

# Submission to the Productivity Commission



- **Response by Friendly Society Private Hospital to the Productivity Commission's Draft Report into the Contribution of the Not-for-Profit Sector**

## Preamble

The Friendly Society Private Hospital (“the Friendlies”) is an 85 bed not-for-profit (“NFP”) private hospital based in Bundaberg, Queensland and has been operating at the same site since 1946. The Hospital is an acute-care facility providing vital medical services to the Wide Bay community of 110,000 residents. These services include specialities such as coronary care, urology, orthopaedic, plastic and cosmetic, together with general surgeries and medical services. There is also an on-site physiotherapy practice and the only afterhours GP practice in Bundaberg, both of which are owned and run by the Hospital.

The Hospital employs approximately 330 staff and contributes in excess of \$14 million to the local community through employee wages and benefits. A further expansion of the facility is currently underway at a cost of \$30 million and will bring new services such as cardiac catheterisations and a dedicated oncology unit. At present, patients must travel to Brisbane which is over 4 hours by road to receive this level of cardiac care.

## Response

The issues that are being responded to in this letter centre around the provision of Fringe Benefit Tax concessions and Payroll Tax concessions afforded to NFP hospitals compared to the lack of concessions for the for-profit private hospitals, as detailed in Section 8.3 of the **Productivity Commission's Draft Report into the Contribution of the Not-for-Profit Sector** (“the draft report”).

There are a number of fundamental differences between these two types of business which provide the basis for the case as to why the concessions should remain in place. Specifically, NFP hospitals fill an important gap in the health industry in areas that may be deemed to be financially unviable for a for-profit entity to establish a hospital due to the lower financial targets that are set by a NFP entity. This includes regional and/or remote areas such as Bundaberg

Any surplus that is made by a NFP hospital is returned to the business via the purchase of medical equipment or the expansion of services as is currently underway at the Friendlies Hospital. This would be difficult to achieve if the majority of these surpluses were returned to shareholders via a dividend.

NFP private hospitals are also more inclined to perform procedures or provide services that are shown to be loss-making. This activity stems from the community ethos of NFP private hospitals and is demonstrated at the Friendlies with the provision of the afterhours GP clinic. Presently the afterhours GP clinic is the only one of its type in the Bundaberg community. This business unit continues to make significant losses each month and requires extensive ongoing executive-level management due to the

complexity of staffing the service. In a for-profit environment, the business decision to close the clinic would be quite clear.

One may argue that the community service concept is accommodated by income tax exemptions, and this may be true, however it is still important to understand the fundamental differences between NFP private hospitals and for-profit private hospitals.

### Staffing Issues

The FBT concession issues raised in the draft report relate primarily to nurse resourcing at NFP and for-profit private hospital. Firstly, it should be noted that hospitals of both types must compete for staff in industries other than healthcare since 40% of the staff are non-nursing. This has been overlooked in the draft report which focused solely on nursing staff. Non-nursing staff at the Friendlies include diverse roles such as an accountant, chef, electrician, economist, IT staff, plumber, administration and cleaners. Since the Friendlies is forced to compete with industries like mining, banking and finance, building and hospitality it would suffer immensely if the FBT concession was removed because of disparity with market level wages in these sectors.

Further to this, the removal of the FBT concession for NFP private hospitals would be devastating in all staff areas if the concessions were allowed to remain in place for public hospitals. The FBT concession was originally conceived to assist public benevolent institutions and NFP private hospitals, which have limited access to funds and traditionally offer lower wages when compared to commercial businesses, the ability to offer lower wages yet still attract high quality staff through favourable “take-home” wages. It is difficult to understand why a public hospital funded by a state government which has access to vast resources is benefiting from the same concessions offered to a NFP private hospital. **It is vital that the Productivity Commission take this into consideration in the final report.**

A further point that needs to be acknowledged by the Productivity Commission is the workforce shortage of nursing staff that currently beleaguers the industry with forecasts that the situation will worsen in years to come. In Queensland alone, it is predicted that there will be a shortfall of 14,000 nursing staff by 2014 across the public and private hospital industry<sup>1</sup>. The removal of FBT concessions and the resulting lowering of “take-home” wages will further exacerbate this problem by providing less favourable working conditions and hence further reasons for nurses to leave the profession. The alarming trend in recent years of nurses exiting the profession altogether is highlighted by the recent actions of the Federal Government to enticement nurses back into the profession with payments of \$6,000. This has gone some ways in addressing the outflow of qualified, experience staff however the removal of FBT concessions will undo the progress that has been made to date.

Given that these issues are pertinent to both for-profit and NFP private hospitals, an alternative solution that may be considered by the Productivity Commission is to widen the FBT concession to include for-profit hospitals. This will assist the industry in attracting nursing staff back into the profession, and seek to correct any perceived imbalance between the two sectors.

<sup>1</sup> QNU 2009-2010 Federal Budget Submission

### Meal Entertainment Fringe Benefit Usage

The draft report contained a number of disturbing scenarios that are reported to be happening in the industry which amount to abuse of the FBT concessions by hospital staff. Specifically, the examples given show how it is easy to defraud the system and reduce ones tax by over-utilising the meal entertainment card. Whilst it is impossible to say that this doesn't happen at some point in the industry, it is alarming to think that the perception is that it is the norm.

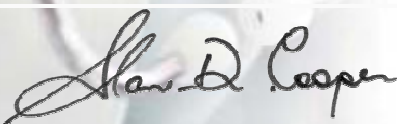
Staff at the Friendlies are well aware of the privilege bestowed upon them through the FBT concession and understand fully that the system is not to be abused. An analysis of the meal entertainment usage by staff at the Friendlies shows that not only is the uptake of the benefit minimal, the amount to which it is used is considered quite reasonable. Of those staff whose salary package, only 18% are packaging meal entertainment expenses with the average amount packaged being \$90 per fortnight. The Friendlies has a **self-imposed limit of \$200 per fortnight** that an employee can package as meal entertainment expenses. The benefit has never been promoted to Friendlies staff as a way of avoiding tax, and the possibility of having it removed due to misuse is very real.

It is disappointing to think that there are staff in the industry that abuse the privilege of the meal entertainment benefit, however it is certainly far from being common; rather there would be vehement disapproval of such abuse by fellow employees wherever it exists. **It is important that the Productivity Commission have a clear perception on the value that hospitals place upon the benefit, and that overuse or abuse of it is neither promoted nor tolerated in the industry.**

### Conclusion

The NFP private hospitals in Australia play an important role in the provision of health that simply cannot be met by for-profit and public hospitals. This is evident by the geographic localities in which NFP private hospitals exist, and the willingness to provide unprofitable services despite the business case not to.

The various tax concessions that are afforded to NFP private hospitals are vital in allowing them to exist in their current form. A removal of these concessions will result in cessation of certain services due to either staff shortages or increasing financial pressures that can no longer be endured. The Friendly Society Private Hospital rejects the notion that these tax concessions are removed for NFP private hospitals and suggests an alternative arrangement to correct any perceived imbalance by offering the FBT concessions to for-profit hospitals.



Alan Cooper  
Chief Executive Officer