Senator Chris Ketter
Chair
Senate Standing Committees on Economics
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Dear Senator Ketter

Financial and tax practices of for-profit aged care providers

The Health Care Consumers' Association (HCCA) was incorporated in 1978 and is both a health promotion agency and the peak consumer advocacy organisation in the Canberra region. HCCA provides a voice for consumers on health issues and provides opportunities for health care consumers to participate in all levels of health service planning, policy development and decision making.

HCCA involves consumers through

- consumer representation and consumer and community consultations,
- training in health rights and navigating the health system,
- community forums and information sessions about health services, and
- research into consumer experience of human services.

HCCA is a member-based organisation and for this submission we consulted with members of the HCCA Health of Older People Consumer Reference Group. Our membership intersects with that of COTA Australia. We have also been speaking with Dr Richard Cumpston, whom we believe has made a submission. Therefore, some of the ideas relayed here may also be covered in other submissions. We do not claim ownership of these ideas but rather lend our voice to calls for improvement.

Comments on other related matters

Our members feel very strongly that the probity of aged care providers is essential to the sound functioning of the aged care system. The recent report *Tax Avoidance by For-Profit Aged Care Companies*[i] provides evidence that profits gained with the support of Government funding are being privately appropriated through aggressive tax avoidance. This amounts to poor value for the Australian Government and contemptible treatment of the Australian taxpaying public. Bluntly put, cost-cutting practices within aged care facilities are putting the recipients of publicly funded aged care services at risk. Furthermore, the Australian Government is currently exposed to considerable financial risk in its role as the Accommodation Deposit guarantor.

The deficiencies in prudential oversight has allowed the development of highly geared aged care providers, with high risks of financial failure. These include a number of major for-profit providers who have funded their expansion via substantial borrowing. As a result of takeover activity during the past decade, a small number of major private providers are now responsible for the accommodation of tens of thousands of aged care residents, and the stewardship of billions of dollars of refundable accommodation payments.

Industry analysts are on record as expressing concern about the debt/equity ratios of certain of these for-profit providers whose financial position has been publicly reported because they are ASX-listed companies. In some cases, the financial position appears sound superficially, but relies on the inclusion of a high proportion of intangible assets, such as goodwill. There are other major for-profit providers whose financial position is not publicly known.

The collapse of any one of these providers could result in large financial losses to the Commonwealth, which guarantees the refund of accommodation bonds, not to mention great distress for the affected residents and their families. At 30 June 2016 aged care providers had $21.9 billion of refundable accommodation deposits.[ii] The average value of these deposits was $266,717. Although the repayment of these deposits is guaranteed by the Commonwealth, considerable stress and difficulty can occur to residents before the guarantee scheme is triggered. Should one of the very large providers collapse financially, the Government is liable both financially and morally. Not only will it have to cover the costs, it will need to address the immediate concerns of aged care residents left without care.

HCCA envisages several possible remedies

- Requiring providers to supply copies of their aged care accounts in response to any request, beyond the existing requirements applying to requests from prospective residents

- Making summaries of the provider general purpose financial reports available on the web

- Publishing Department of Health financial risk assessments for each provider

- Restricting the holding of resident deposits to the owners of residential care facilities

- Requiring providers to operate through entities whose sole function is the provision of aged care in Australia

- Requiring providers to submit financial accounts in standard format

- Requiring providers to have assets exceeding their liabilities by sufficient margins to give reasonable probabilities of adequacy

- Restricting the use of intangible assets in establishing asset adequacy.

Thank you for the opportunity to put forward consumer views on the financial and tax practices of for-profit aged care providers.

Yours sincerely

KDwan

Dr Kathryn Dwan
Manger, Policy & Research
14 June 2018

[i] *Tax avoidance by for-profit aged care companies: profit shifting on public funds. Proposals for transparency on government spending* Prepared by Jason Ward, Australian Nursing & Midwifery Federation, May 2018. http://apo.org.au/node/143346 (accessed 14 June 2018).

[ii] *Fifth report on the funding and financing of the Aged Care Industry*, Aged Care Funding Authority, Australian Government, July 2017, page xiv. https://agedcare.health.gov.au/sites/g/files/net1426/f/documents/08_2017/design_version_2017_acfa_annual_report.pdf (accessed 14 June 2018).