AGED CARE GUILD

Submission

June 2018

Inquiry into the Financial and Tax Practices of For-Profit Aged Care Providers

On 10 May 2018, the Senate referred an inquiry into the financial and tax practices of for-profit aged care providers to the Senate Economics References Committee for inquiry and report by 14 August 2018.

This submission is made on behalf of the Aged Care Guild and member organisations.

Sustainable Quality Aged Care
Delivering Consumer Choice & Affordability

Allity arcare BlueCross Bupa JAPARA McKenzie Aged Care Opal regis healthcare

CONTENTS

AGED CARE GUILD

Sustainable Quality Aged Care
Delivering Consumer Choice & Affordability

Aged Care Guild

The Aged Care Guild ('the Guild') is an association of eight of the largest private residential aged care providers comprising 17% of the sector, including two publicly listed companies*, with more than 32,000 residents across 374 homes Australia wide (**Attachment A** provides a further snapshot of the Guild). A further 17 homes are currently under construction, and 15 refurbishments/extensions in progress. Guild members are ideally positioned, and actively seeking to drive the aged care sector's vital expansion.

The Guild, in collaboration with government and other stakeholders, works to ensure that the industry meets the needs of Australia's ageing population. The Guild pursues policy and regulatory settings that support sustainable, quality aged that is underpinned by consumer choice and affordability. The Guild members are as follows:

- Allity Aged Care
- Arcare Aged Care
- BlueCross Community and Residential Services
- Bupa Aged Care
- Japara Healthcare*
- McKenzie Aged Care Group
- Opal Aged Care
- Regis Healthcare*.

Into the future, the Guild member organisations will provide aged care and services for an increasing number of Australians in residential aged care - an undertaking and responsibility that is underpinned by a commitment to continuous improvements in quality and care standards.

Contact

Aged Care Guild
3 Spring Street, Sydney NSW 2000
P: (02) 8249 4778
E: info@agedcareguild.com.au
W: www.agedcareguild.com.au

Terms of Reference

On 10 May 2018 the Australian Senate referred an Inquiry titled "the financial and tax practices of for-profit aged care providers" to the Economics References Committee, with a report due by **14 August 2018**.

In particular the Inquiry is to cover:

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

AGED CARE GUILD

Sustainable Quality Aged Care
Delivering Consumer Choice & Affordability

Executive Summary

The Guild welcomes the opportunity for a public discussion of finances in Australia's aged care sector, in the context of the contribution made by aged care providers to our society. Two points should be immediately clear: that private providers in particular are performing an increasingly vital role in helping Australia meet its obligations to our elderly citizens; and that finances in aged care have deteriorated rapidly to the extent that the sustainability of the sector is in serious doubt.

While the urgent need is for a broad public discussion of the true state of aged care funding, the Guild recognises that this inquiry was initiated in response to the publication of a report (and the associated publicity campaign) authored by the Tax Justice Network at the behest of the Australian Nursing and Midwifery Federation. The Guild refutes the broad assertion that private aged care providers are not paying their fair share of tax; indeed the TJN/ANMF report itself shows that the rates of tax paid by aged care providers are at the higher end of tax rates paid by Australian companies.

The report contains a variety of unsubstantiated assertions or inferences that are both factually wrong and objectionable. The Guild is grateful for the opportunity to both correct these misapprehensions and inform the public of the seriousness of the financial condition of aged care and its sustainment.

Our submission and that of the industry analyst Stewart Brown illustrate a sharp decline in the finances of aged care providers. Changes of policy on public funding to aged care recipients have limited income while costs have risen at a sharply higher rate. As a result, losses are emerging in a general trend to deteriorating operating results for the industry.

Australians need to understand that aged care is both labour intensive and heavily regulated. With strict limitations on income and high mandated levels of care, the options for providers that cannot sustain persistence negative operating results are to close down their operation, sell their operation, or continue operating whilst financially hampered and risk non-compliance with quality of care standards.

Already, the financial condition of aged care has deteriorated to a level overall that will deter investment that is essential to meet the future needs of elderly Australians. Stewart Brown estimated that in the period to December 2017 aged care overall showed a return on assets of only 0.5% - whereas six months earlier it was at 1.3%. For Guild members, return on assets fell from 3.8% to 2.6% in the same period.

It is estimated that Australia will require a further 83,500 residential aged care places over the next decade[1]. Simply put, at these rates of return there is unlikely to be sufficient appetite from private investment to fund these places, and it will be left to the Government to either find the billions of dollars necessary to expand capacity or renege on its moral obligation to thousands of elderly Australians.

---

[1] Aged Care Financing Authority – Fifth Report on the Funding and Financing of Aged Care Sector – p118

Introduction

The aged care sector in Australia provides services to 1.3 million Australians and generates annual revenues totalling around $21.5 billion. The sector makes a significant contribution to the Australian economy, representing almost 1 per cent of Gross Domestic Product (GDP).

During the 2016-17 financial year, 232,252 persons received permanent care in a residential aged care facility in Australia. Australian Government expenditure on residential aged care services during that same period was $12.1 billion or 69.3% of the total expenditure on aged services by the Australian Government.[2]

Guild members make a significant contribution to this country – in terms of tax paid, workers employed and, most importantly, by providing the most practical and cost-effective pathway for our society to meet its growing obligations in aged care.

The Guild welcomes the opportunity to participate in this inquiry. In our submission we will detail the emerging crisis facing the aged care sector and illustrate the resulting threat to Australia's capacity to cope with expanding demand for residential beds. We will demonstrate shortcomings in the arguments made by those who seek to conflate falling profitability with tax avoidance, and outline the already stringent regime in place to guarantee accountability and probity in the sector.

StewartBrown Submission

StewartBrown, Chartered Accountants, are recognised as a leading professional firm within the aged care sector and provide financial and consulting services to well over 150 provider organisations nationally.

StewartBrown issue regular sector financial analysis reports derived from their quarterly benchmark survey which is used as a reference for all stakeholders in the sector, including the Department of Health, Aged Care Financing Authority (ACFA), Council on the Ageing (COTA), provider organisations, peak bodies, consumer groups, media, academic institutions, service providers and other interested parties.

StewartBrown advised the sector that it had made a detailed submission to the Inquiry, and it was made publicly available on their website after being formally submitted.

The StewartBrown Inquiry submission includes significant commentary and analysis which the Aged Care Guild feels is important in the context of the Inquiry and is of specific relevance to the Guild response submission. For clarity, rather than replicate similar commentary, the Guild submission will refer to the StewartBrown submission where appropriate.

For-profit providers

For the sake of simplicity the term "for-profit" (FP) has been used in this submission to describe those providers who are not classified as "not-for-profit" for Australian taxation purposes. It should be noted, however, that Guild member Bupa is part of the global Bupa Group, which has no shareholders and reinvests profits to the benefit of its members.

[2] *Productivity Commission Report on Government Services 2018 Available:* https://www.gen-agedcaredata.gov.au/Resources/Reports-and-publications/2018/January/Report-on-Government-Services-2018-part-f,-chapte*).*

The case for private investment in aged care

Residential aged care is delivered to senior Australians by service providers who are approved under the *Aged Care Act 1997*. Residential aged care provides a range of care options and accommodation for senior Australians who are unable to continue living independently in their own homes.

Operating Costs

Whilst residential aged care differs from hospital care, the two are often discussed concurrently. There is a large disparity in the operating costs and related government funding for residential aged care as compared to hospitals. The respective cost per day comparisons are as follows:

Residential aged care: $247.11 per bed day (December 2017)
(Source: StewartBrown Aged Care Financial Performance Survey - December 2017)

Overnight admitted acute hospital care: national average cost per day is $2,179
Same day admitted acute hospital care: national average cost per day is $1,319
Sub-acute and non-acute hospital services the average cost per day is $1,070.
Average cost (national) of an Emergency Department presentation is $652
(Source: The Independent Hospital Pricing Authority - March 2018)

The best comparison is probably with the sub-acute and non-acute hospitals which has a cost differential of $823 per day. This represents a very large value for money that is provided by residential aged care providers.

Capital Costs

In recent years, investment in residential aged care has been led by the private sector. In the 2015 Aged Care Approvals Round (ACAR) private providers were given responsibility for 63% of the 10,940 new places allocated. This was repeated in the 2016-17 ACAR where 64% of the 9,911 places were allocated to private sector providers. There has also been a growing trend for the private sector providers to take on existing facilities in order to grow their portfolios. This consolidation and allocation of places has seen the overall share of the operational residential care places held by for-profit providers increase marginally over recent years.

For-profit providers have an incentive to make better use of their capital. Regardless of taxations status (for profit, not for profit) both private and public investment requires sufficient levels of return to attract capital contributions. Returns on capital investment need to be sufficient to maintain current levels of investment and to attract new investment to meet the capital needs of the future.

ACFA in its Fifth report on the *Funding and Financing of the Aged Care Sector*, estimated that the residential care sector will need to build an additional 83,500 places over the next decade in order to meet the provision target of 78 operational places per 1,000 people aged 70 and over. This compares with 33,667 new places that came online over the previous decade.

At the same time, the sector will need to rebuild a substantial proportion of its current ageing asset stock. Assuming that a quarter of the current stock of buildings is rebuilt at an even rate over the next decade, the Department of Health estimates that the investment required of the sector over the next decade to be in the order of $35 billion[3].

[3] Aged Care Financing Authority – Fifth Report on the Funding and Financing of Aged Care Sector – p118

This is a staggering figure, and the question must be asked – where will this money come from? Given that government only supplies a small amount of capital grants for residential aged care (around $65 million in each of the past two ACARs), the majority of this investment must come from the for-profit and NFP sectors. Based on the 63% ratio of the aged care places allocated to the for-profit sector in the past two ACARs (arguably a conservative projection), it follows that for-profit providers will need to finance at least 63% of capital investment into residential care infrastructure to meet society's needs for residential aged care places.

This will not be achieved unless there are sufficient returns available on that new investment, in the form of a sustainable level of returns for aged care operators.

It is also important to note that apart from the burden that they will shoulder across the sector in generating new investment in aged care, Guild members already provide significant support for financially disadvantaged residents. In most of the areas that Guild members operate aged care facilities, the required regional supported resident[4] ratio is at or below 20%, yet Guild members have an average supported resident ratio in excess of 35%. For these residents, Guild members are unlikely to be receiving the level of accommodation income that they would otherwise be able to achieve if the resident was not financially supported.

Where will the capital come from?

Capital for residential aged care providers can be obtained from a variety of sources as follows:

- equity investments - this requires an adequate return to maintain current investors as well as attract new investment;
- loans from financial institutions - requires sufficient operating profits to service the interest costs and to repay the debt;
- loans from private individuals - requires sufficient operating profits to service the interest costs and to repay the debt;
- interest free loans from residents in the form of refundable accommodation deposits – these can be used for certain permitted uses but there are restrictions on the type of capital expenditure they can be used for: for example, they are unable to be used for regular replacement of plant and equipment;
- capital grants from government - very limited and targeted to regional and remote areas and projects targeted to special needs groups; and
- retained earnings - organisations need to achieve sufficient returns to generate a level of retained earnings that will sustain capital expenditure levels, routine capital replacement has to be funded from retained earnings, as do dividends and other returns to shareholders in the case of private providers.

If the sector is not generating sufficient returns and cash flows to fund future capital expenditure and attract further equity investment or interest from financiers, then the only other alternative will be for government to fund the capital required by the sector or face the prospect of failing our elderly population.

Prior to the introduction of the *Aged Care Act 1997*, the government did fund large parts of the capital required by the sector through various schemes, from dollar-for-dollar funding to interest rebates. More recently the government also used zero real interest loans to help some providers to finance capital expenditure.

[4] A support resident is a permanent resident who is assessed to not have capacity to contribute to all or part of their accommodation costs as determined under the *Aged Care Act 1997* and associated *Principles.*

A more sustainable funding base is urgently required to support the estimated future investment of around $35 billion over the next decade needed to meet new demand. This is compounded by the rebuild and refurbishment cost of existing facilities well in excess of this amount.

Alternatively, without a more sustainable funding base there would be a requirement for government to substantially increase its capital funding for the aged care sector to levels well beyond the current estimates of around $60 million.

How profitable is the aged care sector?

As stated throughout this submission, achieving an adequate return is vital to the sustainability of the businesses and therefore the sector. It is essential to drive the investment required to meet the future demands for residential places.

The following tables provide some comparisons of the operating performance and position of Guild members in relation to other parts of the sector. We have made comparison to data made available by StewartBrown in respect of their *Aged Care Financial Performance Survey*, which provides the largest financial benchmark within the aged care sector, as well as to publicly available information for the listed entities.

One aspect that is important to note regarding these comparisons is that it is for the whole of organisation, rather than just the residential care segment.

Operating results and employee expenses of Guild members compared to sector comparators

	Guild Members December 2017 (6 months)	**Guild Members June 2017 (12 months)**	**StewartBrown Survey December 2017 (6 months)**	**StewartBrown Survey June 2017 (12 months)**	**Listed Entities December 2017 (6 months)**
EBT return on assets (ROA)	1.91%	3.34%	0.5%	1.3%	3.5%
Employee expenses as % of operating revenue	68.1%	67.1%	69.6%	67.6%	67.3%

Guild members do compare well with other aged care providers in relation to the level of returns, particularly when compared against the NFP sector. There are a number of reasons for this including that a greater number of Guild member's facilities provide extra/additional services, and that most of their facilities are located in major cities or large regional centres which can therefore attract a higher accommodation payment.

Guild members also strive to be efficient in the way that their enterprises are managed to maximise shareholder value and this often includes the early adoption of technology and putting in place more efficient administrative environments.

The data certainly shows that the FP sector, including the Guild members and listed entities, do not achieve these higher returns through a significant reduction in staff costs, with employee costs as a percentage of revenue largely consistent across the sector.

Guild members, along with many others in the FP sector also contribute taxes to various levels of government in addition to income tax including payroll taxes, stamp duties, council rates and fringe benefits tax. The NFP sector is exempt from paying most of these taxes, either in part or in full.

Key Balance Sheet ratios of Guild members compared to sector comparators

	Guild Members December 2017 (6 months)	Guild Members June 2017 (12 months)	StewartBrown Survey December 2017 (6 months)	StewartBrown Survey June 2017 (12 months)	Listed Entities December 2017 (6 months)
Net assets as proportion of total assets	20.1%	20.2%	34.4%	36.6%	31.4%
Property assets as proportion of total assets	63.2%	63.0%	65.1%	67.0%	54.0%
Cash + financial assets as proportion of refundable loans	16.2%	13.0%	54.3%	50.3%	5.7%
Cash + financial assets as proportion of debt	12.2%	9.9%	51.0%	47.1%	4.6%

A significant number of the participants in the StewartBrown survey are NFP entities and this is reflected in the construct of their balance sheets. FP aged care providers tend to be more highly geared whereas NFP providers generally have far more conservative balance sheets. This is also one of the reasons that FP entities tend to demonstrate stronger returns on average as they put their assets to work. The balance sheet of Guild members remain strong and all providers maintain liquidity levels in line with prudential requirements mandated by the *Aged Care Act 1997* and the associated *Aged Care Principles*.

It is also informative to compare the returns of Guild members and the sector generally to those being achieved by other sectors of the economy. The following table does that by examining the Return on Assets for various ASX Global Industry Classification Standard (GCIS) groupings including aged care.

Return on Asset comparisons to other industry groups

GICS Group	***2017 %***	***2018 (est) %***	***2019 (est) %***
Commercial and professional services	12.01	11.56	12.46
Consumer services	17.41	15.37	16.04
Food and staples retailing	10.28	10.57	10.81
Health care equipment & services	14.87	16.95	16.57
Media	19.43	16.85	15.90
Retailing	13.10	13.67	14.54
Software & services	29.77	31.70	33.17
Telecommunication services	11.01	11.44	11.26
Transportation	4.65	5.11	5.88
Guild members (average)	***3.80***	***2.60***	***N/A***

(Source: JBWere/UBS)

By any measure, to say that Guild members are reaping large profits through taxpayer subsidies is incorrect. In fact, taxpayer subsidies are used to fund residents' care – not profits – and the returns in the aged care sector are far less than many other sectors, as demonstrated by the data in the table above. Doubly concerning is that returns are declining across the sector and should that trend continue, neither investors nor financial institutions will continue to provide equity and debt funding.

Capital is a scarce economic resource. If comparatively reasonable returns cannot be made on invested capital in the aged care sector, many funders will favour other business opportunities in the economy that demonstrate reliable and sustained returns on capital. Without this investment, all the necessary beds will not be built, and increasing numbers of elderly Australians who are no longer able to live independently at home, will not be able to access residential aged care.

Addressing Sustainability

"Financial sustainability is one of the key aims of the ongoing reform of the aged care sector"

Lynda O'Grady
Chairman Aged Care Financing Authority[5]

> Population ageing means that there is growing demand for aged care. This requires significant investment in the sector, particularly in the capital intensive residential sector. The viability and sustainability of residential care and the expansion of services that will be required will be dependent on ongoing investment. The industry needs to generate rates of return on capital that are appropriate for the risk involved and are competitive with returns in other sectors.
>
> Viable and well-run providers are best placed to attract the financial capital, experienced management and sufficient quality staff required to deliver long term industry sustainability and growth. To be viable, a provider, whether not-for-profit, for-profit or government owned, must have access to sufficient funds to repair and replace their capital stock, be able to maintain working capital to support their operations, and use capital efficiently relative to the other purposes to which it could be deployed.
>
> Investment activity requires equity investor and debt provider confidence in the viability of providers to deliver sustainable returns on capital and of the sector overall. The amount of (and change in) invested capital is one key metric of sustainability.
>
> *ACFA - Fifth Report on the Funding and Financing of the Aged Care Sector*

Guild members are of a similar view to that expressed above by ACFA. Guild members strive to manage their operations efficiently and effectively while achieving quality outcomes for their residents and their families.

All aged care providers, whether they be for-profit or not-for-profit, need a sustainable financial base to be able to have confidence in making investment decisions for the future. This is a future that will rely on aged care providers, such as the members of the Guild, who are willing to invest in the infrastructure required by future residents.

Public Accountability and Probity

Aged care providers are subject to a vast amount of existing regulatory oversight in relation to both quality outcomes and financial reporting, including:

[5] Foreword to the Fifth report on the Funding and Financing of the Aged Care Sector, July 2017, p 14

- Audited General Purpose Financial Reports (GPFR), which are prepared by all provides, lodged with the Department of Health and furnished to prospective and existing residents who request them
- Aged Care Financial Reports, which must be lodged with the Department of Health
- Annual Prudential Compliance Statements, which must be lodged annually with the Department of Health and extracts furnished to residents that have paid a refundable deposit and prospective residents should they request it.

In addition to the mandated reporting regime under the *Aged Care Act 1997* and associated *Principles*, approved providers must comply with the normal reporting requirements relating to their structures to bodies such as the Australian Charities and Not-for-profit Commission (charitable institutions) and the Australian Securities and Investments Commission (FP entities) as well as to State bodies should they be incorporated associations or co-operatives. Listed entities also must report under the Australian Stock Exchange reporting regime.

Accountability on care

The Guild advocates the development of sustainable aged care that delivers consumer choice. Its members are invested in providing quality care and to that end they are taking their own initiative towards transparency and accountability by publishing quarterly evaluations of their facilities (the aggregated results for Guild members for Quarter 1, 2018 are shown in the next table).

Publishing of aggregated Consumer Experience Reports, which are conducted by the *Australian Aged Care Quality Agency*, will give the community valuable insights into residents' satisfaction with the care and services they receive, as well as highlighting and informing management of areas that require attention. The Guild will report on responses to the surveys, which are also considered and deliberated on at Guild Board meetings and provide a simple and straightforward measure of consumer sentiment and experience.

Our members are also eager to contribute to the implementation of other recommendations from the Carnell-Paterson Review that go to the need and an expectation for greater transparency and information that helps inform consumers' decision making and views of aged care homes.

Q1 2018: 1 Jan to 31 Mar		**No. of Surveys this Quarter: 16**
	Resident Statement	***Consumer Rating***
1.	**Staff treat me with respect**	**97.2%**
2.	**I feel safe here**	**96.3%**
3.	**Staff meet my healthcare needs**	**98.6%**
4.	**Staff follow-up things I raise with them**	**91.4%**
5.	**Staff explain things to me**	**92.5%**
6.	**I like the food here**	**87.9%**
7.	**If sad or worried, there are staff here I can talk to**	**80.4%**
8.	**Staff here know what they're doing**	**93.5%**
9.	**This place is well run**	**89.4%**
10.	**I am encouraged to do as much as I can for myself**	**95.9.%**
Overall	`	**92.3%**

For further information, please visit: www.aacqa.gov.au/publications/consumer-experience-reports.

A weighted average score of 92.3% is calculated and presented in the same way that the *Australian Aged Care Quality Agency* reports its data, and the recent average score is consistent with the rating from the previous quarter.

Addressing the Tax Justice Network Report

In May 2018 the self-named Tax Justice Network - Australia (TJN) issued a report titled "*Tax Avoidance by For-Profit Aged Care Companies: Profit Shifting on Public Funds*" (the Report). The Report was commissioned by the Australian Nursing & Midwifery Federation (ANMF) and appears to be one of the catalysts for the Senate Inquiry and the related Terms of Reference.

TJN did not make any representation to the five Guild members examined in the Report to verify their assertions or seek a response. In our opinion this alone limits the integrity of the Report.

The Guild is not defensive, in any respect, in responding to the incorrect assumptions and allegations that are contained in the TJN Report. We do question the motives and the lack of balance and integrity of the Report and the very contrived manner it was made available to the media and public domain. Most importantly, we are concerned that the TJN report can serve to mislead and distract from the critical discussion this country needs to be having, that is, how to sustainably fund the Australian aged care system.

For this reason only, we were obliged to respond to the TJN Report in this submission. We note that the StewartBrown submission provides a detailed commentary on the Report and we support much of their analysis.

In short, the Guild disputes the premise of the Report and most of the alleged facts and inferences it contains. In summary, the areas we wish to record our strong objections to are addressed below.

<u>Transparency on Government Spending</u>

First, as we have demonstrated there are abundant measures in place in both the health and corporate regulatory spaces to provide for transparency and accountability in the sector, and the guild is working hard to support greater transparency in the system.

Second, the shock value of the Report is premised on a misleading sense that government funding is provided directly to providers who are able to funnel it directly to profit. The *Aged Care Act* and associated *Principles* clearly outlines how aged care providers utilise the subsidy and supplements for each care recipient to support their care.

<u>Alleged Tax Avoidance</u>

There is no concrete, factual evidence provided in the Report to support the contention that FP providers are avoiding tax. Although laden with generalisations and suggestions, it fails to clearly establish a link between alleged financial arrangements and tax avoidance.

Legal structures, accounting treatment and tax law can be complex, particularly for entities with diverse operations, however, taxable income is determined by tax law and not "accounting methods" as the Report asserts.

The use of the terms "maximise operating income" and "avoid tax" in the same context is one clear demonstration that the TJN Report has confused revenue, taxable income and tax payable and lacks an understanding of taxation and accounting methodology.

Low Tax Payable by For-Profit Providers

As noted above, the Report refers to the relationship between Total Revenue/Taxable Income/Tax Payable and implies that, given the level of revenue, the amount of tax payable by the FP sector is lower than it should be. However, the Report does not explain the justification or rationale of comparing revenue with tax payable.

Not all businesses have the same ratio of profit to revenue, so it is inappropriate to compare the profitability of the aged care providers to revenue or, for that matter, to other unrelated industries. The amount of tax payable by FP providers is based on the taxable income of the entity and not its revenue, so the reference to the low ratio between tax payable and revenue is irrelevant and is not grounds for claiming that there is endemic tax avoidance or use of accounting structuring to avoid tax.

On the contrary, it is noted that in Table 2 of the Report that the combined tax payable for the six providers of $154 million as a percentage of their reported taxable income of $517.2 million represents an average tax rate of 29.2% which is in line with the corporate tax rate of 30%.

The Report does not address the real reasons for the apparent low taxable income and corresponding tax payable, which is directly related to the moderate profit return of the aged care sector, the deductibility of large capital assets and the costs related to acquisition.

Public Information

The Report also suggests that FP entities "…provide very little information on their operations and financial performance", however, the reporting obligations as required by the Department of Health for Approved Providers are the same for both FP and NFP providers.

Providers are required to prepare audited General Purpose Financial Reports and various disclosures under the *User Rights Principles 2014* and *Fees and Payments Principles 2014*. In addition, the ASX listed entities must comply with the disclosure requirements of the ASX and all other FP entities are required to lodge their financial reports with ASIC.

The Guild considers that the current level of public disclosure (including to residents and prospective residents) is appropriate and adequate, and further reporting will simply incur additional administration cost and is likely to duplicate what is already available in the public domain.

Financial Performance

The Report implies that the FP providers are making large profits, gained substantially from recurrent government subsidy funding, and inferring that these profits are excessive and are at the expense of improving care service delivery to residents. There is no actual evidence provided in the Report, or in the public domain, to support this incorrect contention.

In fact, the sector as a whole is underperforming financially, with an average Return on Assets employed (ROA), based on the 2016 ACFA Annual Report, of only 1.7%. The 2017 actual and 2018 forecast results have further deteriorated. As previously mentioned, this level of return on assets employed is insufficient to warrant large scale equity investment in the aged care sector.

For-Profit Ownership Growth

The Report asserts that "there has been rapid growth in the size and spread of for-profit companies". This statement is both incorrect and misleading, and implies that the shift to FP is rapid, and by extension, may not be in the best interests of the sector. We reject this implication and also refer the Inquiry to the Department of Health and ACFA statistics which show that the ownership ratio between FP and NFP providers has remained fairly constant over the last 10 years.

Size of Providers

It is true that the FP providers are an important part of the aged care sector, but it is not true, as claimed in the Report, that "Bupa, Opal, Regis and Estia are the largest aged care providers nationally". These entities may be the largest FP providers but there are a number of NFP providers when grouped nationally are larger or equivalent in size. In any case, we question why the subject of size of providers is relevant.

Statement on Tax Avoidance and Minimisation

Tax payable is determined in accordance with the *Income Tax Assessment Acts* and is administered by the Australian Taxation Office. All aged care providers must comply with Australian Taxation Law.

The Guild members do not participate in tax avoidance. In fact, as noted previously and noted in the TJN Report, the average tax paid on taxable income is comparable with the corporate tax rate of 30%.

There are additional reporting requirements regarding group structure of the aged care provider including listing all related entities through the Aged Care Financial Report (ACFR) submitted to the Department of Health annually. The ACFR report also requires a note of any distributions made including "a brief reason (e.g. distribution of profit to trust for tax purposes, or scheduled dividend paid to shareholders").

The Guild members also have their financial statements independently audited, and such audits include tax payable, related party transactions, transfer pricing and reference to all financial disclosures. The Audit Reports have not been qualified nor any adverse opinion expressed.

Supporting Aged Care Guild Publications

The Guild has made a number of other submissions to various enquiries and some of these are relevant to the subjects included in this submission. These are referenced below:

Enquiry into the Quality of Care in Residential Aged Care Facilities in Australia:

Effectiveness of the Aged Care Quality Assessment and accreditation framework for protecting residents from abuse and poor practices, and ensuring proper clinical and medical care standards are maintained and practised

2018-19 Pre-Budget Submission

Inquiry into the Future of Australia's Aged Care Sector Workforce

http://www.agedcareguild.com.au/Publications

http://www.agedcareguild.com.au/Submissions

AGED CARE GUILD

Sustainable Quality Aged Care
Delivering Consumer Choice & Affordability

Attachment A – Aged Care Guild Snapshot

PROFILE	June 2017 *(12 months)* Total	December 2017 *(6 months)* Total
Structure		
Facility numbers (operational)	353	364
Facility numbers (under construction - new)	27	17
Facility numbers (under construction - extensions)	17	15
Operating bed numbers	33,403	34,644
Beds under development/construction	4,322	3,603
Home Care Packages	504	558
Resident		
Total number of residents	31,401	31,729
Number of supported residents	11,850	11,640
Supported resident ratio %	37.7%	36.7%
Average occupancy %	94.5%	93.0%
Average age of resident entry (years)	84.0	83.8
Average length of stay of residents (years)	2.13	2.10
Workforce		
Employee numbers (direct care)	29,176	29,520
Employee numbers (total)	41,359	42,493
PAYG tax payments (employees)	335,845,376	179,222,415
Workers compensation premium cost	41,798,657	20,780,245
Refundable loans		
Average $ value of RAD/bond at the end of period	341,541	363,609
Statutory taxes		
Payroll tax	91,475,373	48,862,279
Stamp duty	2,016,000	
Land tax	3,735,084	