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Department of Health, Disability and Ageing
Australian Government
Residential Aged Care Accommodation Pricing Review
Via: accompricingreview@health.gov.au

Anglicare Sydney submission regarding the Residential Aged Care Accommodation Pricing Review

1. About Anglicare Sydney

Anglicare Sydney is a Christian not-for-profit providing care to older people and services to the vulnerable throughout Sydney, the Blue Mountains, Illawarra, Southern Highlands, Central West, New England, North West and Norfolk Island.

We have a long history of service provision and a solid commitment to supporting over 4,000 home care clients living in the community and 6,000 residents in our homes and villages. We have over 5,500 committed and skilled staff plus 1,500 volunteers.

In more than 70 years of providing aged care services, Anglicare has been guided by a commitment to quality service provision both clinically and holistically, underpinned by principles of dignity and choice, hope and compassion, supported by highly trained and caring staff.

2. Introduction

Anglicare welcomes the opportunity to contribute to the Residential Aged Care Accommodation Pricing Review.

Reform is needed to achieve three key objectives:

- ensure sustainable, high-quality accommodation for residents of low means,
- restore incentives for capital investment in residential care infrastructure, and
- improve transparency, simplicity, and fairness in pricing for both supported and non-supported residents.

The residential aged care sector is facing increasing cost pressures due to rising labour and construction expenses, coupled with the bureaucracy of quality and choice. While providers are generally able to access capital (e.g. debt from commercial banks), the sustainability of ongoing funding remains the key constraint on investment and service continuity.

Low or non-existent margins (on total revenues, not just accommodation revenues), sovereign risk from changing and unpredictable regulatory environments, rapidly rising input costs (land,

construction, care labour) and competition for investment from higher return activities (e.g. residential property development or retirement living) combine to produce an environment that has seen growth in residential care beds effectively stop.

The accommodation supplement must be designed to provide fair, predictable and adequate funding that supports both the continued operation of existing facilities and the development of new capacity.

The accommodation supplement should be reformed to reflect the true cost of providing aged care accommodation, support ongoing investment in new and refurbished stock, and recognise significant cost differences.

We recommend:

- Setting the supplement based on robust modelling that reflects real costs and geographic variations (not just metro versus regional, but the very real differences between different metropolitan areas across the country)
- Introducing an interim supplement uplift to urgently inject growth funding into the sector
- Restoring the retention rate to 3 per cent to ensure equity between RAD and DAP payers
- Maintaining the Refundable Accommodation Deposit (RAD) as the primary pricing mechanism and funding basis
- Decoupling RAD and DAP pricing to ensure that rented rooms are priced based on demand and reference to the broader rental market rather than an arbitrary conversion rate based on interest rates at a point in time
- Undertaking a sector-led modelling exercise to test long-term sustainability and rate settings

3. Determining the Level of Supplement

The accommodation supplement should be based on the actual cost of providing care and accommodation services. The funding model should take into account:

- Construction and refurbishment costs
- Occupancy and utilisation assumptions
- Weighted Average Cost of Capital (WACC) and financing structures
- Differences between new builds, refurbishments and existing homes

A single national rate is unlikely to reflect the realities of different markets. The supplement should be differentiated by:

- Facility type (new, refurbished or existing)
- Proportion of supported residents
- Geographic location (state, metropolitan or regional/rural)
- Room configuration (shared or single occupancy)

Differentiation will better align funding with the cost structures of individual providers and regional markets.

4. Response to Consultation Questions

Part 2: Accommodation Supplement for Supported Residents

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

The Supplement should provide a strong base rate to cover accommodation and depreciation costs, with additional loadings to recognise structural and quality factors. Rather than linking funding to residents' care needs (as accommodation and care are funded separately), reform should focus on the following principles:

- Removing disincentives for providers to accept supported residents. The current Supplement rate is significantly lower than a Daily Accommodation Payment (DAP). It should be set as a percentage of the average Refundable Accommodation Deposit (RAD) to provide fair and sustainable returns and to ensure equity between older people (i.e. minimise the incentives to bias toward one type of accommodation payment over another and avoid cross-subsidy as much as feasible).
- Linking funding to the appropriateness and quality of accommodation, measured qualitatively against the National Aged Care Design Principles rather than the age of the facility or total expenditure.
- Reforming the 40 per cent supported resident threshold to avoid sharp cliff effects. A sliding scale approach would be fairer than the current arrangement, where a provider can experience a 25 per cent drop in funding when moving from 40 to 39.9 per cent supported residents.

These changes would better align the Supplement with quality outcomes and remove current disincentives that restrict access for residents of low means.

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

While simplicity argues for a near-universal base rate, targeted loadings should apply where justified. This includes:

- Regional loadings aligned with the Monash Modified Model (MMM) to encourage development and sustainability in regional and remote areas.
- Location-based adjustments that recognise the different cost environments and market conditions across different metropolitan and regional locations, at least on a state-by-state basis and ideally even more targeted.

This approach balances simplicity with fairness and acknowledges the diverse operating contexts of aged care providers.

3. *Should the Higher Accommodation Supplement be staggered over time, so that as the accommodation facilities age the Residential Aged Care Accommodation Pricing Review Consultation Paper 11 supplement is reduced (with the full value payable again after a new renovation)?*

Staggering the Higher Accommodation Supplement would add complexity and make it harder for providers to plan future refurbishments and capital investments. There needs to be a predictable cash flow for a facility for its economic life at the time the investment decision for the facility is approved.

Accommodation either meets the required quality standard, or it does not. Penalising a facility simply because it is older is inconsistent with the sector's focus on quality and dignity. Given the acute need for residential care beds over the coming decade, incentives for keeping older facilities (of a suitable quality) on-line is by far the most powerful lever the Commonwealth has to ensure supply. If these beds were taken off-line for redevelopment earlier than absolutely necessary, it will only serve to reduce supply for older Australians.

A stable and predictable Supplement linked to quality standards, such as compliance with the National Aged Care Design Principles, is preferable to a time-based reduction model.

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 structure is not suitable. The single 40 per cent threshold creates a steep funding cliff and discourages providers from taking on more supported residents. A graduated sliding scale would provide fairer and more predictable incentives.

Providers should not be penalised compared with what they can earn from full-paying residents. The current system sees a very significant cross-subsidy from paying residents to concessional residents. The test should be whether the development of a 100% concessional facility would be economically feasible. The Supplement should more closely reflect average market RAD values to ensure balanced incentives.

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

A "quality bonus" should be introduced for homes that meet the National Aged Care Design Principles. A capital renewal incentive could also reward refurbishments completed within set timeframes.

A new round of refurbishment incentives is needed, as many refurbished facilities are now more than a decade old and current arrangements have not been updated since 2020.

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

Accommodation pricing directly affects capital investment decisions. A balance must be maintained between concessional places and RAD retention rates. Not-for-profit and faith-based providers currently carry a higher proportion of concessional residents, and this imbalance is likely to increase as private equity investment grows. Providers can now seek RADs of up to \$750,000, equivalent to a \$170 daily DAP, which is approximately 140 per cent higher than the current Supplement.

Current Supplement levels limit overall returns and contribute to the low rate of capital reinvestment across the sector.

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

The Supplement should be set closer to the average DAP, ensuring that returns are comparable and encouraging ongoing investment. A well-calibrated Supplement would narrow the gap between supported and non-supported resident income streams and improve the investment case for modern, high-quality facilities.

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

Current rates are insufficient. StewartBrown Quarterly Reports consistently show that providers make a loss on accommodation services, and the Supplement is a major contributing factor. This issue has been repeatedly reported over several years, clearly demonstrating a structural funding gap that must be addressed.

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

Costs for accommodation services vary significantly due to differences in construction costs, land values, and workforce expenses. Additional expenses arise in regional and remote locations, such as higher transport and supply costs, although Anglicare Sydney's operations are primarily metropolitan.

Newer facilities in more affluent areas often face higher capital costs and operating expenses, which can disincentivise them from offering concessional places. This creates inequities in access to affordable care for residents with lower means. Introducing a tiered Accommodation Supplement, based on the average Refundable Accommodation Deposit (RAD) achievable in each location, could help address these disparities. This approach could be balanced with the Monash Model, which provides additional loadings to ensure equity for regional and higher-need locations, thereby supporting both financial sustainability for providers and fair access for residents across different regions.

Part 3: Pricing for Non-Supported Residents

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

Ultimately, if distortions in the market are removed to the degree possible, allowing older Australians the right to choose how much they wish to pay for the standard of accommodation they wish to reside in is the best mechanism for setting prices. The Strengthened Aged Care Quality Standards then essentially set a minimum threshold for accommodation quality. Allowing the market to operate freely will help to stimulate adequate supply of beds and will increase choice for older people.

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

The current Maximum Permissible Interest Rate (MPIR) does not reflect the true cost of capital for providers. A minimum floor based on a well-researched sector-wide cost of capital should be introduced, as identified in previous StewartBrown reports. Alternatively, DAPs could be set independently from RADs to reflect the different dynamics between home prices and rental markets, and the complexity of taxation impacts on older Australians.

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?*

Linking the MPIR to the General Interest Charge does not accurately reflect the financial conditions faced by aged care providers. MPIR settings should be anchored to the cost of capital benchmarks rather than short-term Treasury or taxation-related rates.

13. *Would a Weighted Average Cost of Capital be an appropriate equivalence mechanism? If so, how should this be derived? Residential Aged Care Accommodation Pricing Review Consultation Paper 18*

A sector-wide WACC would better represent the real cost of funds and financing mix across the aged care sector, provided it is transparently calculated using public data and reviewed periodically.

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?*

If the MPIR is maintained, a defined range around the MPIR could better reflect provider diversity and reduce the risk of cliff effects, while maintaining flexibility within clear regulatory guidelines.

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?*

Mandated minimum pricing risks further government interference and unintended consequences. Instead, government should remove constraints on accommodation pricing other than core consumer protections, allowing a more open market to balance pricing.

If the Supplement were set as a proportion of the actual RAD or, failing that, closer to the average DAP, providers could sustain a base level of supported residents without distorting the pricing structure.

Daily payments as the default room price

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

RADs provide stable capital for providers and certainty for residents. Moving MPIR-related fluctuations from the DAP to the RAD would add volatility and reduce predictability. RADs are insulated from short-term market movements, which supports long-term planning and infrastructure investment.

Priority should instead be given to:

- Setting the supplement based on robust modelling that reflects real costs and geographic variations.
- Introducing an interim supplement uplift to urgently inject growth funding into the sector.
- Restoring the retention rate to 3 per cent to ensure equity between RAD and DAP payers.

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

No. A DAP default may seem simpler but risks confusion and higher long-term costs for residents. RADs are familiar, transparent, and refundable, offering both flexibility and security. Improved communication, not a payment default, is the better solution.

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

This change should form part of broader RAD reform, including greater flexibility for providers in the use of funds, subject to appropriate liquidity requirements and prudential oversight.

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

No. The RAD should remain the primary pricing mechanism. It provides certainty, equity, and financial stability, supporting reinvestment in quality care and accommodation. Setting the DAP as default would increase volatility and weaken provider liquidity at a time when growth and sustainability are critical.

5. Broader Considerations

Market-Based Approach – The challenge facing the sector is not access to capital but the sustainability of ongoing funding. A market-based supplement will deliver predictable returns and encourage investment without the need for alternative proposals such as a housing bond.

Utility-Style Framework – A framework similar to regulated utilities, where allowable returns are set based on an agreed capital base and proportion of concessional residents, could provide clarity and predictability. A return in the range of 8 to 9 per cent may be both reasonable and politically feasible.

Geographical Weighting – Costs for land, construction and housing vary widely across the country. Introducing regional, state-based and metropolitan weighting would ensure the supplement reflects these differences and supports equitable funding outcomes.

Fiscal and Policy Case – Investment in residential aged care infrastructure has broader fiscal benefits, including reducing pressure on hospital systems and improving flow through acute care. A well-calibrated supplement will help manage long-term care demand and deliver system-wide efficiency.

Investment Certainty – Reforms must ensure that no provider is worse off. Maintaining certainty for existing and planned developments is essential to avoid sovereign risk and further facility closures. A clear funding pathway for new builds and refurbishments will encourage long-term planning and reinvestment.

6. Conclusion

Anglicare Sydney welcomes the opportunity to contribute to this important review of the Accommodation Supplement and associated pricing settings.

The current model does not adequately reflect the real cost of providing and maintaining quality accommodation for residents of low means. Without meaningful reform, the gap between supported and non-supported residents will continue to widen, limiting access to affordable, high-quality care.

We encourage government to pursue a framework that is transparent, sustainable and reflective of actual operating and capital costs.

Reforms should:

- Provide a strong and predictable Supplement that keeps pace with market conditions.
- Remove cliff effects that penalise providers for supporting higher numbers of low-means residents.
- Reward providers who invest in quality, accessibility and design aligned with the National Aged Care Design Principles.

A reformed Accommodation Supplement, designed with these principles in mind, will strengthen the financial sustainability of the sector and ensure that all older Australians, regardless of means, can access safe, comfortable and dignified accommodation in aged care.

Yours sincerely



Chief Executive Officer