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Submission to the Residential Aged Care Accommodation Pricing Review

About UnitingCare Australia

UnitingCare Australia is the national body for the Uniting Church's community services network and an agency of the Assembly of the Uniting Church in Australia.

We give voice to the Uniting Church's commitment to social justice through advocacy and by strengthening community service provision.

We are the largest network of social service providers in Australia, with over 55,000 staff and 17,000 volunteers, delivering 5.8 million interactions annually across 1,600 service locations in urban, rural and remote communities.

The UnitingCare Aged Care Network is Australia's largest network of not-for-profit aged care providers, delivering services to approximately 95,000 older people in urban, rural and remote parts of Australia.

We focus on articulating and meeting the needs of people at all stages of life, and particularly those most vulnerable.

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Introduction

UnitingCare Australia welcomes the opportunity to provide a submission in response to the Residential Aged Care Accommodation Pricing Review. We are pleased to see this Review announced by Government, noting that the current rates of the Accommodation Supplement do not meet the true cost of delivering accommodation related services, making it difficult for providers to remain viable.

This submission, prepared in consultation with the UnitingCare Network, responds to key consultation questions relating to the Accommodation Supplement and supported residents. We note the questions relating to pricing for non-supported residents, and daily payments as the default room price, were already explored in the Aged Care Funding Taskforce Report.

While the cost of delivering accommodation services is generally consistent across the three main cohorts of residents, being RAD, DAP and supported residents, the revenue raised from these cohorts varies significantly. It is well known that RAD and DAP paying residents bring in more cash flow and revenue for a provider, and that qualifying for the higher Accommodation Supplement rate, by taking in more supported residents, often creates a financial loss for providers.

As providers struggle to remain viable while meeting supported resident ratios, the future of our ageing population is put at risk. Increasing the Accommodation Supplement isn't just a matter of increasing revenue, it is imperative to keeping services open, accessible and sustainable for years to come.

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

Residential accommodation costs incurred by an aged care provider will vary significantly from one site to another. These include costs relating to financing, building, depreciation, repairs, refurbishments and maintenance, insurance, and a range of sundry items of expenditure. Costs will also vary based on assumptions regarding borrowing power and interest rates, and the age of a particular facility.

Provided a site is refurbished and has achieved a ratio of at least 40% supported residents, the higher rate of \$70.94 per resident per day is nowhere near sufficient to cover the operational costs relating to accommodation, nor is it proportionate to the cost of capital. This is noting the average provider can be paying at least \$150 per resident per day to deliver accommodation related

services. This is more than double what the Accommodation Supplement offers and puts providers financially behind.

We also note that while some providers can cross-subsidise revenue from sites with a higher proportion of RAD and DAP paying residents, or Retirement Living, many providers in regional and remote locations don't have the ability to do this. This is particularly the case when sites may well exceed the 40% ratio, or are made up entirely of supported residents due to the socio-economic status of the area. To respond to this issue and account for this gap, we recommend that higher supplement rates be afforded to sites in higher MMM classifications.

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

This question makes the invalid assumption that low means residents are not already receiving quality accommodation in residential aged care facilities. There are design standards that providers need to meet, and providers in the UnitingCare Network are already meeting these standards across the board.

While many low means residents already receive quality accommodation, reform of the Accommodation Supplement is still needed to ensure this standard can be sustainably maintained. This can be achieved by aligning the supplement with the true baseline costs of capital and service delivery, while incorporating a margin to enable refurbishments, compliance upgrades, and reinvestment.

In addition, we recommend an independent review of the supplement be led by an external advisory body on a regular basis. This should consider capital cost inflation and how this varies across MMM regions, changes in MPIR, occupancy rates, the cost of maintenance for buildings, and long-term viability prospects.

How suitable is the current incentive structure to encourage providers to accept low means residents? How could those incentives be preserved or enhanced?

Providers in the UnitingCare Network do not necessarily need incentive-based encouragement to accept low means residents. As a mission and values driven network, our providers remain committed to quality services for all, including those with low means. However, our values should not be solely relied upon by Government, as this standard can only be maintained with sustainable funding.

It is becoming more difficult for providers in our network to remain viable with the fact that the Accommodation Supplement offers no financial return. Many

find themselves in an endless conundrum as they seek to operate in line with their mission and values, and at the same time are financially penalized for accepting supported residents.

The reduced rate of \$53.21 for taking in less than 40% supported residents might create an incentive framework from the Government's perspective, however it is a false incentive. Even taking in more than 40% supported residents and receiving the higher rate of \$70.94 does not financially reward providers. In fact, accepting the reduced rate can put providers in a better financial position, as exemplified in Table 2 below.

It's also worth noting that the current Accommodation Supplement rate of \$70.94 is equivalent to a room price of \$340,000. This is significantly lower than the maximum room price of \$758,627 and puts into perspective the current revenue gap between cohorts of residents.

The incentive structure for the accommodation supplement needs to be based on real evidence of how much it costs to deliver accommodation services, and sit in alignment with revenue raised from non-supported residents. Only then will it be sufficient and allow providers to accept supported residents without bearing a financial loss.

With an ageing population that includes a large proportion of people with low means, including full pensioners and renters, it's imperative that we get this supplement right and ensure everyone can access residential aged care now and into the future.

Case studies

The figures and percentages in the tables below exemplify the financial difficulties that many providers are facing with the current rates of the Accommodation Supplement, particularly the current maximum rate of \$70.94.

The figures in tables 1 and 2 show how a provider may be incentivised to reduce their intake of supported residents below the 40% ratio and settle for the reduced rate of \$53.21 per day. This creates more room for RAD and DAP paying residents, increasing revenue and improving viability for the provider, particularly when the MPIR rate has increased over the last few years.

Table 1: Revenue from RADs, DAPs and the Accommodation Supplement

This table shows that a \$750,000 room as a DAP would provide roughly \$57,075 of revenue per year, compared to supported resident revenue of \$25,893 per year.

With the 2% retention policy, a RAD payer would bring in \$15,000 per year, and if a 6% return was achieved this would provide \$45,000 per year. This results in a combined income of \$60,000 per year from a RAD paying resident.

Type of resident	RAD	DAP	Supported (above 40%)	Supported (below 40%)
Revenue per resident per year	\$60,000 <i>\$750k RAD with 2% Retention</i>	\$57,075 <i>\$750k DAP at 7.61% MPIR</i>	\$25,893 <i>\$70.94 per day (Refurbished)</i>	\$19,422 <i>\$53.21 per day (Refurbished)</i>

Table 2: Comparison of financial outcomes from Accommodation Supplement rates

The tables below show a 100-bed facility with \$750,000 room price, across two different scenarios, each with a different proportion of supported residents.

Scenario 1 is based on a 45% supported resident ratio while Scenario 2 contemplates a 25% supported resident ratio.

While Scenario 2 would result in a reduced rate of \$53.21, it results in an uplift of approx. \$462,000 per year as it allows the site to take on more RAD and DAP paying residents. This increases overall revenue for the provider; however leaves less room for supported residents.

Scenario 1 – 40% ratio is met (Higher rate)

	Residents	Revenue per day	Total revenue per year
Supported	45	\$70.94	\$1,165,190
Non-supported	55	\$156.37*	\$3,139,125
Total	100		\$4,304,315

Scenario 2 – 40% ratio is not met (Reduced rate)

	Residents	Revenue per day	Total revenue per year
Supported	25	\$53.21	\$485,541
Non-supported	75	\$156.37*	\$4,280,625
Total	100		\$4,766,166

*\$750k RAD with 7.61% MPIR = \$156.37 Per Resident Per Day

Table 3: Supported resident ratios

This table is a real example from one provider in the UnitingCare Network, demonstrating how a single provider can have a mix of supported resident ratios across their residential sites. These ratios are influenced by the socio-economic status and MMM classification of the region, as well as local house prices and other economic factors.

Sites in low socio-economic areas are likely to attract a higher proportion of supported residents, increasing the proportion of revenue that is derived from the Accommodation Supplement.

Residential Home	MMM	Total Residents	Supported Residents	Percentage of residents that are supported
Home #1	5	39	16	41%
Home #2	5	49	20	41%
Home #3	4	91	57	63%
Home #4	3	57	36	63%
Home #5	3	55	35	64%
Home #6	1	106	50	47%
Home #7	1	95	56	59%
Home #8	1	112	61	54%
Home #9	1	97	47	48%
Home #10	1	67	28	42%
Home #11	1	71	20	28%
Home #12	1	81	51	63%
TOTAL		920	477	52%