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Submission to the Residential Aged Care Accommodation Pricing Review Consultation Paper

Uniting NSW.ACT welcomes the opportunity to contribute to the Department of Health, Disability and Ageing's review of accommodation pricing in residential aged care (RAC). As one of Australia's largest not-for-profit aged care providers, we are proud to play a stewardship role in ensuring equitable access to high-quality aged care for older people, particularly those with low financial means.

The aged care system is experiencing generational change that will shape the future of service delivery for Australia's aging population. This will have significant and long-lasting implications for the financial sustainability of the aged care sector, which provides essential support to older people. These funding structures must ensure the sector can deliver high-quality accommodation that meets the needs of our growing older population, particularly those on lower incomes.

Across our services, 52% of residents are supported, rising to 70% in some homes. This reflects our deep commitment to serving disadvantaged communities and ensuring that older Australians are not excluded from aged care due to financial hardship. However, the current accommodation pricing framework places significant pressure on providers who prioritise equity, and risks creating a system which provides inadequate access to quality age care for supported residents

Uniting is increasingly recognised as a provider of choice for supported residents, not only because of our values but because providers are disincentivised from accepting low-means residents due to inadequate funding. This is not sustainable. The system must reward stewardship and ensure that providers who commit to equity are not penalised financially.

We urge the Department to reform the Accommodation Supplement to:

- Ensure it reflects the true cost required to deliver high-quality accommodation.
- Introduce dynamic pricing that accounts for regional variation, facility age, and refurbishment status.
- Remove perverse incentives, such as the 40% threshold cliff, which discourage providers from increasing supported places.
- Recognise and support providers who take on a disproportionate share of supported residents, ensuring they can continue to invest in quality and sustainability.

This submission outlines the structural challenges and proposes reforms that would enable a fairer, more sustainable aged care system, one that reflects the values of equity, dignity, and inclusion.

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We would be happy to contribute further to the Review and welcome the opportunity to provide additional input if that would assist.

For more information, please contact [REDACTED]

Yours sincerely,

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Director Advocacy & External Relations

Accommodation Supplement for Supported Residents

We welcome the work of the Accommodation Pricing Review and commend the commitment from Minister Rae to establish a funding model which offers world-class care to all Australians, no matter their background and resources. As recognised by Minister Rae, this review represents an opportunity to deliver an equitable aged care system, underpinned by a sustainable aged care sector.

We recognise that in his Press Club address, Minister Butler highlighted that funding structures for aged care must differentiate between care components (which should be funded on efficient cost of care) and accommodation, capital and investment returns. In comparison to care components, accommodation is expected to include funding pathways that allow sustainability, investment and viability. This is the minimum expectation which should underpin the approach to accommodation pricing.

The Accommodation Supplement, and associated aspects like RAD retention, are the only mechanisms to provide sustainability and investment returns. It is essential that this review recognises the critical importance of the Accommodation Supplement in providing long-term sustainability for the aged care sector, particularly in the context of Australia's ageing population.

Outline how you think the Accommodation Supplement could be reformed to ensure quality accommodation for residents of low means.

The Accommodation Supplement must provide adequate return on capital to ensure that RACs are sustainable and enable ongoing investment in quality. The cost of capital should be considered as depreciation plus the cost of debt and the cost of equity.

This also reflects the position of the Aged Care Royal Commission, which recommended that:

The Pricing Authority should, from time to time, determine the Accommodation Supplement as the maximum amount or amounts payable for the accommodation of a resident eligible to receive the supplement under the means test (an eligible resident), based on an analysis of the efficient costs of delivering high-quality accommodation and a reasonable rate of return on capital investment. [Emphasis added]

We also note that the current future plan for aged care funding includes a transition away from Refundable Accommodation Deposits (RADs). We believe that across the sector, RADs have enabled new business cases to progress with lower than commercially adequate payments from the Commonwealth for supported residents, as the RAD has cross-subsidised the inadequate level of supplement.

Should the value of the Accommodation Supplement be universal or tiered, such as by location, proportion of residents, or other basis?

Yes, we believe that the Accommodation Supplement must be dynamic and reflect the cost of service delivery across regions. Returning to the recommendations of the Royal Commission, we note that the Accommodation Supplement may include:

One uniform amount to apply in all cases, or a number of different amounts based on factors such as the date of construction or refurbishment of the facility, the size or other features of the room, and the region or degree of remoteness of the location of the facility. [Emphasis added]

The current funding structure does not adequately differentiate the cost of capital for delivering RAC across services. As per our previous response, we believe the Accommodation Supplement must reflect an appropriate return on capital, which depends on a comprehensive understanding of these costs and any variations.

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)?

Yes, we endorse this proposal, provided that the base is adequate (for example, being tied to the average RAD or the assessed cost of capital). We note that the Taskforce Report found that currently over 80% of services are eligible for the highest rate of the Accommodation Supplement (having been built or substantially upgraded after April 2012). This provides limited incentive to further upgrade or maintain high-quality accommodation. Increasing the value payable after renovation provides providers with certainty in forecasting expenditure and an incentive to provide high-quality accommodation.

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?

We believe the current incentive structure is inadequate and fails to ensure that older people without means have access to RAC as they age. In 2023-24, 29,435 new low-means permanent residents entered residential aged care, and 42.2% of all bed days were supported. This represents a significant cohort of older people requiring support.

The supported accommodation supplement funding amount is insufficient to cover accommodation costs and is well below the funds available from self-funded residents. The \$69.79 daily accommodation supplement for new homes with more than 40% supported residents equates to a RAD of approximately \$327k. This falls significantly below the national average RAD of \$501k. This substantial gap creates a revenue differential of roughly 35%. The gap is even higher if the provider has fewer than 40% of residents supported and receives the lower payment of \$52.34 a day, a \$17.45 a day difference. This is a 51% differential to a DAP of the national average RAD.

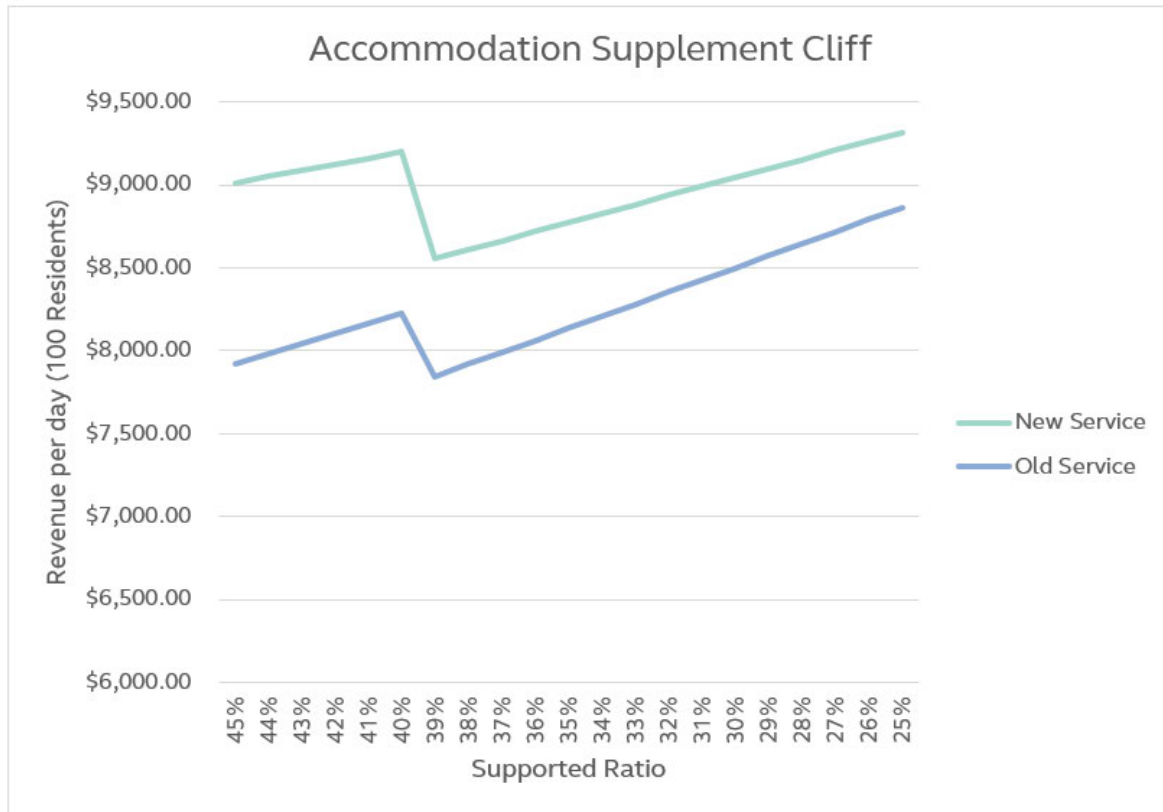
The effect of the inadequate Accommodation Supplement has been to devalue rooms, which are effectively capped at a return equivalent to \$320k RAD. This does not align with the actual capital costs associated with that bed or room.

The new Act allows providers to charge a RAD of up to \$758,627, with special approval needed for amounts above that. A \$758,627 RAD creates an equivalent daily payment of \$161.70. This is a significant difference for providers, particularly as the sector emerges from a period of financial challenges. There is an inherent risk that providers accept fully funded residents with higher capacity to pay rather than low-income residents who represent reduced funding.

Facilities with $\geq 40\%$ of residents supported receive a higher supplement. Dropping below this threshold results in a sharp funding reduction of 25%, creating the Accommodation Supplement Cliff. On the other end of the scale, exceeding 40% does not yield a higher accommodation supplement rate, meaning there is little financial incentive to provide services to supported residents once the 40% threshold is reached.

Example: In an average new service with a \$501k RAD, moving from 40% to 39% supported residents results in a 9% drop in daily revenue. To offset this, a provider would have to reduce supported places to 27% to restore revenue to the same level by attracting higher-paying non-supported residents. Further, there is no incentive for a provider to increase their supported ratio beyond 40%, as they would see a decrease in their total revenue given that the supplement is not equivalent to a

DAP.



The current structure may have unintended consequences and discourage providers from maintaining or increasing supported places, contrary to the policy’s intent.

The Accommodation Supplement must be equivalent to the value of the DAP, which is equivalent to that generated by the average RAD, in order to make it both financially sustainable and attractive for providers to accept a supported resident.

We also note that the previous targets for supported residents in regional areas have not been enforced and represent a missed opportunity for market stewardship in areas with limited services. It is important that the Accommodation Supplement provides a balance of appropriate incentives and consequences to encourage providers to accept fully-supported residents.

How can the Accommodation Supplement be reformed to support an uplift in the quality of accommodation?

The market currently sets accommodation values through RADs and DAPs, which reflect the quality of the accommodation provided. Beyond the benchmark of having been built or significantly renovated after April 2012, there is no equivalent structure within the Accommodation Supplement. As such, there is no incentive for providers to invest in or upgrade facilities to increase returns on capital through the Accommodation Supplement.

By linking the Accommodation Supplement to the average RAD or DAP, the funding would better reflect the accommodation's market value. This would also incentivise an uplift in the quality of accommodation through higher funding returns for higher-quality accommodation.

Outline how the Accommodation Supplement pricing impacts on incentives for capital investment in residential aged care.

In undertaking future planning, providers are required to consider the appropriate level of supported residents in ensuring that the capital investment will deliver adequate returns.

Currently, the business case for capital investment fails whenever the supported accommodation ratio rises above 40%.

For some RACs with higher capital costs, even a 40% threshold of supported residents fails to deliver appropriate returns. Because the supplement fails to provide a return on the cost of capital, the cost is covered by either EBITDA or RADs. When RADs are used, services fund capital expenditure for supported beds, knowing that the supported beds will not be able to recover the capital cost. This also has subsequent implications for the ongoing concern about how RAD debts across the aged care industry will be repaid.

In what ways could the Accommodation Supplement be reformed to better incentivise capital investment in residential aged care?

We refer to our previous answers and the recommendations of the Aged Care Royal Commission, which we believe should guide the reform of the Accommodation Supplement.

We note that it is also important to review how the cost of capital approach will apply to existing services, not just new builds. Reforming the Accommodation Supplement based on assumptions regarding new capital builds will fail to recognise the capital expenses of more than 2,600 existing RACs.

A return on capital approach must also take a whole-of-life lens across the lifespan of a RAC, which recognises the need for major refurbishments and upgrades. This would ensure that providers have access to appropriate capital to deliver services aligned with community expectations for RAC, reflecting best practice and evolving service delivery requirements.

For example, Uniting is currently planning on investing \$100 million in RAC asset refurbishments in the 2026 financial year. With our current supported accommodation rate, our return on investment and assets is low, which has implications for our ability to sustain similar levels of investment in quality in the longer term.

To what extent are the current rates of the Accommodation Supplement sufficient to cover providers' capital and operational costs relating to accommodation?

Our experience as a provider is that current rates are insufficient to cover providers' capital and operational costs for accommodation.

We note that the analysis completed by Stewart Brown in their June quarterly report indicates that accommodation expenses are \$55.78 per bed, per annum, suggesting that the Accommodation Supplement is sufficient to cover providers' accommodation costs. We disagree with this estimate, and the primary expense within this analysis is depreciation, which is not equal to the cost of capital.

Comparatively, the proposal from the Aged Care Royal Commission would require that the Accommodation Supplement delivers both interest return and the recovery of capital outlay (currently approximately \$500,000 per room). This would be a more representative funding structure that would account for the need for return on capital.

How does the costs of providing accommodation vary across different operating environments, such as differences in location?

We agree that there is variation in the costs of capital across different operating environments. We believe that the Accommodation Supplement must be appropriately dynamic to capture variances in capital costs and provide a return on capital that accurately reflects the relevant operating environment.

Pricing for Non-Supported Residents

We have provided a broad comment in response to the questions relating to pricing for non-supported residents.

We support the proposal to convert RADs to DAPs (and vice versa) using an industry-determined Weighted Average Cost of Capital (WACC). We believe that this should be similar to the IPART NSW Determinations, which are more consistent and demonstrate less volatility. This should be supported by an 8% floor cap to provide certainty to the sector.

The existing MPIR structures continue to fluctuate, which impacts the ability of providers to forecast returns. For example, during COVID, the MPIR dropped significantly as the 90-day bank bill rate fell to 0.1%. As a result, the DAPs that RACs received decreased considerably, with subsequent implications for provider financial sustainability and viability.

The equivalence mechanism must be more stable to deliver certainty for providers and the sector more generally. If the MPIR is intended to reflect the cost of capital, we do not believe that the current degree of fluctuation is appropriate. We recommend considering the pricing determinations underlying the NSW IPART WAAC, which provide greater stability and more accurately reflect the cost of capital.

As the aged care sector transitions away from RADs, there must be stability in the MPIR or equivalent. The ongoing volatility in the MPIR threatens the ability of providers to plan and deliver high-quality accommodation across the lifespan of a RAC. Consideration should be given to a floor of 8% to provide a reliable baseline for providers.

A transition away from RADs will also require moving to daily payments as the default room price. We note that the proposal to move MPIR-related fluctuations from pricing in the DAP to the RAD will still require a conversion equation, and it is not clear how this would provide a significant benefit compared to the current structure.

Cross subsidising

While not directly in the terms of reference for this inquiry, we urge the Review to consider how accommodation pricing is integrated into the broader aged care funding ecosystem.

As recognised by the Aged Care Taskforce, the sector has been experiencing a prolonged period of instability and financial stress, with the reforms introduced by the new Aged Care Act intended to provide increased funding certainty and stability. However, we are concerned that, too often, the individual components of aged care funding (accommodation, care, daily living, and hotelling supplement) are viewed separately, without considering how they intersect and create interdependencies.

If one component is increased without addressing the deficiencies in other funding sources, providers are forced to cross-subsidise, which fails to address the underlying financial strain. For example, if providers are consistently running a loss on hotelling and care, an increase in accommodation funding will not result in improved environments and overall financial sustainability.