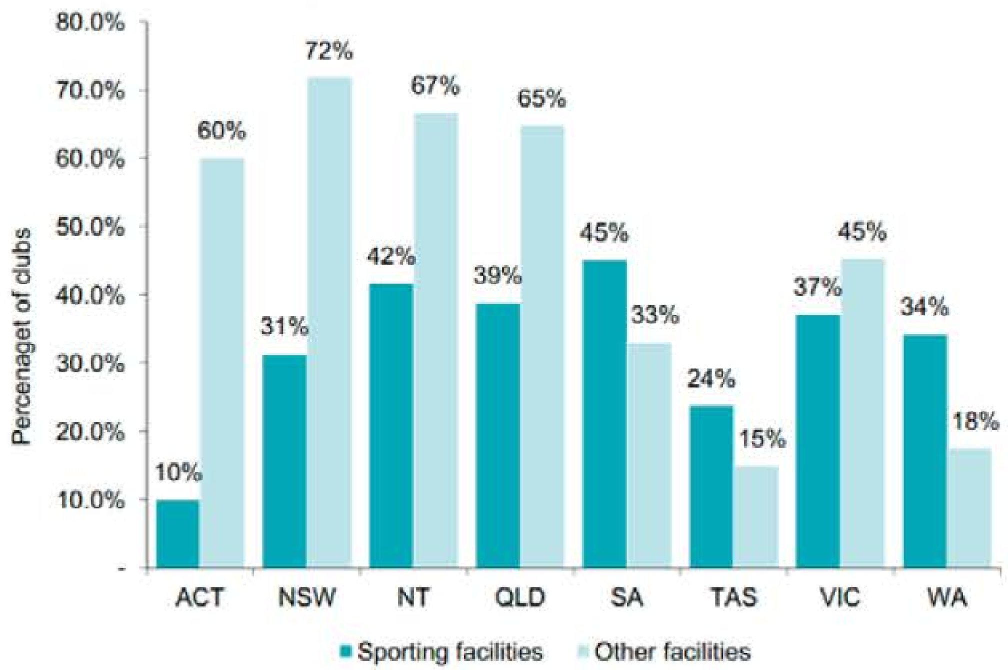

## REAL HOUSEHOLD DISPOSABLE INCOME


SOURCE: IBISWORLD SOCIAL CLUBS IN AUSTRALIA (2013)

The ability of clubs to differentiate themselves from their competitors will remain central to maintaining a strong and loyal customer base. While most clubs will continue to retain some competitive advantage arising from their NFP tax status, the clubs that are likely to experience the strongest growth will be those that have the strongest branding within the community.

As noted in the KPMG Census, the capacity for clubs to make additional capital investment – including in social services – is heavily determined by their size.

## PECENTAGE OF CLUBS WITH AN INTENTION TO DEVELOP FACILITIES OVER THE NEXT THREE YEARS BY CLUB SIZE



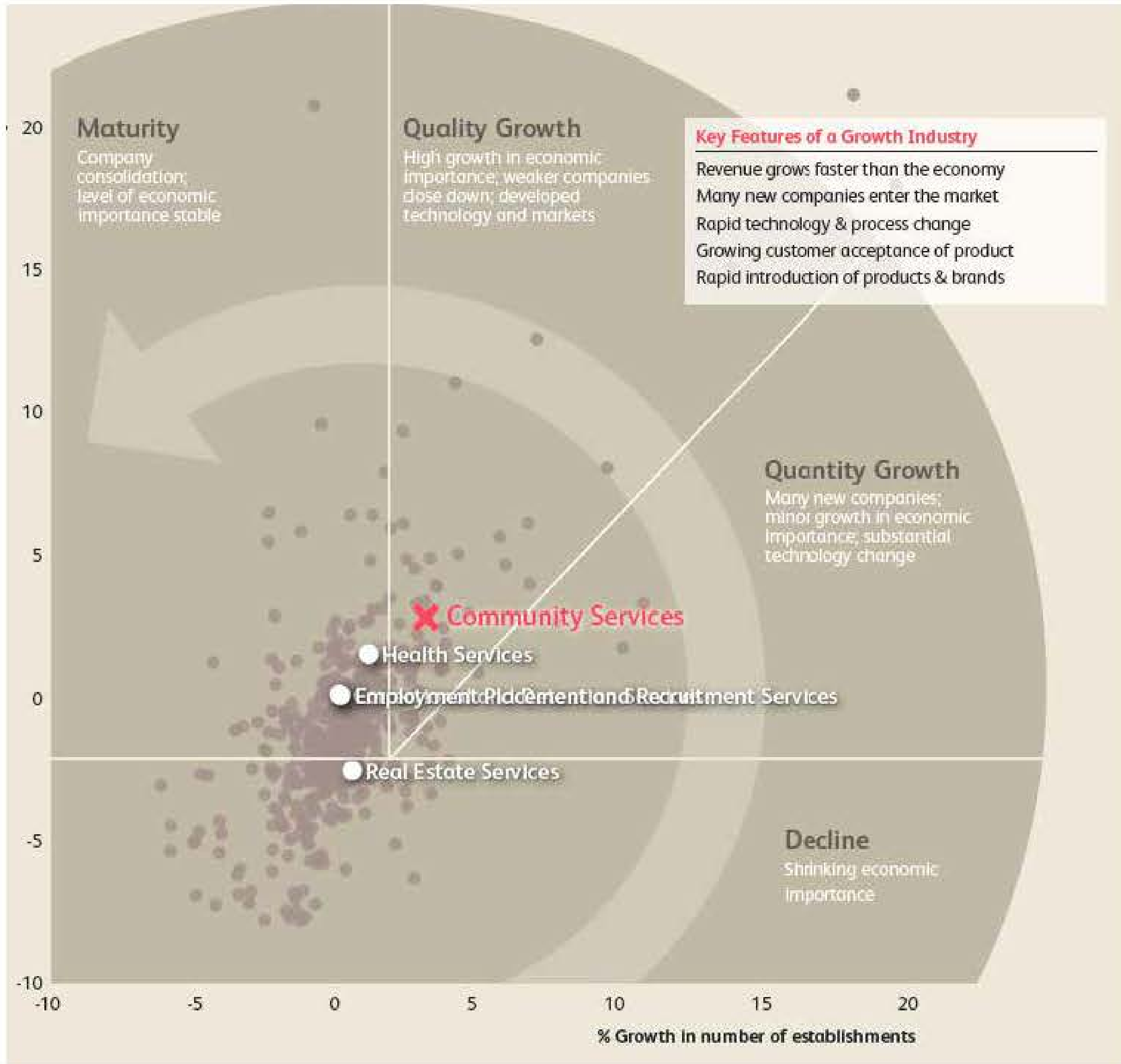

SOURCE: 2011 NATIONAL CLUBS CENSUS (2012)

Given that the financial viability of clubs significantly improves once EGM revenue increases to above $1 million per annum, as well as the direct correlation between the level of EGM revenue and the desire of clubs to invest in non-sporting facilities, a strong case could be made that a greater amalgamation of clubs would increase the capacity of the clubs industry to diversify into aged care and child care.

As such, policies which help facilitate a greater amalgamation of clubs could potentially assist with boosting the capacity of NSW clubs to invest in social services. While amalgamations may not be appropriate for every club, it would be unwise to ignore the high level of financial stress experienced by clubs with smaller EGM revenues.

Facilitating amalgamations to encourage new social service investment could result in a double benefit for the clubs industry. In contrast to the clubs sector, the social services sector is tipped to experience strong growth over the coming years, driven in part by an ageing of the population as well as an increase in demand need for child care services.

## GROWTH PROSPECTS FOR COMMUNITY SERVICES RELATIVE TO OTHER INDUSTRIES




SOURCE: IBISWORLD DEMOGRAPHIC DEMAND (2013)

Unlike the clubs sector, the social services sector is impacted less by shifts in the level of disposable household income. This is important in that growth in Real National Income (RNI) is forecast to be substantially lower over the next decade than at any point over the last 50 years.[89]

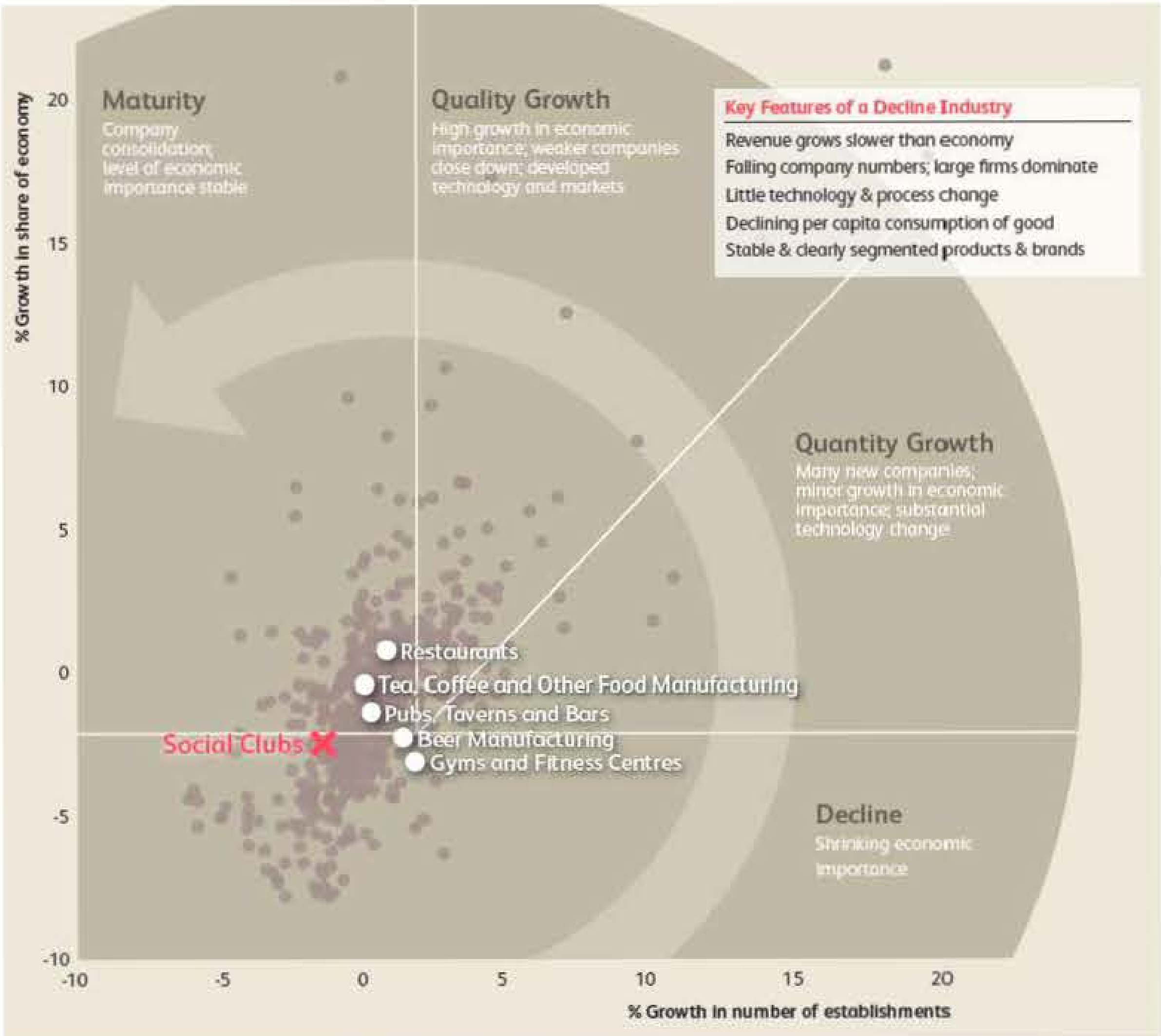
This was confirmed by Grattan Institute CEO John Daley in a 2013 presentation to the Association of Superannuation Funds of Australia,[90] and is in line with statements by Merrill Lynch and BT Financial Group which warn that declining terms of trade are likely to result in a decline in real household incomes.[91] A reduction in real household income would inevitably result in a reduction of disposable income, and most likely, a concurrent reduction in spending on discretionary activities such as gaming.

Social services will be less impacted by a decline in real household incomes largely because they are a function of needs rather than wants. Although individuals may adjust their spending choices to seek out more affordable options, it is unlikely that they will be able to outright ignore their need for essential services like child care and aged care.

The overwhelming impact from a decline in household incomes will be on the choice of service providers rather than the provision of services itself. As such, affordability is likely to grow in importance, giving low-cost NFP service providers a competitive edge in a growing social services market.

It is for this reason that industry analysis is continuing to predict strong, demographic driven growth within the social services industry despite also predicting weak, income dependent growth within the clubs industry.

**GROWTH PROSPECTS FOR SOCIAL CLUBS RELATIVE TO OTHER INDUSTRIES**




SOURCE: IBISWORLD SLOW MONEY (2013)



Diversification into social services would help reduce the proportionality of income that is heavily influenced by both regulatory and taxation arrangements as well as changes in the level of disposable household incomes.

By building on the existing popularity of social clubs across NSW – via an expansion into the high growth sectors of aged care and child care – clubs could enhance their growth prospects while also differentiating themselves from competitors such as pubs, clubs and hotels through improved organisational branding.



SOURCE: IBISWORLD SLOW MONEY (2013) & DEMOGRAPHIC DEMAND (2013)

Many clubs are already engaged in social service delivery. High levels of club membership amongst the NSW population has helped position clubs as a trustworthy and known provider of community based activities. Clubs in NSW collectively hold around 5.7 million memberships, representing more than one membership per adult person in NSW.

This paper takes the view that the clubs industry could significantly benefit from creating a 'cradle-to-the grave' level of engagement with their local communities. The ageing population will require that we develop new aged care facilities to service our elderly while also developing new child care facilities that will help boost our workforce participation rates. Shortages already exist in both these areas but government budgets remain stretched.

The solution lies in government partnering with NFPs to relieve some of the financial burden on government while expanding the community's access to affordable social services.

# Encouraging clubs to amalgamate would help deliver more social services

As has been noted throughout this paper, the capacity of an organization to offer social services on scale is a key determinant of social service affordability.

This paper also noted that capacity of a club to invest in new facilities was heavily correlated to its size. As such, policies which facilitate further amalgamations will also have the benefit of increasing the capacity of NSW clubs to invest in social services.

As part of its Memorandum of Understanding with ClubsNSW, the State Government has already agreed to take action to help facilitate easier club amalgamations (and de-amalgamations), streamline processes and to encourage proactive club mergers.[92]

To deliver on this recommendation, the state government implemented a raft of reforms which commenced in March 2012. Clubs are now able to transfer gaming machine permits within a LGA without having to undergo a Local Impact Assessment (LIA).[93]

In addition, gaming machine entitlement (GME) transfers between related or amalgamated club premises, irrespective of LGA, are no longer subject to the forfeiture requirements under the Gaming Machines Act 2001, though LIA requirements still apply.[94] In the past, forfeiture requirements have been a significant disincentive to club amalgamations as GMEs are a significant asset to clubs.

The new provisions have helped better facilitate club mergers, with nine clubs amalgamating in the last year compared to none the previous year.[95]

The amalgamation of clubs will significantly improve the financial viability of the clubs industry, thus increasing its capacity to provide social services infrastructure.

This paper suggests that further amalgamations could be encouraged by providing greater certainty and guidance throughout the LIA process.

This paper supports the need for LIAs as an appropriate tool to assess the impact of introducing new gaming machines to a community.

Nevertheless, an unnecessarily lengthy LIA process can also act as a disincentive to further club amalgamations, potentially weakening the capacity of the clubs industry to invest in social services.

As such, it is important to examine whether there are ways to increase the efficiency of the LIA process without weakening existing safeguards or community consultation provisions.

One recommendation which could deliver greater clarity without unduly affecting existing safeguards would be to make the existing guidelines for Class 1 & 2 LIAs more comprehensive, particularly in regard to how the Independent Liquor and Gaming Authority weighs the impacts arising from an increase in gaming machine thresholds.

A useful case study on how the current system can be wrought with uncertainty for clubs can be seen in a recent application by the Mounties Group to repatriate a number of EGM entitlements from two of its satellite clubs to the Group's Mount Pritchard premise.

## CASE STUDY

### MOUNTIES AND THE PROPOSAL FOR A FAIRFIELD 'STREET UNIVERSITY'

In July 2011, Mounties lodged an application for the repatriation of 60 EGM entitlements that had been previously transferred away from the Mount Pritchard premises to two of the Club's satellite venues, Harbord Diggers Club and Manly Bowling Club.

The application for the transfer required the completion of a Class 2 LIA to determine the impact of the transfer on the LGAs of Liverpool and Fairfield. For the transfer to be approved, Mounties would have to prove that the change would have an "overall positive benefit" on the relevant communities.

As part of its bid to ensure an overall positive benefit for the local community, Mounties proposed that it would fund the construction of a 'Street University' youth centre to be located in Fairfield and operated by the Ted Noffs Foundation. The Street University concept pioneered by the Ted Noffs Foundation involves reaching out to young people through alternative educational, recreational and arts based programs.

Its programs include skills development programs; production programs targeting students who are at risk of disengaging with the mainstream education; drama programs operated in association with the National Institute of Dramatic Art; and work skills programs targeting Year 9 and 10 students who have already disengaged from education.

The Street University also runs in partnership with the University of Western Sydney to provide a homework support program for young people; professional counselling services for young people and their families which are dealing with alcohol and drug abuse, poor mental health and social disadvantage; and a referral service for young homeless people needing housing support.

The Street University already operating out of Liverpool has now reached capacity and is struggling to accommodate youths from the Fairfield area. In response, Mounties proposed the development of a Fairfield Street University, offering $3.3 million of funding towards the building and operation of the project.

The $3.3 million represented the entire first year's additional net return for Mounties resulting from the transfer of the GMEs to the Mount Pritchard premises. The Independent Liquor and Gaming Authority (ILGA) eventually refused the transfer on the basis that the application had failed to prove an "overall positive impact" for the community.

The ILGA ruled that there would need to be a net benefit of $7.77 million to the community over five years to offset the quantifiable detriment associated with an increase in the gaming machine threshold, and that the $3.3 million offer fell short. However, existing legislation does not specify a time period over which the "net impact" will be assessed, while the existing guidelines do not provide any solid guidance on the time frame that should be considered by applicants when determining potential funding for community projects.

In this case, the five year timeframe was only determined at the end of a two year application process, rather than at the beginning. Had the five year figure been known at the start of the process, Mounties may have increased the amount of funding offered to the Fairfield Street University, increasing the probability that its proposal would have been accepted.

The decision to reject the Mounties application was handed down in August 2013, more than two years after the original application was lodged. Having witnessed the significant legal and planning costs associated with pursuing an application through such a lengthy process, it would be understandable if other clubs considering similar applications were now hesitant to do so.

Encouraging clubs to amalgamate would help deliver more social services

As has been noted throughout this paper, the capacity of an organization to offer social services on scale is a key determinant of social service affordability.

This paper also noted that capacity of a club to invest in new facilities was heavily correlated to its size. As such, policies which facilitate further amalgamations will also have the benefit of increasing the capacity of NSW clubs to invest in social services.

As part of its Memorandum of Understanding with ClubsNSW, the State Government has already agreed to take action to help facilitate easier club amalgamations (and de-amalgamations), streamline processes and to encourage proactive club mergers.

To deliver on this recommendation, the state government implemented a raft of reforms which commenced in March 2012. Clubs are now able to transfer gaming machine permits within a LGA without having to undergo a Local Impact Assessment (LIA).

In addition, gaming machine entitlement (GME) transfers between related or amalgamated club premises, irrespective of LGA, are no longer subject to the forfeiture requirements under the Gaming Machines Act 2001, though LIA requirements still apply. In the past, forfeiture requirements have been a significant disincentive to club amalgamations as GMEs are a significant asset to clubs.

The new provisions have helped better facilitate club mergers, with nine clubs amalgamating in the last year compared to none the previous year.

The amalgamation of clubs will significantly improve the financial viability of the clubs industry, thus increasing its capacity to provide social services infrastructure.

This paper suggests that further amalgamations could be encouraged by providing greater certainty and guidance throughout the LIA process.

This paper supports the need for LIAs as an appropriate tool to assess the impact of introducing new gaming machines to a community.

Nevertheless, an unnecessarily lengthy LIA process can also act as a disincentive to further club amalgamations, potentially weakening the capacity of the clubs industry to invest in social services.

As such, it is important to examine whether there are ways to increase the efficiency of the LIA process without weakening existing safeguards or community consultation provisions.

One recommendation which could deliver greater clarity without unduly affecting existing safeguards would be to make the existing guidelines for Class 1 & 2 LIAs more comprehensive, particularly in regard to how the Independent Liquor and Gaming Authority weighs the impacts arising from an increase in gaming machine thresholds.

A useful case study on how the current system can be wrought with uncertainty for clubs can be seen in a recent application by the Mounties Group to repatriate a number of EGM entitlements from two of its satellite clubs to the Group's Mount Pritchard premise.

# Recommendations

To encourage greater involvement by clubs in the provision of aged care and child care, the government should consider a number of reforms that will help facilitate a diversification by clubs into social service delivery.

## RECOMMENDATION 1

**Enhance the ClubGRANTS scheme to allow clubs to directly invest in new social services even if those services are located on club land, allow contributions made in one year to be carried forward over multiple years**

There are several programs that influence how clubs provide services and programs to the community. One of these is the ClubGRANTS system of community contributions.

Within the ClubGRANTS scheme there are three classes of expenditure:

- **CATEGORY 1:** expenditure on specific community welfare and social services, community development, community health services and employment assistance activities;
- **CATEGORY 2:** expenditure on other community development and support services such as sport, RSL/veteran welfare, golf course, and bowling green maintenance; and
- **CATEGORY 3:** contributions made to the ClubGRANTS Fund, a state-wide funding pool for large scale projects associated with sport, health and community infrastructure.

To qualify for the gaming machine tax rebate of 1.85%, clubs must contribute at least 0.75% to Category 1 purposes, with the remainder allocated to Category 2 purposes.[96]

This paper welcomes the decision to create a Category 3 for expenditure on the designing, building, upgrading, renewing, funding and/or acquiring land or property for social services infrastructure including aged care and child care centres. At present, clubs can choose to pay into a fund some 0.4% of profits from EGM revenues in excess of $1 million per annum.

Given the quantum of funding required to adequately address forecast demand for new social services, this paper argues that the ClubGRANTS model should be enhanced to encourage greater investment into aged care and child care services.

Specifically, a model should be developed that would allow clubs to directly invest in the development of new social services infrastructure whilst offsetting those costs against a club's ClubGRANTS liability.

Safeguards similar to those that will be applied by the upcoming ClubGRANTS Fund Committee will need to be introduced to ensure that the project is of reasonable financial standing, and that the expenditure represents good value for money on both social and economic grounds.

The ability to carry costs forward over several years would also need to be established, albeit with some limitations. The upfront capital costs associated with establishing a new aged care centre are significant, while the risks associated with diversification into a new area could be considered unattractive to more conservative clubs. Allowing clubs to spread a proportion of that risk over several years would go a long way towards facilitating additional investment in social service infrastructure.

Finally, this paper notes that under the current ClubGRANTS rules, clubs are unable to act as recipients of ClubGRANTS funding even if the totality of that funding is to be allocated to the provision of new social infrastructure. This paper also notes that the existing land and infrastructure holdings of many NSW clubs leaves them better placed to leverage their existing resources in order to deliver affordable social services at a lower price point than would otherwise be possible with other NFP entities.

Given that the social benefit remains the same whether a child care or aged care facility is delivered by a club or any other NFP organisation, this paper submits that there is no sound policy reason for excluding Clubs from becoming Category 3 recipients provided that the totality of funding is appropriately allocated towards delivering the same intended policy outcome.

Allowing clubs to directly allocate their Category 3 contributions towards the construction of a new child care or aged care facility within either an existing building or on existing club land would help to reduce the upfront capital costs associated with establishing that facility. This could in turn reduce the cost of any social services provided at those facilities.

## RECOMMENDATION 2:

**Create a Social Service Infrastructure Fund to leverage NFP investment into new social services infrastructure**

This paper notes that following the 2009 Independent Sport Panel Report (Crawford Review), the Federal Government rejected a suggestion that it establish a National Sport Facilities Fund.[97]

The proposed fund – initially set at $250 million per year – was to be divided between states and territories in proportion to their populations. Local government and community sporting organisations would then present proposals for individual projects. Importantly, preference would be given to projects where state/territory and local governments, or the communities themselves, match the Federal Government's funding.

Despite the sports fund recommendation being rejected by the Federal Government, this paper argues that the broader concept of a national facilities fund remains sound.

This paper recommends that the original proposal be reconsidered, even if the overall size of the fund differs somewhat from the original proposal. Critically, the fund's utilisation should be expanded to fund the delivery of child care and aged care facilities in both low income and underserviced areas.

For example, the fund could either be used to create facilities such as recreational swimming pools or active living programs in areas where health outcomes are significantly below the national average, or it could be used to assist with up-front capital costs in aged care and child care.

If a sufficient social and business case is made, infrastructure grants could be provided to any club seeking to develop social service infrastructure within those areas where shortages currently exist. Funding could be matched on a dollar-for-dollar basis up to a given amount.

An appropriate grants process would need to be established with relevant checks and balances on funding allocation, with spending targeted to areas deemed to have the greatest need. If matched with funding from local council and/or state governments, even a small fund could be used to dramatically expand service delivery in high need areas.

## RECOMMENDATION 3:

**Extend income tax exemptions to cover clubs whose primary purpose involves the provision of aged care and child care, allow clubs that are currently exempt to diversify into social service delivery without risking their tax free status**

Unlike clubs which exist for the purpose of encouraging sport, other community clubs such as RSLs do not presently have access to the income (Federal Company Tax) tax exemption.

While Richmond Club Limited and other non-sporting clubs can take advantage of the principle of mutuality to reduce their taxable income, a broader application of the 'community service exemption' in the Income Tax Assessment Act ('ITAA') could help to exempt these clubs from income tax.

The ITAA currently allows a "society, association or club established for community service purposes" to be exempt from income tax.[98] However, this paper is not aware of any clubs that are currently accessing this exemption and there is no agreement with the Australian Taxation Office (ATO) about what activities could legitimately be described as 'community service purposes', or to what extent particular activities might need to be undertaken to become eligible for the exemption.

This paper recommends that the existing rules surrounding income tax exemptions be clarified and enhanced to encourage greater investment by clubs into aged care and child care facilities.[99]

If aged care and child care were specified as a legitimate community service purpose, up to one third of the 4000 clubs in Australia which currently pay income tax could gain access to a new income tax exemption in exchange for diversifying into the provision of new aged care or child care facilities.

It should be remembered that the ATO already has strict eligibility requirements for the sporting club tax exemption to ensure that clubs prove that they fulfil their sporting purpose in each financial year and that sport-related activities are the club's "primary purpose".

This would be the same for the community service exemption, and would require clubs to prove that community/social service was their "primary purpose".

The application of this recommendation would facilitate a significant funding boost to aged care and child care nationally.

In addition, this paper remains concerned about a potentially perverse incentive which could prevent clubs that are currently receive an exemption from investing in new social services. Specifically, clubs which are receiving an exemption on the basis that their "primary purpose" is to provide community sporting programs might be hesitant to diversify into aged care on the basis that their engagement with social services could see them fall foul of the "primary purpose" requirements.

Once the current income tax exemptions are broadened to include the provision of child care and aged care facilities, provisions should be made to ensure that clubs are able to invest in multiple areas of community service provision without losing their tax free status. This would be done on the basis that an individual clubs "primary purposes" are geared towards exemption activities including sporting, aged care and child care.

## RECOMMENDATION 4:

**Make contributions to the construction of NFP early childhood education centres and aged care centres tax deductible**

In line with the Brennan Review, this paper recommends that the Federal Government make contributions to the construction of NFP early childhood education centres tax deductible in the same manner that donations to non-government school building are tax deductible.

Tax deductibility could be offered for donations which fund the construction of new aged care centres on similar grounds.

## RECOMMENDATION 5:

**Reward volunteers who undertake community work by providing them with a credit against their HECS-HELP liabilities, reimburse volunteers for the cost of mandatory accreditation courses such as first aid**

One of the strengths of the club industry is its strong volunteer base with close to 50,000 volunteers contributing to programs run by NSW clubs each year.[100]

Clubs are often able to provide discounted food, services and entertainment on the basis that labour costs are lower at clubs than might be the case at a competing pub, bar or hotel.

Engaging volunteers to provide some of the more basic work required in the provision of aged care and child care would help keep costs low and make services more affordable for low income groups.

This paper recommends a strategy to encourage volunteerism by allowing individuals to undertake volunteer work within their local communities with a stipend paid that would directly offset their Higher Education Contribution Scheme liability (HECS-HELP debt).

Under the scheme – originally proposed in 2010 by the Federal Coalition – individuals would receive a $10 per hour credit worth up to a maximum of $2000 a year towards paying off their HECS-HELP debt. Individuals would be required to perform a minimum of 50 hours volunteer work each year and would be paid in credit against their HECS-HELP debt rather than through a regular income.[101]

Such a scheme could encourage younger individuals to become more engaged in volunteer work within their local communities, helping to reduce operational costs in social service facilities. As such, any measure that can be taken to further encourage volunteerism needs to be viewed through the prism of potential improvements in the affordability of social services.

The Crawford Review also recommended that the Federal Government explore a national scheme where volunteers be reimbursed for mandatory accreditation courses such as first aid.[102] This paper believes that volunteers who are already contribute their time and social capital should be compensated for undertaking mandated training.

## RECOMMENDATION 6:

**Streamline local government development approvals processes while removing any unnecessary restrictions on the provision of social services**

Streamlining the development approvals process and modernising Local Environmental Plans (LEPs) could help facilitate an expansion in new aged care and child care facilities. Unnecessarily complicated planning requirements can add to costs and significantly delay new developments. In particular, removing existing caps that restrict the number of child care centres should be an immediate priority for local governments.

The status of the NSW Government's proposed planning reforms remains uncertain. However, this paper is hopeful that the concept of 'code assessable' development will be retained.

Under the proposed planning reforms, developments which meets the standards or performance outcomes contained within the development guidelines section of a LEP would automatically be deemed code assessable and could not be refused development consent.

This concept should be utilised to facilitate an expansion of investment in essential community infrastructure including child care and aged care facilities. In instances where social service infrastructure is able to be built whilst remaining compliant with the broader guidelines of the LEP, the default position should be one of support.

## RECOMMENDATION 7:

**Create 'social service delivery' representatives at the local government level to work with NFPs that are seeking to build social services facilities**

Local councils should create a role for 'social service delivery' representatives whose role would be to assist NFPs throughout the development approvals process in instances where the development approval is for the provision of new child care or aged care facilities. This would potentially assist with speeding up an otherwise cumbersome and slow development approvals process for social service providers.

## RECOMMENDATION 8:

**Provide stamp duty and/or council rate exemptions to NFP providers seeking to develop social services infrastructure**

Stamp Duty on land purchased for the provision of aged care or child care should be phased out or rebated in its entirety in order to encourage additional supply.

Local councils should also consider a reduction in rates for NFP providers currently operating these services. This could be done through a permanent partial rate rebate provided to NFP social service providers, or via a full rebate applied the first three years of operation. This would provide a substantial incentive to develop new social service infrastructure by reducing the immediate costs associated with new development.

Further development could also be encouraged by the commonwealth by extending a 'rent holiday' to clubs operating on crown land.

## RECOMMENDATION 9:

**Help grow the capacity of clubs to invest in social services by streamline the process for amalgamations, provide better guidance to clubs that are undertaking Local Impact Assessments as part of the amalgamations process**

As has been noted throughout this paper, the capacity of an organization to offer social services on scale is a key determinant of social service affordability. This paper also noted that capacity of a club to invest in new facilities was heavily correlated to its size. As such, policies which facilitate further amalgamations will also have the benefit of increasing the capacity of NSW clubs to invest in social services.

The ability to transfer Gaming Machine Entitlements (GMEs) is often a critical component whether a club will choose to amalgamate. When clubs transfer GMEs between establishments, this often triggers the need for Local Impact Assessment (LIA).

This paper supports the need for LIAs as an appropriate tool to assess the impact of introducing new gaming machines to a community and supports the principles and framework of the existing LIA system.

However, this paper believes that the guidelines on LIA are vague and provide insufficient guidance to clubs which may be considering a transfer of GMEs. This can lead to longer and more protracted assessments which have been known to take multiple years to complete.

Key determinants – such as the length of time over which an evaluation of impacts is to occur – are often not known until very late in the assessment process, potentially hindering the ability of a club to put forward proposals for social contributions that would be considered acceptable to the Independent Liquor and Gaming Authority.

An unnecessarily lengthy and uncertain LIA process can act as a disincentive to further club amalgamations, potentially weakening the capacity of the clubs industry to invest in social services.

If the guidelines are enhanced to provide greater clarity and certainty, more clubs may be willing to amalgamate, potentially increasing the capacity of clubs to invest in new aged care and child care facilities.

Applicants should be provided with a range of estimates and factors likely to be considered by the ILGA when calculating the "net quantifiable detriment". Applicants should still be able to put their own estimates forward, but it should be clear to applicants from early in the process whether the ILGA views their estimates and timelines as substantially different to what will be considered by the ILGA.

Similarly, greater clarity should also be provided as to what might constitute a "net quantifiable benefit", with particular focus on how the value of capital investments will be treated over the period being assessed.

## RECOMMENDATION 10:

**Encourage amalgamations and remove existing disencentives on the accumulation of land for social service purposes by moving to a 'per metre' evaluation of land tax**

Consideration should be given towards moving towards a per metre valuation of land tax as opposed to the current method of calculating land tax liabilities on the basis of an entity's total holdings. This recommendation – originally contained within the Federal Government's Australia's Future Tax System Review (the Henry Tax Review) – would substantially reduce the disincentive to expand an entity's land holdings.

Currently, land tax obligations are calculated based on an entity's total land holdings. This disincentivises the purchase of new land for club expansion on the basis that it could push the club into a higher land-tax threshold. The acquisition of a smaller club by a larger club could introduce a tax on the smaller club that previously did not exist.

A per metre land valuation system would encourage amalgamations and make it easier for larger clubs to purchase available land should it be deemed necessary to deliver social service infrastructure on scale.

The tax should be calculated on the Unimproved Land Value at a progressive basis with a threshold value below which land tax does not apply. This would provide a fairer tax basis for regional clubs with large but low-value land holdings, and would also allow for a lower rate of taxation for larger clubs operating in lower socio-economic suburban seats.

Many of the areas experiencing social service shortages are lower income areas in which land values are significantly below the values held in other parts of the state. Clubs hoping to expand into social services would likely have to expand their current land holdings, potentially putting them at risk of entering a higher land tax bracket under the existing land tax framework. A per metre land valuation system would reduce the disincentive for clubs to grow, amalgamate, or acquire new land, which in turn would increase the capacity of clubs to develop larger, more cost-effective aged care and child care facilities.



## RECOMMENDATION 11:

**Implement the full recommendations of the Productivity Commission review into aged care by introducing a home equity release scheme**

The aged care reforms already implemented by the Federal Government are praiseworthy but insufficient. This paper strongly supports the need to establish a government-backed equity release scheme that allows older Australians to more easily fund their aged care through the wealth held in their homes. This is particularly relevant given the high level of home ownership and asset wealth possessed by Australians aged 65 and over.

The development of such a scheme should be done in cooperation with the NFP sector, including the clubs industry, in order to ensure that the final product is affordable and accessible for all senior Australians as well as financially sustainable for potential aged care providers.

## RECOMMENDATION 12:

**The Federal Government respond to the Productivity Commission's inquiry into Australia's child care sector by taking action that will boost the capacity of NFP providers to deliver child care services**

It is appropriate that the Federal Government carefully consider any advice provided by the Productivity Commission that will enhance the ability of NFP providers, including clubs, to grow their provision of child care services.

Equally, the NSW State Government should consider any recommendations that are designed to facilitate further investment by NFPs into child care services located in socially disadvantaged or regional areas.

This paper is also concerned that several local councils have implemented effective caps on the number of child care places that can be provided within any proposed facility. Reforms to NSW's planning legislation should seek to reduce the capacity of local councils to impose caps on the provision of new social services.

# Conclusion

Governments are facing increasing budgetary pressure at a time when demand for social services is on the rise.

As government budgets become increasingly strained and private sector costs continue to soar, NFP organisations such as registered clubs must rapidly increase their presence within the social services sector in order to avoid a chronic shortage of affordable aged care and child care facilities.

A growing need for affordable social services provides an opportunity for clubs to enhance their engagement with the community by developing new social service infrastructure, particularly in those locations where shortages currently exist such as low income and regional areas of NSW.

Many clubs are already taking such action, but the capacity for clubs to provide these services would be substantially improved if there were sensible reforms to help ensure the financial sustainability of social service operators.

This paper notes that larger clubs are often more financially secure, are better placed to deliver social services on scale, and are often able to more easily leverage their resources into new areas of operation. These factors are often critical to the delivery of low cost social services. Accordingly, recent reforms that encourage greater amalgamation of clubs are welcome, though they should be improved upon further via the implementation of less ambiguous LIA process and the introduction of a per-metre valuation of land tax.

Federal and state/territory governments should also examine ways to help NFP providers more easily manage the up-front costs associated with developing new social service infrastructure. This can be done through an extension of existing income tax exemptions and by making donations to the construction of aged care and child care centres tax deductible.

The NSW Government should consider enhancing its ClubGRANTS system to allow for the direct funding of aged care and child care facilities, while the Federal Government should move to introduce a new Social Service Infrastructure Fund to leverage investment from multiple sources. Local Government should also remove any planning restrictions that may be holding back the development of new social service facilities.

Critically, the Federal Government should reexamine the Productivity Commission's proposal that the government deliver a home equity release scheme that would give senior Australians an opportunity to finance their aged care through the equity stored in their home.

Equally, the Federal Government should carefully consider any recommendations from the Productivity Commission's review of Australia's child care sector that would enhance the capacity of NFPs to deliver new social services.

Many of these recommendations carry a cost – however, the cost to government will be significantly less than if social services were provided through existing government agencies.

# References


1. ClubsNSW, 2011 NSW Clubs Census, May 2012, http://www.clubsnsw.com.au/Files/NSW%202%20Sided%20Promo%20Flyer.pdf
2. Ibid.
3. Ibid.
4. Ibid.
5. NSW Institute of Sport & ClubsNSW, *The NSW Institute of Sports and ClubsNSW extend partnership*, 19 September 2012, http://www.clubsnsw.com.au/docs/ecm-files/the-nsw-institute-of-sport-and-clubsnsw-extend-partnership.pdf?sfvrsn=0
6. Leagues Club Australia, *Submission to Productivity Commission Inquiry into the Australian Gambling Industry, March 2009*, http://www.pc.gov.au/__data/assets/pdf_file/0003/87627/sub159.pdf
7. Productivity Commission, *An Ageing Australia: Preparing for the Future, Commission Research Paper*, 2013 http://www.pc.gov.au/__data/assets/pdf_file/0005/129749/ageing-australia.pdf
8. ABS CAT 4102.0, *Australian Social Trends: March 2009 – Future Population Growth and Ageing, March 2009*, http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/4102.0Main+Features10March%202009
9. Australian Treasury, *Australia to 2050, Future Challenges*, January 2010, http://archive.treasury.gov.au/igr/igr2010/report/pdf/IGR_2010.pdf
10. Productivity Commission, *An Ageing Australia: Preparing for the Future*, Commission Research Paper, 2013 http://www.pc.gov.au/__data/assets/pdf_file/0005/129749/ageing-australia.pdf
11. Ibid.
12. Ibid.
13. Ibid.
14. ABS CAT 4102.0, *Australian Social Trends: March 2009 – Future Population Growth and Ageing*, March 2009, http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/4102.0Main+Features10March%202009
15. ABS CAT 3222.0, *Population Projections, Australia, 2012 (base) to 2101*, November 2013, accessed at http://www.abs.gov.au/ausstats/abs@.nsf/up/3222.0main+features52012%20(base)%20to%202101
16. Ansell C., Davey E., Vu H., Grant Thornton, *Australian Cost of Residential Aged Care Research: Service Costs in Modern Residential Aged Care Facilities*, January 2012, http://www.agedservices.asn.au/docs/publications-documents/grant-thornton-cost-of-care-research---2012.pdf?sfvrsn=2
17. Australian Treasury, *Australia to 2050, Future Challenges*, January 2010, http://archive.treasury.gov.au/igr/igr2010/report/pdf/IGR_2010.pdf
18. Fight Dementia, *Summary of Dementia Statistics in Australia*, accessed January 2014 at http://www.fightdementia.org.au/understanding-dementia/statistics.aspx
19. Australian Treasury, *Australia to 2050, Future Challenges*, January 2010, http://archive.treasury.gov.au/igr/igr2010/report/pdf/IGR_2010.pdf
20. *Australian Financial Review*, Baby Boomers finally hit their retirement, accessed at http://www.afr.com/p/national/australian_baby_boomers_finally_cmbd3Mycu1tk5Ny4PqzHJI
21. Productivity Commission, *An Ageing Australia: Preparing for the Future*, Commission Research Paper, 2013 http://www.pc.gov.au/__data/assets/pdf_file/0005/129749/ageing-australia.pdf
22. Ibid.
23. ABS CAT 6202.0, *Labour Force, Australia, Oct 2013*, accessed at http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lp/6202.0Main+Features1Oct%202013?OpenDocument
24. OECD (2012), *OECD.Stat, Labour force participation by gender and age 2010*, data extracted 12 March at http://skills.oecd.org/supplyskills/documents/21abclabourforceparticipationbygenderandage2010.html
25. Grattan Institute, *Game-changers: Economic reform priorities for Australia*, June 2012, accessed at http://grattan.edu.au/static/files/assets/bc719f82/Game_Changers_Web.pdf
26. Australian Treasury, *Australia to 2050, Future Challenges*, January 2010, http://archive.treasury.gov.au/igr/igr2010/report/pdf/IGR_2010.pdf
27. Productivity Commission, *An Ageing Australia: Preparing for the Future*, Commission Research Paper, 2013 http://www.pc.gov.au/__data/assets/pdf_file/0005/129749/ageing-australia.pdf
28. Grattan Institute, *Budget Pressures on Australian Governments, April 2013*, accessed at http://grattan.edu.au/static/files/assets/ff6f7fe2/187_budget_pressures_report.pdf
29. PricewaterhouseCoopers, *Protecting prosperity: why we need to talk about tax*, July 2013, accessed at http://pwc.com.au/tax/assets/Protecting-prosperity-22Jul13.pdf

30. Ibid.

31. Ibid.

32. Department of Health and Ageing, *2012-13 Report on the Operation of the Aged Care Act 1997*, 2014, http://www.health.gov.au/internet/main/publishing.nsf/Content/EBE3573C450EF713CA257C280005A8F8/$File/10376_ROACA_SCREEN.pdf

33. Productivity Commission, *Trends in Aged Care Services: Some Implications*, September 2008, http://www.pc.gov.au/__data/assets/pdf_file/0004/83380/aged-care-trends.pdf

34. Hospital & Aged Care, *General Cosgrove wants $2b for 83000 aged care beds*, August 2013, http://www.hospitalandagedcare.com.au/news/general-cosgrove-wants-2b-for-83000-aged-care-beds

35. Productivity Commission, *Caring for Older Australians*, August 2011, http://www.pc.gov.au/projects/inquiry/aged-care/report

36. Grant Thornton, *Australian Cost of Residential Aged Care Research*, January 2012, http://www.grantthornton.com.au/files/cost_of_care_research_120201.pdf

37. Commonwealth of Australia Explanatory Memoranda, *AGED CARE (BOND SECURITY) LEVY AMENDMENT BILL 2013*, accessed at http://www.austlii.edu.au/au/legis/cth/bill_em/acslab2013350/memo_0.html

38. Media Release from the Department of Health and Ageing, *Aged care legislation passes both houses of parliament*, accessed at http://www.mmll.org.au/about-us/newsroom/511-aged-care-legislation-passes-both-houses-of-parliament

39. Harris Peter, Productivity Commission, Speech to the Australian Institute of Company Directors, Observations on Productivity, National Income and the Demographic Outlook, November 2013, http://www.pc.gov.au/__data/assets/pdf_file/0006/129507/20131119-demographic-outlook.pdf

40. ABS CAT 1301.0, *Year Book Australia 2012 Housing and Life Cycle Stages*, 24 May 2012, accessed at http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/by%20Subject/1301.0~2012~Main%20Features~Housing%20and%20life%20cycle%20stages~132

41. Productivity Commission, *Trends in Aged Care Services: Some Implications*, September 2008, http://www.pc.gov.au/__data/assets/pdf_file/0004/83380/aged-care-trends.pdf

42. Grant Thornton, *Australian Cost of Residential Aged Care Research*, January 2012, http://www.grantthornton.com.au/files/cost_of_care_research_120201.pdf

43. Ibid.

44. Grant Thornton, *Australian Cost of Residential Aged Care Research*, January 2012, http://www.grantthornton.com.au/files/cost_of_care_research_120201.pdf

45. ClubsNSW, 2011 NSW Clubs Census, May 2012, http://www.clubsnsw.com.au/Files/NSW%202%20Sided%20Promo%20Flyer.pdf

46. Bankstown City Aged Care Limited, *submission to: Productivity Commission into Australian Gambling Industry*, February 2009, accessed at http://www.pc.gov.au/__data/assets/pdf_file/0005/86135/sub011.pdf

47. OECD (2012), OECD.Stat, *Labour force participation by gender and age 2010*, data extracted 12 March at http://skills.oecd.org/supplyskills/documents/21abclabourforceparticipationbygenderandage2010.html

48. Karvelas, Patricia, *The Australian*, Parents of nearly one in six children are looking for a childcare place, January 29, 2014, accessed at http://www.theaustralian.com.au/national-affairs/parents-of-nearly-one-in-six-children-are-looking-for-a-childcare-place/story-fn59niix-1226812478181

49. E Lawlor, H Kersley, S Steed, New Economics Foundation, *A Bit Rich: Calculating the Real Value to Society of Different Professions*, 2009

50. C Bouchard, Québec: Gouvernement du Québec, Quebec, Ministère de la Santé et des Services Sociaux, *Un Québec fou de ses enfants*, 1991.

51. OECD, Social Policies and Data, Family Database, Formal care and Education, *Public Spending on Childcare and Early Education services*, Percent of GDP, 2009

52. United Voice, *submission to the 2013 Productivity Commission Inquiry into childcare and early childhood learning*, February 2014, accessed at http://pc.gov.au/__data/assets/pdf_file/0005/134294/sub319-childcare.pdf

53. Productivity Commission, *Report on Government Services: Volume B: Child care, education and training*, January 2014, accessed at http://www.pc.gov.au/gsp/rogs

54. Ibid.

55. Ibid.

56. Karvelas, Patricia, *The Australian*, Parents of nearly one in six children are looking for a childcare place, January 29, 2014, accessed at http://www.theaustralian.com.au/national-affairs/parents-of-nearly-one-in-six-children-are-looking-for-a-childcare-place/story-fn59niix-1226812478181

57. Department Education, Employment and Workplace Relations, Doorstop, *Alexandria Child Care Centre: Sydney child care places*, 10 May 2013, http://ministers.deewr.gov.au/ellis/doorstop-alexandria-child-care-centre-sydney-child-care-places (above link cached at www.newsgrab.com, accessed at http://www.newsgrab.com/child-care/15322-new-data-highlights-need-for-priority-action-on-sydney-child-care-shortage-)

58. Department of Education, Employment and Workplace Relations, *New data highlights need for priority action on Sydney child care shortage*, 10 May 2013, http://ministers.deewr.gov.au/ellis/new-data-highlights-need-priority-action-sydney-child-care-shortage

59. Brennan, Deborah, University of NSW, *Review of NSW Government Funding for Early Childhood Education*, April 2012, accessed at https://www.det.nsw.edu.au/media/downloads/about-us/statistics-and-research/public-reviews-and-enquiries/review-of-nsw-government-funding-for-early-childhood-education/review_nsw_gov_funding_ece.pdf

60. Ibid.

61. Brennan, Deborah, University of NSW, *Review of NSW Government Funding for Early Childhood Education*, April 2012, accessed at https://www.det.nsw.edu.au/media/downloads/about-us/statistics-and-research/public-reviews-and-enquiries/review-of-nsw-government-funding-for-early-childhood-education/review_nsw_gov_funding_ece.pdf

62. NSW Department of Education and Communities, *Community preschool funding*, accessed at http://www.dec.nsw.gov.au/what-we-offer/regulation-and-accreditation/early-childhood-education-care/funding/community-preschool-funding

63. NSW Department of Education and Communities, *Review of NSW Government Funding for Early Childhood Education*, 13 April 2012, https://www.det.nsw.edu.au/media/downloads/about-us/statistics-and-research/public-reviews-and-enquiries/review-of-nsw-government-funding-for-early-childhood-education/review_nsw_gov_funding_ece.pdf

64. NSW Department of Education and Communities, *Lower preschool fees for NSW families*, 21 March 2013, http://www.dec.nsw.gov.au/about-us/news-at-det/media-releases1/lower-preschool-fees-for-nsw-families1

65. NSW Department of Education and Communities, *Review of NSW Government Funding for Early Childhood Education*, 13 April 2012, https://www.det.nsw.edu.au/media/downloads/about-us/statistics-and-research/public-reviews-and-enquiries/review-of-nsw-government-funding-for-early-childhood-education/review_nsw_gov_funding_ece.pdf

66. Richardson A., IBISWorld, *Caring for kids: Not-For-Profit operators and government funding dominate the industry*, IBISWorld Industry Report Q8710 Child care Services in Australia, June 2013

67. Ibid.

68. Productivity Commission, *Contribution of the Not-For-Profit Sector*, January 2010, accessed at http://www.pc.gov.au/__data/assets/pdf_file/0003/94548/not-for-profit-report.pdf

69. NSW Department of Family and Community Services, *Annual Report 2012 Part 3*, accessed at http://www.facs.nsw.gov.au/__data/assets/pdf_file/0009/262296/1229_FACS_AR-PART3_WEB.pdf

70. Ibid.

71. Ibid.

72. Jen Lee E., IBISWorld, *Demographic demand: The baby boom and ageing population spur revenue growth*, IBISWORLD Industry Report Q8700 Community Services in Australia, February 2013

73. Clubs Australia, *Submission to Federal Treasury regarding the proposed changes to income tax concessions for the Not-For-Profit sector*, accessed November 2012 at http://www.clubsaustralia.com.au/docs/default-document-library/treasury-nfp-tax-reforms-submission---final.pdf

74. Independent Pricing And Regulatory Tribunal, *Review of the Registered Clubs Industry in NSW*, June 2008, http://www.ipart.nsw.gov.au/Home/Industries/Other/Reviews_All/Registered_Clubs/Review_of_the_NSW_Registered_Clubs_Industry

75. Ibid.

76. ClubsNSW, 2011 *NSW Clubs Census*, May 2012, http://www.clubsnsw.com.au/Files/NSW%202%20Sided%20Promo%20Flyer.pdf

77. AG

78. ClubGRANTS gets tick of approval media release

79. ClubsNSW, Media Release, *ClubGRANTS gets tick of approval*, May 2013, http://www.clubsnsw.com.au/docs/default-source/default-document-library/130502-clubsnsw-welcomes-clubgrants-report.pdf?sfvrsn=2

80. ClubsNSW, *Response to the Independent Pricing and Regulatory Tribunal's Review of the Registered Clubs Industry in NSW Issues Paper*, July 2007, http://www.clubsnsw.com.au/docs/ecm-files/contentssubmission_pdf.pdf?sfvrsn=0

81. Ibid.

82. Revesby Workers Club, *ClubGRANTS*, accessed at http://www.rwc.org.au/about/clubgrants-276

83. Vidler A., *Daily Telegraph*, ClubGRANTS program offers $906,000 to Canterbury-Bankstown groups, August 2013, http://www.dailytelegraph.com.au/newslocal/south-west/clubgrants-program-offers-906000-to-canterburybankstown-groups/story-fngr8hxh-1226690279640

84. ClubsNSW, *Response to the Independent Pricing and Regulatory Tribunal's Review of the Registered Clubs Industry in NSW Issues Paper*, July 2007, http://www.clubsnsw.com.au/docs/ecm-files/contentssubmission_pdf.pdf?sfvrsn=0

85. UMR Research Pty Ltd, *NSW Clubs in their Local Communities, A Case Study*, 27 February 2009, http://www.pc.gov.au/__data/assets/pdf_file/0006/87666/sub164b.pdf

86. KPMG, National Clubs Census: *Report on the economic and social contributions of licensed clubs in Australia*, July 2012, accessed at http://www.clubsnsw.com.au/docs/ecm-files/nationalclubcensus.pdf?sfvrsn=2

87. KPMG, *National Clubs Census: Report on the economic and social contributions of licensed clubs in Australia*, July 2012, accessed at http://www.clubsnsw.com.au/docs/ecm-files/nationalclubcensus.pdf?sfvrsn=2

88. Brennan A., *Slow money: The industry is struggling against increased regulations and competition*, IBISWorld Industry Report H4530 Social Clubs in Australia, May 2013

89. Grattan Institute, *Superannuation's contribution to Australia's economic future,* June 2013, accessed at http://grattan.edu.au/static/files/assets/ebdd2b3d/519_presentation_daley_asfa_superannuation_reform_130604.pdf

90. Ibid.

91. *Australian Financial Review*, Income to fall as mining slump bites, October 2012, accessed at http://www.afr.com/p/national/income_to_fall_as_mining_slump_bites_hK1Z3Rdbj5L37zUAtXCybl

92. ClubsNSW, Liberal Party, National Party, *Memorandum of Understanding, Strong Clubs, Stronger Communities, October 2010*, http://www.maynereport.com/images/2012/05/13-16W2YUFKW00.pdf

93. NSW Office of Liquor, Gambling and Racing, Clubs, Liquor & Gaming Machine commenced 30 March 2012, accessed at http://www.olgr.nsw.gov.au/clubs_liquor_gaming_machine.asp

94. Ibid.

95. McKenney Leesha, *Sydney Morning Herald*, Club mergers pick up in new law's first year, March 2013, http://www.smh.com.au/nsw/club-mergers-pick-up-in-new-laws-first-year-20130305-2fivf.html

96. NSW Office of Liquor. Gaming and Racing, *ClubGRANTS guidelines, Gaming Machine Act 2001* (November 2012), accessed at http://www.olgr.nsw.gov.au/pdfs/Registered%20Clubs/Forms_factsheets/clubgrants_guidelines.pdf

97. Department of Health and Ageing, *Response to the Recommendations of the Independent Sports Panel*, May 2010, http://www.health.gov.au/internet/main/publishing.nsf/Content/9BDACC426F0BC9C8CA25771E0080EF4F/$File/response.pdf

98. Australian Tax Office, *Income Tax Guide for non-profit organisations*, accessed on February 14 2014 at http://www.ato.gov.au/General/Enquiry-hot-topics/In-detail/Non-profit-organisations/Income-tax-guide-for-non-profit-organisations/?page=7

99. Clubs Australia, *Submission for the Productivity Commission's inquiry into Caring for Older Australians*, July 2010, http://www.pc.gov.au/__data/assets/pdf_file/0012/101163/sub197.pdf

100. ClubsNSW, *2011 NSW Clubs Census*, May 2012, http://www.clubsnsw.com.au/Files/NSW%202%20Sided%20Promo%20Flyer.pdf

101. The Liberal Party of Australia, *Auscorps (Student Volunteer Credits) Pilot Scheme*, accessed at http://www.liberal.org.au/Share/More/AUSCORPS%20Fact%20Sheet.pdf

102. Department of Health and Ageing, *Response to the Recommendations of the Independent Sports Panel, May 2010*, http://www.health.gov.au/internet/main/publishing.nsf/Content/9BDACC426F0BC9C8CA25771E0080EF4F/$File/response.pdf

# Acknowledgements

This research project would not have been possible without the support of many people.

The McKell Institute would like to thank Senior Policy Coordinator Fellow Sam Stewart and Founding Executive Director Peter Bentley for their work on this report.

The McKell Institute would also like to express their gratitude for the assistance provided by the team at Campaign City who are responsible for the excellent production and design of this report.

We would also like to convey our thanks to the many stakeholders who contributed to our policy discussions and were consulted during the process.

A special thanks to the Richmond Club, Hawkesbury Living Health and Wellbeing, St Marys Leagues Club and the Go Bananas Program for their perspectives as providers of social services, as well as the information and data provided.

THE McKell Institute

www.mckellinstitute.org.au
wwwclubnsw.com.au