



Ageing  
Australia

# Accommodation Pricing Review Consultation Paper Submission

Ageing Australia

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## About Ageing Australia

Ageing Australia is the national peak body representing providers across the aged care sector, including retirement living, seniors housing, residential care, home care, community care and related services.

We represent the majority of service providers, working together to create a sector that empowers older Australians to age with dignity, care and respect.

We advocate for a sector that champions excellence, sustainability and innovation, ensuring our members have the tools, resources and guidance they need to deliver exceptional services.

We use our united voice to amplify our members' contributions and concerns to government, media and the wider community.

We are committed to reshaping the future of ageing in Australia by fostering collaboration and driving meaningful change, making it a fulfilling journey.

## Executive Summary

Ageing Australia welcomes the opportunity to provide a submission to the Accommodation Pricing Review (the Review) on the appropriateness of current settings for the Accommodation Supplement and accommodation pricing into the future.

The aged care sector is preparing for a significant rise in demand as baby boomers start to enter residential aged care, bringing with them evolving expectations and unprecedented scale. However, the supply of new residential aged care beds remains constrained, with the sector delivering a net increase of only 802 beds last year, against a projected requirement for 10,000 additional beds annually over the next decade<sup>1</sup>. Persistent shortfalls in supply reflect ongoing issues with sector viability, investment appeal and rapidly escalating operational and development costs.

Rising construction costs and limited returns from accommodation revenue are major barriers to new development and continue to deter investment. At the same time, tightening margins in care delivery and living services, combined with more rigid cost structures linked to care minutes and more rigorous liquidity requirements, are constraining efficiency and the productive use of existing capital.

The combination of these factors places significant pressure on accommodation revenue streams to generate a return. These are critical not only to the viability and sustainability of existing residential care providers, but also attracting new investment essential for expanding bed capacity. Any accommodation pricing framework must balance these financial realities with the need to ensure access and equity, so that quality accommodation remains accessible for older people with limited means.

Our recommendations emphasise the need for a pricing framework that is sufficient, provides predictability, encourages investment and remains flexible across provider and project types. Given the complexity and urgency of current challenges, we recommend both short and long term measures. An increase in accommodation supplement rates is needed in the short term to restore confidence and investment in capital development. Longer term reform of the pricing framework is needed to underpin sustained investment and sustainability. These actions will help ensure the sector can meet growing demand for high quality, accessible accommodation for all older Australians.

We acknowledge the complexity of this Review as it considers a range of policy and implementation options. Further sector analysis will be required, including detailed modelling of potential approaches. We see our recommendations as the beginning of broader consultation with this Review. Ageing Australia looks forward to actively contributing to the Review process to ensure accommodation pricing reforms deliver practical, equitable and long lasting outcomes.

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<sup>1</sup> Senate Estimate - 2025-26 Supplementary Budget estimates, 9 October 2025

## Summary of Recommendations

### Accommodation Supplement for Supported Residents

- R1** Ensure Accommodation Supplement rates support revenue adequacy and capital investment.
- 1.1 Increase the Accommodation Supplement rate to ensure revenue is set at a sufficient level to enable capital investment for new and refurbished residential aged care.
  - 1.2 Ensure the Accommodation Supplement rates take into account the provider's cost of capital and other factors, covering more than just accommodation expenses.
- R2** Apply a graduated, tiered or sliding scale for the Accommodation Supplement to encourage providers to offer accommodation to supported residents, promoting equitable access.

### Pricing for Non-Supported Residents

- R3** Ensure any equivalency mechanism to convert accommodation payment types is consistent, transparent and takes into account the cost of capital.
- R4** Explore different payment models for non-supported accommodation pricing, while considering the potential for increased variability and uncertainty that may arise from changes in default payment types.

## **Accommodation Supplement for Supported Residents**

### **R1 Ensure Accommodation Supplement rates support revenue adequacy and capital investment.**

#### **1.1 Increase the Accommodation Supplement rate to ensure revenue is set at a sufficient level to enable capital investment for new and refurbished residential aged care.**

The current Accommodation Supplement rate is inadequate to fully cover the true cost of providing accommodation in residential aged care homes.

Analysis of Stewart Brown's aged care financial survey data for 2024-25 financial year reveals that, at current Accommodation Supplement rates, average accommodation revenue does not cover the full costs of accommodation – with a loss of \$12.05 per resident per day. These costs include depreciation of current building infrastructure which represents the gradual loss in asset value over time - essential to capturing the true cost of providing accommodation. As a result, providers cannot cover ongoing operational costs and therefore lack the capacity to invest in renewing ageing stock or building the new homes urgently required.

To strengthen the incentive to invest in capital development any increase in the Accommodation Supplement must do more than cover direct accommodation costs. Financial institutions require assurance of returns beyond cost recovery before committing capital to new or refurbished aged care developments. Relying solely on non-supported accommodation revenue (Refundable Accommodation Deposits (RADs)) and Daily Accommodation Payments (DAPs)) risks limiting access to those who can afford upfront or ongoing fees.

#### *Addressing equity*

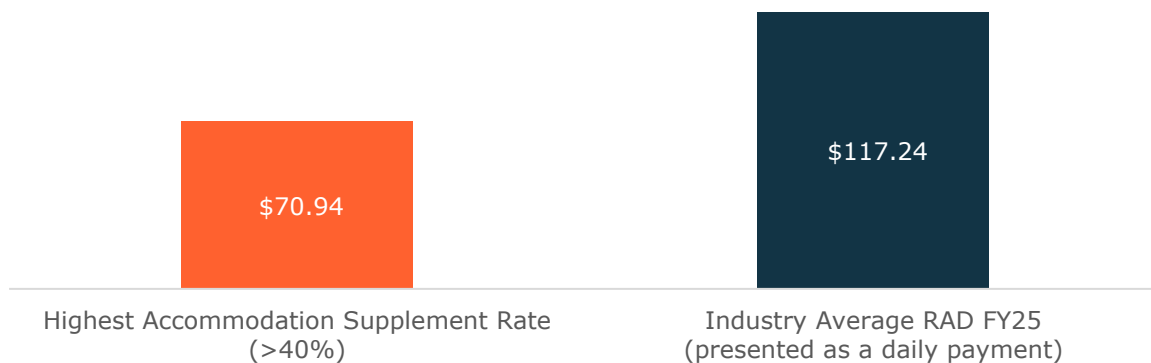
Increasing the Accommodation Supplement will reduce the difference between supported and non-supported accommodation pricing, promoting greater parity and fairness within the aged care sector. Currently, the highest Accommodation Supplement daily rate of \$70.94 is approximately 39.5% lower than the average daily price for non-supported accommodation at \$117.24<sup>2</sup> (see Figure 1). This highlights a funding difference of \$46.30 per bed per day or roughly \$16,899 per resident annually. Combined with the existing 40% supported resident threshold (see Recommendation 2), this funding gap is contributing to challenges for providers in maintaining sustainable accommodation offerings for supported residents. The financial disincentives created by lower Accommodation Supplement rates and the threshold mechanism may discourage investment in supported accommodation.

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<sup>2</sup> Stewart Brown, Aged Care Financial Performance Survey Report: Twelve Months Ending 30 June 2025. *Based on an average new full RAD of \$562,316 calculated at the current Maximum Permissible Interest Rate (MPIR) of 7.61%.*

Increasing Supplement rates would help build a sustainable system that supports quality accommodation for all residents, regardless of their financial means.

**Figure 1: Comparison of Highest Accommodation Supplement Rate with Sector Average Non-Supported Accommodation Pricing<sup>3</sup>**



#### *Recommended action*

Both short-term and longer-term changes to the Accommodation Supplement are essential to enable sector sustainability and continued access to quality aged care accommodation.

An immediate increase in the Accommodation Supplement within the existing framework is needed to improve provider viability and attract capital investment. This increase should be incorporated into the 2026–27 Federal Budget to relieve cost pressures and activate the capital planning process to build more beds.

Over the longer term, the pricing framework must be reformed to ensure sustainable funding for maintenance, renewal and quality improvements—essential foundations for a high-performing aged care sector. Providers need a pricing model that reliably covers all costs to attract the capital investment required for growth and ongoing facility upgrades. Raising Accommodation Supplement rates to reflect these needs is critical to attracting providers and lenders, fostering capital flow to developments that improve accommodation quality and availability for older Australians with limited means.

#### **1.2 Ensure the Accommodation Supplement rates take into account the provider’s cost of capital and other factors, covering more than just accommodation expenses.**

The foundation for determining an adequate Accommodation Supplement must incorporate the true cost of capital faced by providers. A key challenge is the wide variety of providers in terms of their scale, ways of operating and the locations of their homes. These differences affect the risks they face and ultimately the cost of capital for each provider.

<sup>3</sup> Stewart Brown, Aged Care Financial Performance Survey Report: Twelve Months Ending 30 June 2025.

Accommodation Supplement rates should be grounded in a clear understanding of the provider’s cost of capital. Providers also support the need to include adjustment factors that accurately reflect provider-specific risk factors. These adjustments must be integrated within the Accommodation Supplement pricing framework to ensure it fairly captures the varied financial circumstances of different providers.

In addition, the framework should distinguish between capital investment types—such as greenfield developments, brownfield projects and refurbishments—while maintaining clarity and administrative efficiency. Higher rates may be appropriate for new developments to recognise their greater capital intensity, but the structure should remain flexible to reflect diverse operational models, locational factors and investment profiles. A balanced, well-defined approach will reduce administrative burden, support innovation and ensure sustainable accommodation delivery across the sector.

**R2 Apply a graduated, tiered or sliding scale for the Accommodation Supplement to encourage providers to offer accommodation to supported residents, promoting equitable access.**

Access and equity remain important considerations in the provision of aged care accommodation. We support the adoption of a graduated, tiered or sliding scale model for the Accommodation Supplement as a mechanism to encourage providers to offer quality accommodation to residents with limited financial means.

Feedback from providers has identified challenges with the current system, notably the distinct cut-off point at the 40% supported resident ratio where the Accommodation Supplement rate is determined (see Figure 2). This threshold may not effectively promote equitable access for supported residents. The current Accommodation Supplement structure and rates have the potential to influence provider decisions around admitting supported residents. Due to the differences in funding when the ratio of supported residents falls below 40%, the reduced Supplement rate may incentivise providers to prioritise non-supported resident accommodation to maintain sustainability.

**Figure 2: Higher Accommodation Supplement Rates (from 20 September 2025)**

<b>If the service is significantly refurbished or newly built on or after 20 April 2012</b>	
<b>Eligibility</b>	<b>Daily supplement rate (\$)</b>
<b>40% or more of the permanent residents in the facility in the relevant payment period are low means care recipients, supported residents, or residents for whom concessional resident supplement is payable</b>	70.94
<b>Less than 40% of the permanent residents in the facility in the relevant payment period are low means care recipients, supported residents, or residents for whom concessional resident supplement is payable</b>	53.21

Based on services eligible for the Higher Accommodation Supplement (reflecting approximately 86% of the sector), the difference in the daily rate between meeting the 40% threshold and not meeting the threshold is currently \$17.73 per resident per day<sup>4</sup> (see Figure 3), equating to \$6,471 per resident per annum.

**Figure 3: Accommodation Supplement (Maximum) daily rate difference for services eligible for the Higher Accommodation Supplement (from 20 September 2025)**



This difference in the Accommodation Supplement can materially affect a provider's financial position and the stability of service delivery, particularly as generating a margin in care and everyday living areas becomes increasingly challenging. Given the loss in funding, those providers who cannot maintain a 40% supported resident ratio due to local factors are incentivised to preference non-supported residents whose higher average accommodation payments help offset the reduction in income. This can exacerbate equity and access challenges for participants.

A graduated or sliding scale approach would better align financial incentives by progressively rewarding providers as the proportion of supported residents increases. This approach could help provide a more balanced and sustainable accommodation model, promoting both provider viability and access for supported residents.

## Pricing for Non-Supported Residents

### **R3 Ensure any equivalency mechanism to convert accommodation payment types is consistent, transparent and takes into account the cost of capital.**

Feedback from providers and sector consultations indicates that the current Maximum Permissible Interest Rate (MPIR) is not a suitable tool for setting payment equivalence, as it does not adequately reflect the true cost of capital. Originally intended to prevent provider advantage or disadvantage based on residents' payment choices, the MPIR measures a rate

<sup>4</sup> Australian Government Department of Health, Disability and Ageing. Schedule of Subsidies and Supplements for Aged Care (Rates effective 1 October 2025).

of return similar to investment returns or borrowing costs. However, its quarterly adjustments that are tied to the General Interest Charge less 3%, create volatility and fail to align with aged care accommodation cost drivers which undermine stability and discourage sustainable capital investment.

Providers emphasise that any equivalency mechanism must deliver transparency, consistency and stability to support effective capital planning. Participant choice should remain paramount, allowing residents to select payment methods based on their willingness and capacity to pay with full understanding of comparable costs.

To promote investability, all pricing (whether for supported or non-supported residents) must fully cover the cost of capital. The principle remains that if the Accommodation Supplement for supported residents accounts for adequate capital returns, non-supported accommodation pricing must do so as well to ensure all stakeholders contribute fairly.

Stability and price certainty are critical to fostering sustained and forward-looking investment in the sector. Current volatility within the MPIR undermines this and a floor rate, fixed rate or similar mechanism aimed at providing short and medium-term market stability should be considered. These settings should be reviewed as market conditions evolve, including reassessing the appropriateness of the equivalency.

#### **R4 Explore different payment models for non-supported accommodation pricing, while considering the potential for increased variability and uncertainty that may arise from changes in default payment types.**

We would caution against making DAPs the default payment option without full consideration of its implications, particularly if an equivalence mechanism is utilised.

Ageing Australia supports the clear and transparent publishing of accommodation costs to enable informed decision-making about aged care accommodation. Presenting accommodation costs as a daily rate remains useful for participant transparency and comparability, as currently seen through My Aged Care. However, we agree with the Review's observation that linking the MPIR to the DAP rather than the lump sum RAD has the ability to increase financial uncertainty and risk for providers who could experience greater cash flow volatility. Also, prospective residents could face potentially substantial upfront cost variations in lump sum payments from MPIR changes that may affect their ability to plan and afford accommodation.

These dynamics mean that using DAPs as the default payment basis amplifies capital fluctuations, potentially undermining participant confidence and posing challenges for providers in maintaining consistent liquidity under the new Aged Care Act. Variability creates unpredictability in upfront payments, complicating providers' cash flow and investment planning. Aggregated across multiple rooms, this volatility may result in uneven cash inflows, making it difficult for providers managing entire facilities to maintain steady funding for essential capital works and maintenance. Such uncertainty complicates capital planning and increases financial risk. Residents also face uncertainty about changes to affordability and potential refund amounts, eroding confidence and influencing their decisions.

While the sector is open to exploring emerging payment models, ensuring stability and predictability remains critical to sustaining investment confidence and affordability. There is sector interest in alternatives that balance innovation with market stability, with some providers suggesting equivalence mechanisms could be phased out over time as the sector matures.

**Additional Considerations: Thin Markets/regional, rural and remote localities**

We recognise that providers in thin markets and regional areas face distinctive challenges that may not be fully addressed through existing accommodation revenue. Addressing these challenges is essential to ensure older Australians in all communities can access appropriate, high quality aged care accommodation on an equitable basis. Additional forms of support (e.g. under existing grants such as the Aged Care Capital Assistance Program (ACCAP) or interest free loan arrangements) should be considered to encourage sustainable investment in these areas. Further consultation with the sector will help to inform these approaches and ensure any support mechanisms are well designed, fit for purpose and effectively targeted. We would welcome further engagement with reviewers on this topic.

## **Appendix A: Response to the Review Consultation Questions**

### **1. Outline how you think the Accommodation Supplement could be reformed to ensure quality accommodation for residents of low means.**

See recommendations R1 and R2. The Accommodation Supplement should be reformed to ensure it captures the true costs of providing accommodation (capital expenditure and lifecycle operational expenditure) and offers sufficient returns to encourage capital investment. This would support the delivery of quality accommodation for residents with low financial means.

### **2. Should the value of the Accommodation Supplement be universal or tiered such as by location or proportion of residents or other basis.**

See recommendation R2. It is preferable for the value of the Accommodation Supplement to be tiered or graduated with a sliding scale model, considering factors including location, accommodation build type and the proportion of supported residents. This approach promotes equitable access and better reflects varying provider costs and demographics.

### **3. Should the Higher Accommodation Supplement be staggered over time, so that as the accommodation facilities age the supplement is reduced (with the full value payable again after a new renovation)?**

Ageing Australia is open to staggering the Higher Accommodation Supplement over time, as long as this remains consistent with the principle of Accommodation supplement sufficiency (recommendation R1) and continues to encourage capital investment for new builds. If this position is adopted before accommodation income reaches a level which can realistically deliver refurbishment, it will simply entrench the status quo, making refurbishment even less likely. We acknowledge that a staggered approach could support the sustainability of funding in an evolving aged care sector, allowing for gradual adjustments aligned with the ageing of facilities and market conditions.

### **4. How suitable is the current incentive structure to encourage providers to accept low means residents (a discount on the Accommodation Supplement based on a single threshold of 40% supported residents)? How could those incentives be preserved or enhanced?**

The current incentive structure, which applies a single discount threshold at 40% supported residents, is not sufficiently effective. Incentives could be preserved and enhanced by adopting a graduated scaling model that better aligns financial rewards with the proportion of supported residents, encouraging providers to accept low means residents. See recommendation R2.

**5. How can the Accommodation Supplement be reformed to support an uplift in the quality of accommodation?**

To support an uplift in accommodation quality, the Accommodation Supplement should be increased to cover accommodation related expenses, capital improvements and foster the financial resilience necessary for ongoing investment in high standards.

**6. Outline how the Accommodation Supplement pricing impacts on incentives for capital investment in residential aged care.**

Refer to recommendations R1 and R2. Accommodation Supplement pricing significantly influences incentives for capital investment in residential aged care because sufficient rates ensure providers can cover costs and generate returns attractive to financiers.

**7. In what ways could the Accommodation Supplement be reformed to better incentivise capital investment in residential aged care?**

See recommendations R1 and R2. The Accommodation Supplement could be reformed to better incentivise capital investment by reflecting the true cost of capital, incorporating provider-specific risk adjustments and offering flexible rates based on development type, such as new builds or refurbishments.

**8. To what extent are the current rates of the Accommodation Supplement sufficient to cover providers' capital and operational costs relating to accommodation?**

The current Accommodation Supplement rates are insufficient to fully cover providers' capital and operational accommodation costs, leading many providers to incur losses relating to accommodation under existing funding levels. Refer to recommendations R1 and R2.

**9. How does the cost of providing accommodation vary across different operating environments, such as differences in location?**

Costs vary by provider type, scale, facility location, project type, capital sources and operational model. Accommodation Supplement rates need to be flexible to reflect different capital costs and risks. See recommendation R1, 1.2.

We recognise that providers in thin markets and regional areas face distinctive challenges that may not be fully addressed through existing accommodation revenue. Addressing these challenges is essential to ensure older Australians in all communities can access appropriate, high quality aged care accommodation on an equitable basis.

Additional forms of support, such as more funding made available under existing grants, such as the ACCAP or interest free loan arrangements, should be considered to encourage sustainable investment in these areas.

**10. What factors should be considered in setting an equivalence mechanism and rationale for each?**

See recommendation R3. Equivalence mechanisms should ensure transparency, consistency, stability, consider cost of capital and support participant choice without price volatility.

**11. What is an appropriate rate of return on lump sum for providers? Is this an appropriate level for setting an MPIR?**

An appropriate rate of return on lump sums should broadly reflect the true cost of capital faced by providers. The current Maximum Permissible Interest Rate (MPIR) is not an appropriate benchmark due to its volatility and limited alignment with capital costs. See recommendation R3.

**12. How does this change with economic conditions? Does the MPIR link to the General Interest Charge represent an appropriate way of adjusting equivalence in line with economic conditions?**

Economic conditions affect the cost of capital and linking the MPIR to the General Interest Charge creates price volatility. This does not provide an appropriate or stable way of adjusting equivalence in line with economic realities. See recommendation R3.

**13. Would a Weighted Average Cost of Capital be an appropriate equivalence mechanism? If so, how should this be derived?**

See recommendation R3. A Weighted Average Cost of Capital (WACC) could provide an appropriate basis for an equivalence mechanism if it is accurately derived and able to account for different provider-specific risks and cost structures, supporting investment certainty.

**14. Is there a case for an equivalence range rather than a single point of equivalence defined by the MPIR and why? How might this work?**

Establishing an equivalence range rather than a single point defined by the MPIR offers several advantages, including flexibility, recognition of diverse circumstances, risk mitigation. Further consultation and analysis would be required to establish how it can create a more equitable and sustainable financial setting for the sector.

**15. Should the government introduce a mandated minimum accommodation payment that prevents providers receiving less revenue from non-supported residents than they do from supported residents?**

Providers are open to considering a mandated minimum accommodation payment to ensure they do not receive less revenue from non-supported residents compared to supported residents. However, they acknowledge this approach has the potential to limit access and create inequity for non-supported individuals who may be unable to afford such a minimum payment. It is important that any mandated minimum balances the sustainability of aged

care services with maintaining affordability and fairness for all residents, including those with varying means.

**16. What are the advantages and disadvantages of moving the MPIR-related fluctuations in pricing from the DAP to the RAD?**

Moving MPIR-related fluctuations from the Daily Accommodation Payment (DAP) to the Refundable Accommodation Deposit (RAD) may amplify capital volatility, complicating provider liquidity and resident confidence. Stable pricing mechanisms are preferable. See recommendation R4.

**17. Would setting DAPs as the default make accommodation pricing easier to understand for prospective residents and their families?**

Notwithstanding the potential issues raised in Question 16 (see recommendation R4), setting DAPs as the default payment option could indeed make accommodation pricing easier to understand for prospective residents and their families by providing clarity and simplicity. However, it is essential to consider the potential downsides, such as reduced flexibility and perceived value. A balanced approach that offers clear communication while also allowing for various payment options may best serve the diverse needs of residents and their families.

**18. Are there other relevant factors to consider in relation to setting the DAP as the default payment type?**

See response to Questions 16, 17 and 19.

**19. Do you think the DAP should be set as the default payment type? Why?**

This approach requires careful consideration of its broader financial and operational implications.

Shifting to a DAP default could increase payment variability and financial uncertainty for providers and residents alike, particularly given the potential for larger upfront cost fluctuations tied to movements in the MPIR. This unpredictability may complicate providers' cash flow and capital planning while reducing participant confidence.

Any change to DAP as the default should be approached with comprehensive analysis of financial impacts, participant protections and market stability to ensure sustained investment confidence and affordability. Exploration of alternative payment models should continue alongside these considerations to balance innovation with sector stability. See recommendation R4.