

Budget 2014: Changes hit hard for Japara Health, which enters trading halt after aged care funding cuts

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Newly listed aged care provider Japara Healthcare has gone into a trading halt in response to the federal budget's axing of aged care funding.

The company is examining potential damage to its earnings outlook after the federal government announced it would **cut payroll supplements paid to commercial aged care providers** from July, 2015.

Axing the supplement, which helps commercial aged care services meet payroll tax requirements and is only paid for care-related staff, will **save government \$653 million** by 2018.

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"Until the relevant legalisation has been passed and the impact of other proposed reforms are quantified, the overall budget outcome of these budget reforms are their ultimate impact on the company it unclear," Japara Healthcare said in a **statement to the Australian Securities Exchange**.

Australian Payroll Association executive director Tracey Angwin told *SmartCompany* payroll tax comprises a significant amount – an average of 5% – of commercial providers' employment costs.

Angwin says while Japara's outlook will be boosted by the care requirements of Australia's ageing population, axing payroll subsidies could force Japara to cut "non-essential" staff and increase their prices.

"In terms of [Japara's] outlook, it's pretty good based on the aged care outlook because we've got an ageing population. What they need to do is revisit the cost base of their staff, which will be one of their biggest expenses."

"Any benefits or pay rises above award requirements will suffer in the short term... it could also potentially lead to Japara cutting non-essential or non-clinical staff," she says.

Bupa Care Services Australia managing director Louis Dudley told *SmartCompany* it has "serious concerns" about the potential impacts of payroll tax supplement cut.

"To remove the supplement in isolation skews the competitive landscape, which will negatively impact innovation and growth at a time when demand for the sector is increasing rapidly," he says.

"Any changes that increase the cost of doing business will impact on the affordability of aged care and the viability of the industry."

The government said it will offset the payroll tax cuts by shifting \$1.5 billion from the payroll tax supplement into a general aged care funding pool.

Japara, which surged by 30% on its offer price of \$2.61 since listing last month, has maintained its forecasts of \$41.5 million in pre-tax earnings in 2014 and \$49 million in 2015 due to greater than expected increases in supplements and additional revenue in 2015.

Japara said in its ASX statement it will recommence trading on May 16 or when it responds formally to the budget.

Japara declined to comment further to *SmartCompany*.