

10 November 2025

Accommodation Pricing Review Independent Panel
By email: accompricingreview@health.gov.au

Dear Secretariat,

Subject: Submission to the Residential Aged Care Accommodation Pricing Review - Accommodation Supplement Reform

I am writing on behalf of Estia Investments Pty Ltd (Estia Health), a leading provider of aged care services in Australia, to submit our response to the Residential Aged Care Accommodation Pricing Review – Consultation Paper (September 2025). Our submission is focused on advocating for reforms to the Accommodation Supplement that will safeguard equitable access for residents of low means and restore the financial sustainability necessary for ongoing investment in residential aged care capacity.

We appreciate the opportunity to contribute to the Accommodation Pricing Review Independent Panel and to address the proposed consultation questions. We acknowledge and support the Review's objectives to promote equity of contribution and outcomes, ensure that residents of low means have access to high-quality accommodation, and strengthen the capacity of providers to invest in and deliver places in high-quality residential aged care homes. We share the vision of fostering a sector that is able to innovate and attract ongoing investment.

Estia Health's vision is to ensure that trusted aged care is accessible to every Australian. We believe it is essential to strike the right balance between equitable access for residents and the practical realities faced by aged care providers when making significant long term capital allocation decisions. Our commitment is to support sustainable sector growth and deliver better care outcomes for older Australians, subject to supportive policy settings.

At Estia Health, the proportion of supported/concessional permanent residents is 45%¹, which is above the sector's FY24 average of ~42.2%² and higher than many large providers, including in the not-for-profit segment. Maintaining this resident mix is increasingly challenging due to current funding constraints, which risk undermining equitable access for vulnerable older Australians.

Recent changes to accommodation pricing, such as the increase in the maximum RAD cap, the introduction of RAD retention and upcoming reforms to DAP indexation, represent meaningful progress toward improving approved provider financial sustainability. However, combined with the sharp rise in the Maximum Permissible Interest Rate (MPIR), these changes have also created unintended consequences, with providers now increasingly incentivised to be more selective in resident admissions to maintain sustainable operating outcomes.

We believe an immediate uplift to Accommodation Supplement rates is essential to maintain access for supported/concessional residents and to unlock investment in new places. Current maximum rates sit below the sector's accommodation cost base and well below the equivalent revenues achieved on non-concessional places, making it uneconomic for many providers to offer places to supported/concessional residents.

¹ Estia Health portfolio concessional ratio, 30 June 2025.

² Gen Aged Care Data, Aged Care Data Snapshot - 2024.

To address these challenges, we recommend a practical package of reforms:

- Implement a significant uplift to maximum daily Accommodation Supplement rates across all eligible categories to restore economic viability for supported residents.
- Implement a policy framework that supports funding parity, ensuring providers do not receive less from non-supported residents than from supported residents for equivalent accommodation.
- Replace the current 40% threshold with a progressive tiering structure, ensuring incentives are maintained without the risk of sudden revenue drops.
- Introduce a multi-faceted approach to stimulate new residential aged care development, which may include higher Accommodation Supplement funding for new places, targeted capital grants, interest-free or concessional loans, and other measures to reduce financial barriers and encourage investment where it is most needed.
- Maintain predictable indexation, supported by a transparent methodology to keep pace with rising costs.

Residential aged care operators continue to make significant losses in the delivery of accommodation services. The Stewart Brown Aged Care Financial Performance Survey for the 12 months to 30 June 2025 shows a sector average margin deficit of \$12.05³ per operating bed day from accommodation services. To restore viability and encourage new supply, we believe the Accommodation Supplement should be recalibrated to reflect the economic reality of room pricing.

A practical benchmark is the daily equivalent of a typical contracted room price at the current MPIR. For example, a \$500,000 contracted room price (approximately equivalent to Estia Health's current average advertised room price and similar to the average RAD received across the sector in FY25 of \$516,770³ according to the Stewart Brown Aged Care Financial Performance Survey) at an MPIR of ~7.6% equates to ~\$104 per day. This is materially higher than the current rate for homes qualifying for the Higher Accommodation Supplement (HAS) of \$70.94 per day for homes with ≥40% supported residents, a gap of around \$33 per day.

Aligning the supplement more closely with this benchmark would ensure that providers are not significantly disadvantaged when admitting supported residents compared to non-concessional residents paying a RAD/DAP, thereby addressing parity and reducing reliance on cross-subsidisation, which is ineffective in a supply constrained sector.

Such an approach would create a strong incentive for providers to maintain and expand access for concessional residents sector, while supporting sustainable investment in new capacity and high-quality accommodation.

1. Context - why change is urgent

As of 30 June 2025, 203,624 older Australians were in residential aged care, with the Commonwealth Government funding \$21.27bn in 2023–24 and accounting for 68.2% of sector income. About 42% of residents are fully or partially supported, compared with 45% at Estia Health. The Accommodation Supplement is the mechanism designed to ensure residents of low means can access the same quality accommodation as fee-paying residents. In 2023–24, Commonwealth Government outlays via the supplement were \$1.53bn.

Current maximum daily supplement rates vary by building status and the proportion of supported residents:

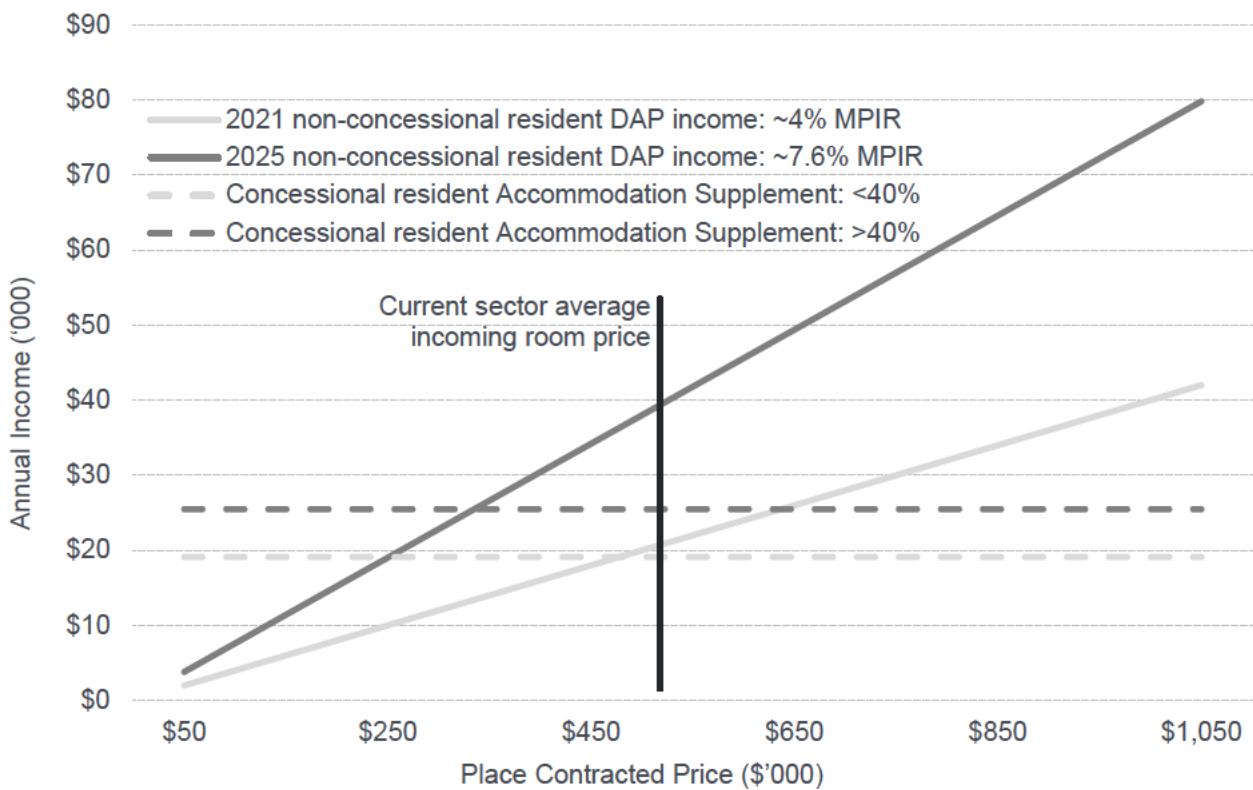
³ Stewart Brown Aged Care Financial Performance Survey for the 12 months to 30 June 2025.

- HAS homes: \$70.94/day for facilities with $\geq 40\%$ supported residents; \$53.21/day for those with $< 40\%$; and
- Legacy homes: \$46.26/day for $\geq 40\%$ supported and \$34.70/day when $< 40\%$.

While most homes now receive the HAS rate, a significant minority remain on legacy rates. The MPIR has risen from around 4% four years ago during COVID to approximately 7.6% today, more aligned with longer term trends and effectively doubling the DAP for any given room price and made it increasingly uneconomic for providers to admit a supported resident at a room price above \$350,000, as outlined in Chart 1 below. Coupled with higher financing costs and rising room prices, it is not economically feasible for many providers to offer more than a minimum level of supported places, especially when narrowly missing the 40% supported resident threshold results in a substantial reduction in supplement revenue for all supported residents in a facility.

If providers do not target a supported ratio above 40%, they are likely to operate an economically rational strategy that stabilises the ratio closer to ~20%, intensifying access issues for concessional residents. The resulting dynamic threatens ongoing bed supply and equitable access, particularly in communities where demand from low-means residents is growing.

Chart 1: Annual Accommodation Supplement and DAP income compared to contracted room price.



Broader health system signals are also concerning. A lack of new supply is contributing to longer stays for older patients in hospitals. Recently released pipeline data indicates a material undersupply that will likely worsen as demographic driven ageing accelerates.

Under current accommodation funding settings, new developments are largely feasible only in locations with favourable economics (e.g., high median house prices, higher SEIFA scores), particularly in metropolitan areas. Where limited developments do proceed, providers typically target supported ratios below 20% to rely on RAD inflows or DAP income to service debt. Lenders increasingly require this approach.

The consultation paper's notion of time-limiting future incentives (particularly for new places) should not be adopted. Significant capital works, such as expanding capacity or converting shared bathrooms to en-suites, deliver enduring amenity. Attempting to differentiate types of works and their "effective life" for payment purposes would be impractical administratively and would further disincentivise acceptance of supported residents. Providers make capital decisions on a 40-50 year horizon and require long term certainty to prioritise new supply, which typically takes 5 years to develop. This equally applies to the current Higher Accommodation Supplement scheme. Any time-limiting of that program that effectively reduces funding from the current levels will only serve to exacerbate the equitable access issue.

2. Design principles and guardrails (overarching considerations)

Any reform should:

- Promote equivalency (or significantly reduce the gap at a long term average MPIR), ensuring fair treatment and more equitable access across locations and between supported/non-supported residents.
- Encourage new supply and investment, especially in areas of greatest need.
- Not reduce funding below current levels for supported residents.
- Avoid retrospective reductions, including via time-limiting existing HAS determinations.
- Deliver these objectives with minimal administrative burden, providing a high degree of clarity, simplicity, and confidence for operators to implement.

3. Our recommended reform package

To address the challenges facing the sector, encourage supply and major upgrades and ensure equitable access for all residents, we propose a practical package of reforms:

A. Immediate uplift to Accommodation Supplement rates

We recommend increasing the maximum daily Accommodation Supplement rates to restore economic viability for concessional residents across a broad range of settings:

- For HAS homes, apply a \$40 per day uplift for both <40% and ≥40% supported resident bands. This will better align funding with actual accommodation costs and ensure better financial parity between concessional and non-concessional residents.
- For legacy and non-compliant homes, consider a smaller uplift to maintain universal access, while preserving strong incentives for refurbishment and transition to higher standards. Given this cohort represents only 14% of homes, an alternative could be to retain a single effective rate (the HAS rate) to discourage closures of older homes. In many cases, refurbished homes have already benefited from higher rates for over a decade and received a suitable return on their HAS-linked investments. The current HAS rates represent a minimum threshold for provider and place sustainability.

This adjustment will make it feasible for providers to offer more concessional places and encourage new development by improving economics.

B. Replace the 40% Accommodation Supplement 'cliff' with progressive tiering

We propose moving away from the current all-or-nothing 40% threshold and introducing progressive, tiered bands (e.g., 0–19%, 20–39%, 40–59%, ≥60% supported residents), each with graduated supplement rates.

This approach preserves incentives for providers to accept more low-means residents, without the risk of a sudden revenue drop if the threshold is narrowly missed. It is important that this tiering is not designed in a way that undermines the required increase in 'base' accommodation supplement funding levels as discussed in A.

C. Adopt a multi-faceted approach to stimulate new residential aged care development

While increasing the maximum daily Accommodation Supplement rates will provide a foundation for additional supply, it may not be sufficient in all cases. We recommend that Government also consider a broader, more tactical approach to stimulate new capacity, including:

- Higher Accommodation Supplement funding for newly commissioned places, in line with the RAD cap level of ~\$759k, which is the likely minimum room price for non-supported residents in newly built supply;
- Targeted capital grants and/or Interest-free or concessional loans in regional areas or those with less favourable economics; and
- Other mechanisms that reduce financial barriers and encourage investment where it is most needed.

There could also be consideration of a level of Accommodation Supplement that is linked to a substantial capital investment in an existing home (but not new supply, which would qualify for the highest rate). This would be set between any new 'base' level of Accommodation Supplement and the rate for new supply.

This approach would focus on areas of greatest demand and ensure the expansion and improvement of residential aged care capacity across Australia.

D. Align indexation with actual accommodation costs and to ensure financial parity

We support maintaining the current regular indexation of supplement rates, but with a formal annual review to ensure funding increases keep pace with rising input costs and to ensure better financial parity between concessional and non-concessional residents. The current indexation mechanism would benefit from a link to actual accommodation costs, which in recent years have risen at well above CPI and pension rate increases, and should also consider the need for equitable funding between concessional and non-concessional residents.

This approach will help prevent erosion of the supplement's real value and ensure fairness for all resident groups.

E. Ensure fairness for non-supported residents

Finally, we support a policy framework that ensures funding parity (as raised in Question 15), ensuring that providers do not receive less from a non-supported resident (DAP/RAD equivalent) than from a supported resident's supplement for the same room up to a certain level of price or quality.

This change would improve equity and reduce volatility in cross-subsidy dynamics, while still preserving resident choice.

4. How our proposals address the Review's objectives

Equity & access: By increasing supplement rates and introducing tiered bands, our reforms ensure that residents of low means can access high-quality accommodation in every community, not just in facilities with a high proportion of supported residents.

Sustainability & investment: Our recommendations for increased funding and predictable indexation are designed to reduce the financial risks associated with building new capacity and undertaking refurbishments. This approach directly addresses the decline in new developments highlighted in the Review.

Efficiency: A targeted uplift to the supplement is straightforward to administer, builds on existing eligibility processes, and ensures that government funding is directed where it is most needed, supporting those residents who rely on it most.

5. Government Costings

The indicative national fiscal impact to Government of increasing the maximum daily Accommodation Supplement rates we have estimated as follows:

- +\$30/day: ~\$825m p.a.
- +\$40/day: ~\$1.1bn p.a.

While this is a material uplift, it represents a relatively small proportion of the overall Government investment in residential aged care and addresses the most acute issue facing the sector and the broader economy, grossly insufficient supply of places to meet sharply increasing demand. This is already resulting in great disruption to the broader healthcare system through the increasing number of long-stay aged residents in hospital.

Further, a significant uplift in the accommodation supplement for new supply brought online (separate to a smaller increase in the 'base' supplement level), proposed to an equivalent level of the average room price for a newly built home, would only apply to a very small proportion of overall places in the market and directly encourage new supply.

6. Responses to consultation questions

Q1: Current Accommodation Supplement rates are insufficient to cover providers' capital and operational costs for accommodation and are insufficient to stimulate meaningful new supply. We recommend:

- Increasing maximum rates;
- Introducing progressive tiering to replace the current 40% threshold;
- Considering additional funding for newly commissioned places, alongside targeted measures such as capital grants or concessional loans to stimulate development;
- Reviewing and strengthening indexation arrangements.

Q2: The value of the Accommodation Supplement should be tiered based on the proportion of low-means residents in a facility.

Q3: The Higher Accommodation Supplement should not be staggered over time, and we do not support automatic reductions in supplement rates. Long-term assets require long-term funding certainty to enable sustainable investment.

Q4: The current incentive structure is unsuitable to encourage providers to accept low means residents, and we recommend replacing the current 40% "cliff" with incremental uplifts across progressive tiers.

Q5: The maximum 'base' Accommodation Supplement rates should be increased to provide a margin to actual accommodation costs and consideration of further uplifts linked to the substantial improvement in the quality of accommodation or to add new supply.

Q6/Q7: Current settings incentivise development in locations with favourable economics and low supported resident ratios. To address this, there should be consideration of additional funding for new places and complementary measures such as grants or concessional loans to encourage development in areas of greatest need.

Q8: Accommodation Supplement rates are insufficient to cover providers' capital and operational costs relating to accommodation for supported residents.

Q9: Accommodation costs vary by location, driven primarily by land values and construction costs, particularly in regional/rural areas.

Q10: The following factors should be considered in setting an equivalence mechanism:

- Fairness and transparency: Residents should pay comparable amounts for equivalent accommodation, regardless of payment method.
- Provider sustainability: The mechanism must reflect the true cost of capital and operating expenses to ensure ongoing viability.
- Market stability: Avoid sudden changes that create liquidity risks or distort payment preferences.
- Consumer clarity: The approach should be simple and easy for residents and families to understand.

Q11: The rate should approximate the cost of capital for providers, including debt and equity components, while remaining fair to consumers. Current MPIR settings often understate actual borrowing costs, particularly in high-interest environments. A benchmark aligned with sector Weighted Average Cost of Capital (WACC) or long-term financing costs would be more appropriate than a purely administrative rate.

Q12: The MPIR's link to the General Interest Charge provides a mechanism for adjustment, but it does not fully reflect sector-specific financing realities. In periods of high volatility, this can create misalignment between RAD/DAP equivalence and provider cost structures. A blended approach that considers WACC and market indicators may offer better stability.

Q13: WACC is conceptually sound because it reflects the actual cost of funding for providers. It should be derived from sector-wide financial data, including debt costs, equity expectations, and risk premiums, and reviewed periodically to maintain relevance.

Q14: A range would allow flexibility and reduce distortions caused by interest rate volatility. For example, a band could be set around a central benchmark (e.g., WACC \pm a tolerance margin), giving providers and consumers greater certainty while maintaining fairness.

Q15: A mandated minimum parity rule would be essential to ensure fairness and sustainability. Providers should not receive less from a non-supported resident (via RAD/DAP) than from a supported resident occupying the same room. This would reduce cross-subsidy volatility and support equitable access.

Q16: The advantages and disadvantages of moving the MPIR-related fluctuations in pricing from the DAP to the RAD include:

Advantages:

- Greater stability for new residents paying daily rates, as DAPs would no longer fluctuate with MPIR changes.
- Easier budgeting for families who prefer daily payments.

Disadvantages:

- RAD values would become more volatile, potentially creating liquidity risks for providers if RAD prices decline.
- Could complicate refund obligations and financial planning for residents who choose lump sums.

Q17: Prospective residents and their families prefer to pay by RAD over DAP and easily understand the concept of an upfront contribution, which aligns with Australia’s ‘real estate mindset’.

Q18: Other relevant factors to consider in relation to setting the DAP as the default payment type include:

- Consumer choice: Residents should retain flexibility to choose RAD, DAP, or a combination.
- Liquidity impact: A shift toward DAPs could reduce RAD inflows, affecting providers’ ability to fund capital works.
- Communication: Any change must be supported by clear guidance and tools to help families understand implications.

Q19: Making DAP the default does not appear to offer any clear benefits against a simple and clearly understood RAD pricing construct. Any change would need to consider provider liquidity and ensure payment via RAD remains an available option for those who prefer it.

7. Implementation & transition

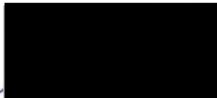
We recommend supplement uplift and tiering commence from 1 July 2026 with an interim transitional increase applied from 1 January 2026. This timeline supports stable acceptance of supported residents through recent reforms and allows providers and lenders to plan appropriately, while taking some pressure off the current issue of long term aged patients in acute care unable to find an aged care place (especially supported residents).

Conclusion

The Accommodation Supplement is the Commonwealth’s most effective lever to guarantee universal access to high-quality accommodation while restoring the economic rationale to accept and invest in concessional places. A targeted uplift, progressive tiering, commissioning support, and predictable indexation will encourage and secure capacity, equity, and sustainability for the coming decade.

We would welcome the opportunity to engage further with the Panel.

Yours sincerely




Chief Executive Officer