Care factor high as inquiry sheds light on aged facility finances

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As the banking royal commission dominates the headlines, a crucial inquiry into aged care is coming into focus.

Currently, there is much suspicion and mistrust between aged-care providers and the government over the billions of dollars of government funding and subsidies being poured into residential aged care.

This may not be surprising. In the past some aged-care providers have artificially boosted their government payments by overstating the requirements of residents.

The increasing number of for-profit aged-care providers — and their increasing size — has added to the mistrust.

Aged-care providers receive payments from the government according to a complex formula that includes the basic subsidy (the Aged Care Funding Instrument, or ACFI), additional supplements and cuts in subsidies.

In 2017, the government received a report on a major review of the ACFI, which concluded that the 10-year old ACFI formula was no longer fit for purpose. To date there has been no government response to this document.

Instead on May 10, 2018, the Senate referred an inquiry into the financial and tax practices of for-profit aged-care providers to the Senate Economics References Committee, with a report due in August. Submissions are due by 8 June 2018.

The committee will explore the financial and tax practices of for-profit aged-care providers, with particular reference to:

- The use of tax avoidance or aggressive tax minimisation.
- The associated impacts on the quality of service delivery, the sustainability of the sector, and whether or not the government funding provides value for money
- The adequacy of accountability and probity mechanisms for the expenditure of taxpayer money.
- Whether current practices meet public expectations.

The mix of aged-care providers has been changing in Australia over several years. The forecast increase in demand for new residential places is expected to increase from 220,000 beds now to 750,000 beds by 2050.

This increase in demand is being largely met by the for-profit providers which, during the past three years, have received 63 per cent of new licences granted by the Aged Care Approval Rounds. Meanwhile, the for-profit providers have acquired existing facilities to increase their portfolios.

At the same time many people feel that aged-care providers should only be not-for-profit.

But the trend is in the other direction: In 2013-14, the for-profit providers' share of the residential aged-care market was 37 per cent, compared to the not-for-profits with 52 per cent and government 11 per cent. For-profit providers are now in the majority.

Meanwhile, as the population ages, the government has had to come to terms with the rise in funding requirements. Aged-care spend by the government is forecast to increase from $16.8 billion in 2017-18 to $22.2bn in 2021-22.

In 2015-16 the six largest for-profit aged-care providers received more than $2.17 billion in government funding. They generated after-tax profits of $210 million, after paying tax of $154m.

These providers say they are hard-pressed to make a reasonable return from their investment when the government continues to cut back on funding.

However, a recent Tax Justice Network Australia report says that loopholes in the system and cleverly disguised corporate structures and tactics to manipulate operating income and avoid tax allow the for-profit providers to cry foul on the government's funding model. Only three of the for-profit providers — Japara, Regis and Estia — are listed.

Private operators are not required to provide detailed disclosure about their activities. It will be fascinating to see what the Senate Committee is able to unearth.

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