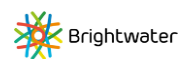


SUBMISSION TO THE RESIDENTIAL AGED CARE ACCOMMODATION PRICING REVIEW

Advance Ageing Western Australia
November 2025



INTRODUCTION

Advance Ageing Western Australia is pleased to contribute to the Residential Aged Care Accommodation Pricing Review.

Advance Ageing Western Australia is a collaboration of seven of the state's largest and most respected aged care providers, established in 2020 to bring together shared expertise and deep knowledge of the sector as it operates within the distinct context of Western Australia.

Our organisations, Amana Living, BaptistCare, Bethanie, Brightwater Care Group, Hall & Prior, Juniper, and Southern Cross Care (WA), collectively employ over 15,000 staff and deliver care and support to more than 24,000 older people across the State.

Together, we are committed to ensuring policy, reform, and funding decisions reflect the distinct landscape of aged care in Western Australia and are responsive to the evolving needs of our ageing population. As members of national industry bodies, we also work to support and contribute to a unified and evidence-informed voice at a time of significant reform and transformation across the aged care system nationally.

The new rights-based Aged Care Act is designed to ensure all older Australians can access safe, high-quality, person-centred care. The government's Accommodation Supplement is a vital mechanism for ensuring this equity of access. However, without addressing the financial interplay between the supplement for supported residents, pricing for non-supported residents, capital investment pressures, and escalating operational cost burdens being borne by aged care providers, government risks leaving older people in care and accommodation settings that are inappropriate for their needs.

The submission sets out the case for reforming accommodation pricing to ensure equity, quality, and sustainable investment in the aged care system. It demonstrates where the current framework is failing to keep pace with real cost growth in capital, maintenance, utilities, and compliance, and specifically how this risks disadvantage to residents of low means, as well as vulnerable and underserved cohorts. Without a pricing framework that adequately reflects the true cost of equitable and dignified residential aged care, this places undue burden on aged care providers to deliver on the rights and expectations of older Australians.

WESTERN AUSTRALIAN CONTEXT

Western Australia faces structural, economic and geographic challenges that are distinct from other jurisdictions in Australia's aged care landscape. The state's vast landmass, dispersed population, and regional inequities mean that aged care providers operate across environments ranging from more densely populated metropolitan areas of Perth to thin markets in regional and remote areas of the state.

As Western Australia faces rapid growth in its older population, demand for residential aged care is increasing at an exponential rate. All the while, hospitals across the state are experiencing gridlock, with older long-stay patients unable to be discharged because of a lack of appropriate residential aged care places.

Residential aged care capacity in Western Australia has not kept pace with demand with consecutive Aged Care Approval Rounds from the mid 2000's onwards being significantly undersubscribed until the conclusion of that process in 2020.

Further compounding the issue, the provision of Commonwealth funded aged care places remains well below the national average for both residential aged care (65.5 places per 1000 people aged 70+ vs 71.4 nationally) and home care packages and CHSP (176 places per 1000 people aged 70+ vs 236 nationally).

As a result, by 2030 an additional 2,800 residential aged care places will be needed to address the projected shortage of places across the state, noting that this will be dependent on a significant uptake of Support at Home packages; if the current under allocation of home care packages to Western Australia persists, the predicted shortfall of residential places is expected to reach 5,500 by 2030.

Against this backdrop, infrastructure costs weigh heavily on providers. The nationally accepted benchmark for constructing a new residential aged care place is \$500,000 per bed. In Western Australia, costs are significantly higher, averaging between \$570,000 and \$620,000 per bed, before land and commissioning costs are factored in. Project timelines have also stretched to seven years from planning through to opening, making forward planning both risky and expensive.

The challenge is compounded by the fact that Western Australia's aged care infrastructure is itself ageing. Without the ability to carry out significant refurbishments, some facilities will need to be decommissioned in the next 10 – 15 years. This means effective capacity will continue to shrink at the same time as demand is intensifying, creating an even wider gap between the projected demand and the actual number of beds that must be built or brought online.

THE ACCOMMODATION SUPPLEMENT IS FOUNDATIONAL TO AGED CARE FUNDING ARCHITECTURE

Advance Ageing Western Australia (WA) recognises the Accommodation Supplement as a critical pillar of Australia's aged care funding system, intended to ensure older people with limited financial means can access safe, dignified residential aged care. However, the current structure and value of the supplement have not kept pace with the actual costs of providing, maintaining, and renewing aged care infrastructure.

StewartBrown (June 2025) reports that more than 60% of residential aged care facilities nationally are operating with negative accommodation margins, and highlights that the real value of the supplement has deteriorated over the past decade, with cost increases in utilities, maintenance, insurance, and compliance outstripping indexation by over 12% since 2021. This is creating a widening structural gap between funding and expenditure, threatening the sustainability of the sector.

The Aged Care Funding Taskforce identified the Weighted Average Cost of Capital (WACC) for aged care as 10%. This figure is essential for understanding the financial viability of residential aged care. For instance, if the cost to construct a compliant aged care bed is approximately \$600,000, applying a WACC of 10% results in a required return of \$60,000 per year - or around \$165 per bed per day. This daily rate is necessary to ensure facilities generate sufficient cashflow to cover depreciation, maintenance, and future redevelopment over the building's lifecycle. Importantly, this is not a profit margin, but a discount rate - comprising the risk-free rate and a risk-weighted return used in discounted cashflow analysis to assess business case viability when considering a capital project.

The Accommodation Supplement is reviewed biannually and indexed in line with pension movements. While the indexation mechanism is appropriate, the base subsidy rate has not been recalibrated to reflect the cost of capital in residential aged care for more than a decade. The current rate is approximately \$46.26 per bed per day for an older, unrefurbished facility - representing a gap of \$118.74 per bed per day when compared to the Cost of Capital benchmark of \$165. This supplement is paid when providers accommodate concessional residents at or above the minimum concessional resident ratio.

Providers can increase the supplement rate in older buildings by undertaking significant refurbishments that enhance resident amenity. This refurbishment grant is paid daily, provided the facility houses 40% or more concessional residents. The current supplement for significantly refurbished homes meeting this threshold is approximately \$70.94 per bed per day, still leaving a gap of \$94.06 per bed per day compared to the cost of capital. This higher rate also applies to newly constructed buildings after 20 April 2012.

The Higher Accommodation Supplement (HAS), introduced to incentivise modern, high-quality accommodation, has also diminished in effectiveness. Many facilities that initially qualified now face declining eligibility as their infrastructure ages yet lack the financial capacity to fund the upgrades needed to retain higher status. The absence of a structured "reset" mechanism tied to certified refurbishment discourages proactive investment and creates a disincentive to maintain facilities at contemporary standards.

The incentive system for accepting residents of low means - based on a single 40% threshold - also creates a cliff effect. Providers with a low means proportion just below the threshold receive no additional benefit, while those exceeding it incur higher unrecovered costs. In Western Australia, where catchment demographics vary widely, this rigid mechanism penalises providers serving socioeconomically mixed or regional populations where often the entire residential cohort is concessional.

When compared to other states, Western Australia has some of the highest ratios of supported residents, particularly in non-metropolitan regions. Because the Accommodation Supplement is a flat national rate, it fails to account for geographic disparities. Western Australian providers, particularly those in thin markets, are therefore forced to absorb higher costs without corresponding revenue adjustments.

As such, Advance Ageing WA supports recommendations to adopt progressive thresholds or stepped loadings that reward incremental increases in supported residents and remove current disincentives.

The absence of a clear quality-linkage in the supplement framework further limits its impact. While the funding system aims to ensure baseline access, it does not adequately drive continuous improvement in accommodation standards. Data from StewartBrown (2025) and the Independent Health and Aged Care Pricing Authority (IHACPA, 2025) show that more than 40% of facilities were built before 2000 and no longer meet contemporary expectations.

In Western Australia, this issue is further exacerbated by the ageing nature of the state's residential aged care infrastructure. A large number of facilities are expected to be decommissioned over the next 10 to 15 years as they fall short of modern standards and the evolving needs of older people. As a result, effective capacity is declining just as demand is accelerating - widening the gap between projected need and the number of beds that must be built or brought online to meet future requirements.

Advance Ageing WA advocates for a system that ties part of the supplement to measurable accommodation quality indicators - such as ensuite ratios, accessible design, dementia-friendly features, and energy performance. In Western Australia, where smaller and remote facilities face higher upgrade costs, a scaled quality-uplift payment or targeted refurbishment grant could support compliance without compromising financial viability. This must also consider the cultural preferences of older people being cared for.

In summary, the current funding framework is under-indexed, geographically inequitable, and poorly aligned with modern quality expectations. It places undue pressure on providers - especially in Western Australia's regional and remote areas - to absorb rising costs while maintaining safe and culturally appropriate accommodation. Without structural reform, the system risks deepening regional inequities and compromising access for older people of limited means.

CAPITAL INVESTMENT, FINANCIAL SUSTAINABILITY, EQUIVALENCE AND PRICING TRANSPARENCY

Advance Ageing WA identifies the decline in capital investment in aged care as one of the sector's most urgent challenges.

In Western Australia, this issue is compounded by higher construction and financing costs. Independent market analysis shows that lenders view Western Australian aged care projects as higher risk due to smaller catchment populations, workforce shortages, and potentially limited resale value

Without stronger capital incentives, the pipeline of new residential places is expected to continue to shrink. This is particularly concerning in Western Australia, where the ratio of residential aged care places to the population aged 85+ is already below the national average (AIHW, 2024). As the population of older Western Australians grows, pressure on existing infrastructure will intensify, with limited capacity for replacement or expansion.

Financial sustainability is further undermined by the current pricing model for non-supported residents. The use of the Maximum Permissible Interest Rate (MPIR) as the equivalence mechanism between lump-sum Refundable Accommodation Deposits (RADs) and Daily Accommodation Payments (DAPs) has become increasingly volatile and disconnected from the sector's actual cost of capital. During periods of interest-rate fluctuation, the MPIR either understates or overstates equivalence, creating uncertainty for both consumers and providers. For providers, this volatility affects liquidity and cash-flow management; for residents, it makes pricing less predictable and harder to compare.

Pricing transparency remains a parallel concern. Consumers continue to report difficulty understanding the relationship between RADs and DAPs. Advance Ageing WA supports reforms such as DAP-first display requirements, mandatory publication of equivalent RADs, refund projections, and mixed payment examples to make accommodation costs more understandable to residents and families. In Western Australia, where older renters, pension-reliant individuals, and people from CALD backgrounds represent a growing share of entrants, clarity and fairness in pricing are essential to maintaining access and trust.

The absence of multi-year policy certainty further compounds these pressures. There is continued reluctance to undertake large-scale capital projects without confidence that funding parameters will remain stable. A structured, multi-year supplement and equivalence framework indexed to cost drivers and reviewed transparently, would restore predictability and encourage long-term investment.

In short, the current capital and pricing environment does not support sustainable investment or consumer confidence. Western Australia, with its dispersed population and high-cost base, is disproportionately affected. Advance Ageing WA calls for reform that addresses not only supplement adequacy but also capital enablement, financing access, and pricing transparency.

EQUITY FOR VULNERABLE AND UNDERSERVED COHORTS

The accommodation pricing framework must do more to address the structural inequities faced by underserved and vulnerable cohorts who experience barriers to accessing safe, appropriate and affordable residential aged care. These include older Aboriginal and Torres Strait Islanders, people from culturally and linguistically diverse backgrounds, residents living with dementia or disability, veterans, older women and renters with low assets, and those at risk of homelessness or elder abuse.

The *Aged Care Funding Taskforce Final Report (2024)* and the *AIHW Aboriginal and Torres Strait Islander Health Performance Framework (2023)* highlighted that First Nations Australians access residential aged care at markedly low rates, often due to geographic, cultural and trust barriers. In Western Australia, 16% of Aboriginal people live in very remote areas where access to local health infrastructure is limited. These regions face some of the highest construction and workforce costs in the country, with operating costs estimated to be 25-30% higher than in metropolitan areas.

Incorporating remote area loadings into the Accommodation Supplement is therefore essential to sustain services that allow older First Nations people to remain on Country, close to kinship networks and where high-quality care can be provided in culturally led accommodation settings.

In Western Australia, approximately 40% of people over 65 were born overseas, with many speaking a language other than English at home. For Culturally and Linguistically Diverse (CALD) communities, culturally safe environments, bilingual staff and translated materials represent core components of equitable aged care.

Dementia Australia (2024) has estimated that more than 421,000 Australians are living with dementia, a number projected to double by 2054. In Western Australia, approximately 70% of aged care residents have a diagnosis of dementia or significant cognitive impairment (AIHW, 2023).

As rates of homelessness across Australia increase, rental stress among older people has become a pronounced driver of premature entry into residential aged care. In particular, older single women now represent the fastest-growing group experiencing homelessness, many entering aged care without substantial assets and unable to afford Refundable Accommodation Deposits and relying on age pension to fund Daily Accommodation Payments.

Ensuring equitable accommodation for underserved cohorts requires a pricing and supplement framework that reflects a commitment to cultural, geographic and demographic diversity.

REFORM PRIORITIES AND RECOMMENDATIONS

Advance Ageing WA proposes the following priorities and recommendations to address the structural, financial, and geographic inequities in the current accommodation pricing framework. These reforms are grounded in evidence, tailored to Western Australia's context, and aligned with a rights-based, equity-focused approach to aged care.

Equity of access for low-means residents

The current Accommodation Supplement does not reflect the true cost of providing quality accommodation for concessional residents. While it has been recommended that the benchmark to restore viability is \$70.94 per bed day, the actual cost of providing and maintaining quality accommodation – particularly when depreciation, maintenance and development are included, is \$165 per day.

Recommendations:

- If it takes \$165 per day to ensure facilities generate sufficient cashflow to fund future developments and asset renewal, then any suggestion of lifting the supplement to \$70.94 per day will fall well short of what is required.
- Apply loadings for regional and remote facilities in regions such as the Kimberley and Pilbara.
- Tie a portion of the supplement to accommodation quality benchmarks, including ensuite rooms, dementia-friendly design, and accessibility features.

Capital investment and financial sustainability

Residential aged care is capital-intensive. In Western Australia, build costs exceed \$600,000 per bed, and project timelines can stretch up to seven years. Providers face significant barriers to investment due to inadequate recurrent funding and uncertain policy settings.

Recommendations:

- Introduce \$100,000 construction subsidies per concessional bed in areas where there are demonstrated shortages of beds and a corresponding high presence of potential concessional residents.
- Approve the retention of a flat 2% of RAD, applied to the initial amount rather than on a reducing balance. The current reducing-balance is unnecessarily complex, creates administrative burden and affects how providers manage resident agreements and deductions. A flat-rate approach would simplify compliance, enhance transparency for residents and provide greater certainty and equity across facilities.
- Establish a low or zero interest loan scheme (similar to the previous ZRIL scheme) to facilitate the construction of facilities that target concessional resident ratios of 40% or more.
- Guarantee multi-year supplement settings to support investment confidence.
- Provide upgrade bonuses for certified refurbishments that improve resident amenity.

Reforming the supplement structure

The current binary threshold (40%) creates cliff effects and disincentivises incremental increases in concessional admissions. A universal supplement rate is also inequitable given geographic cost variations.

Recommendations:

- Tier supplement rates by remoteness classification to reflect actual operating costs.
- Introduce graduated incentives for concessional resident ratios.
- Implement decay mechanisms for the Higher Accommodation Supplement (HAS), with eligibility resets following certified refurbishment.
- Require capital renewal plans and link supplement eligibility to compliance with quality and infrastructure standards.

Pricing Transparency and Consumer Protection

The current RAD/DAP equivalence mechanism based on the Maximum Permissible Interest Rate (MPIR) is volatile and poorly aligned with actual capital costs. Consumers face confusion and providers face liquidity risks.

Recommendations:

- To ensure fair and sustainable capital returns, the current MPIR methodology should be replaced with a framework that better reflects the true cost of capital. The Weighted Average Cost of Capital (WACC) methodology, with a minimum floor rate of 8% per annum, would recognise that cost of capital is provider-specific and is influenced by size, risk profile, location and asset age.
- Introduce equivalence corridors (e.g. $\pm 0.5\%$) to allow limited provider flexibility.
- Make DAP the default display price, with mandatory disclosures of:
 - o Equivalent RAD
 - o Refund and retention projections
 - o Scenario tables
 - o Plain-language summaries

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CONCLUSION

Advance Ageing WA recommends that the immediate priority should be to address the structural inadequacy of the accommodation supplement. The current accommodation pricing framework is no longer fit for purpose; it fails to reflect the true cost of developing and maintaining residential accommodation, particularly in an environment of escalating construction costs and constrained capital.

A comprehensive reset aligned with contemporary cost data and a WACC-based return on capital should be the first order of business, recognising that before contextual and provider-specific solutions can be effectively introduced, that the underlying funding mechanism needs to be addressed at a wholesale level.

Once the framework is recalibrated and made fit-for-purpose, targeted adjustments for regional, remote and other contexts can be designed to address local equity and access challenges. Aged care providers cannot address these challenges alone. Reforming the pricing framework requires collective stewardship—bringing together Commonwealth, state and local governments, aged care providers, and community stakeholders to ensure that pricing mechanisms are fair, transparent, and responsive to local realities.

The reforms proposed in this submission are grounded in evidence and aligned to Western Australia's context. They include adjustments to the base supplement, progressive thresholds for concessional residents, remote area loadings, quality-linked payments, and a shift to a WACC-based model. Together, these changes will support financial sustainability, encourage capital renewal, and ensure that older Australians—regardless of income, background or location—can access safe, high-quality accommodation.



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