

# Accommodation Pricing Review Submission

10/11/2025

## Bed shortages

- Australia faces worsening aged care bed shortages, with around 15,000 new residents compared with around 4,000 new beds over the last three years.
- Bed shortages are being driven by strong demand growth and weak supply growth due to funding problems and high construction costs.
  - Supply growth will further weaken as funding for care and hotel services moves towards an “at cost” approach for the average home and lower margins for more efficient homes.
  - Demand growth will further strengthen as the baby boomers begin to reach their 80s.
- Bed shortages place pressure on the broader health system and cause significant avoidable suffering and premature mortality for people who cannot access the care they need.

## Accommodation funding design

- Mitigating bed shortages will require significant aged care funding reforms to improve the sustainability of existing homes and increase the number of feasible new builds.
- Currently new builds are only feasible when supported by capital grants or in areas where incoming residents can afford to pay high Refundable Accommodation Deposits (RADs).
- Government has already substantially increased aged care funding since the Royal Commission, but this has paid for increased staffing and higher wages rather than the development of new beds.
- There are revenue positive changes in accommodation pricing regulation as part of the New Act, but these are offset by unfavourable changes in additional services regulation and the decline in transitional margins for care, with the overall effect likely to be a further reduction in the feasibility of new builds, except in high wealth areas.

## Accommodation supplement

- **The accommodation supplement needs to be much higher to pay for supported residents** without relying on cross-subsidies from non-supported residents, who are only supposed to be responsible for their own accommodation costs and means tested contributions to care and hotel services.
  - In theory, it should be feasible to build a new aged care home with 100 per cent supported residents.
- **The fiscal cost of increasing the accommodation supplement can be mitigated through rate targeting.**
  - In particular, **higher rates should be paid for newer builds** to reflect the escalation of construction costs. This avoids paying large windfall gains for homes that were built at much lower historical costs.

- **There should also be a higher supplement paid for more newly refurbished existing homes** to encourage reinvestment and continued use of existing stock, noting that preventing closures will immediately improve net bed growth, whereas additional new developments will take 2-5 years.
- **Higher rates should be paid in states (or regions) with higher construction costs**, otherwise areas with higher construction costs, like Queensland, will be underserved.
- If the supplement is set appropriately there may not need to be a higher supplement rate for homes with a higher proportion of supported residents as the base supplement should be enough to make supported residents attractive. However, if the supplement continues to rely on cross subsidies from non-supported residents, then there will continue to need to be a higher rate paid to homes with fewer non-supported residents.
- Aged care homes are long-term investments and require confidence in long-term funding arrangements. To that end, **new targeting rules should not result in reduced funding for homes that invested under previous incentive arrangements** for new and refurbished homes.
- **Providers should also be allowed to choose to receive the accommodation supplement as a refundable capital contribution.** This will assist with new builds as projects are usually assessed using net present value models that favour up front capital contributions. This will increase net government debt, but it should actually be favourable to the annual cash and fiscal balance.

## Interim supplement increase

- It is clear that the accommodation supplement needs to increase. However, the outcome of the accommodation review may not be implemented until FY28. Meanwhile bed shortages will continue to worsen. While it is appropriate to have a full review to develop a more carefully calibrated set of recommendations, **there is a strong case for an interim increase in the accommodation supplement to encourage construction to begin more rapidly.**

## RAD, DAPs and the MPIR

- **The current approach to RADs and daily accommodation payments (DAPs) should be revised.**
- The MPIR that is used to derive DAPs from RADs is relatively volatile ranging from 4 per cent to almost 12 per cent over the last twenty years. For most providers, the MPIR has generally been below their weighted average cost of capital (WACC).
- A perverse outcome of linking DAPs to capital markets is that as interest rates decrease, property prices tend to rise, but the value of the daily payments that aged care providers receive falls. This is particularly problematic as there are operational costs associated with accommodation that do not fall with the overall cost of capital.
- There are **several options for addressing the volatility of the MPIR**
  - **StewartBrown has previously proposed an 8 per cent MPIR floor** to address this volatility. This would be a relatively effective and straightforward response to the issue of volatility.
  - **A more complex approach would be to directly link the MPIR to the average WACC.** Since the WACC reflects a long-term view, it is more stable than a rate linked to short-term capital markets.

- **It may also be possible to find an approach that is linked to the property market** rather than capital markets, but more work would be required to understand the implications of this approach.
- **A final alternative approach would be to allow providers to choose their own relativity** between RADs and DAPs.
  - The initial reason for linking RADs and DAPs was mainly to provide a method for determining equivalency when daily payments for high care and lump sum payments for low care were brought together into a single accommodation funding model. It is not clear that a fixed relativity continues to be necessary.
  - Relative preferences for RADs in comparison to DAPs vary between providers and between clients and may change over time (e.g. with growth ambitions) or between contexts (e.g. when considering new projects versus operational performance).
  - Having a fixed relativity limits choice. For example, a provider with limited uses for capital may be willing to offer a lower price if a resident pays a DAP, but currently, whatever price is agreed must be payable in either form. Similarly, a new home may become feasible if a provider can charge a higher DAP to encourage upfront capital payments.
  - Prospective residents can still easily compare homes based on whether a RAD or DAP is preferable in their circumstances, just as people can make comparisons when choosing to rent or buy. Price approvals above the soft cap would continue to provide consumer protection.
- **If a fixed ratio continues to apply, RADs should continue to be the benchmark.** Most older Australians choose to pay a RAD, with RADs accounting for over 70 per cent of the agreed accommodation value (AAV) paid by Bolton Clarke residents, with the MPIR in recent years averaging over 8 per cent. Even when the MPIR was averaging around 4 per cent, around 65 per cent of AAV was paid with RADs. This probably reflects financial planning considerations. Most older Australians need to sell their home to pay for aged care, and if they are pensioners or part pensioners and they do not use the proceeds to pay a RAD, they are likely to lose their pension.

## Additional issues

### Retentions

- **Increasing the RAD retention rate to the initially proposed 3 per cent rate would significantly improve the viability of new builds.**

### Price approvals

- **A smoother process for price approvals has potential to significantly improve sustainability.** Government has indicated that providers should be charging higher accommodation prices. The process for accommodation approvals for prices above the threshold is slow and difficult and punishes incremental price increases (for new residents) that test whether there is actually willingness to pay the higher price, which should be the real test of whether the price is appropriate. Further work would be required to develop the new model, but one approach would be to change the current need for positive approval into a negative assessment.