



**StewartBrown**  
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# **Residential Aged Care Accommodation Pricing Review**

**November 2025**

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# 1. Executive Summary

## Background

The Minister for Aged Care and Seniors announced in September 2025 that a Residential Aged Care Accommodation Pricing Review will be conducted in response to the recommendations of the Aged Care Taskforce in relation to accommodation pricing.

## Scope of Review

The 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
- examine the adequacy of accommodation revenue, including the supplement, having regard to the impact of recent reforms, including changes to the Refundable Accommodation Deposits (RAD) (2% retention and increasing the maximum room price from \$550,000 to \$750,000 on 1 January 2025)

## Matters Out of Scope

- A subsequent independent legislated review by 2030 will consider the use of refundable deposits. However, some of the matters in scope for this review, such as the relationship between RADs and DAPs, will contribute towards the progressive steps to reduce sector reliance on RADs for capital funding
- The rate of RAD retention, which has been legislated at 2%
- Changes to permitted uses of refundable deposits

## StewartBrown

StewartBrown ([www.stewartbrown.com.au](http://www.stewartbrown.com.au)) is a Chartered Accounting firm located in Chatswood, Sydney. The firm currently consists of 10 Partners and over 100 employees providing professional services including Audit, Consulting, Business Services, Taxation and Financial Planning. StewartBrown provides these professional services nationally to a range of clients, however, have a speciality expertise in aged care and community services, social services, independent schools, children's services, disability services and indigenous programs.

With respect to aged care and community services, StewartBrown have more than 70 professional staff actively providing significant professional services to the sector nationally.

## Aged Care Financial Performance Survey

StewartBrown undertakes the largest financial performance benchmarking survey covering the aged and community care sector in Australia. The Survey includes detailed operational, equity and staffing data on a quarterly basis for residential aged care facilities and home care packages.

The *Aged Care Financial Performance Survey* (Survey) commenced in 1995 and has grown exponentially due to the requirement for Boards and executive management to be able to compare their operations to that of other facilities and programs within the sector.

Over the years, the format of the results of the Survey has become more granular in content and has become an integral part of the strategic, budgeting, forecasting and review processes within the participant provider organisations.

The Survey provides quarterly financial and non-financial data for residential (by aged care home) and home care (by program) at a granular level. In addition, the Survey obtains specific segment information and key balance sheet information at organisation (approved provider) level every six months.

Subscribers to the Survey include a majority of the largest providers nationally, independent stand-alone providers, faith-based and community providers, for-profit providers, and culturally specific providers. The ASX listed providers are not included in the Survey.

The Survey is primarily for the benefit of aged care Providers in reviewing their financial performance and considerations of strategic direction on an individual aged care facility basis and home care package program basis and the participant reports are designed for that purpose.

Providers compare their performance on a number of metrics with facilities (in this instance) through a range of data attributes, including resident mix and acuity, staffing levels (cost and hours/minutes), geographic region, age of building, size of building, number of places (beds), accommodation pricing and administration costs. Home care has a similar specific range of metrics.

The Survey participants utilise an interactive website with high level dashboards, business intelligence tools and the ability to drill down on all data fields as required.

A significant secondary benefit is that the aggregate of the data provides a significant level of trend data and detailed analysis as included in our Survey reports and more recently through independent analysis undertaken by the University of Technology (UTS Ageing Research Collaborative) which provides an additional level of academic rigour.

## Accommodation Pricing Overarching Framework

The major themes as presented in this submission are as follows:-

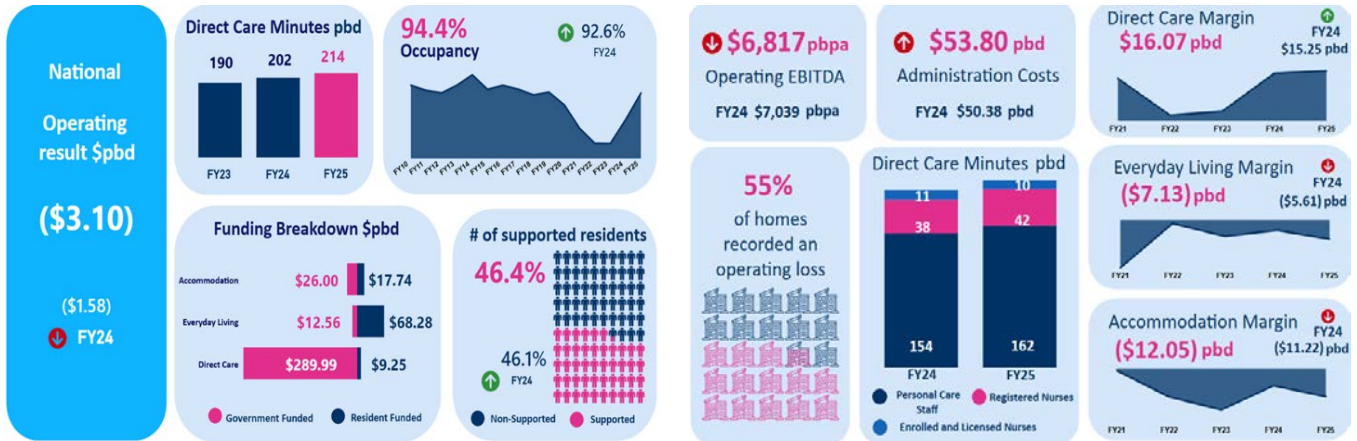
- The residential aged care sector is currently, and will remain, not investible even after the current funding reforms are implemented, which will also take three or more years for the full financial benefit to occur
- There is significant concern as to the ability of the sector to build the required number of new beds and significantly refurbish older homes to meet the growth in demand for residential aged care places
- Transition to a rental model for the purpose of determining the appropriate accommodation price
- Daily rent would be based on achieving an investible return on the capital asset cost base - say 4.5% after depreciation
- Maintaining a legislated formula for equating the daily rental amount to the RAD or part RAD price
- Replace Maximum Permitted Interest Rate (MPIR) with another factor that could be based on a discounted commercial rental return or the weighted average cost of capital with an annual review rather than a quarterly review - to provide more certainty and reflect a more commercial approach
- Providers must increase accommodation prices to improve the overall accommodation funding - whilst also maintaining equity and affordability
- Government to increase the Higher Accommodation Supplement (HAS) to a level that will provide encouragement for Providers to take supported residents in an environment where, increasingly, providers will have a choice as to which resident they admit as a result of higher occupancy levels across the sector being likely to occur for the next 5 - 10 years
- A sliding scale for the HAS for financially supported residents based on:
  - Age of home
  - Number of supported residents (incremental subsidy rather than a single cut-off point)
  - Regionality
- The increase in the HAS will close the funding gap between a DAP and the supplement to enable more equity and to restrict a substantive increase in the DAP
- As noted in the out-of-scope section, this submission is not making comment around the future of Refundable Accommodation Deposits (RADs) with the references being that the basis of calculating a RAD amount would be based on a rental return rather the current situation where the Daily Accommodation Payment (DAP) is calculated based on the RAD

## 2. Residential Aged Care Sector

### Current Financial Performance

The StewartBrown *Aged Care Financial Performance Survey* (Survey) for the 12 months ended 30 June 2025 provided the following results snapshot.

Figure 1: Financial results snapshot for 2024/25 financial year (FY25)



A brief analysis of the operating performance includes:-

- Direct Care margin, being AN-ACC subsidy and supplements less costs of providing direct care (including an administration component), is a surplus (\$16.07 per bed day). However, this is likely to decrease from FY26 and beyond as IHACPA have advised “IHACPA’s cost-based approach to pricing does not incorporate provider margins and complies with the Minister’s Letter of Expectations 2022, which instructed IHACPA to provide pricing advice based entirely on the costs of care.”. Accordingly, any margin in the future will be at the determination of the Minister following advice from the Department of Health, Disability and Ageing (Department) to this extent
- The Everyday Living (hotel) margin deficit (\$7.13 per bed day) will reduce to be around break-even due to the funding reforms effective from 1 November 2025 (for new residents) and the significant increase in the hotel supplement to \$22.15 per resident per day from 1 October 2025
- The Accommodation margin deficit (\$12.05 per bed day) will benefit (improve) from the 2% RAD retention from 1 November 2025 (for new residents) and the indexation of the DAP
- The occupancy percentage will continue to increase due to demand for places (beds) becoming greater than supply, and will likely remain high for the next 5 to 10 years
- The operating result deteriorates progressively by geographic region (MM1 to MM5)
- 55% of aged care homes made an operating loss for the 2025 financial year (please note that this refers to the individual home results and not the overall registered provider (consolidated) results)
- 29% of aged care home made an EBITDA (cash) loss for the 2025 financial year
- The average RAD received for the 2025 financial year was \$516,770 which represented an increase of 4.59% over the 2024 average (\$494,106) despite the accommodation pricing cap increasing on 1 January 2025 from \$550,000 to \$750,000 before requiring IHACPA approval

### Future Demand for Residential Aged Care

With an ageing population, Australia is at the precipice of a significant issue whereby the demand for residential aged care places will exceed the supply. Based on the resident growth projections as published by the Department in the latest 2023/24 *Financial Report on the Australian Aged Care Sector* (FRAACS) the demand will grow exponentially over the next 20 years (refer Figure 2).

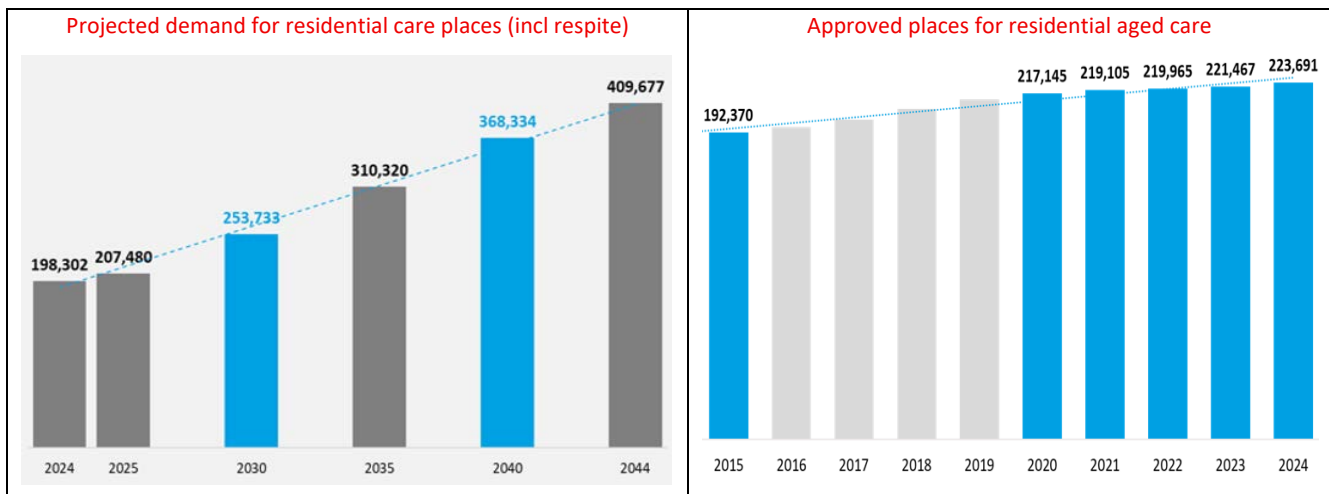
Conversely, the number of new beds being commissioned and available increased by around 800 beds in 2024/25 compared to 2,200 in 2023/24 and 1,500 in 2022/23 (source: 2024/25 *Residential care bed supply and analysis*, Bolton Clarke, October 2025).

This is further illustrated in *Figure 2* which shows the number of approved places available since 2015. For the 5 year period 2020 to 2024 the approved places only grew by 6,536 places (3.01%).

The critical concern is that persons requiring residential aged care will be unable to find a suitable place and potentially places them at clinical and social risk. This will create further pressure on the public hospital system where persons will be required to reside much longer due to the lack of aged care places with the resultant effect that hospital beds are unavailable for the general public.

The major contributing reason for the lack of new residential aged care beds being built is due to the poor financial returns (being a deficit) making it uneconomic for providers to invest in residential aged care accommodation.

Figure 2: Projected demand for residential aged care and approved places trend



## Funding Reforms

### Background

The Aged Care Taskforce charter included considering and advising on “reforms to arrangements for pricing and funding of hotel and accommodation costs in residential aged care.

The Final Report of the Aged Care Taskforce made the following recommendations:-

**Recommendation 12:** Following an independent review in 2030, transition the sector by 2035 to no longer accept RADs as a form of payment for aged care accommodation and move to a rental only model, provided that the independent review finds there is improved financial sustainability, diversified and adequate sources of capital to meet future demand and residential aged care is affordable for consumers.

**Recommendation 13:** Require providers to retain a portion of the RAD in the near-term to make an immediate improvement to sector financial sustainability. Base the amount on length of stay, with a cap on the number of years a RAD is subject to retention to protect residents who stay for a long time.

**Recommendation 14:** Review the Accommodation Supplement, including improving incentives to meet the accommodation design principles.

**Recommendation 15:** In addition to the other accommodation recommendations, develop a package of measures to improve accommodation funding, equity between residents and transparency in the near-term. This will help place accommodation income on a long-term sustainable footing and position the sector for the ultimate phase out of RADs.

**Recommendation 16:** Establish appropriate safeguards and incentives to protect access to residential care for supported residents.

### Reforms

A summary of the reforms that were applicable for the accommodation settings are:-

- From 1 January 2025, the maximum accommodation price a provider can charge was increased from a RAD of \$550,000 to \$750,000 (or equivalent DAP). This price will be indexed on 1 July each year, and as of 1 July 2025 is \$758,627 (approval is required from the Independent Hospital and Aged Care Pricing Commission to charge above the new cap)

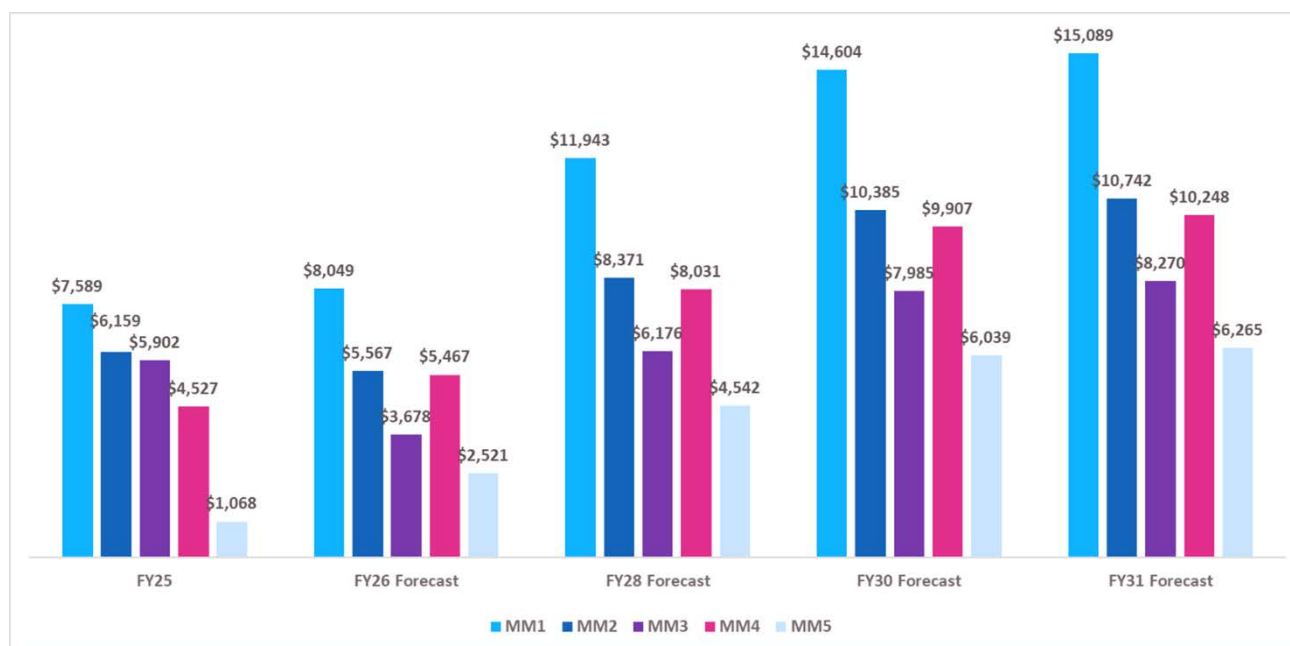
- Providers can deduct RAD retention for residents that enter permanent care from 1 November 2025 which will apply to both RADs and RACs
  - The amount deducted will be calculated at a rate of 2% per annum applied to the daily balance of the refundable deposit and deducted no more than once per month, but at least once in each 3-month period
  - To protect residents that remain in care for a long time, the retention deductions will be limited to 5 year
  - Once a retention amount is deducted, it is no longer part of the RAD, so Permitted Use restrictions no longer apply. This means the provider may use the deducted amount as they choose (for example to meet operational costs). The Accommodation Payment Guarantee Scheme does not apply to deducted amounts including retention deductions

## Financial Projections

StewartBrown has prepared detailed projections based on 1,200 aged care homes (nationally and all geographic regions) which included the following assumptions:-

- Hotelling supplement to be \$22.15 per resident per day from 20 September 2025 (from \$15.60)
- Refundable accommodation deposit (RAD) retention of 2% pa to be phased in for new residents from 1 November 2025
- Average RAD pricing (accommodation price) for MM1 facilities to be progressively increased each year to move toward an average of \$680,000 in FY29. Facilities located in other areas follow the same movement in percentage
- Daily Accommodation Payment pricing to be based on 8% pa floor (MPIR)
- Accommodation Supplement to increase by CPI based on current amount

Figure 3: Forecast EBITDA results (\$ per bed per annum) based on current funding reforms



StewartBrown advocates that for the residential aged care sector to be investible will require that an average EBITDA of between \$20,000 and \$22,000 per bed per annum is required. Based on the projections in *Figure 3* no region will come close to that level with MM2 - MM5 being particularly vulnerable in managing any new builds.

## Accommodation Recurrent Margin

Accommodation revenue is derived from DAPs, Accommodation charges (legacy residents), Accommodation Supplement and the Respite Accommodation Subsidy. The Department includes Finance Income in the FRAACS reporting.

Accommodation expenditure includes routine (daily) accommodation expenses and depreciation. No finance costs are included in accommodation expenses (nor are they included in any EBITDA calculations).

The Accommodation margin is based on the above recurrent revenue and expenses. *Table 1* is a summary of the Accommodation margin for FY25 and FY24. By way of comparison, the FRAACS result for FY24 (the latest report) discloses a margin deficit of \$8.44 per resident per day after inclusion of \$10.33 per resident per day for finance income (which is not included in the StewartBrown Survey results).

**Table 1: Scenario analysis of accommodation revenue, expenses and margin (\$ pbd)**

	Actual		Adjusted depreciation		New Build
	FY25 \$ pbd	FY24 \$ pbd	FY25 \$ pbd	FY25 \$ pbd	FY25 \$ pbd
<b>Accommodation revenue</b>	<b>43.74</b>	<b>41.65</b>	<b>43.74</b>	<b>43.74</b>	<b>43.74</b>
<b>Accommodation expenses</b>					
Depreciation - building	13.57	13.22	17.21	19.67	58.05
Depreciation - other	9.32	9.14	9.32	9.32	9.32
Refurbishment	0.34	0.31	0.34	0.34	0.34
Property maintenance	14.39	13.50	14.39	14.39	14.39
Property rental	1.03	0.77	1.03	1.03	1.03
Other accommodation costs	1.33	1.14	1.33	1.33	1.33
Administration overhead	15.81	14.81	15.81	15.81	15.81
<b>Accommodation expenses</b>	<b>55.79</b>	<b>52.89</b>	<b>59.43</b>	<b>61.89</b>	<b>100.27</b>
<b>Accommodation margin (\$ per bed day)</b>	<b>(\$ 12.05)</b>	<b>(\$ 11.24)</b>	<b>(\$ 15.69)</b>	<b>(\$ 18.15)</b>	<b>(\$ 56.53)</b>
<b>Accommodation margin (\$ per bed per annum)</b>	<b>(\$ 4,150)</b>	<b>(\$ 3,792)</b>	<b>(\$ 4,150)</b>	<b>(\$ 4,150)</b>	<b>(\$ 4,150)</b>
Building depreciation charge (\$ per bed per annum)	\$ 4,676	\$ 4,466	\$ 5,930	\$ 6,777	\$ 20,000
<i>Building depreciation % per annum (average)</i>	<i>2.76%</i>	<i>2.73%</i>	<i>3.50%</i>	<i>4.00%</i>	<i>4.00%</i>

*Table 1* also includes some scenario analysis to consider the margin deficit if building depreciation was increased to be closer to the actual effective life of a residential age care home.

StewartBrown considers the sector underestimates building depreciation, with over 50% of homes being depreciated over 40 years (2.5% pa). Cognisant of the significant change in the resident acuity cohort over the last 10 years and noting that future residents will increasingly come from the next generation (known as “baby boomers”) with much more varied accommodation expectations, it could be considered that depreciating over 25 years (4% pa) is more realistic. It is also important to note that many homes depreciate based on cost, not a revalued building value or ultimate replacement value.

It is clear that having an accommodation margin deficit is not sustainable in attracting new investment in builds or even upgrading older homes to be more suitable to current and future resident expectations. The residential sector has had accommodation margin deficits since 2008 with little specific strategies to improve this result, due to an over reliance on RADs to cover costs of builds and refurbishments.

It is also important that the consideration of reforms to the accommodation settings note that the current accommodation revenue only relates to maintaining the standard of accommodation (and at a margin deficit) and does not provide any return on the capital investment.

The only method to improve the accommodation margin is through increased revenue, which must be a combination of higher accommodation prices (with the resultant increased DAP and RAD retention and investment revenue) and through a more equitable Accommodation Supplement.

## 3. Accommodation Supplement

### Questions Posed by the Consultation Paper

1. Outline how you think the Accommodation Supplement could be reformed to ensure quality accommodation for residents of low means
2. Should the value of the Accommodation Supplement be universal or tiered such as by location or proportion of residents or other basis?
3. Should the Higher Accommodation Supplement be staggered over time, so that as the accommodation facilities age the supplement is reduced (with the full value payable again after a new renovation)?
4. How suitable is the current incentive structure to encourage providers to accept low means residents (a discount on the Accommodation Supplement based on a single threshold of 40% supported residents)? How could those incentives be preserved or enhanced?
5. How can the Accommodation Supplement be reformed to support an uplift in the quality of accommodation?
6. Outline how the Accommodation Supplement pricing impacts on incentives for capital investment in residential aged care
7. In what ways could the Accommodation Supplement be reformed to better incentivise capital investment in residential aged care?
8. To what extent is the current rates of the Accommodation Supplement sufficient to cover providers' capital and operational costs relating to accommodation?
9. How does the costs of providing accommodation vary across different operating environments, such as differences in location?

### StewartBrown Submission

There are a range of compelling reasons for increasing the Accommodation Supplement including:

- The differential (gap) between current Accommodation Supplement amount and a DAP based on the average RAD taken is escalating as RAD prices increase. With resident occupancy demand likely to outstrip supply for a number of years this may create a consequence where residents are provided accommodation based on financial means
- The required objective is to provide an incentive for Providers to accept supported residents into new builds or major refurbished homes rather than use old building stock to accommodate supported residents
- To ensure equity for all residents, a fair contribution to the overall revenue stream for accommodation services is essential. If the Accommodation Supplement does not keep parity with the costs of building, demand and required returns for Providers will not only affect future financially supported residents but another large cohort, being self-funded retirees who do not have substantial wealth and may find residential aged care accommodation too expensive

### Specific Responses

#### Closing the Gap

The differential (gap) between the current Accommodation Supplement amount at the current MPIR of 7.61% p.a. is now significant and in a time of increased occupancy levels is a disincentive for Providers to take a resident that is financially supported over a resident that has the means to pay for their accommodation. This is not just in major metropolitan areas but also in regional areas.

Given that over 80% of homes have been newly built or significantly refurbished since 2012, the analysis is based on providers receiving the Higher Accommodation Supplement.

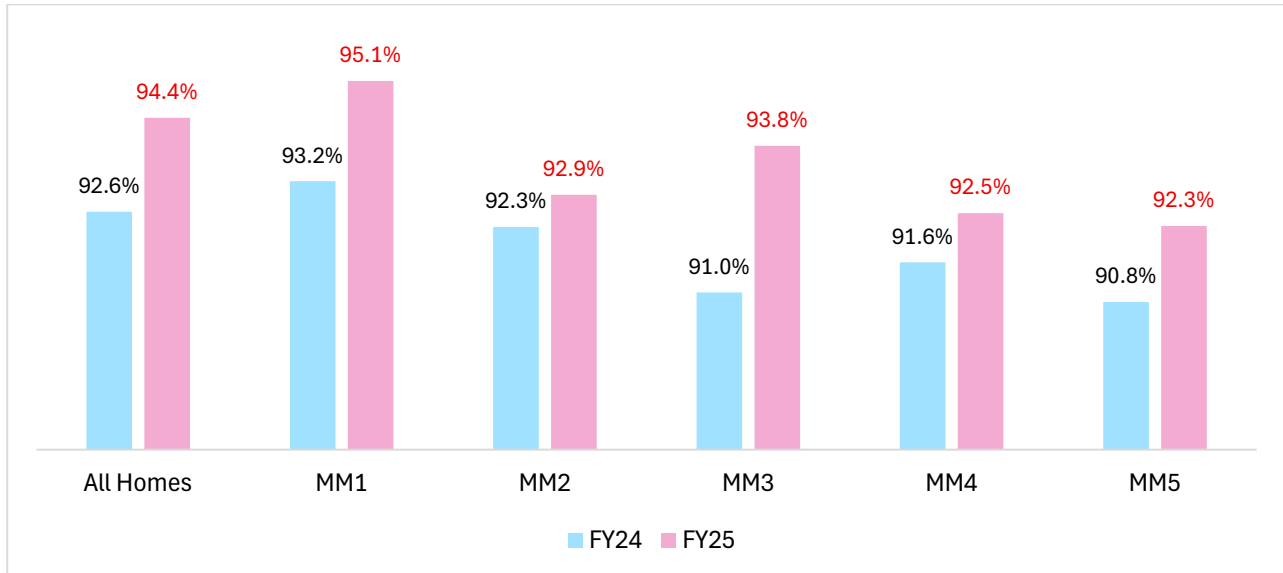
MMM Classification	Average Full RAD Received \$	DAP Equivalent (Based on MPIR of 7.61%)	Gap to Highest Accommodation Supplement of \$70.94 pbd	Gap to Accommodation Supplement <40% of \$53.21 pbd
MM1	562,575	117.29	46.35	64.08
MM2	437,308	91.18	20.24	37.97
MM3	421,978	87.98	17.04	34.77
MM4	415,465	86.62	15.68	33.41
MM5	392,531	81.84	10.90	28.63
<b>All Homes Average</b>	<b>\$516,770</b>	<b>\$107.74</b>	<b>\$36.80</b>	<b>\$54.53</b>

### Providing an Incentive to Invest

The Accommodation Supplement should assist in providing an incentive to Providers to admit supported residents and offer high quality accommodation that is comparable to non-supported residents.

Current occupancy rates are increasing and are now averaging above 95% in major areas of population and even in many regional areas occupancy rates are now approaching 95%.

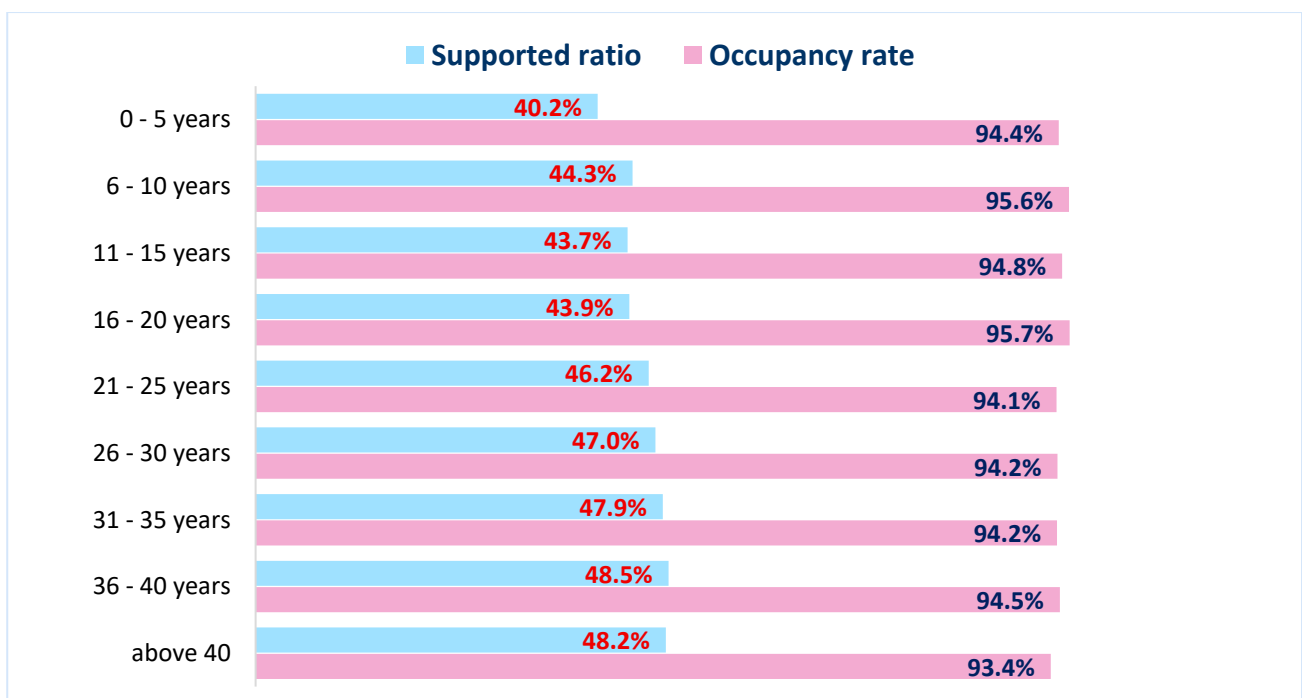
Figure 4: Occupancy Rate (%) by MMM classification



Given the increases in demand in coming years, and the shortage of supply of appropriate building stock it is imperative that the Accommodation Supplement plays a role in providing a reasonable return on the cost of investment in accommodation in residential aged care whilst also encouraging Providers to accommodate supported residents in quality accommodation settings.

Currently, there is a trend that as a building ages, the supported ratio increases. While this is helping to maintain a relatively steady supported ratio nationally over time, it is a sign that supported residents may not be getting as much access to higher standards of accommodation and amenities that are provided in newer buildings.

Figure 5: Occupancy Rate (%) by supported ratio



Occupancy rates also vary by age of building, particularly for buildings that are over 40 years old.

## Contributing to Overall Investibility

It is apparent that as an overarching principle, the funding for direct care and for hotel services is “cost based” and does not provide for a significant margin to Providers. A margin can be obtained through additional Higher Everyday Living Fees (HELFF) but in some demographics, particularly in the regions or where there is older building stock, attracting a sufficient base of residents for which HELFF services can be levied is somewhat limited.

Providers therefore will increasingly rely on revenue streams from accommodation for a required return on their investment. The *Aged Care Act 2024* has legislated for additional streams of revenue sourced from accommodation.

Table 2 is an extract from a model developed by StewartBrown which shows how each of the funding elements contribute to achieving a reasonable return on investment measured as the cost to build.

Table 2: Accommodation funding model based on national MM1 and \$500,000 build cost

General Parameters	Input	Input	Input	Input	
Location	National-MM1	National-MM1	National-MM1	National-MM1	Select
MPIR	7.6%	7.6%	7.6%	7.6%	A
Supported ratio threshold	40.0%	40.0%	40.0%	40.0%	B
RAD retention % per annum	2.0%	2.0%	2.0%	2.0%	C
Investment return % per annum on RAD funds	4.0%	4.0%	4.0%	4.0%	D
Required rate of return on Cost to Build (after Depreciation)	4.5%	4.5%	4.5%	4.5%	
Days in year	365	365	365	365	E
Maximum Accommodation supplement	\$70.00	\$90.00	\$100.00	\$120.00	F

Facility Input	Input	Input	Input	Input	
Cost of construction per bed	\$500,000	\$500,000	\$500,000	\$500,000	G
Accommodation expenditure (including depreciation)	\$56	\$56	\$56	\$56	I
Supported ratio	46.4%	46.4%	46.4%	46.4%	J
Resident accommodation mix (non-supported)					
DAP %	40.0%	40.0%	40.0%	40.0%	K
RAD %	37.0%	37.0%	37.0%	37.0%	L
Combination %	23.0%	23.0%	23.0%	23.0%	M
RAD proportion in combination	50.0%	50.0%	50.0%	50.0%	N
% of RAD that can be used to investment	25.0%	25.0%	25.0%	25.0%	O
Accommodation Price (F) as % of median house price	101.5%	91.2%	85.5%	73.3%	Y

Calculation	Calculated	Calculated	Calculated	Calculated	
Accommodation Price (F)	\$1,080,000	\$970,000	\$910,000	\$780,000	Z
Accommodation margin (A - B)	\$62	\$62	\$62	\$61	
Accommodation Supplement	\$32	\$42	\$46	\$56	Based on J and F
+ DAP revenue	\$62	\$56	\$52	\$45	
+ RAD investment return (imputed)	\$8	\$7	\$6	\$6	
+ RAD retention	\$15	\$14	\$13	\$11	
Accommodation revenue (A)	\$118	\$118	\$118	\$117	
Accommodation expenditure (B)	\$56	\$56	\$56	\$56	I
Return on construction per annum %	4.5%	4.5%	4.5%	4.5%	
Full DAP equivalent per day	\$225	\$202	\$190	\$163	
Median current RAD price (G)	\$550,000	\$550,000	\$550,000	\$550,000	using MAC data
Increase in RAD required (F - G)	\$530,000	\$420,000	\$360,000	\$230,000	
% increase required	96.4%	76.4%	65.5%	41.8%	

This first stage of modelling is assessing how a Provider would achieve sufficient return on its investment when building a new aged care home while looking at the building cost per room. This does not include land value. A base cost of \$500,000 per room is used as an assumption in this scenario modelling. The other parameters are based on average sector settings based on public data and the StewartBrown Survey for the FY25 year.

A summary of the scenarios in *Table 2* is as follows:-

**Table 3: Accommodation funding scenario analysis based on national MM1 location and \$500,000 building cost**

	National MM1			
	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000
Build cost	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000
Return %	4.5%	4.5%	4.5%	4.5%
Revenue required (\$ per day)	\$ 118	\$ 118	\$ 118	\$ 118
Accommodation Supplement (\$ per day) (A)	\$ 70	\$ 90	\$ 100	\$ 120
DAP (\$ per day) (B)	\$ 225	\$ 202	\$ 190	\$ 163
Gap (\$ per day) (A - B)	\$ 155	\$ 112	\$ 90	\$ 43
RAD (\$)	\$ 1,080,000	\$ 970,000	\$ 910,000	\$ 780,000
Increase % from current average RAD	96.4%	76.4%	65.5%	41.8%
RAD % medium house price	101.5%	91.2%	85.5%	73.3%

The StewartBrown model can calculate by State/Territory and by MMM classification. The above is based on a new build of \$500,000. Many new aged care homes being built cost well in excess of \$500,000 which will make the required DAP unaffordable for many self-funded retirees.

For a Provider to achieve a return on their current aged care homes, the cost input would be based on the current Written Down Value (WDV) together with a factor based on the effective remaining life of the building and refurbishment cost.

*Table 4* is based on the MM3 regional location and assumes the current WDV plus refurbishment to maintain the home until the end of the effective life is \$350,000. This provides a return of 4.5% pa on that basis but will not provide the equity to rebuild a new home once the current one is no longer of a standard required.

**Table 4: Accommodation funding scenario analysis based on national MM3 location and \$350,000 building value**

	National MM3			
	\$ 350,000	\$ 350,000	\$ 350,000	\$ 350,000
Written Down Value + Refurbishment	\$ 350,000	\$ 350,000	\$ 350,000	\$ 350,000
Return %	4.5%	4.5%	4.5%	4.5%
Revenue required (\$ per day)	\$ 99	\$ 99	\$ 99	\$ 99
Accommodation Supplement (\$ per day) (A)	\$ 70	\$ 90	\$ 100	\$ 120
DAP (\$ per day) (B)	\$ 177	\$ 151	\$ 141	\$ 115
Gap (\$ per day) (A - B)	\$ 107	\$ 61	\$ 41	-\$ 5
RAD (\$)	\$ 850,000	\$ 725,000	\$ 675,000	\$ 550,000
Increase % from current average RAD	88.9%	61.1%	50.0%	22.2%
RAD % medium house price	132.0%	112.6%	104.9%	85.4%

**Commentary**

- Accommodation revenue needs to include the recurrent accommodation cost plus margin to provide a reasonable return on asset employed
- If the Accommodation Supplement remains at the current level (\$70 per day for HAS) the gap between the comparable DAP is significant and will potentially deny choice or availability for incoming residents, both for financial supported residents and for self-funded retirees who do not have a large personal asset or recurrent revenue base
- Providers need to be more proactive in increasing their accommodation price to a level that ensures an acceptable return. Providers have in the past been reluctant to increase accommodation prices for concerns it may reduce occupancy and inconsistent messaging around RADs. This must now change with a greater focus on the DAP (rental) rather than a RAD which incorrectly appears to many stakeholders to be the actual cost of accommodation

**Sliding Scale for Base Amount of Accommodation Supplement**

Currently the Higher Accommodation Supplement (HAS) amount is paid to Providers if the aged care home has been significantly refurbished or newly built since 20 April 2012. The Consultation Paper notes that 86% of current aged care homes currently receive the higher supplement, so there remains very little incentive, other than maintaining relevance in the market, to invest capital into refurbishing or replacing existing building stock.

StewartBrown recommend that rather than a fixed Accommodation Supplement that a sliding scale be adopted which provides incentives for Providers to invest in new homes that add to the overall number of available places, replace old building stock, or further undertake significant refurbishment work to refresh existing building stock.

Further, there should be an end date on the higher supplement where there is a decrease in supplement after say 15 years unless a further refurbishment takes place. This should encourage Providers to have long term strategies to replace or refurbish building stock so that it meets the changing care needs of its residents and be able to offer supported and non-supported residents high standards of accommodation.

It is evident that the current Accommodation Supplement should be increased for all aged care homes, however there could be some incentives built into the sliding scale as included in the following example

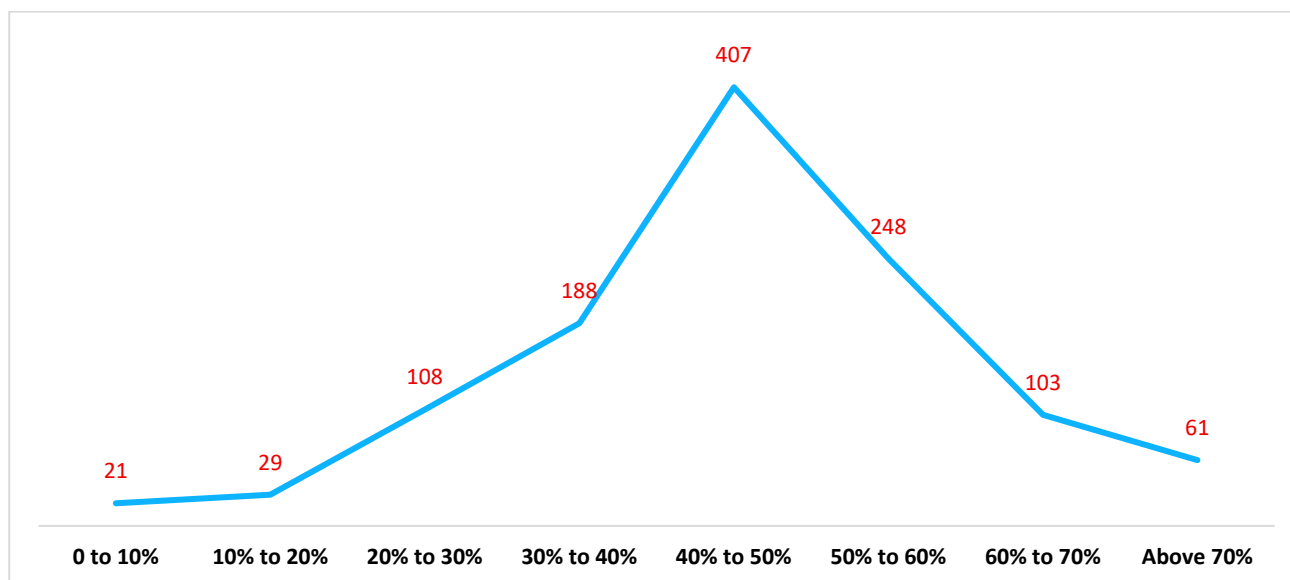
- Home that has not been refurbished - \$70 per day (current rate) up from \$46 per day (increase of \$24 per day and brings them up to current HAS)
- Home that has been significantly refurbished since April 2012 - \$90 per day up from \$70 per day (increase of \$20 per day)
- Home that has been newly built in past 5 years or refurbished after announcement date - \$100 per day (increase of \$30 per day)
- Home that is newly built after announcement date - \$120 per day (increase of \$50 per day)
- If a home is not refurbished at the 15 year mark after being built it would drop down to the next category (\$100 per day) and keep sliding down for every 5 years it remains not refurbished

### Sliding Scale Based on Number (%) of Supported Residents

Currently there is a floor on the number of supported residents that should be in an aged care home based on the Aged Care Planning Region (ACPR) and then there is a single threshold which if the home is below that threshold of 40% then they only receive 75% of the relevant Accommodation Supplement attached to their building.

This penalises small homes where losing one or two residents might mean losing 25% of the revenue base. It should be acknowledged that based on data from the FY25 StewartBrown Survey, the greatest number of homes were in the 40% to 50% range, which is reflective by the average supported ratio of 46.4%.

Figure 6: Stratification of homes by supported ratio (source: StewartBrown FY25 Survey)



StewartBrown recommends that a more nuanced sliding scale be adopted. *Table 5* provides an example that could be considered whereby the Accommodation Price reduction is more gradual than the current position, however still significant enough to provide an incentive to maintain high supported resident ratios.

From an equity perspective the proper balance is required to ensure that Providers accept financially supported residents into new builds rather than use old building stock for their accommodation.

Table 5: Accommodation Supplement reduction based on supported resident ratio

Proportion of Supported residents	Reduction in Supplement
Under 20%	20%
Between 20% and 30%	15%
Between 30% and 40%	10%
Between 40% and 45%	5%
Over 45%	0%

## Regionality

While there may be some factors that vary the costs of supported residents based on regionality it is relatively minor, the biggest issue is in relation to the non-supported residents and the ability to receive the required revenue from accommodation pricing in the regions as can be achieved in metropolitan areas.

Table 6: Average RAD received and DAP equivalent for FY25 by MMM classification

MMM Classification	Average Full RAD received*	DAP Equivalent (Based on MPIR of 7.61%)
MM1	562,575	117.29
MM2	437,308	91.18
MM3	421,978	87.98
MM4	415,465	86.62
MM5	392,531	81.84
<b>All Homes Average</b>	<b>516,770</b>	<b>107.74</b>

\* reflective of average agreed accommodation price

Table 6 has been derived from FY25 StewartBrown Survey data. The table indicates that there are significant differences between the average agreed accommodation price in MM1 locations compared to other regions. This affects not only accommodation revenue stream but the ability to generate cash flows to fund capital projects or repay debt, particularly where the cost to build a home is at the very least much the same across all regions and may actually be higher in regional areas due to cost of freight on materials and limited access to labour.

This results in regional Providers not necessarily being disadvantaged in relation to the supported residents but in relation to how much they are able to charge non-supported residents.

Part of the solution is for Providers to raise accommodation prices from existing levels. It may be that incoming residents will pay a combination RAD/DAP rather than a full RAD or DAP at the higher accommodation price.

Additionally, it may be worth considering having some form of additional supplement for MM2 - MM5 regions that would also help bridge the accommodation pricing differential. A possible solution would be to pay the supplement based on the number of non-supported residents, however, a more equitable solution would be to apply some form of additional supplement based on the number of financially supported residents.

## 4. Pricing for Non-Supported Residents

### Questions Posed by the Consultation Paper

1. What factors should be considered in setting an equivalence mechanism and rationale for each?
2. What is an appropriate rate of return on lump sum for providers? Is this an appropriate level for setting an MPIR?
3. How does this change with economic conditions? Does the MPIR link to the General Interest Charge represent an appropriate way of adjusting equivalence in line with economic conditions?
4. Would a Weighted Average Cost of Capital be an appropriate equivalence mechanism? If so, how should this be derived?
5. Is there a case for an equivalence range rather than a single point of equivalence defined by the MPIR and why? How might this work?
6. Should the government introduce a mandated minimum accommodation payment that prevents providers receiving less revenue from non-supported residents than they do from supported residents?

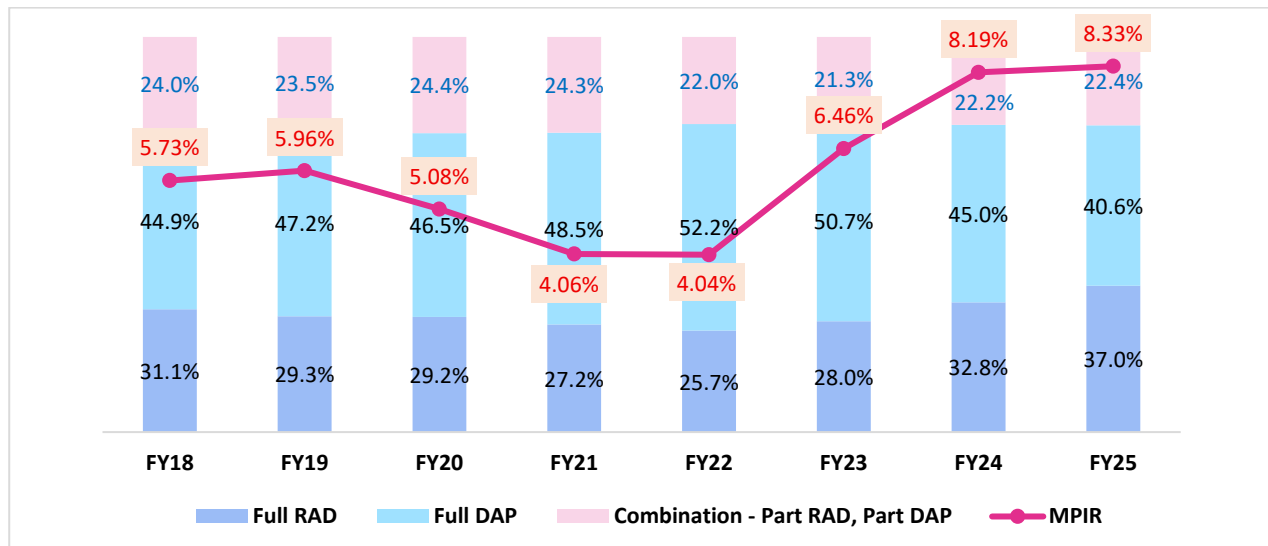
### StewartBrown Submission

StewartBrown recommends that a legislated formula be established to convert a RAD to a DAP, or conversely, converting a daily payment to a RAD. This will assist in having some stability in the funding envelope while recent reforms are fully integrated and any further changes to accommodation pricing and supplements are implemented. It will allow the sector, and government to monitor the results of the reforms and modify settings if required.

Having a less variable form of MPIR will also provide a level of certainty for incoming residents and their families. Persons enter residential aged care at a vulnerable time for both the resident and their families and the financial matters relating to residential aged care are currently very complex for many to comprehend.

The changing MPIR can significantly affect the way people pay for their accommodation which in turn affects the returns and cash flows of providers as shown by *Figure 7*.

Figure 7: Accommodation payment preferences as MPIR changes



In the long term it may be more contemporary to allow Providers to have the flexibility to change the relationship between a daily payment and a refundable deposit amount and be able to negotiate those terms with residents and their families. However, in the interim period, providing a rate that is more closely aligned to the actual cost of capital or return on capital employed is more appropriate.

Having this rate fixed annually rather than each quarter will also provide more stability.

There could be an argument for a floor price of some form in relation to accommodation pricing as traditionally the sector has been slow and, in many cases, reluctant to increase accommodation prices. Whilst this may have some benefit, the sector should move toward a daily rental model which will also be the basis for setting RAD pricing.

## 5. Daily Payments as the Default Room Price

### Questions Posed by the Consultation Paper

1. What are the advantages and disadvantages of moving the MPIR-related fluctuations in pricing from the DAP to the RAD?
2. Would setting DAPs as the default make accommodation pricing easier to understand for prospective residents and their families?
3. Are there other relevant factors to consider in relation to setting the DAP as the default payment type?
4. Do you think the DAP should be set as the default payment type? Why?

### StewartBrown Submission

There are significant advantages in moving to a daily payment as the default payment type rather than a refundable deposit.

#### Public Perception

Currently there is a community perception that residential aged care is expensive due in large part by attributing a RAD as the cost of accommodation without recognising that the RAD is fully refunded except for the retention for new residents from 1 November 2025.

It is relevant to note that the cost of providing direct care is funded by the taxpayer for an average of over 95% of this cost, and this amount exceeds the current and future fees paid by non-supported residents for their daily living and accommodation costs in the majority of instances.

The complexity of the funding model is a significant barrier due to the full cost of residential aged care for a recipient is a mixture of recurrent charges being the Basic Daily Fee, hotelling supplement, non-clinical care contribution (previously means-tested care fee), retention on a RAD, or Daily Accommodation Payment or combination RAD/DAP. Because a RAD was part of this cost equation many of the public viewed the RAD as a cost.

The Aged Care Taskforce recognised this complexity in understanding the funding with *Recommendation 5* “Make aged care co-contributions fairer, simpler and more transparent so people can understand the costs they will incur if they access aged care.”

In a general sense, the community understands the concept of rent or daily payments. A resident does not purchase an aged care room; they rent the room as part of having access to funded direct care and everyday living services. In this sense, a resident is changing their residence to an aged care home.

One of the unintended consequences of having the RAD as the accommodation price and therefore determining the DAP is that the basis for setting a RAD price is often linked to house or unit prices and not used to determine a recurrent accommodation revenue flow. RADs are subordinated debt, which has greatly assisted the building and refurbishing of aged care homes, however it is an important time to consider the whole funding structure around RADs.

StewartBrown considers that the relationship between a RAD and the respective house/unit price in the respective location to have less significance, as it is the daily rental required to ensure an appropriate return that should be the determining factor.

The daily rental for each home (DAP) should then determine the RAD price by reference to the MPIR (or equivalent) and will allow incoming residents (and families) to understand the cost (fee) for their accommodation. This will still vary between each home to allow choice, and the RAD will remain an opportunity for residents to reduce the daily payment by paying a full or part RAD.

Whilst comparison of a daily payment for residential aged care accommodation to hotel daily charges is somewhat problematic as a hotel stay is short term and residential aged care is often medium term, it does provide some perspective. It could be considered that a daily rental (DAP) in the range of \$130 - \$190 per day is within an acceptable level given the additional facilities that are provided in an aged care home.

The following table provides a range of hotel prices by region and links to sources:

<b>Location type</b>	<b>Approx Daily Rate (\$/night)</b>	<b>Notes</b>
Capital city (major metro)	~ \$280 - \$290	Based on "Capital cities" figure ~ \$285+. <a href="https://switchhotelsolutions.com.au+1">switchhotelsolutions.com.au+1</a>
Regional areas (non-coastal / non-metro)	~ \$195 - \$200+	Based on "Regional areas" ~ \$195+. <a href="https://switchhotelsolutions.com.au">switchhotelsolutions.com.au</a>
Coastal/regional holiday destinations	~ \$240 - \$250+	Based on coastal regions figure ~ \$245+. <a href="https://switchhotelsolutions.com.au">switchhotelsolutions.com.au</a>
Specific state - Queensland	~ \$237 (as of March 2024)	Queensland Average Daily Rate ~ \$236.92. <a href="#">Acumentis</a>
Specific state - NSW (older)	~ \$213 (2018-19)	NSW Average Daily Rate ~ \$212.80. <a href="#">STR</a>