



Japara Healthcare Limited ABN 54 168 631 052
Q1 Building Level 4, 1 Southbank Boulevard, Southbank, Vic 3006
PO Box 16082, Collins Street West, VIC 8007
Phone +61 3 9649 2100 Fax +61 3 9649 2129 Web japara.com.au

15 June 2018

Committee Secretary
Senate Standing Committees on Economics
Department of the Senate
PO Box 6100
Parliament House
CANBERRA ACT 2600

Dear Sir / Madam

Submission

Inquiry into the Financial and Taxation practices of for-profit aged care providers

We welcome the opportunity to provide the Senate Standing Committees on Economics ('the Committee') with a written submission in respect of the above inquiry.

Scope of inquiry

We understand that the inquiry will focus on the following:

- the use of any tax avoidance or aggressive tax minimisation strategies;
- the associated impacts on the quality of service delivery, the sustainability of the sector, or value for money for government;
- the adequacy of accountability and probity mechanisms for the expenditure of taxpayer money;
- whether current practices meet public expectations; and
- any other related matters.

Structure of submission

In accordance with the terms of reference of the inquiry, this submission:

- provides a summary of the Japara Healthcare Limited business (collectively referred to as '**Japara**') [**Appendix A**];
- sets out Japara's overall approach to effective tax management as a conservative and low-risk taxpayer [**Appendix B**];
- describes the requirements for a sustainable future [**Appendix C**]; and
- provides an overview of the aged care sector in Australia [**Appendix D**].

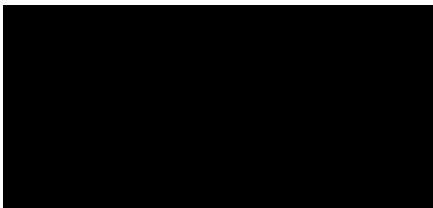
JAPARA

Japara Healthcare Limited ABN 54 168 631 052
Q1 Building Level 4, 1 Southbank Boulevard, Southbank, Vic 3006
PO Box 16082, Collins Street West, VIC 8007
Phone +61 3 9649 2100 Fax +61 3 9649 2129 Web japara.com.au

Conclusion

We thank you for the opportunity to contribute to the inquiry and we would be pleased to discuss any aspects of our business, as well as the broader for-profit aged care sector, with you.

Yours sincerely



Andrew Sudholz
Managing Director & CEO

Appendix A

Overview of Japara's business

Who we are

Japara is one of Australia's largest for-profit residential aged care providers in Australia providing care and support for over 3,800 people in Victoria, South Australia, New South Wales, Queensland and Tasmania. Japara offers a range of services within its facilities from short-term respite care, to basic 'low care' and comprehensive 'high care' options, provided by over 5,500 staff.



Figure 1 - Japara's residential aged care facilities

Our mission is to create places of welcome where we can know, learn from, celebrate and care for each individual, as a much-loved member of our Japara family.

Places that advance the frontiers of aged living, through innovation and integration of clinical practice with lifestyle pursuits, hospitality and design.

Our vision is to enrich every life we touch.

Ownership structure

Japara is a **publicly listed company**, having undertaken an IPO in 2014. It has almost 9,000 shareholders with approximately 90% of its issued share capital beneficially owned in Australia.

Growth of the business

Japara **only operates in Australia** and has grown considerably over the last five years. It has undertaken a robust development and acquisition strategy, growing from 3,383 beds in 2014 to its current size of 4,284 beds across 48 facilities as outlined in Figure 2 below.

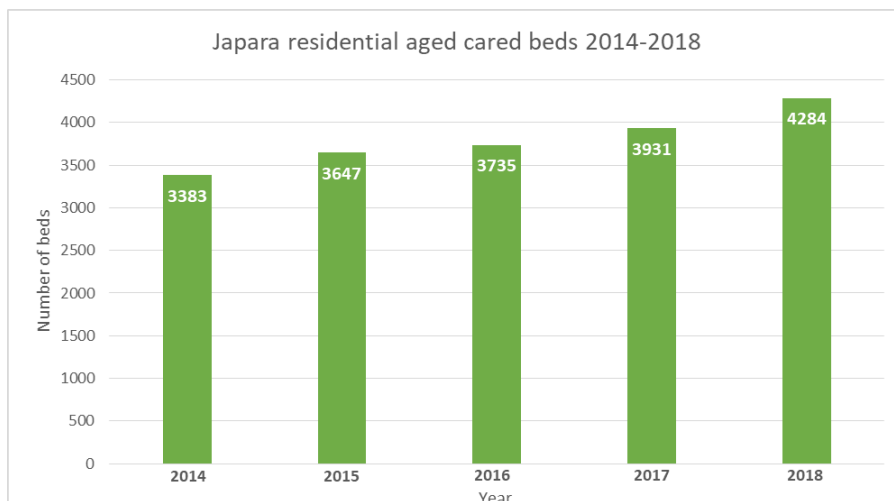


Figure 2 - growth in Japara's residential aged care beds

Japara is one of a number of for-profit providers of residential aged care who provide a range of care options and accommodation for older people unable to continue living independently in their own homes. The type of care provided ranges from personal care to assistance with activities of daily living through to nursing care on a 24-hour basis.

Residential aged care is delivered across Australia through an allocation of places by the Commonwealth Government, however the Commonwealth does not deliver services itself. It devolves that responsibility to organisations, both for-profit and not-for-profit* to deliver its aged care programs.

Figure 1 - residential aged care providers in Australia

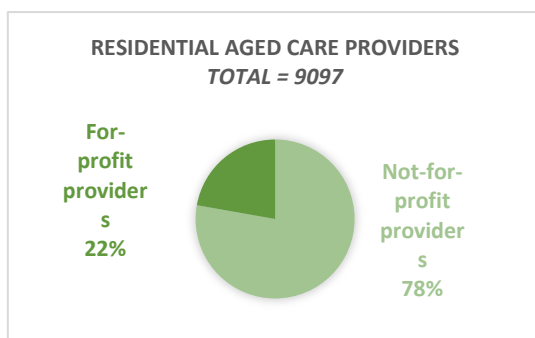
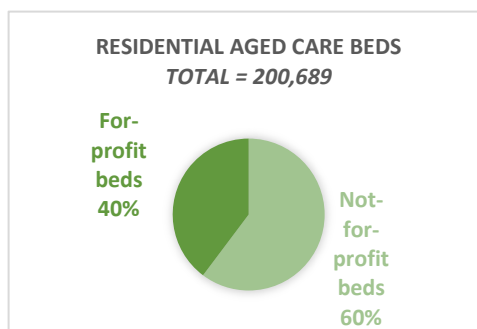


Figure 4 - residential aged care beds



All residential aged care facilities must be operated by an approved provider under the *Aged Care Act (1997)*. Only approved providers can receive Australian Government aged care subsidies. Approved providers have responsibilities and obligations to deliver the care in line with the standards that are specified in the Act and the Aged Care Principles including if providing residential aged care, the organisation must also be accredited by the Australian Aged Care Quality Agency (the Quality Agency) and also complete and lodge annually with the Department of Health (Cth) an externally audited General Purpose Financial Report and 'Annual Prudential Compliance Statement' (APCS). Further details are provided in Appendix D.

*Not-for-profit providers include community based and religious organisations as well local and state government providers.

Appendix B

Japara's approach to effective tax management

Japara's income tax profile

Japara considers itself a conservative, low-risk taxpayer.

As a listed company on the ASX, Japara is taxed as a corporate in Australia (and thus subject to the headline corporations income tax rate of 30%). The details of its effective income tax rate over recent years are referred to below.

Use of tax avoidance or aggressive tax minimisation strategies

In line with its low-risk approach to tax, and pursuant to the terms of the inquiry, Japara has not implemented or used any tax avoidance or aggressive tax minimisation strategies.

We note the Australian Tax Justice Network's report *Tax Avoidance by For-Profit Aged Care Companies: Profit Shifting of Public Funds (the Report)* dated May 2018 alleges the following:

"Regis, Estia, and Japara are listed on the Australian Securities Exchange (ASX) but appear to be using methods to reduce the amount of tax they pay while earning large profits from over \$1 billion of government subsidies."¹

The report continues:

"This report reveals that companies providing social services, and benefitting from government funding, are ... using complex tax avoidance schemes."²

Further, the Report states:

"One common method of tax avoidance is the creation of complex corporate structures and related party transactions to shift profits into jurisdictions and entities that allow for a reduction in tax payments."³

The Report also contains a brief examination into Japara's results over the 2015 – 2017 years,⁴ sourced primarily from an "examination of annual reports to shareholders and other reports, presentations, and publications available through corporate websites."⁵

As an initial response to the above, we note the following:

- Whilst the Report contains a blanket statement of Japara's apparent use of complex tax avoidance schemes, it does not provide any support for this allegation (and indeed its source of information appears to be from Japara's annual reports and other publicly available documents). Japara respectfully disagrees with these allegations and that they could apply in any way to its operations.

¹ at page 6

² at page 8

³ at page 9

⁴ at page 32

⁵ Refer to page 10 of the Report

- Japara is taxed as a company in Australia and has a simple corporate structure in respect of its underlying shareholdings. Its effective tax rate is shown below:

Japara Healthcare Limited	Year	Year	Year	Half Year
<i>(Extracts from published financial reports)</i>	FY2015	FY2016	FY2017	H1FY2018
	\$'000	\$'000	\$'000	\$'000
Profit Before Tax	39,339	41,788	42,601	14,758
Income tax expense	(10,500)	(11,413)	(12,889)	(4,479)
Net Profit After Tax	28,839	30,375	29,712	10,279
Income tax expense as % of PBT	26.69%	27.31%	30.26%	30.35%

- As referred to in Appendix A, Japara operates wholly within Australia. It has no offshore operations / corporate presence.
- Further, almost all of its value (\$440 million out of a market capitalisation of \$489 million at the time of writing) is owned by Australian investors, who benefit from its growth and distribution of frankable dividends.

Overview of taxes paid / effective income tax rate

The Japara income tax consolidated group is a significant income tax payer, having paid over \$8.5 million in income taxes in the June 2017 income year to the ATO. Further, for this year, its results indicate a 30.3% effective income tax rate, which is above the headline company rate of 30%.

In addition to its income tax contribution, Japara also paid over \$58.2 million in non-income taxes during the 2013 to 2017 income years, with the largest contributor being payroll tax at \$43.2 million, followed by stamp duty at \$13.5 million. Specifically, it is noted that Japara, as a for-profit aged care provider, stands in direct contrast with non-profit aged care providers who are exempt from having to pay any payroll tax.

As set out in Figure 5 below, Japara's total payroll tax, land tax and fringe benefit tax expense has been increasing gradually in recent years:

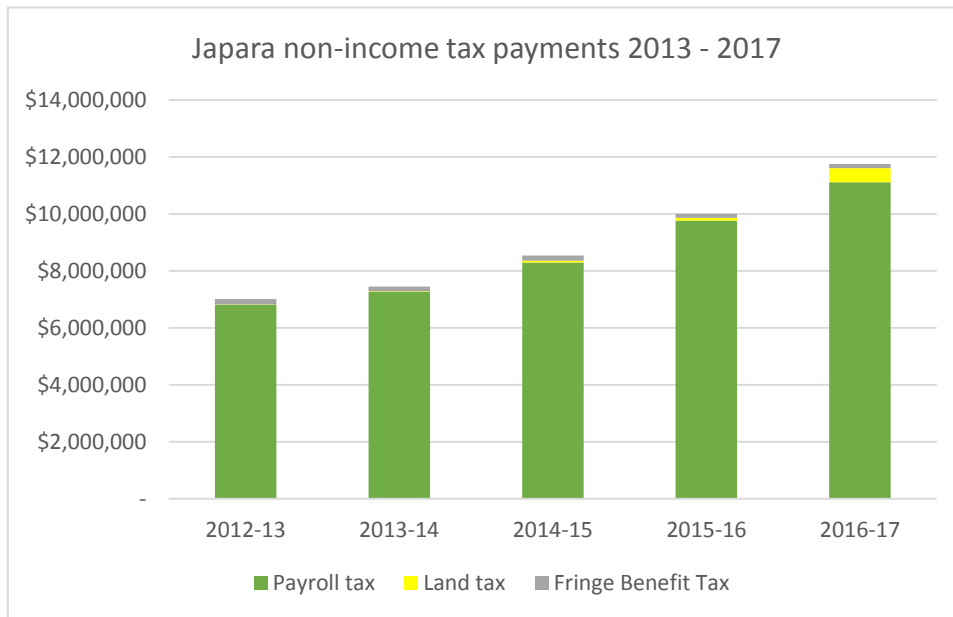


Figure 5 - growth in Japara's non-income tax payments

Engagement with external advisors and the Australian Taxation Office

Japara regards itself as having a healthy and transparent relationship with the ATO. It is subject to regular ATO reviews (most recently as part of the ATO's Top 1,000 review program). It regularly engages with its external tax advisors on significant tax matters, which includes engagement with the ATO on a proactive basis, where required.

Japara is subject to annual income tax reviews by its auditors as part of its external audit process. In addition, its income tax returns are reviewed by its external tax advisors on an annual basis prior to lodgement with the ATO.

Approach to tax governance

Japara is acutely aware of the Australian Taxation Office's (**ATO's**) Tax Risk Management and Governance Review Guide, together with the board-level and managerial-level controls relating to tax.

As part of its pro-active approach in effectively managing its tax affairs, Japara has recently engaged its external tax advisors to provide updated assistance with the further development and enhancement of its Tax Governance Policy document, and the testing of its internal controls surrounding tax. The ongoing work in this area will ensure that its conservative tax practices are appropriately documented and subject to regular review.

Appendix C

Sustainability

There have been a number of changes that have impacted upon the funding of the aged care sector, which is affecting sustainability across residential aged care. The impact of these changes is that it is more challenging to access higher care funding, whilst at the same time residents' care needs are becoming more complex within residential aged care.

The changes that have resulted in decrease funding available to providers to support the provision of care and support for residents include:

- Removal of Dementia and Severe Behaviour Supplement in 2014;
- Removal of Payroll Tax Supplement from 1 January 2015;
- Amendments to the scoring matrix for the Complex Health Care Domain in 2016;
- Adjustments to the scores and eligibility requirements for particular procedures within the Complex Health Care Domain in 2016;
- One year freeze on indexation of all Aged Care Funding Instrument (ACFI)*-subsidies in 2017-18; and
- 50 per cent freeze on the indexation of the Complex Health Care domain until 2018-19.

Changes to ACFI have also been accompanied by additional scrutiny including increased independent audits to check validity of ACFI claims, which can result in the downgrading of claims, necessitating the repayment of funds.

In addition to the above amendments to funding, the Aged Care Legislated Review, commonly known as the Tune review, noted the industry reported that the basic daily fee did not cover living expenses, and recommended that the basic daily fee be uncapped for non-low-means residents. Despite widespread industry expectation, this policy has not been announced, and the basic daily fee remains at a level that does not cover the cost of living expenses for residents.

The latest StewartBrown 2018 benchmarking report, which undertakes national benchmarking of sustainability and viability of aged care providers, identifies a continuing decline in the operating results of residential care services. The proportion of aged care facilities reporting a loss increased from 34 to 41 per cent (two in five facilities) in six months in 2017.

Whilst there has been slightly higher care revenue, the increase has not been sufficient to offset increases in direct care costs; this impact coupled with increased administration costs has also contributed to this. For example over 950 facilities showed homes were losing \$43 per bed per day on the gap between a resident's daily living expenses and the revenue received from the basic daily fee.

**The ACFI is a tool used to assess the care needs of permanent residents through a series of questions that determine funding across three domains: Activities of Daily Living (ADL), Behaviour (BEH) and Complex Health Care (CHC). The greater the assessed need in each domain, the higher the basic subsidy for the resident. This basic subsidy (determined by the ACFI) accounts for the majority of the funding (\$9.7 billion out of \$10.6 billion) the Australian Government paid for residential care subsidies and supplements in 2014–15.*

The cost of care is only likely to continue to increase. Consider the needs for example of older people with dementia, who account for more than half of all people in residential aged care. An estimated 332,000 Australians had dementia in 2014, of whom 93% were aged 65 and over and by 2050 this is expected to reach 900,000 (AIHW 2012). As dementia is one of the key drivers for older people needing to move in to residential aged care, demand for services will only increase. Factored into this is not just the need for beds but this vulnerable group often have high care and support needs which need to be funded appropriately.

In the absence of changes to ACFI, and the Basic Daily Fee, without additional revenue streams being developed by providers, there is a considerable sustainability issue across the sector. Additional short term funding needs to be identified, either through additional efficiencies in service delivery, through increasing contributions from consumers or from additional funding from Government to ensure the residential aged care sector remains viable, and to attract providers (StewartBrown 2018). Without a sustainable sector, providers will start to leave, and there will not be sufficient investment in new facilities and refurbishment of older facilities to meet the needs of the ageing population. As Government is not a direct provider of services, it is critical that the sector is able to attract and maintain providers to enable sufficient services. A competitive mix of providers, including for-profit and not-for-profit is also essential to enable choice by older people, and innovation in the sector.

Any additional measures levied to providers, which increase costs of delivering services, will impact significantly on their viability. Given the already tenuous viability of the sector, there are risks this will then impact on the care that is delivered to older people in residential aged care. Potentially providers will need to exit the sector, decreasing the number of beds and facilities available to care for older people. In addition, measures that are only applied to some, not all, providers in the sector, do not support a robust, fair and equitable market to deliver aged care.

Appendix D

Overview of the aged care sector in Australia

Introduction

Australia's high standard of living and excellent healthcare system have brought many benefits to the majority of the population, including a longer life expectancy. The growth in people aged over 65 years is forecast to more than double in size over the next 40 years from around 3.6 million in 2014-15 to around 8.9 million in 2054-55 (Treasury, 2015).

Although Australians are expected to remain active longer due to better health, a much older population will inevitably put more demand on the healthcare system and increase the demand for aged care services. This in particular arises as a significantly older population will experience more chronic illness and degenerative diseases.

Many older people wish to live independently remaining in their homes and supported in the community for as long as they are able. However there are those who find themselves losing the mobility and energy they had once taken for granted, and are unable to remain in their own homes. In these instances they move in to residential aged care.

The proportion of older people requiring high care for complex needs, which includes assistance with all activities of daily living such as eating and bathing, has quadrupled from 13% in 2009 to 61% in 2016. This is particularly evident with the increase in dementia which is a significant health problem among older Australians—an estimated 332,000 Australians had dementia in 2014, of whom 93% were aged 65 and over. This is expected to reach around 900,000 by 2050 (AIHW 2012). Dementia is one of the key drivers for older people needing to move in to residential aged care.

Current aged care service provision

The aged care industry provides older Australians with a range of different Commonwealth funded services, allowing them to access appropriate levels of care when and where they require it as they age. The key Commonwealth funded types of care are:

- **Home support (Commonwealth Home Support Programme)**, which provides entry-level support at home.
- **Home care (Home Care Packages Program)**, which provides different levels of coordinated packaged care for people in their own homes
- **Residential care**, which offers long-term (permanent) or short-term (respite) stays in an aged care facility.

Other types of Commonwealth funded care include:

- **Transition care**, which provides short-term care to restore independent living after a hospital stay
- **Short-term restorative care**, which expands on transition care to include anyone whose capacity to live independently is at risk
- **Multi-purpose services**, which offer aged care alongside health services in regional and remote areas

- **Innovative Pool**, which pilots new approaches to providing aged care
- **The National Aboriginal and Torres Strait Islander Flexible Care Program**, which provides culturally-appropriate aged care at home and in the community.

Entering into residential aged care facilities

Just over 2 in 3 people who entered aged care moved into residential care—which was roughly split between **permanent (72,100)** and **respite care (73,300)**. People spend an average of **3 years in permanent residential care**. Last year the average **occupancy rate** across all residential aged care facilities in Australia was **92%**.

To enter Australian Government subsidised residential care, a person must first be approved as a care recipient. In order to determine a person's eligibility and care needs, an Aged Care Assessment Team (ACAT) assessment must be undertaken. The average time between approval and entry into residential care was 84 days.⁶

Policy environment

The aged care sector has undergone major policy reform with reforms being progressively implemented in three phases over 10 years. These reforms have focused on providing sustainable, consumer-centric care through changes to consumer choice, funding and the aged care workforce. One of the key changes for residential aged care was removing the distinction between low and high care in residential aged care and the introduction of the Refundable Accommodation Deposit (RAD) and Daily Accommodation Payment (DAP) to fund accommodation across all residential aged care.

Workforce

In 2016 there were 235,764 staff employed in residential aged care facilities with 153,854 of those providing direct care to residents, an increase of 3% from 2012. The workforce is:

- 87 % female
- the median age 46 years
- 70 % are Personal Care Attendants (PCA)
- 32 % were born overseas
- 78 % are employed on a permanent and part time basis.

As well as paid staff the use of volunteer staff is widespread with 83 % of residential facilities using the services of volunteers.

Regulations

All residential aged care facilities must be operated by an approved provider under the Aged Care Act (1997). Only approved providers can receive Australian Government aged care subsidies.

⁶ The time between an ACAT approval and starting an aged care service is a rough measure of service access, as low numbers of available places increase waiting times

An approved provider is responsible for the decisions about the delivery of care and financial management of subsidies and care recipient's fees and payments. They have responsibilities and obligations to deliver the care in line with the standards that are specified in the Act and the Aged Care Principles.

To become an approved provider organisations must:

- be incorporated
- be able to demonstrate how it is suitable to provide aged care
- not have any disqualified individuals as key personnel
- must apply using the approved form to the Australian Department of Health
- if providing residential aged care, the organisation must also be accredited by the Australian Aged Care Quality Agency (the Quality Agency)
- complete and lodge each year with the Department of Health (Cth) an externally audited 'Annual Prudential Compliance Statement' (APCS)
- lodge annual externally audited General Purpose Financial Reports with the Department of Health (Cth)
- prepare and lodge annually the Aged Care Financial Report with the Department of Health (Cth).

The task of ensuring that approved providers meet their responsibilities in relation to quality of care is shared by the Department of Health (Cth) (the Department), the Australian Aged Care Quality Agency (Quality Agency), and the Aged Care Complaints Commissioner (Complaints Commissioner). From 1st January 2019, a new Aged Care Quality and Safety Commission will bring together these three groups under the one organisation.

Department of Health (Cth)

The Department monitors compliance with the Aged Care Act 1997 (Cth) and with any agreements or contracts with providers. A number of Principles made under the Act include among these Charters of Care Recipients' Rights and Responsibilities. These include the right to be treated with dignity and to live without exploitation, abuse or neglect. In residential care, they also include the right to live in a safe, secure and homelike environment, and to move freely both within and outside the residential care service without undue restriction.

In the event of non-compliance, the Department may take action, including imposing sanctions on the provider. Sanctions include: revoking or suspending the approved provider's approval as an aged care service provider; restricting such approval; revoking or suspending the allocation of some or all of the places allocated to a provider.⁷

Australian Aged Care Quality Agency

The Quality Agency accredits residential aged care providers, and assesses existing providers against quality standards under the Australian Aged Care Quality Agency Act 2013 (Cth). From 1 July 2018, the Quality Agency will conduct unannounced re-accreditation audits to replace announced re-accreditation audits in residential aged care services. The change will affect all residential aged care facilities applying for re-accreditation, and all residential aged care facilities with an accreditation expiry date on or after 1 January 2019. Facilities are also required to submit a self-assessment against the quality standards.

The Quality Agency also publishes Consumer Experience Reports on residential aged care facilities. These reports are aimed at promoting consumer choice by capturing the consumer experience of the quality of care and services in aged care. A report is compiled after the quality surveyors ask consumers a standardised set of interview questions during a quality review or re-accreditation audit on a service.

⁷ *Aged Care Act 1997* (Cth) s 66-1

Where non-compliance with standards is identified, the Quality Agency requires the provider to address the non-compliance and inform the Department. The Department then makes a decision about whether to impose sanctions for non-compliance. Where the Quality Agency identifies a serious risk to care recipients, the service provider and the Department are notified immediately.

Aged Care Complaints Commissioner

The Complaints Commissioner can receive complaints from any source about concerns relating to an aged care service provider's responsibilities under the Act or a provider's agreement with the resident. The Complaints Commissioner has the power to direct a service provider to demonstrate that it is meeting its responsibilities under the Act or the agreement. The Commissioner can also refer matters to the Department, the Quality Agency and other relevant agencies.

Aged Care Quality and Safety Commission (from 1 January 2019)

Japara supports the Department's reform of setting up a new national independent body unifying the functions of the Australian Aged Care Quality Agency, the Aged Care Complaints Commissioner and the aged care regulatory functions of the Department of Health (Cth).

Aged Care Financing Authority

The Aged Care Financing Authority (ACFA) provides the Government with independent advice on aged care funding and financing issues. It does so in consultation with consumers, aged care providers and the finance sector. It produces a report on funding and financing of the sector on an annual basis. It also commissions research to gain a perspective on financial challenges and opportunities that may exist or need to be addressed within the sector, including a current study looking at how consumers finance their aged care costs.

Aged Care Funding and Client Contributions

Residential aged care provides a range of care options and accommodation for older people who are unable to continue living independently in their own homes. The type of care provided ranges from personal care to assistance with activities of daily living through to nursing care on a 24-hour basis. There are also a broad range of accommodation options available to older people to meet their needs and financial position. The Australian Government total budgeted aged care expenditure 2017-18 is \$18.6 billion with 67.6% allocated to residential aged care.

Aged care residential funding can be characterised as highly regulated and complex. Government generally subsidises care for residents with an expectation that those who can contribute to the cost of their care and accommodation, will do so. The cost of residential care and the contribution Government and care recipients make varies significantly across individuals based on factors such as:

- Level of care based on assessment of need under the Aged Care Financing Instrument (ACFI)
- The date they entered into care – 'grandfathering provisions' in the legislation applies different approaches based on the date of entry into care;
- Any special needs (e.g. oxygen, enteral feeding, financial hardship);
- Type and standard of accommodation they have sought;
- Financial circumstances – including income and assets and their ability to contribute to cost of care and accommodation;

- Consumer choice of the type of accommodation payment most suited to their individual financial circumstances (e.g. a daily payment or refundable deposit or a combination of both)
- Extra services sought by the resident.

On a monthly basis the Government pays a subsidy for each care recipient to approved providers, based around the applicable:

- basic subsidy amount for each eligible permanent resident based on their classification under the ACFI;
- plus any primary supplements for each eligible care recipient (e.g. oxygen supplement, enteral feeding supplement);
- plus any other supplements for each eligible care recipient (e.g. accommodation supplement, hardship supplement, viability supplement, veterans' supplement, homeless supplement).

Providers submit a claim each month, including the details of each resident for whom they are claiming subsidy and receive an advance payment in the first few days of each month. This advance payment is then reconciled with the claim for that month and the following month's payment is adjusted accordingly, either by making an additional payment or by reducing the payment to adjust the total amount paid the previous month.

In certain circumstances, some other amounts may be deducted from the payments to a provider for repayment of capital grants, payment of additional recurrent funding and recovery of overpayments.

Providers are allowed to ask residents to pay:

- a basic daily fee (the standard rate is set at 85% of the single basic age pension))
- an income tested care fee (if their income is over the maximum income for a full pensioner) – this is a different amount for every resident as it is based on the residents income or their cost of care. Some providers will not impose the full income tested fee.
- an accommodation payment. The amount will depend on the outcome of the assets assessment and may range from nil to the full listed price of accommodation. The care recipient has a choice to pay for accommodation through an accommodation bond/refundable deposit or accommodation charge/daily accommodation payment or a combination of the two.
- fees for agreed extra or additional services.

The Government calculates the income tested fee based on an assessment of the resident's financial circumstances and advises both the care recipient and provider of the maximum income tested care fee payable.

The resident's cost of care is the amount of subsidies and primary supplements that the Government pays to the aged care provider for providing care to the resident. The payment to the provider is reduced by the amount of the income tested fee that the resident can be asked to pay. It is the responsibility of the provider to ensure the resident pays their individual contribution.

In addition to subsidised cost of care, some residents will have their accommodation costs met in full or in part by the Australian Government. Others will need to need to pay the accommodation price agreed with the provider.

If the resident is eligible for Government subsidisation (based on their means) the provider will be informed of the maximum amount the care recipient can be asked to pay, being:

- Nil: the Australian Government will pay all of the residents accommodation costs to the provider as an accommodation supplement
- An 'accommodation contribution' where the resident can be asked to pay for part of their accommodation and the Australian Government will pay the rest to the provider as an accommodation supplement.

In all other case the resident can be asked to pay an 'accommodation payment'. The resident pays the full cost of their accommodation and will negotiate the room price (up to the published price of the room) directly with the provider.

The maximum fees payable by a resident are recorded in a resident agreement and accommodation agreement. The care and accommodation agreements are established between the provider and the care recipient. It is the provider's responsibility to recover the attributed contribution from the resident – the difference between the total costs and that which is subsidised by Government based on their assessed ability to contribute. The viability of the residential aged care sector is closely aligned with the fees payable to providers to cover the costs of accommodation and care, along with the level of investment required to meet the growing demand for residential care across the country and the applicable return on investment that fees generate.

The Aged Care Financing Authority reported that in 2015-16, residents contributed \$3.1 billion towards their living expenses, \$444 million towards accommodation costs (excluding lump sum deposits) and \$456 million towards care costs.

Payroll tax supplement

In addition to the changes to ACFI, in 2015, the Commonwealth Government discontinued the payroll tax supplement. This supplement was paid to for-profit providers to offset the cost of payroll tax, which is not paid by the not-for-profit sector. The discontinuation of the supplement has resulted in payroll tax now being paid by for-profit aged care providers only, who account for 33 per cent of residential care providers. (Refer to Appendix C for further details of payroll taxes paid by Japara.)

ACFA Report – Residential Aged care – operational performance

The Aged Care Financing Authority released its "Fifth Report on Funding and Financing the Aged Care Sector" in July 2017. It noted that:

"Residential care providers generated revenue of \$17.4 billion in 2015-16, equating to \$263.92 per resident, per day. Total expenses were \$16.3 billion equating to \$247.58 per resident per day. Residents contributed around \$4.5 billion toward their living expenses, care and accommodation (excluding accommodation deposits)".

ACFA considers that the financial performance of residential care providers was generally strong, building on the strong performance in 2014-15:

- 69 per cent of residential providers achieved a net profit compared with 68 per cent in 2014-15;
- Average EBITDA per resident per annum increased from \$10,222 to \$11,134, an increase of 8.9 per cent; and
- Total net profit for the sector was \$1.1 billion, including \$1.3 billion of 'other' income which suggests operating profit is dependent on 'other' income, as in previous years.



Japara Healthcare Limited ABN 54 168 631 052
Q1 Building Level 4, 1 Southbank Boulevard, Southbank, Vic 3006
PO Box 16082, Collins Street West, VIC 8007
Phone +61 3 9649 2100 Fax +61 3 9649 2129 Web japara.com.au

ACFA notes however that the changes to ACFI to date are being reflected in marginally reduced financial results as at March 2017, and that results may decline further as the full effect of the ACFI changes and indexation pauses take effect. However, the impact of these changes will not be apparent until the 2018 annual report and beyond.

ACFA also notes that without the government providers (which represent 10 per cent of all residential care providers) included in the analysis, the average EBITDA of the remaining sector would be \$524 or 5 per cent higher than the \$11,134 reported.

The Future of Funding, Client Contributions and Choice

It is apparent that the aged care system and the Government's contribution to care and accommodation is under increasing pressure as the population ages.

A range of significant reform initiatives have been postulated within the aged care sector for the past few years to assure the continued viability of care provision within a sustainable funding model for Government. No clear direction has been provided at this juncture but it is considered likely that there may be changes in the future that will seek to promote a more viable contribution from residents for the cost of their care and accommodation while ensuring greater choice and control for the consumer on the services received.

It is also evident that Government and the sector will continue to drive reforms that provide an increased prospect of more people being capable of choosing to live safely within their own homes for longer.