



RESIDENTIAL AGED CARE ACCOMMODATION PRICING REVIEW

SUBMISSION TO THE CONSULTATION

11 NOVEMBER 2025

ABOUT BAPTISTCARE

BaptistCare, which comprises BaptistCare (NSW, ACT, WA), Baptcare (VIC, TAS, SA) and Baptist Care SA, is a leading not-for-profit Christian-based care organisation that has been serving the aged and people living with disadvantage since 1944 in NSW, ACT and WA. In 2024, we celebrated 80 years of delivering exceptional care and services that have a real and meaningful impact in people's lives.

As a national care organisation, we employ over 12,000 dedicated employees and support over 67,000 customers across NSW, the ACT, Victoria, Tasmania, South Australia, and Western Australia. We offer a range of services which include residential aged care, BaptistCare at home, and retirement living, in addition to community services, disability, mental health, youth and family support.

Our residential aged care footprint includes 51 residential aged care homes caring for 4,500 residents. We operate in metropolitan, inner regional and outer regional areas across five states and territories. Over 42% of BaptistCare's residents are Supported Residents.

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KEY MESSAGES

- Accommodation revenue is not adequate to achieve solid uplift in RAC supply
- Ideally, regulatory settings would result in the same financial outcome from all residents, regardless of how their accommodation costs are met.
- The current settings are not an incentive to offer beds to Supported Residents, particularly in newly built homes or in metropolitan areas.
- The Accommodation Supplement should be comparable to the Daily Accommodation Payment.
- The MPIR has not been suitable as a measure of payment equivalence.
- Making DAPs the default room price would reduce the building of new RACs without alternative mechanisms to meet the lending criteria of most financial institutions.

BACKGROUND TO THIS CONSULTATION

This Residential Aged Care Accommodation Pricing Review fulfils Recommendation 14 of the Aged Care Taskforce. The Taskforce was convened through the second half of 2023 to advise on funding arrangements for aged care. Its final report was delivered to government in December 2023 and publicly released in March 2024. The Taskforce made recommendations to modernise the accommodation funding mechanism and improve viability while also ensuring access for Supported Residents and incentivising use of contemporary design principles.

The current review will provide advice on policy, program, funding, and administrative settings that should:

- provide equity of contribution and outcomes regardless of how a particular individual's aged care accommodation costs are met or where they are located;
- ensure that low means residents have access to high quality accommodation within residential aged care;
- support the capacity of providers to invest in and deliver places in high quality residential aged care homes that will meet the needs of Australia's ageing population;
- foster a sector able to innovate and attract investment; and
- examine the adequacy of accommodation revenue, including the supplement, having regard to the impact of recent reforms.

A future review is legislated for 2030 to consider the use of refundable deposits with a view to transferring to daily accommodation payments.

ACCOMMODATION REVENUE

Residential aged care has three core revenue streams: care, hotelling, and accommodation. Each of these components has different funding mechanisms attached. Accommodation funding is secured from residents for use of their room via RADs or DAPs, or by government for Supported Residents via Accommodation Supplement funding.

Accommodation financing is largely sourced from private financial lending institutions to fund the development or refurbishment of RACs. Broadly speaking, the level of funding achieved from residents will determine the level of financing available to a provider.

Accommodation revenue is not adequate to meet need

A broad funding principle in aged care is that aged care providers are funded at cost. For example, to achieve this in relation to care activities, each year IHACPA undertakes analysis to recommend an AN-ACC price that reflects the cost of delivering care. But in the case of accommodation funding, a similar mechanism is missing and the principle of funding providers at cost has not been achieved.

For many years, the gap between the cost of the accommodation has outstripped funding. RAC quality and supply have been limited by the level of funding available. The current and anticipated gaps in RAC supply reflect the gaps in this funding component.

Accommodation continues to be the deficit cost centre for an aged care facility. The FY25 StewartBrown Survey recorded an average Accommodation Margin deficit of \$12.05 pbd.¹ Recent changes, including the mandatory RAD retention and increase to the maximum room price, are welcome improvements that will move the dial in the direction of adequacy.

However, we do not believe we are yet at the level needed to enable the sector to invest in the number of beds required to meet demand in the coming years.

Accommodation revenue must match the accommodation costs required to meet future demand. Policy options that would help to achieve this include to:

- Increase the RAD retention rate to 3%.
- Increase the Accommodation Supplement so it is at least comparable to DAPs.
- Introduce an interim increase in the Accommodation Supplement.
- Create smoother room price approvals by switching IHACPA's role to veto powers.

Accommodation revenue must support retention of ageing homes

With the level of current and future demand, we will need to do more to invest in extending the operational life of older homes. Without substantial investment in the upkeep and refurbishment of older RAC stock, we will start to lose stock and undermine the effort to achieve an overall increase in RAC capacity in the aged care system.

This is important to highlight, as the cost of refurbishing older RAC sites is often prohibitive. The capital expenditure ('CapEx') required to upgrade a building to meet contemporary design principles is not a supportable investment.

Positive reforms in relation to accommodation revenue will make it more feasible to maintain upkeep of older properties. Without this investment, older RACs become dilapidated and run-down, increasing the risk of non-compliance when being accredited and accelerating the prospect of closure or re-purposing. Reform that better supports CapEx over a longer lifespan would support the uplift of RAC supply over time. Addressing the gaps in accommodation funding will support this outcome.

ACCOMMODATION SUPPLEMENT FOR SUPPORTED RESIDENTS

Supported residents are people who are eligible for full or partial government assistance with their care and accommodation costs (but pay their own Basic Daily Fee).² Access to this support is based on a means test.

¹ StewartBrown (2025) [Aged Care Financial Performance Survey Report Twelve months ending 30 June 2025](#).

²This is a contribution towards their daily living costs and is set at 85% of the single basic Age Pension.

A fully Supported Resident does not pay the cost of the accommodation component of their care. The Government steps in to cover this funding gap by paying an Accommodation Supplement on their behalf. Meanwhile, partially Supported Residents split the accommodation bill with the Government, with the resident paying a partial RAD (called a Refundable Accommodation Contribution) or a partial DAP (called a Daily Accommodation Contribution) and the Government paying a partial Accommodation Supplement.

The Accommodation Supplement is not enough at current rates

At its current rate, the Accommodation Supplement is not enough to cover the accommodation costs of Supported Residents.

A principle underpinning the system is that providers are funded at cost, with efficiency gains the only avenue to accrue margins. However, as the Accommodation Supplement is so much less than the accommodation costs, providers must look to other sources to make up the expense. One way to try to keep accommodation expenses covered by the affiliated revenue is to ensure the RADs and DAPs cover all such costs through room pricing. While this is a common and necessary option, this means non-supported residents are effectively subsidising Supported Residents because the government subsidy does not cover the costs. Providers might also seek to leverage any margins in other areas of service delivery to make up this gap. As StewartBrown recently found, “For many years, the hotel (everyday living) and accommodation margins have been in deficit and essentially cross-subsidised by the direct care margin. This is still the case.”²

This is most evident by showing what the financial outcomes would be for a RAC with 100% Supported Residents. A newly built 96-bed facility is expected to cost between \$500,000 to \$600,000 per bed to build, requiring between \$48 - \$57 million in capital. If 100% of residents were Supported Residents, the equivalent accommodation supplement at today’s value would deliver \$32m of equivalent funding. This would represent a shortfall of between \$16m and \$25m (or 32% to 42% of the build).

Whatever policy options are chosen, providers currently receiving an Accommodation Supplement should not be worse off given this component has been built into the project financing arrangements.

The current settings limit the capacity of providers to care for Supported Residents

The current policy settings do not achieve the objective of ensuring low means residents have equal access to high quality accommodation within residential aged care.

It is very hard to make the feasibility stack up with Supported Residents.

There are significant differences in the margins between Supported-, DAP- and RAD-paying residents that can force providers to minimise services to supported residents, particularly when facing financial pressures.

While there are many Supported Residents in aged care, they are likely to have fewer choice of providers given the financial disincentives to care for them. Given the financial impacts on the business, it is often not-for-profit, purpose-driven providers that commit to providing a higher proportion of beds to Supported Residents.

³ StewartBrown (2025) [Discussion paper: Residential Aged Care Pricing 1 October 2025](#). p. 2.

This pressure is intensified for RACs with higher accommodation costs

Any factors that increase the cost of the accommodation can exacerbate the gap between accommodation costs and the Accommodation Supplement.

This issue is particularly relevant for new builds. BaptistCare has significant experience in managing the development of new residential aged care homes. Consistent with sector averages, we find it currently costs approximately \$500,000 to \$600,000 to build a new bed.³ Meanwhile, the Accommodation Supplement is equivalent to around \$340,000. This substantial gap is a huge disincentive to accommodate Supported Residents in newly built RACs, as we are effectively carrying hundreds of thousands of dollars discount for those residents.

We note that costs of construction can also be impacted by variability in local planning approval processes. Significant delays have an enormous impact on cost. In a recent example from BaptistCare, planning delays on a proposed precinct lasted over 3 years (40 months) before progressing beyond masterplan approval.

The impact of Supported Resident Ratios

Supported Resident Ratios require providers to ensure a minimum proportion of their residents are Supported Residents. The proportion varies by region. For the sake of this section, we use the broad average of a minimum of around 20% of residents.⁴ This baseline expectation has only modest impact on provider behaviour as, notwithstanding the threat of sanctions, it does not seem to be well enforced. Given current payment rates are so low, it is unlikely stronger ratios would have the most impact on equity of access for supported residents.

Despite its somewhat limited power for influencing provider behaviour, it does generate a peculiar incentive for providers to avoid Supported Resident ratios between approximately 20% - 40%.

This is exacerbated for RACs in metropolitan areas, where the high land values impact the cost of accommodation, translating into higher RADs and DAPs that far outstrip the Accommodation Supplement. In RACs with higher room values, providers will be more likely to favour RAD- and DAP-paying residents and minimise intake of Supported Residents to the 20% baseline.

In comparison, regional and rural RACs often have lower property values that lead to lower room prices and lower RAD and DAP payments. In these settings, there is not as much of a gap between the RADs or DAPs and the Accommodation Supplement. This creates more of an incentive to achieve a minimum 40% Supported Resident ratio in order to earn the full Accommodation Supplement amount.

There may be some value in exploring a shift away from the current step-jump approach of hitting a 40% threshold to obtain the full supplement towards a set of staggered increases in Accommodation Supplement amounts for RACs that achieve between 20%-39% Supported Resident ratios. This could increase the attractiveness for lifting Supported

³ We note this aligns with StewartBrown's recent sector-wide calculation that construction, including land, building, fittings, and equipment, costs approximately \$500,000 per bed. StewartBrown (2025) [Aged Care Financial Performance Survey Report Twelve months ending 30 June 2025](#).

⁴ Specified in: [Responsibilities of residential aged care providers | Australian Government Department of Health, Disability and Ageing](#)

Resident ratios in the middling range in a way that moderates the current impacts of the threshold approach.

Regulatory settings should result in the same financial outcome for all residents, regardless of how their accommodation costs are met

We would like to see the regulatory and funding environment settings achieve the same financial outcome for aged care providers no matter how the resident pays for their accommodation.

In an ideal world, this would mean aged care providers achieve the same return from a RAD, DAP or Accommodation Supplement.

We do not hold a clear position on whether the supplement should be universal or tiered but confirm the current system is not achieving fully equitable outcomes. We note the current supplement is already a tiered system based on whether it is paid on a refurbished home or non-refurbished home and whether that home has > or < 40% Supported Residents.

The Accommodation Supplement needs reform to achieve the policy goals

If the government is wanting to incentivise providers to build more beds, this won't be achieved in the current environment in which different pricing outcomes for different residents affect the bottom line. We need to find a funding solution that closes the gap between the Accommodation supplement and the DAPs, or at least reduces the financial discrepancies between different residents.

Investment will be limited until this component is better aligned with cost. As StewartBrown argue, "An important component to achieve an investable result will be a significant increase in the Accommodation Supplement received for financially supported residents."⁵

The ideal outcome is for the Accommodation Supplement to be set at 100% of DAP at the price-capped RAD value (currently set at \$750,000). Tying the specific Accommodation Supplement to the revenue brought in by other residents would eliminate the fundamental issue.

In summary:

- The Accommodation Supplement does not cover costs
- The current settings limit the capacity of providers to care for Supported Residents
- Regulatory settings should result in the same financial outcome for all residents, regardless of how their accommodation costs are met
- The ideal outcome is for the Accommodation Supplement to be set at 100% of DAP at the price-capped RAD value (currently set at \$750,000)
- There may be value in introducing a staggered increase to the value of the Accommodation Supplement within the 20%-39% band of resident ratios

SUITABILITY OF THE MPIR AS A MEASURE OF PAYMENT EQUIVALENCE

The Maximum Permissible Interest Rate – or MPIR – is a government-set interest rate used to calculate a daily accommodation payment based on an agreed room price. It is

⁵ StewartBrown (2025) [Discussion paper: Residential Aged Care Pricing 1 October 2025](#). p. 5.

used to determine equivalence between a daily payment and a refundable lump sum deposit.

The MPIR is not adequate to achieve payment equivalence between RADs and DAPs

The MPIR approach has not adequately captured the equivalent cost of accommodation when compared to RADs. The primary reason is that the RADs provide a large investment of money that enable providers to fulfil the debt requirements of financial institutions in a way that daily fees cannot match. It will be incredibly difficult to find a way to make the drip-feed revenue of DAPs equivalent to the large-scale investment of RADs.

The Weighted Average Cost of Capital may be a more appropriate mechanism

BaptistCare has recently revised our investment target hurdle rates on the basis of the Weighted Average Cost of Capital (WACC). The Weighted Average Cost of Capital (WACC) represents our average cost of capital from all sources, including equity and debt, weighted by their respective use in our capital structure. WACC is often used to determine the discount rate in Discounted Cash Flow (DCF) analysis and helps identify whether a project or investment will generate value above its cost of capital. WACC serves as a benchmark hurdle rate for evaluating business decisions.

There are some complexities in the potential for using WACC as an alternative method, the principal of these being that each provider reaches a different WACC due to different capital costs.

To assist the reviewers in their consideration of WACC as a possible alternative method, we have provided a detailed breakdown of our WACC calculations in a separate confidential submission.

DAILY PAYMENTS AS THE DEFAULT ROOM PRICE

The consultation paper explores the possibility of making DAPs the default payment type instead of RADs. A future independent review, legislated to be conducted by 2030, will reconsider the use of refundable deposits altogether. The questions posed in this section of the current review will contribute to those discussions.

Lending markets will contract without RADs or an equivalent

Financial institutions are more willing to fund developments, or willing to provide more funding towards developments, if RADs are part of the security on offer. BaptistCare's experience is that RADs are required to pay down debt. This places pressure on providers to ensure a healthy proportion of residents will be paying a RAD, particularly for the initial period post-completion of new builds. This means residents that pay a DAP or an Accommodation Supplement present more risk to financial viability.

Overall, the elimination of RADs in favour of DAPs would have a negative impact on RAC supply without a new form of security for these loans. There are financial institutions ready to invest, but they need the assurance that such high value investments will be payable.