Bupa: Investing in Regional Aged Care –

A critical need for Australia's future

Executive Summary

This paper considers how best to support and incentivise increased residential aged care investment in regional Australia.

Older people in regional Australia will face growing difficulties finding a residential aged care place in the coming decade. The population in our regional communities is ageing at a faster rate than in capital cities, but investment to grow the regional capacity of residential aged care is lagging significantly.

Residential aged care services in our regional communities are under growing pressure. This causes long waiting times or a lack of access to a residential aged care place, leaving older people languishing at home or in hospitals without suitable care. As Australia's population continues to age, these pressures will only grow over time.

Despite this demographic shift, there is a major shortage of capital investment in regional residential aged care homes. There is a growing financial disparity between regional and metropolitan facilities due to lower revenue, higher development costs, and higher care costs due to workforce shortages in regional Australia. As a result, almost all new capital investment flows into capital cities.

This Paper examines the causes of this financial disparity and proposes several policy recommendations which address the financial imbalance between metropolitan and regional homes. These recommendations aim to ensure that capital investment in residential aged care will be directed to communities where it is needed most.

Summary of Policy Options

Recommendation 1: Expand the Aged Care Capital Assistance Program (ACCAP)

The ACCAP could be expanded to incentivise the building or expansion of services in regions where there is limited access to suitable care.

Recommendation 2: Streamline planning approvals to fast-track development in regional areas

Local Government planning approvals should be fast-tracked with streamlined approval of development applications and the removal of unnecessary restrictions which prevent extensions to existing aged care homes.

Recommendation 3: Establish a concessional loan scheme to incentivise affordable housing

The Government should establish a fund which issues low-interest loans to providers constructing developments which include affordable housing for aged care workers, targeted to areas where housing shortages constrain workforce capacity.

Recommendation 4: Long-term leases to encourage development of aged care homes

The Government should offer long-term leases (e.g. 99 years) of government-owned sites to incentivise the development of residential aged care homes in regional areas.

Recommendation 5: Incentivise Regional Investment through Higher Metro RAD Approvals

Providers should be incentivised to develop new or upgraded facilities in regional areas. For example, their metropolitan facilities could be granted higher approved room prices or be permitted a higher rate of annual indexation of room prices in connection with new investment in regional facilities. This enhances the ability of metropolitan homes to subsidise regional homes.

Recommendation 6: Adjust AN-ACC and/or Hotelling Supplement Weights for Regional Homes

The AN-ACC funding model and/or Hotelling Supplement could be adjusted to include an additional weighting for regional locations, recognising the higher care costs and lower resident revenue potential of homes outside capital cities.

Recommendation 7: Targeted migration pathways to build the regional workforce

Migration pathways should be expanded and simplified to allow regional aged care providers to sponsor visas for non-permanent resident Carers, make visa sponsorship more affordable, and recognise nursing qualifications of Registered Nurses from other countries.

Introduction

Australia is at a crossroads in planning for the future of aged care. With an ageing population and a growing disparity between metropolitan and regional services, the policy settings which drive the allocation of capital investment in residential aged care must be re-evaluated. Australia's capital cities continue to attract almost all new investment into aged care infrastructure, but older people in regional communities remain underserved, hindering accessibility to suitable care.

Regional income and cost imbalances

A large part of existing investment is driven by policy settings that limit funding to regional providers or fail to compensate for the higher cost of development and provision of aged care in regional areas. Unless we address this imbalance, older Australians in regional communities will continue to face inequity through limited access to quality aged care, while systemic inefficiencies in capital deployment persist.

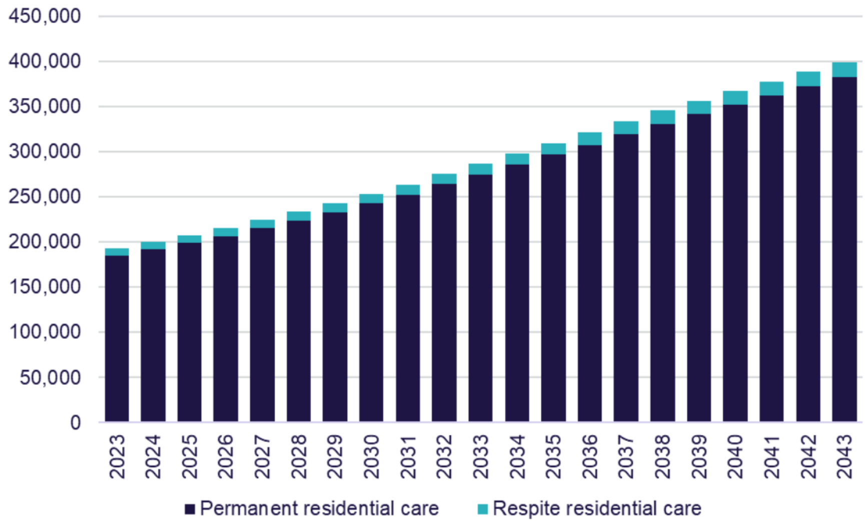
Population ageing

Over the next decade, the number of Australians aged over 80 will grow from 1.2 million to 2 million and there will be more people requiring higher levels of care. The Aged Care Taskforce found that approximately $5.5 billion of additional investment is required to refurbish and upgrade existing aged care rooms[1], with a major surge in demand expected in the next five years. The Government projects demand for places will increase from 200,000 to 250,000 by 2030, up to 365,000 by 2040[2].

However, residential aged care has barely grown in recent years, with places only increasing from 219,105 to 223,691 in the three years to 30 June 2024[3].

In regional Australia, the needs are even more pronounced. The ABS estimates that 5.07 per cent of Australians living outside capital cities are over the age of 80, compared to 3.92 per cent in capital cities[4]. The Centre for Population projects the median age in regional areas will increase almost twice as fast as in capital cities over the next decade, due to lower birth rates and lower international migration[5].

Chart 6.6: Projected demand for residential care places, 2023 to 2043



The residential aged care sector simply cannot meet this growing need.

[1] Final report of the Aged Care Taskforce
[2] Financial Report on the Australian Aged Care Sector 2022–23
[3] Providers, services and places in aged care - AIHW Gen
[4] Regional population by age and sex, 2023 | Australian Bureau of Statistics
[5] 2024 Population Statement

Investment needed in our regions

While the Australian Government has implemented important measures to stabilise provider viability after years of significant losses, the work is not complete. The financial reforms in the *Aged Care Act (2024)* support some new investment in the sector, but will not attract investment at the scale required or in the right places – with almost all new investment directed towards capital cities.

The Government can support a more equitable approach to capital investment through a range of policy levers and support, like other programs which support equitable access to services in our regions. For example, Medicare offers higher bulk billing incentives in regional and remote areas to encourage doctors to practice in these areas and support healthcare accessibility, while grant programs such as the Regional Precincts and Partnerships Program aim to unlock private investment with public funding, bringing together governments, business and communities to better serve local communities.

Urgent action is needed to support the sustainable growth of residential care capacity. Without this, older Australians – especially those in regional Australia – will not be able to access care when and where they need it most.

The Misallocation of Capital in Aged Care Infrastructure

A mismatch between income and true cost of care provision in different locations is the core driver of the investment imbalance that currently exists between capital cities and regional Australia. For a large provider, there is simply no incentive to build, expand, or redevelop regional homes despite the higher demand for services in regional communities.

The income and costs of residential aged care homes can broadly be grouped into "care", "everyday living" and "accommodation" categories, each of which is governed by separate policy settings. The combined effect of these policy settings encourages capital investment to capital cities instead of regional Australia.

- **Care income** is delivered through the Australian National Aged Care Classification (AN-ACC), which is weighted according to location-based cost drivers as well as an individual's care needs. A new Non-Clinical Care Contribution will also form part of funding arrangements due to changes under the new Act.
- **Everyday Living income** is predominantly delivered through the capped Basic Daily Fee and Hotelling Supplement. Additionally, a small proportion of income is generated through the incoming Higher Everyday Living Fee (HELF) arrangements, which tend to be entered into with higher-means residents in capital cities who are willing to pay for additional services.
- **Accommodation income** is predominantly delivered through lump sum Refundable Accommodation Deposits (RADs) or rent-style Daily Accommodation Payments (DAPs), which are capped and regulated by a pricing authority. Low-means residents may also have their accommodation paid by the government through the Accommodation Supplement.

It is critical that Governments recognise that capital investment is not deployed based on artificially 'ring-fenced' financial considerations which have characterised policymaking to date. Rather, providers base their investment decisions on the overall financial performance of a home.

Industry analyst firm StewartBrown's financial reporting (see Appendix 1) on existing aged care facilities illustrates the financial discrepancies between Monash Modified Model (MMM) categories, which classifies regions by remoteness and population size. The reports indicate that financial performance decreases with increasing “remoteness”, with metropolitan (MMM1) aged care homes performing better.

The majority of recent investment announced by providers is concentrated in capital cities. While this will help increase much-needed capacity to meet growing demand in these areas, regional Australia will continue to be underserviced. Outdated facilities in regional areas do not have enough capacity to care for their older populations, which has significant repercussions for families who bear the significant strain of caring for older relatives, and hospitals which act as a care provider of last resort.

This requires a rebalancing of financial incentives to improve the overall financial performance of regional homes and attract capital investment to regional areas.

A lack of regional investment in aged care: Causes and solutions

Higher building costs in regional Australia

Building costs are higher in regional Australia than in metropolitan areas, driven by factors including localised workforce shortages, higher material and transport expenses, and less competitive construction markets. Bupa estimates that the cost of a development in regional areas is approximately 30 per cent higher than the equivalent build in a capital city due to these factors.

Many regional providers, such as Bupa, already own or could purchase land adjacent to existing facilities that could support expansion or new facilities. However, the potential return on investment is insufficient due to the high cost of development and lower income relative to metropolitan areas. Investment continues to flow into city-based developments – not because the need is greater, but because accommodation incomes are more secure.

Delays and high costs related to planning processes damage the viability of prospective capital investment in regional Australia. It can take over 12 months for a provider to obtain a planning approval for a residential aged care home, which defers the ability of a provider to earn a yield on their investment until a facility is fully operational.

Redevelopments or expansions of existing regional homes are often limited or made prohibitively expensive due to bushfire or flood planning restrictions, even though a facility already operates on a site. Bupa has multiple sites in under-supplied regional locations which could expand but we are unable to do so due to bushfire and flood planning restrictions - despite the existing home on site being fully compliant.

These factors are a major disincentive to build, expand, or redevelop regional homes, despite the higher demand for services in regional communities. Bupa suggests several recommendations to address these challenges to make it more affordable to build aged care homes in regional areas.

Recommendation 1: Expand the Aged Care Capital Assistance Program

The Aged Care Capital Assistance Program (ACCAP) could be expanded to incentivise the building, extension, or upgrading of aged care services where there is limited accessibility to suitable care.

The Government has currently committed up to $966.5 million of funding over four years to 30 June 2028. A recent pledge of $60 million to build a 120-bed facility in Darwin assumes a $500,000 investment required for every new place.

With development costs over 30 per cent higher outside capital cities, the ACCAP could be expanded to fund 30-35 per cent of the cost of a new development or rebuild by a provider in targeted regions. Bupa estimates this would cost the Government approximately $215,000 – $220,000 per place, based on recent proposals for one of our regional homes.

Recommendation 2: Streamline planning approvals to fast-track development in regional areas

Local Governments outside capital cities should streamline their planning approvals to fast-track development applications in areas of targeted need.

Planning approval timeframes for a residential aged care home should be significantly reduced, to improve the prospective viability of new developments. Bushfire and flood planning restrictions should be waived where there is an existing home operating on a site.

Recommendation 3: Establish a concessional loan scheme to incentivise aged care builds with affordable housing

The Government should establish a fund which issues low-interest loans to providers constructing developments of new aged care facilities, upgrades of existing facilities, or affordable housing for aged care workers in regional areas.

The development of co-located aged care facilities with affordable housing for workers will be particularly beneficial in popular retirement destinations with older populations, where there is a significant need for aged care workers who find themselves priced out of affordable accommodation options.

Recommendation 4: Long-term leases to encourage development of aged care homes

The Commonwealth should work with state and territory governments to offer long-term leases of government-owned land or sites to be repurposed for aged care. These leases could be offered on attractive terms which are less costly to providers compared to the purchase of new land. This will improve the return on investment required to incentivise new developments in targeted regions.

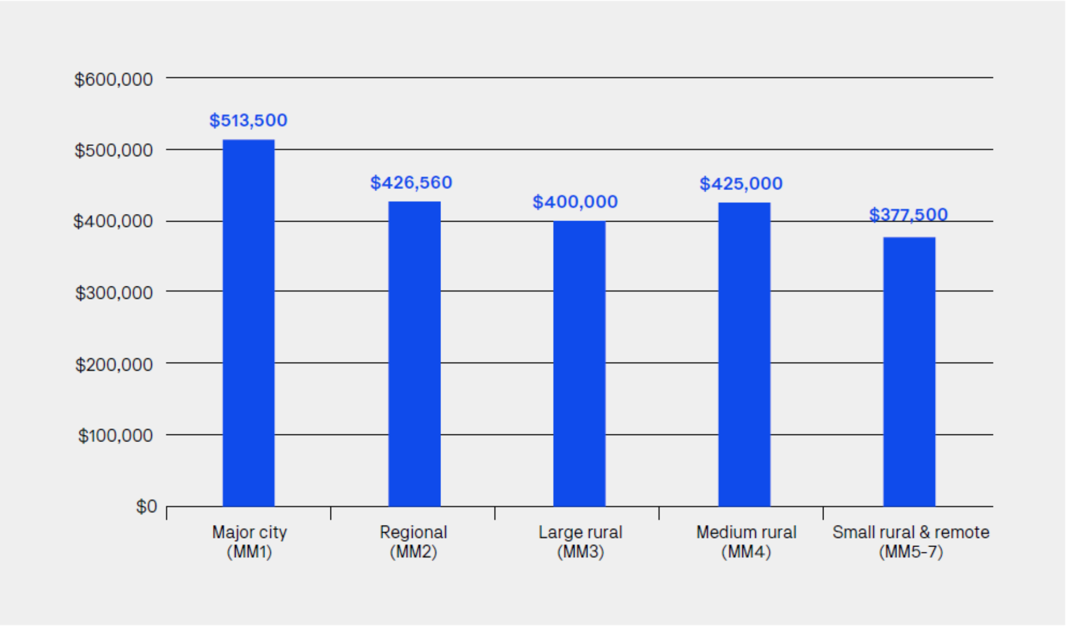
Lower revenue potential outside major cities

Accommodation revenues

The issue of higher building costs in regional areas is compounded by lower revenue potential, making it very difficult to earn a sufficient return on investment to incentivise redevelopment. Lower revenue potential is primarily a factor of regional residents having lower wealth than their metropolitan counterparts, which means they are less able and willing to pay higher prices for accommodation and everyday living services.

Under the $750,000 Refundable Accommodation Deposit (RAD) cap, providers are incentivised to rebuild or refurbish facilities in high-value metropolitan areas where they can attract a higher RAD amount. The pricing authority may also approve a RAD exceeding $750,000 if there is new capital investment in a particular home which improves the residents' amenities and living experience, but this predominantly means that new investment is directed to metropolitan homes that can generate higher revenue.

Figure 17: Median RAD price paid by new residents, by location



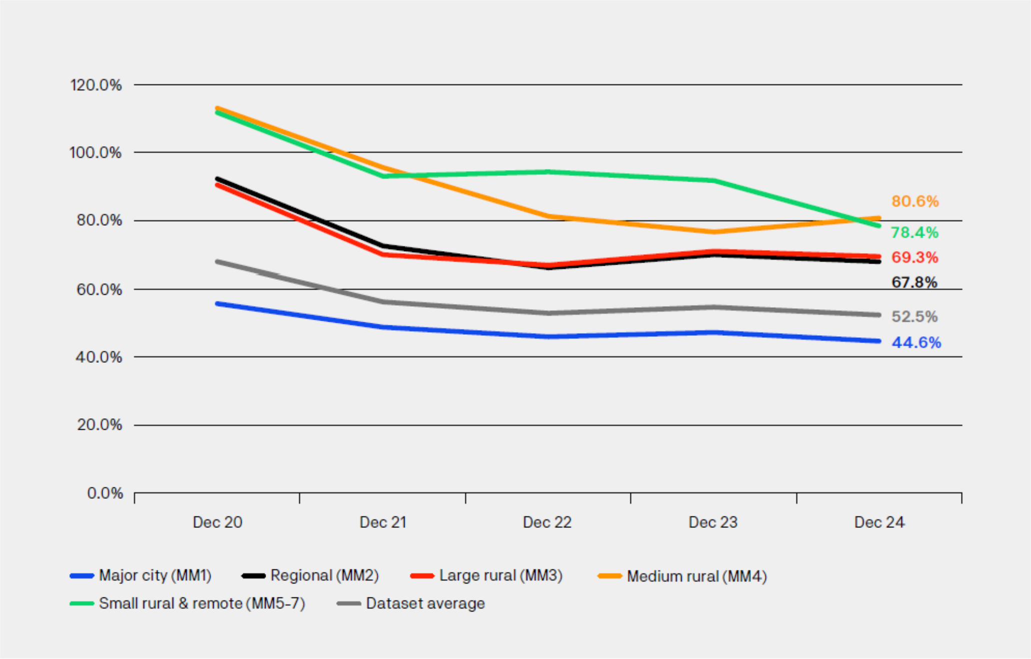
It is important to note that in regional communities, RADs are often significantly lower – usually well below the $750,000 cap and sometimes less than half of what can be realised in metropolitan locations – due to lower resident wealth and housing values. Our own figures indicate that accommodation income in regional areas is approximately 30 per cent lower, due to lower RAD values and fewer 'self-funded' residents capable of paying a RAD or a DAP (Daily Accommodation Payment).

The University of Technology Sydney has found lower median RAD prices outside capital cities, which nevertheless represent a higher proportion of a median local house price – an indicator of lower resident wealth[6]. Supported residents have their accommodation fees paid by the government, albeit at significantly lower rates than self-funded residents. This discrepancy severely limits accommodation income, making it financially unattractive to build or upgrade aged care homes in non-metropolitan regions.

[6] Malady, Louise; Sutton, Nicole; Woods, Michael; Ma, Nelson; Yang, Jin Sug; Carnemolla, Phillippa; et al. (2025). Australia's Aged Care Sector: Mid-Year Report (2024-25). UTS Ageing Research Collaborative.. University of Technology Sydney. Report. https://doi.org/10.71741/4pyxmbnjaq.29253743.v1

While some accommodation pricing levers could be used, such as simply removing the RAD cap altogether, these are not likely to be effective in redirecting capital where it is needed most. The removal of the RAD cap would support overall provider viability but may not redirect investment to regional homes. Similarly, accommodation prices could be raised in regional areas, but this would also require a higher Accommodation Supplement to support lower-means residents.

Figure 18: Median RAD price paid by new residents as a proportion of median local house price, by location



Everyday Living revenues

StewartBrown's data also shows that "everyday living" income is relatively constant between metropolitan and regional areas due to the flat rate paid via the Basic Daily Fee and Hotelling Supplement. A small proportion of a provider's income is generated through "optional" higher quality services chosen by residents through HELF agreements (which replace Extra and Additional Service agreements).

As a result, financial performance is strongest in capital cities, where higher-means residents choose to pay for additional services in accordance with their preferences. The proportion of residents seeking or willing to pay for these services is much lower outside capital cities, which also reduces the potential income that these aged care homes can generate.

Recommendation 5: Incentivise Regional Investment through Higher Metro RAD Approvals

Government approvals for high-RAD metro redevelopments could be made conditional on proportional investment in regional areas. This cross-subsidy approach would harness the financial capacity of providers with a metropolitan footprint to incentivise the development of new or upgraded facilities in regional communities.

The current requirement for capital investment to “unlock” a higher RAD price should be relaxed or removed. Instead, IHACPA could (a) approve a higher metropolitan RAD price where a provider is seeking to invest in a rebuild or develop a new home in a regional area; and (b) allow a higher rate of price indexation for rooms priced at or above the cap.

This would augment revenue in facilities located in metropolitan areas – where residents have higher means and willingness to pay higher accommodation prices – while incentivising investment in regional locations. Importantly, this would align providers’ financial incentives with the aim of equitable provision of aged care places based on the needs of different regions.

Recommendation 6: Adjust AN-ACC and/or Hotelling Supplement Weights for Regional Homes

The AN-ACC funding model and/or Hotelling Supplement could be adjusted to include an additional weighting for regional locations, recognising the higher costs and lower revenue potential of homes outside capital cities. This would support a more sustainable operating environment for regional homes and encourage investment in these communities by improving the long-term financial viability of these homes.

A broad reweighting based on MMM location could be achieved while having a net zero impact on government expenditure by reallocating funding from metropolitan (MMM1) to regional (MMM2-7) homes. This could be weighted to compensate for the reduced ability to generate everyday living income through HELF agreements in regional areas, and partially offset the structural deficit in accommodation income.

Workforce pressures driving higher operating costs

A major driver of underinvestment in regional locations is the relatively low financial returns generated by regional facilities due to the higher cost of labour in regional locations and acute workforce shortages. This means that regional facilities incur higher pay rates to attract staff, incur overtime penalty pay as staff are required to work more than the standard hours, and rely on costly agency labour to supplement the employee workforce.

Acute workforce pressures also limit a provider’s ability to invest in new or expanded regional homes, as many homes would be forced to operate at a much lower occupancy level due to understaffing. Low occupancy is a major driver of poor financial performance, due to costs being spread over a smaller resident cohort. Aged care providers will not invest in regional homes if they are not confident that they will be staffed at a level that allows them to operate sustainably.

While “direct care” funding broadly reflects the variable cost of direct care provision in different regions, it does not capture many costs incurred by providers to build the regional workforce, such as significant relocation incentives, temporary accommodation support, transport costs and other expenditure incurred to maintain the required levels of staffing. Further, it does not compensate for the significant financial deficits arising from a provider's "accommodation" and "everyday living" services.

Without long-term solutions to address workforce shortages in regional areas, "care" costs will also continue to grow, exacerbating the financial disparity between metropolitan and regional homes.

Recommendation 7: Targeted migration pathways to build the regional workforce

The growth of the regional workforce is critical to the sustainable operation of regional homes. Whilst there are subsidised traineeship programs which encourage recruitment of the domestic workforce, this is insufficient as can be seen by the persistently higher cost of labour.

The grow regional workforce supply, new migration pathways should be established for personal care workers and registered nurses to work in regional Australia. Providers should be able to sponsor the long term visas of personal care workers and registered nurses. Sponsorship should also be made more affordable, including the offering of Fringe Benefits Tax relief.

The growth of the nursing workforce would be enabled by broader recognition of internationally qualified registered nurses. The United Kingdom and New Zealand offer easier migration and recognition of qualifications of nurses from countries such as India and the Philippines; however Australian aged care providers are severely restricted in their ability to recruit from these countries.

Conclusion

Australia cannot ignore the growing divide in aged care accessibility between metropolitan and regional areas any longer. It is essential to reform the incentives that influence capital investment decisions by addressing the higher costs of development, recalibrating accommodation pricing, and building the regional workforce needed to support a more equitable aged care system.

To correct this misallocation of capital, the Government should consider a suite of policy reforms to unlock and redirect capital where it is needed most. This can only be achieved through a rebalancing of financial incentives. A combination of policy changes outlined in this Paper can improve the balance of incentives, which is needed to deliver the investment urgently required in regional communities.

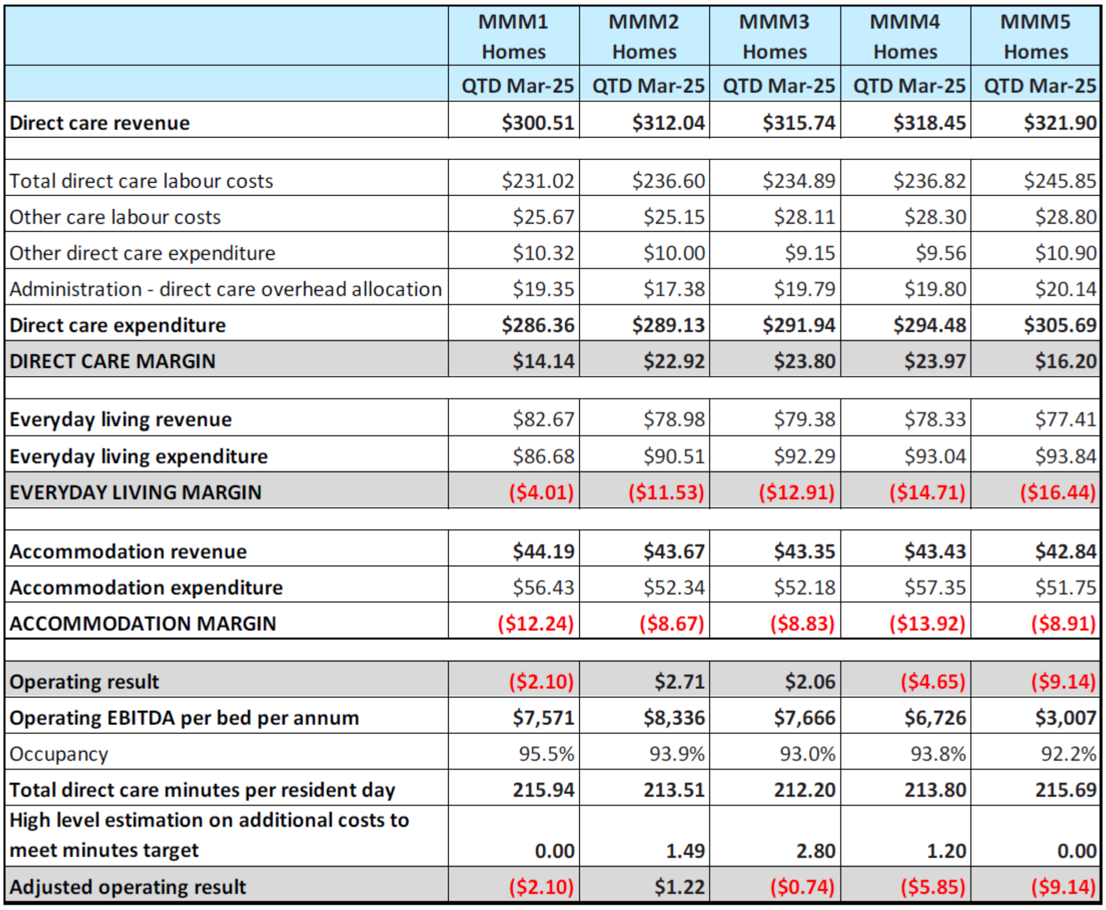
We recommend the Government implements a suite of policy measures including the conditional approvals of higher accommodation prices, capital grants for targeted sites, streamlined planning processes, and expanded regional migration pathways, will help realign incentives to attract investment in regional aged care facilities. This will ensure that older Australians have access to high-quality residential aged care, regardless of where they live.

Our regional communities face significant challenges with limited access to residential aged care facilities, despite being blessed with ample access to land. These communities need a Government committed to policy reforms to unlock capital and address the needs of older Australians in these communities.

Appendices

APPENDIX 1[7]

Table 8: Operating result by MMM locations ($ per bed day)

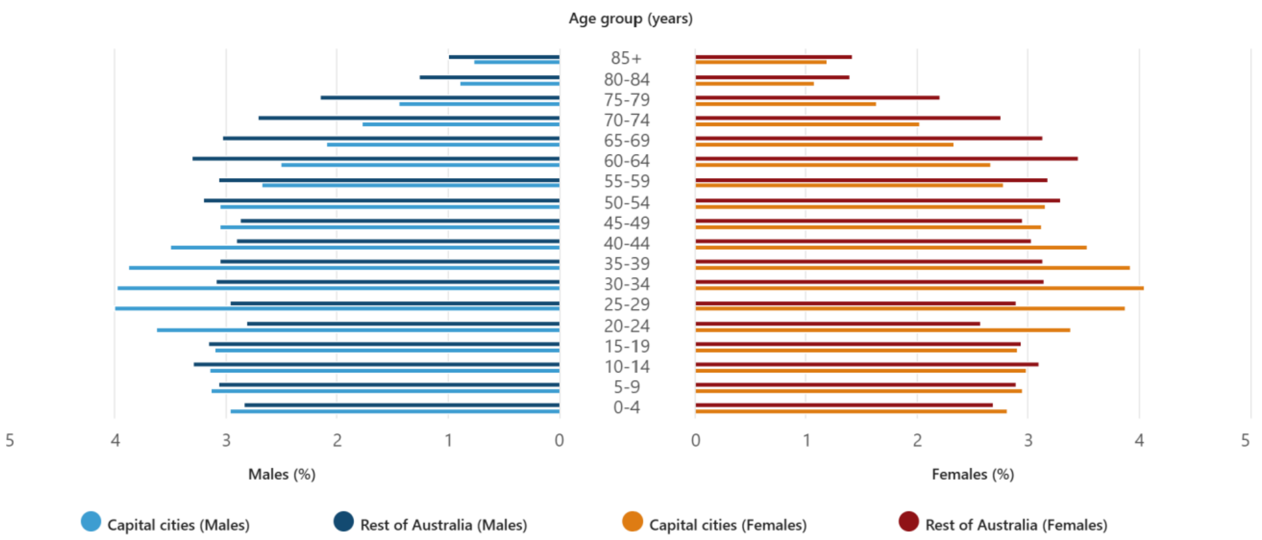


	MMM1 Homes	MMM2 Homes	MMM3 Homes	MMM4 Homes	MMM5 Homes
	QTD Mar-25	QTD Mar-25	QTD Mar-25	QTD Mar-25	QTD Mar-25
Direct care revenue	**$300.51**	**$312.04**	**$315.74**	**$318.45**	**$321.90**
Total direct care labour costs	$231.02	$236.60	$234.89	$236.82	$245.85
Other care labour costs	$25.67	$25.15	$28.11	$28.30	$28.80
Other direct care expenditure	$10.32	$10.00	$9.15	$9.56	$10.90
Administration - direct care overhead allocation	$19.35	$17.38	$19.79	$19.80	$20.14
Direct care expenditure	**$286.36**	**$289.13**	**$291.94**	**$294.48**	**$305.69**
DIRECT CARE MARGIN	**$14.14**	**$22.92**	**$23.80**	**$23.97**	**$16.20**
Everyday living revenue	$82.67	$78.98	$79.38	$78.33	$77.41
Everyday living expenditure	$86.68	$90.51	$92.29	$93.04	$93.84
EVERYDAY LIVING MARGIN	**($4.01)**	**($11.53)**	**($12.91)**	**($14.71)**	**($16.44)**
Accommodation revenue	**$44.19**	**$43.67**	**$43.35**	**$43.43**	**$42.84**
Accommodation expenditure	$56.43	$52.34	$52.18	$57.35	$51.75
ACCOMMODATION MARGIN	**($12.24)**	**($8.67)**	**($8.83)**	**($13.92)**	**($8.91)**
Operating result	**($2.10)**	**$2.71**	**$2.06**	**($4.65)**	**($9.14)**
Operating EBITDA per bed per annum	**$7,571**	**$8,336**	**$7,666**	**$6,726**	**$3,007**
Occupancy	95.5%	93.9%	93.0%	93.8%	92.2%
Total direct care minutes per resident day	**215.94**	**213.51**	**212.20**	**213.80**	**215.69**
High level estimation on additional costs to meet minutes target	**0.00**	**1.49**	**2.80**	**1.20**	**0.00**
Adjusted operating result	**($2.10)**	**$1.22**	**($0.74)**	**($5.85)**	**($9.14)**

[7] StewartBrown, Aged Care Financial Performance Survey Report - March 2025

APPENDIX 2[8]

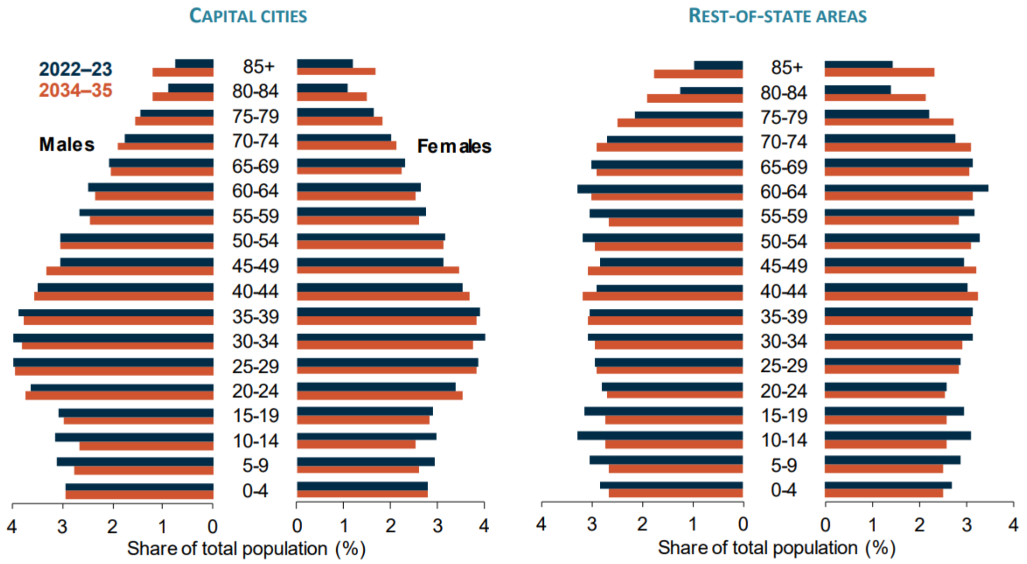
Age and sex distribution



Source: Australian Bureau of Statistics, Regional population by age and sex 2023

APPENDIX 3[9]

Chart 28. AGE DISTRIBUTION IN CAPITAL CITIES AND REST-OF-STATE AREAS



Source: ABS, *Regional Population by age and sex, 2022–23*; and Centre for Population.

[8] Regional population by age and sex, 2023 | Australian Bureau of Statistics

[9] 2024 Population Statement

APPENDIX 4

Projection of population changes outside capital cities[10]

Region	80yo+ population in 2025	80yo+ population in 2035
Rest of New South Wales	175,900	270,100
Rest of Victoria	96,200	157,100
Rest of Queensland	139,300	233,500
Rest of South Australia	27,100	43,800
Rest of Western Australia	24,600	43,300
Rest of Tasmania	18,900	30,800
Rest of Northern Territory	1,100	2,600

[10] Projections of population changes in our capital cities and rest-of-state areas | Centre for Population