

Submission to the Residential Aged Care Accommodation Pricing Review October 2025

Executive Summary

St Andrew's Community Aged Care Ltd welcomes the opportunity to contribute to the Residential Aged Care Accommodation Pricing Review. St Andrew's strongly supports the Review's objectives of ensuring equitable access to quality accommodation regardless of location or payment method, while promoting sustainable investment in residential aged care infrastructure.

The organisation's central position is that the current accommodation pricing framework does not adequately recognise the structural cost differentials faced by regional providers, particularly in Modified Monash Model (MMM) 3–4 areas. These cost differentials—driven by workforce scarcity, thin markets, diseconomies of scale, and transport and supply chain constraints—are not operational inefficiencies but enduring structural conditions that undermine both service sustainability and capital investment capacity.

St Andrew's proposes a regionalised approach to accommodation pricing that includes:

- Regional viability loadings or thin-market block funding mechanisms
- Adjustments to hoteling supplements and transport supports
- Reforms to the Accommodation Supplement to reflect true capital and operating costs
- Integration of regional benchmarking data into pricing determinations.

These proposals directly address multiple elements of the Review's Terms of Reference, including equitable access across geographies, adequacy of pricing settings, support for capital investment, and pricing structure reform.

1. Context of the Review

The Residential Aged Care Accommodation Pricing Review, established under the Aged Care Act 2024, is examining whether the current Accommodation Supplement and associated pricing settings remain fit for purpose. Its Terms of Reference require the Independent Panel to advise on policy, funding and administrative settings to:

- Ensure equitable contributions and outcomes regardless of location or funding method
- Guarantee access to high-quality accommodation for low-means residents
- Support providers to invest in, maintain and deliver quality residential accommodation to meet population needs
- Encourage innovation and investment
- Examine the adequacy of accommodation revenue in light of reforms including changes to RAD retention arrangements and the increase to the maximum room price from 1 January 2025.

The Panel appointment was announced on 1 October 2025, with Mr Nigel Ray PSM and A/Prof Nicole Sutton appointed as independent reviewers. Public consultation is underway, with the Panel scheduled to report by May 2026 and findings tabled in Parliament by 1 July 2026.

Current settings include a maximum room price of \$750,000 (indexed to \$758,627 from 1 July 2025), a RAD retention rate of 2% per annum effective 1 November 2025, and the potential for a daily accommodation payment (DAP) to become the default display price, with the appropriateness of the MPIR under review.

2. Sector Financial Pressures: Quantitative Evidence

Financial benchmarking evidence clearly shows that residential aged care services are operating under increasing financial pressure.

According to StewartBrown's March 2025 Aged Care Financial Performance Survey, only 34% of homes achieved a positive result on everyday living and accommodation combined, with 66% operating at a loss. The sector average operating result per resident per day for everyday living and accommodation was $-\$9.75$, with rural and regional homes performing significantly worse than metropolitan counterparts. Average profitability margins fell to 3.8%, down from 4.5% the previous year, largely due to increasing labour costs, energy prices, and compliance obligations.

Mirus benchmarking further highlights underlying structural pressures. National occupancy has softened slightly, with providers in regional areas facing greater volatility. RN minutes have declined, placing pressure on workforce models and increasing reliance on agency staff. Cost ratios have risen steadily, reflecting the combined impact of wage increases, energy costs, and intensified compliance activity.

These financial pressures affect the sector's ability to maintain accommodation quality and invest in upgrades. StewartBrown's analysis shows that capital investment in residential aged care accommodation has stagnated, with many providers deferring refurbishment and redevelopment due to uncertainty about future pricing and RAD flows. Moreover, IHACPA's Residential Aged Care Pricing Advice 2025–26 underscores the imperative of aligning accommodation settings with contemporary cost evidence.

3. Regional Structural Cost Differentials

For providers operating in MMM3–4 areas, these pressures are exacerbated by structural cost differentials that are not addressed by current pricing settings. Key drivers include:

- Workforce shortages leading to heavy reliance on agency staffing, often at premiums of 30–40% above permanent staffing costs, coupled with travel and accommodation costs for agency staff;
- Higher hoteling and everyday living costs, including food, utilities, linen and transport, due to limited contractor availability and reduced economies of scale;
- Geographic isolation, which increases resident transport costs for specialist appointments and limits access to affordable contractors and service providers; and
- Thin market dynamics, where single providers serve entire catchments, preventing cost-sharing or competitive procurement advantages common in metropolitan areas.

These are enduring structural characteristics, not temporary operational issues, and must be explicitly recognised within pricing structures if equity across locations is to be achieved.

Case Study: Regional Cost Differentials – Ballina (MMM 3) and Byron Lodge (MMM 4)

The following two facilities illustrate how structural cost differentials manifest across both mid-sized and smaller regional services. Both facilities operate efficiently and maintain high occupancy, yet each faces persistent deficits under the current national accommodation pricing framework.

St Andrew’s Ballina Residential Aged Care Facility (MMM 3)

Ballina provides accommodation and care for 123 residents and serves as the regional hub for high-care, dementia and palliative services across the Northern Rivers.

Despite consistent occupancy above 95 per cent, the facility experiences sustained cost pressures.

Agency staffing accounted for around 22 per cent of RN hours during 2024–25 at premiums of about 38 per cent once travel and accommodation are included.

Hoteling costs, particularly food and utilities, are estimated to be 12–15 per cent higher than metropolitan benchmarks.

Planned dementia-specific refurbishments valued at \$4.8 million remain financially marginal under current supplement levels.

Byron Lodge Residential Aged Care Facility (MMM 4)

Byron Lodge accommodates 40 residents in a small regional township where workforce and contractor markets are extremely limited.

Recruitment and retention remain difficult, with agency staff filling almost one-third of RN and EN shifts.

Utility, catering and laundry costs average roughly 15 per cent above metro equivalents due to distance from suppliers and limited competition.

The facility’s small scale limits cost-sharing and heightens vulnerability to even minor occupancy or workforce changes.

Despite efficient management, recurrent deficits persist because national accommodation pricing fails to reflect the realities of thin-market service delivery in MMM 4 locations.

4. Policy Gaps in the Current Pricing Framework

Current accommodation supplements and AN-ACC location loadings do not sufficiently account for structural regional cost differentials, resulting in persistent funding gaps for providers in MMM3–4 areas.

Accommodation Supplement rates are nationally uniform, with only limited variation for supported residents, failing to capture higher fixed and operating costs in regional contexts. Existing location loadings apply only to MMM6–7 (remote and very remote), leaving a significant gap for MMM3–4 services – providers too far from urban centres to benefit from workforce and contractor markets, but not classified as remote. Hoteling supplements remain inadequate to meet rising everyday living costs in regional settings, which are often 10–15% higher than metro benchmarks.

This misalignment directly conflicts with the Review’s Terms of Reference, particularly the objectives of ensuring equitable access across locations and supporting sustainable investment in accommodation infrastructure.

5. St Andrew's Proposals

To address these gaps, St Andrew's proposes a series of targeted, evidence-based reforms aligned with the Review's Terms of Reference.

5.1 Introduce Regional Viability Loadings or Thin Market Funding

Implement a location-based accommodation loading or block funding mechanism for MMM3–4 areas to reflect structural cost differentials in workforce, supply chains, and fixed costs. This would ensure that accommodation supplements are better aligned with the actual cost environment in thin markets. A thin-market trigger based on catchment size, distance to nearest provider, or market concentration could be used to determine eligibility.

5.2 Adjust Hoteling Supplements and Introduce a Transport Allowance

Adjust hoteling supplements to reflect genuine regional cost differentials for utilities, food, and other operating costs. Introduce a Resident Medical Transport Allowance to support unavoidable costs for staff-accompanied medical transport, which are higher in regional areas due to distance and service availability.

5.3 Reform the Accommodation Supplement to Support Quality and Investment

Review and increase Accommodation Supplement rates to ensure they cover both capital and operating costs of providing quality accommodation. Incentives should support dementia-friendly design and alignment with the National Aged Care Design Principles and Guidelines, rather than rewarding only minimum compliance.

5.4 Integrate Regional Benchmarking into Pricing

Incorporate Mirus–StewartBrown benchmarking (ACE Index) into pricing determinations, segmented by MMM classification, to ensure prices reflect regional cost realities. This would build on the Aged Care Effectiveness (ACE) Index jointly developed by Mirus and StewartBrown in 2024.

5.5 Exercise Caution in Applying Minimum Room Prices

If a minimum room price is introduced for non-supported residents, complementary regional viability measures must be in place to avoid disadvantaging thin-market providers.

6. Conclusion

Regional aged care providers are essential community infrastructure. However, current pricing structures fail to recognise the systemic cost differentials in MMM3–4 settings, placing both service sustainability and capital investment at risk.

The evidence from StewartBrown, Mirus and St Andrew's operations demonstrates that these are structural, not temporary, conditions. Introducing regional viability loadings, adjusting hoteling supplements, reforming the Accommodation Supplement, and embedding regional benchmarking into pricing decisions would align the framework with the Review's objectives of equity, sustainability, and quality.

These changes will ensure that regional communities are not left behind in the transition to a rights-based aged care system under the Aged Care Act 2024.

Sincerely,

[Redacted Signature]

[Redacted Name]

Chief Executive Officer

Appendix A: References

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