



Catholic Health Australia – Residential Aged Care Accommodation Pricing Review Submission

November 2025

Catholic Health Australia
www.cha.org.au

Catholic Health Australia (CHA) is Australia's largest non-government grouping of health, community, and aged care services. CHA Members provide approximately 12 per cent of all aged care facilities across Australia, in addition to around 20 per cent of home care provision.

Our members account for over 15 per cent of hospital-based healthcare in Australia and operate hospitals in each Australian state and in the Australian Capital Territory, providing about 30 per cent of private hospital care and 5 per cent of public hospital care in addition to extensive community and residential aged care.

CHA not-for-profit providers are a dedicated voice for the disadvantaged which advocates for an equitable, compassionate, best practice and secure health system that is person-centred in its delivery of care.

Overall comments

Catholic Health Australia (CHA) welcomes the opportunity to contribute to the Residential Aged Care Accommodation Pricing Review (the Review). We appreciate the Department of Health, Disability and Aged Care's commitment to examining the financial sustainability and investability of the residential aged care sector, and we look forward to working collaboratively throughout the Review process and in the development of the final report to the Minister.

The recent Senate Inquiry's recommendation to end the rationing of home care packages highlights the broader need for a coordinated shift across aged care - from a rationed model to a demand-driven system. Residential care accommodation pricing must be considered within this context to ensure reforms support a responsive, equitable, and sustainable aged care continuum.

CHA strongly advocated for this Review to occur in genuine partnership with the sector. We therefore welcome the Department's recognition that accommodation pricing and the accommodation supplement are central to the long-term sustainability of residential aged care, particularly for providers who care for a high proportion of supported residents.

Sustaining mission-based care and system equity

Catholic aged care providers play a vital and irreplaceable role in ensuring that older Australians - particularly those with limited means, complex care needs, or who live in regional and remote communities - continue to have access to safe, high-quality accommodation. CHA members deliver close to half of their residential places to supported residents and operate many services in thin markets where there are no alternative providers. Together, these services form an essential part of the national aged care safety net.

However, the current accommodation supplement and pricing framework no longer reflect the true cost of providing equitable, high-quality accommodation. The real value of the supplement has eroded over time, creating a widening gap - now approaching \$90 per resident per day - between fully supported and non-supported residents. This gap has become a structural disincentive to serving the most vulnerable Australians, and it undermines the intent of the reforms introduced under the new Aged Care Act.

Nowhere is this more evident than in the continued reluctance of the financial sector to consider aged care as a competitive investment. This reluctance significantly influences the financial sustainability and capacity for growth, particularly regarding new builds, refurbishments and/or innovative models of care and accommodation.

Not-for-profit providers have made clear that unless the supplement is recalibrated to genuinely allow for capital renewal, providers will be unable to maintain the quality and safety standards expected by residents and regulators. In some regional and mission-focused facilities, the model is already financially unsustainable, given their increasing reliance on providers absorbing costs and operational losses to meet quality standards and fulfill their purpose-driven objective to provide high-quality care.

Building a stable, investable environment

The Review comes at a critical juncture for the sector. Providers face simultaneous reform pressures: implementation of the new Act, tightening prudential standards, workforce shortages, and rising construction costs. Investment confidence has been further eroded by fluctuating pricing signals and regulatory uncertainty, with financial institutions now viewing aged care as a high-risk investment class.

CHA urges the Review to place capital investment, financing stability and equity at the heart of its recommendations. A recalibrated supplement must sit within a policy framework that provides long-term certainty, including consideration of mechanisms such as a Maximum Permissible Investment Rate (MPIR) floor or equivalent safeguards to support ongoing capital investment.

Recognising public value and moral partnership

Catholic and other faith-based and not-for-profit providers deliver a public good at below-market returns. To put this more plainly, these services provide a substantial subsidy into the national aged care market. Catholic services accept lower commercial margins to uphold mission-driven commitments to dignity and inclusion.

If these providers were to exit the market, governments would face significantly higher costs to build and operate equivalent services and/or would need to rely on for-profit operators expecting higher returns. The Review should recognise this public-value contribution as a fundamental part of a sustainable, mixed economy of care. It should recognise that without sufficient funding for long-term capital investment to the not-for-profit sector, the economic benefits of this mission-based, moral partnership may cease to exist.

Towards practical and balanced reform

The Review should aim to:

- re-establish the link between the accommodation supplement and the physical quality of supported accommodation, ensuring that funding reflects the standard of infrastructure provided to supported residents;
- introduce targeted thin-market and mission loadings for providers with high supported ratios and/or regional operations;
- ensure funding is grounded in independent, cost-based benchmarks; and
- safeguard consumer choice and confidence in accommodation pricing reform.

Catholic providers stand ready to work with the Department to co-design these reforms and to ensure the Review delivers fair, transparent, and investable accommodation pricing that protects the dignity of older Australians and strengthens the long-term financial viability and sustainability of for-purpose providers.

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Key recommendations

Strengthen the Operating Context and Investment Climate

1. **Rebuild sector confidence through pricing stability.** Commit to a clear, evidence-based roadmap for accommodation-pricing reform that aligns with the Aged Care Act and provides long-term certainty for lenders and investors.
2. **Establish a transparent MPIR framework.** Introduce an MPIR floor – or equivalent stabilising mechanism such as a fixed buffer below the 5-year bond rate – to maintain predictable RAD/DAP values and protect capital flows into the sector.
3. **Implement regular cost-benchmark reviews.** Require independent reviews of accommodation-cost benchmarks at least every three years, drawing on IHACPA, valuers and sector analysts (e.g. StewartBrown, CBRE) to ensure supplement rates reflect real build and refurbishment costs.
4. **Support targeted capital-renewal incentives.** Develop time-limited programs such as a Capital Renewal Pool, an expanded Aged Care Capital Assistance Program (ACCAP), and a Design Excellence Grant stream to drive refurbishment and modernisation of supported accommodation.
5. **Integrate accommodation-pricing reform with workforce and prudential policy.** Coordinate accommodation, staffing-minute, prudential-standard and workforce reforms to avoid conflicting signals and ensure sustainable provider operations.

Strengthen Safety Nets and Equity for Supported Residents

6. **Recalibrate the Accommodation Supplement** by at least half of the current funding gap (around \$45 per resident per day) as an **interim** uplift for not-for-profit providers with high proportions of supported residents.
7. **Introduce an expanded tiered supplement structure** with stepped loadings for services exceeding 50 per cent and 70 per cent supported-resident ratios.
8. **Add a thin-market loading** for regional, remote, Indigenous, dementia-specific and homelessness services where capital and workforce costs are materially higher.
9. **Extend Basic Care Tariff (BCT)-reduction exemptions** to homes with ≥ 70 per cent supported residents, aligning them with existing exemptions for homelessness-specialist and non-MM1 services.
10. **Expand eligibility for the AN-ACC Transition Fund** to providers with high supported-resident ratios, using it as a short-term safety-net mechanism until broader reform is implemented.
11. **Recognise system-wide fiscal efficiency.** Acknowledge in government modelling that maintaining high-supported homes reduces public-hospital and transitional-care costs, strengthening the economic case for supplement uplift.

Improve Transparency and Consumer Choice

12. **Develop a nationally consistent accommodation-quality and pricing framework** that links published room prices to objectively defined accommodation standards.
13. **Maintain genuine consumer choice between RADs and DAPs**, accompanied by clear education materials and comparison tools to support informed decisions.
14. **Undertake an economic evaluation of affordability** across different income and asset profiles to inform future sustainable pricing design.
15. **Align accommodation pricing with everyday-living service standards** (catering, cleaning, laundry, amenities) to ensure quality expectations are funded equitably and consistently.

Enhance Investment Confidence and Fiscal Efficiency

16. **Commission a comparative fiscal analysis** quantifying the cost to government of replacing not-for-profit capacity with public or for-profit provision drawing on existing examples.
17. **Introduce annual capital-investment indicators** to monitor sector health, track facility renewal rates, and strengthen lender confidence.
18. **Co-design a transparent, demand-based accommodation-funding model** with IHACPA and sector partners to align care and capital streams across the continuum of aged care.
19. **Embed the principle of below-market social returns** in future pricing frameworks to recognise the public-value contribution of faith-based and not-for-profit providers operating on sub-commercial margins.

Section 1: Operating context and investment climate

Aged care remains a high-risk investment environment, marked by tightening regulation, increasing compliance costs, and rising capital expenses. While these pressures stem partly from necessary consumer protections and quality standards, they have also eroded investor and lender confidence, particularly in residential aged care. They have been exacerbated by political negotiations that resulted in consumer contributions being set below those recommended by the Aged Care Funding Taskforce.

Over the past two years, financial institutions have taken a more cautious stance toward aged-care lending. Providers report that major banks have re-evaluated development approvals and imposed stricter covenants following AN-ACC re-weightings and ongoing pricing uncertainty. For example, the recent announcement by Regis to scale back development plans following the Federal Government's AN-ACC price adjustment and classification reweighting is a clear signal of the sector's vulnerability¹. The sector is trapped in a cycle where limited capital renewal reinforces perceptions of investment risk, deterring further investment.²

This uncertainty undermines the Government's reform goals. The new Aged Care Act envisions a rights-based, person-centred system, but those rights depend on adequate physical infrastructure - safe, accessible, and modern facilities. Without a stable, forward-looking funding environment, these rights cannot be realised - not by all Australians, and certainly not by those with the least means.

Financing stability and market confidence

CHA recommends that the Review prioritise measures that provide predictability and transparency to the investment market. In particular:

- **Establish an MPIR floor or equivalent mechanism** to stabilise pricing and maintain the value of Refundable Accommodation Deposits (RADs) and Daily Accommodation Payments (DAPs).
- **Develop a long-term indexation formula for the accommodation supplement** to prevent future real-value erosion.
- **Introduce regular benchmark reviews** (e.g., every three years) drawing on independent cost data from IHACPA and financial valuers to ensure pricing remains aligned with build and replacement costs.

Catholic providers are willing to contribute to the development of these policy measures and to explore opportunities for pilots and testing.

¹ <https://www.theweeklysource.com.au/aged-care/regis-shares-dive-27-as-an-acc-reweighting-slashes-earnings-outlook>

² Refer to the Aged Care Data and Reporting Review which is currently underway here: <https://consultations.health.gov.au/aged-care-division/aged-care-data-and-reporting-review/>; and CHA's Submission to the ACQSC Regulatory Strategy 2025-26, available here: <https://cha.org.au/catholic-health-australia-submission-on-the-draft-regulatory-strategy-2025-26/>

Capital renewal and targeted incentives

To ensure that funding is linked with improved accommodation quality, CHA supports new capital incentives targeted providers with significant proportions of supported residents.

Options include:

- **An additional Capital Renewal Pool, where supplement accruals are banked by Government and released to providers upon demonstrated refurbishment or redevelopment projects for supported residents.** This would provide an additional supplement for providers at intervals beyond the current 40% supported ratio threshold. The additional funding could be contingent on a provider using it to fund capital investments, including renewal, reprioritisation (such as expanding an existing memory support unit) or a new build.
- **Expansion of the Aged Care Capital Assistance Program (ACCAP) to include staff housing and infrastructure in regional and thin markets.** Secure accommodation is intrinsically linked to workforce retention and attraction strategies. While short of capital, faith-based providers in some regional areas have under-utilised land that is in close proximity to aged care facilities. The Government could use the ACCAP to deliver across multiple priorities simultaneously – aged care provision, workforce capacity improvement and expansion of housing stock – in a comparatively affordable manner by supporting providers to repurpose under-utilised land.
- **A new Design Excellence Grant stream to accelerate adoption of the National Aged Care Design Principles and Guidelines.** A dedicated grant program focused on improving the quality of accommodation in aged care, it could feature eligibility criteria and timelines distinct from existing grants, designed to encourage innovation and reduce risk aversion in sector investment. One approach could be to directly link the grant scheme to the implementation of the [National Aged Care Design Principles and Guidelines](#), to ensure that future accommodation for older people aligns with evidence-based practices³. The new National Aged Care Design Principles and Guidelines set a strong aspirational benchmark but require flexibility to reflect local context, building age, and regional constraints. The financial data strengthens the case that mandatory implementation must be carefully phased. Many providers are already financially stressed; the additional capital requirements inherent in design upgrades or new builds represent cost risk. Linking the grant scheme to the implementation of the Principles and Guidelines would help mitigate these cost risks.

These measures would ensure that government expenditure on accommodation supplements produces visible improvements in physical environments and resident experience, rather than being absorbed by operating pressures. CHA members are well-placed to work alongside the Department to progress and/or pilot these initiatives.

³ CHA outlined the need for a focus on supporting providers to meet the requirements of ensuring that care and services are ‘adapted and responsive to the individual needs of older people living with dementia’ as outlined in the Residential Care Services List in our submission, available here: <https://cha.org.au/residential-care-service-list/>

Section 2: The urgent need for safety nets in aged care

Catholic providers consistently deliver care to a higher proportion of supported residents than sector benchmarks. This results from having a large number of facilities in rural and regional areas, as well as homes in metropolitan areas that take a specific focus on providing care to vulnerable, poorer older Australians. Providers serving higher proportions of supported residents face the greatest viability risk and require an approach that recognises the higher cost and lower accommodation revenue profile of homes serving disadvantaged populations to prevent withdrawal from these critical markets.

Despite the public good and substantial subsidy these facilities provide to the system, the accommodation supplement has not kept pace with rising construction and compliance costs. This leaves a widening funding gap between supported and non-supported residents - now estimated at around \$90 per day. This gap is a disincentive for providers to accept or retain low-means residents and ignores the principle of equitable access to quality accommodation. Indeed, the vast majority of the sector (86% currently receive the highest available supplement, so there is little incentive to replenish existing building stock and even less incentive for providers to accept or retain low-means residents beyond the minimum 40% required to access the higher supplement.

Catholic providers consistently achieve an occupancy rate of 95.8%, significantly higher than the sector average of 90.6%⁴. High occupancy rates also signal the vulnerability of providers and residents when systemic pressures arise - such as workforce shortages, funding constraints, or regulatory changes. In a demand-driven system, safety nets are essential to ensure continuity of care and financial stability for providers who maintain high occupancy and quality standards. Accommodation safety nets for older people - such as transitional funding mechanisms, risk-sharing arrangements, and responsive pricing models - are critical to prevent disruption in care delivery for a significant volume of residents served.

Interim adjustment

Pending full reform, CHA recommends an interim increase to the Accommodation Supplement equal to 50 per cent of the current gap (approximately \$45 per day), prioritised to not-for-profit providers with more than 50 per cent supported residents. This immediate uplift would stabilise high-risk services while the Review's longer-term recommendations are implemented.

Tiered and thin-market adjustments

A single national threshold (currently 40 per cent) fails to reflect the diversity of provider profiles. CHA proposes a tiered supplement structure, with stepped loadings that recognise both supported-resident ratios and regional disadvantage.

This could include:

- **Base supplement** for providers meeting the national minimum supported-resident ratio.
- **Higher tiers** for services exceeding 50% and 70% supported-resident thresholds.

⁴ Quarterly Financial Snapshot Q4 2024-25 (DHDA, October 2025)

- **Thin-market adjustment** for regional, remote, and specialist providers (e.g., homelessness, Indigenous, and dementia-specific services) where capital and workforce costs are materially higher.

These loadings would operate transparently and be reviewed periodically against independent cost benchmarks. They should work in tandem with exemptions from basic care tariff (BCF) funding reductions for providers with very high supported-resident ratios, recognising that such facilities already deliver substantial public-value subsidies (see section below).

Alignment with AN-ACC and other funding mechanisms

The system should be designed to integrate the accommodation supplement and IHACPA's AN-ACC Pricing Framework. The supplement should reflect verified capital-cost data and form part of a coherent pricing system linking care and accommodation.

While this reform is being refined and implemented, there should be expanded eligibility for the AN-ACC Transition Fund to include providers with high supported ratios (50% +). This would provide a near-term safety net using an existing and administratively efficient mechanism.

Protecting High-Supported Homes from Unintended Penalties

CHA also recommends that the Department recognise the structural disadvantage faced by homes with very high proportions of supported residents when assessing performance against the care-minute targets linked to BCT funding.

Under the current policy design, providers that fail to meet mandated care-minute thresholds risk reductions in their BCT payments. While this accountability mechanism is reasonable in most circumstances, it creates disproportionate risk for facilities that house predominantly supported residents, many of which already operate with constrained staffing and limited capacity to fund additional care hours beyond what BCT revenue supports.

To ensure equity, CHA proposes that homes with high subsidised-resident ratios (for example, above 70 per cent) be added to the list of providers automatically exempt from BCT reductions, alongside those with homelessness specialisation or services located outside Modified Monash Model (MMM) 1 areas.

This approach would:

- **Acknowledge that high-supported homes face the same cost and workforce pressures** as recognised thin-market and homelessness services;
- **Prevent perverse outcomes** in which mission-based facilities serving the poorest Australians are financially penalised for structural workforce shortages; and
- **Maintain service continuity and system equity** by protecting access for supported residents while the sector transitions to sustainable staffing and pricing arrangements.

Such an exemption would complement other CHA recommendations within this submission - particularly those concerning tiered supplements and thin-market adjustments - and would ensure that compliance mechanisms do not inadvertently accelerate the closure of homes

with high ratios of supported residents, or reduce their capacity to admit vulnerable residents.

As always, these facilities would be monitored by the Commission and have the same obligations to provide safe, high quality care as the rest of the sector regardless of this important exemption.

Maintain system efficiency and public value

Maintaining these homes is not only a matter of fairness; it is also fiscally prudent. When supported-resident services close, displaced residents frequently occupy public-hospital beds or transitional care places, generating far higher costs to government. Beyond those immediate short-term impacts, any reduction in the ratio of facilities offering significant proportions of supported beds – particularly in thin markets - will reduce the subsidy that mission or purpose-driven organisations currently contribute to the overall aged care system. This in turn will require more investment to meet demand in the long-term than would otherwise have been the case. Strengthening accommodation safety nets therefore supports whole-of-system efficiency and reduces pressure on acute health infrastructure.

CHA members consistently achieve an occupancy rate of 95.8%, significantly higher than the sector average of 90.6%⁵. High occupancy rates also signals the vulnerability of providers and residents when systemic pressures arise - such as workforce shortages, funding constraints, or regulatory changes.

CHA has consistently advocated for an acceleration of the review of the accommodation supplement to ensure safety nets are in place for supported residents⁶. In a demand-driven system, safety nets are essential to ensure continuity of care and financial stability for providers who maintain high occupancy and quality standards. Accommodation safety nets for older people - such as transitional funding mechanisms, risk-sharing arrangements, and responsive pricing models - are critical to prevent disruption in care delivery for a significant volume of residents served.

Fairness is an issue, but basic ability to meet future demand is being threatened

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. Using an MPIR of 7.78%⁷, this would be an equivalent DAP of \$161.70. The highest maximum accommodation supplement is currently \$69.79 for providers meeting the criteria as set out in the Schedule of Subsidies and Supplements and in the consultation paper. This means the gap between funding for a supported resident and a non-supported resident is widening to \$91.91 per day.

This means providers are financially penalised and must absorb costs to care for residents who cannot afford to contribute to the cost of their care. There is a clear disincentive for

⁵ Quarterly Financial Snapshot Q4 2024-25 (DHDA, October 2025)

⁶ CHA Pre-Budget Submission 2025-26, available here: <https://cha.org.au/pre-budget-submission-2025-26-aged-care-policy/>

⁷ MPIR rate as at 1 July to 30 September 2025, available here: <https://www.health.gov.au/resources/publications/base-interest-rate-bir-and-maximum-permissible-interest-rate-mpir-for-residential-aged-care?language=en>

providers to deliver care to the most vulnerable, particularly within the context of rising costs of care. Risks this approach introduces include:

- Disproportionate impact on not-for-profit providers as they support a greater volume of supported residents;
- Uncertainty around providers' capacity to re-invest in upgrading or expanding residential infrastructure, which may hinder their capacity to meet complex care needs; and
- Potential for providers to shift their case-mix by reducing bed capacity for supported residents in favour of increasing availability for non-supported residents (where there is increased funding for accommodation costs under the new Act), which reduces access to care for supported residents.

The ability to retain 2% of RADs enables providers to reinvest in service improvements - such as facility upgrades, staff training, and enhanced care models – and is welcomed by the sector as a positive step on the road towards sector investability. However, 2% is below the 3% recommended by the Aged Care Funding Taskforce, and also highlights how providers with limited RAD revenue streams are increasingly disadvantaged, unable to undertake the full spectrum of quality improvements necessary to meet the needs of high-acuity residents. This misalignment between funding and the actual cost of care threatens the sustainability of services for those who rely most heavily on them.

There is an additional concern for a portion of self-funded retirees, a need to 'mind-the-middle'. Providers must continue to raise their accommodation fees to meet depreciation costs on existing capital stock (let alone future demand). The need to increase fees is exacerbated when a provider makes the decision to maintain an elevated number of supported residences out of a mission or purpose imperative. There is a clear risk that this will squeeze a portion of older Australian's whom the Government does not consider require direct subsidies given their asset base, but for whom choices are increasingly constrained by rising prices.

CHA recommends that to address these unintended consequences, as part of this Review the design considerations set out in this response are incorporated in the revised accommodation supplement.

Section 3: Supporting and/or enhancing consumer choice

The Review rightly seeks to simplify pricing and improve transparency for consumers. Residents should be able to make informed choices about how and where they live. However, reforms must balance simplicity with fairness and sustainability for those providers who serve a high proportion of supported residents.

Ensuring genuine choice

It is the experience of Catholic providers that a DAP as the default setting may lead to reduced choice for residents, higher cumulative costs, reduction in capital availability, and potentially to higher financing costs in the current lending/credit environment.

The ability to choose between RADs and DAPs remains central to financial flexibility and consumer confidence. Consumer rights under the new Act emphasise informed choice and flexibility over prescriptive approaches. Many older Australians prefer a lump-sum payment consistent with lifetime savings patterns. Mandating DAPs as the default price could erode

consumer choice and result in a loss of flexibility in the use of housing equity as the consumer is required to sell their home. Further, making DAPs the default price risks creating perceptions of insecurity or “rentalisation” of aged care.⁸

With that said, providers report poor education around RADs as well, with this mechanism often viewed as being the ‘cost’ of accommodation, where in reality it is not.

Therefore, any transition toward daily pricing should be accompanied by:

- **Clear consumer education** and transparent comparison tools;
- **A secure alternative capital-funding pathway to replace RAD liquidity** if government policy phases them out; and
- **Transitional protections** for existing residents and providers.

Quality expectations and cost alignment

Although the consultation paper does not explicitly address this issue, the mandated expansion of consumer choice under the Residential Care Services List⁹ significantly impacts the cost of delivering what is defined as quality accommodation for older people.

Under the new Aged Care Act, everyday living services - catering, laundry, cleaning, and amenities - form part of the definition of quality accommodation. Yet the Hotelling Supplement and Accommodation Supplement remain misaligned with these rising expectations. While some of these services are partially offset by the [Hotelling Supplement](#), they apply equally to supported and non-supported residents.

The Review should therefore consider the full scope of these mandated everyday living services and their associated costs given the key objectives of these reforms are to enhance consumer choice, as outlined in CHA’s submission to IHACPA’s Residential Care Pricing Framework 2026–27¹⁰. This will ensure that quality expectations are funded equitably, not penalising homes with high supported-resident ratios.

Consumer confidence through transparency

Reform should include a nationally consistent accommodation quality and pricing framework, linking room prices to objectively defined accommodation standards. Transparent benchmarking will strengthen trust, help families compare value, and reduce perceptions of inequity between supported and non-supported residents. This benchmarking could be based on location, building quality, and amenity level. Further, a consumer-friendly version of this benchmarking tool could help explain the difference between RAD/DAP options, interest rates, and financial implications of these options more clearly. Importantly, a tool developed to enable providers, consumers, and regulators compare direct care, accommodation,

⁸ Anglicare’s Rental Affordability Snapshot 2025, available here:

<https://www.anglicare.asn.au/publications/2025-rental-affordability-snapshot/>

⁹ The Aged Care Rules (2025). Chapter 1, Division 8, accessed online:

<https://www.health.gov.au/resources/publications/guide-to-aged-care-law/overview/the-aged-care-rules?language=en>

¹⁰ CHA’s Submission to IHACPA’s Residential Aged Care Pricing Framework 2026-27, available here:

<https://cha.org.au/catholic-health-australia-submission-on-the-pricing-framework-for-residential-care-2026-27/>

everyday living margins and other indicators would improve informed decision-making and review existing policy settings.

Catholic providers do not endorse the simplistic approach of making DAPs the default room price given the considerations set out above. Instead, CHA recommends that the reviewing team commence the work needed to undertake a structured investigation into sustainable accommodation pricing models that enhances sector investability. This should include:

- Economic evaluation and modelling to assess affordability across consumer income and asset profiles, particularly in context of the implementation of the new Act; and
- Structured stakeholder engagement mechanisms to capture the preferences and concerns of residents, families, and providers in relation to changes to accommodation pricing structures.

Other changes that may support consumer understanding and decision-making could include the following:

- Alignment of terminology across residential aged care and Support at Home reforms to improve understanding and continuity across aged care settings;
- Provision of tools to support consumer to understand how provider viability might impact service quality and/or availability – particularly in regional, rural and remote settings; and
- Ensure genuine co-design of information materials with older Australians and their families to enhance relevance and accessibility, particularly with the implementation of any reforms to accommodation pricing.

Section 4: Other economic factors and approaches to move towards a demand-based aged care system

The goal of aged care financing reform must be to build a stable, demand-responsive and investable system in which resources follow the needs of older Australians as they are identified, rather than being rationed by historical supply limits. Achieving this requires clear capital-investment signals and a balanced understanding of what constitutes an appropriate and sustainable rate of return for the sector.

As an aspiration, this looks like moving towards matching resources to the care needs of older Australians as they are identified, including the need for flexibility to adapt service delivery as care needs change¹¹. The recent [Senate Inquiry into Aged Care Service Delivery](#) recommended that the Australian Government work towards ending the rationing of home care packages within a timeframe that reflects the sector's capacity to deliver. While this recommendation relates specifically to Support at Home, it underscores a broader imperative: the need for a coordinated approach across the aged care continuum to transition from a rationed model to a demand-based system. Residential care accommodation pricing must be considered within this context, ensuring that reforms contribute to a system where care is responsive, equitable, and sustainable.

The Consultation Paper asks what an appropriate rate of return to generate sufficient supply would be. Time constraints have limited the ability to provide a definitive position on specific

¹¹ CHA's Submission to the Senate Inquiry on Aged Care Service Delivery, available here: [Link to be inserted].

figures, however Catholic providers can offer a methodology for consideration - anchored in a set of guiding principles - to inform future pricing and policy design.

A realistic, evidence-based view of returns

Catholic providers often operate on below-market margins (and in many instances, sustained losses) because they prioritise mission and service over profit. Their continued participation effectively subsidises government and consumers by absorbing capital and operational shortfalls that would otherwise fall to the Commonwealth.

Figure 1, taken from a 2023 article and generated from the Department’s own Quarterly Financial Snapshots demonstrates a 9.8% gap in profitability between for-profit and not-for-profit operators.¹² This percentage gap provides an indication of the more limited capacity not-for-profit providers have to reinvest in infrastructure, workforce development, and service innovation — ultimately impacting their ability to maintain quality and sustainability in care delivery.

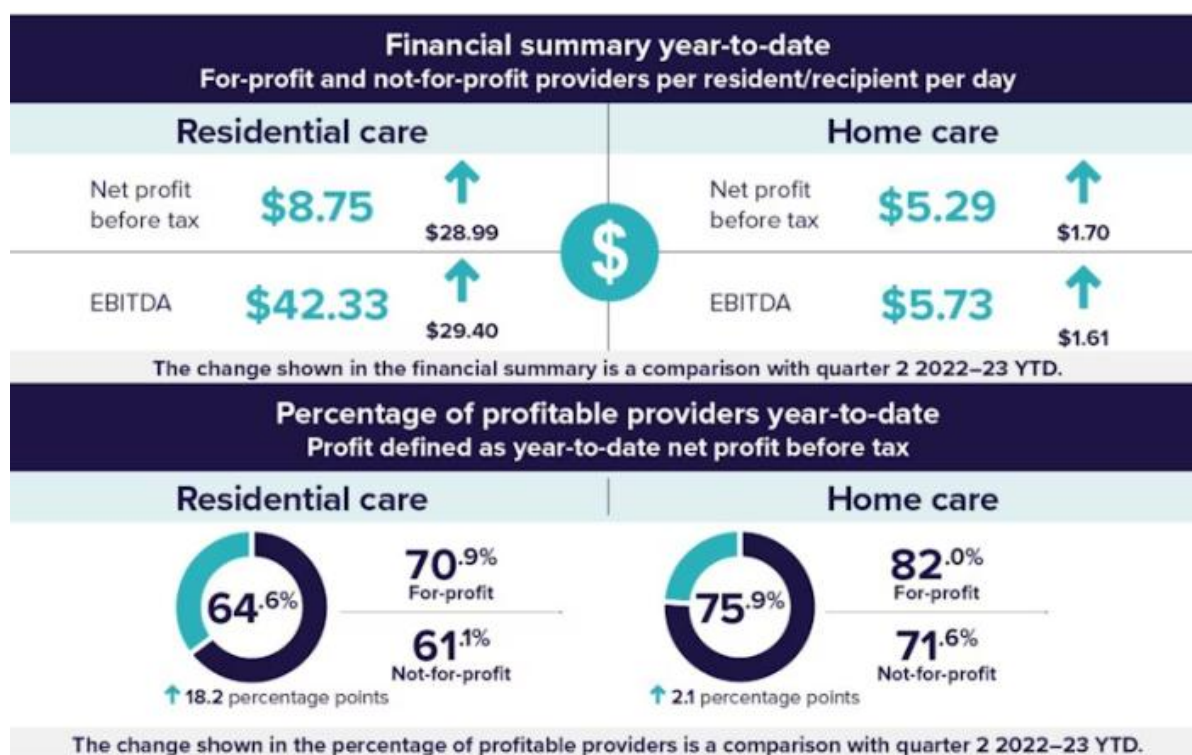


Figure 1 - Profitability in aged care by ownership structure

Accordingly, while the Review may prescribe a uniform “commercial” return expectation, there will have to be nuance to any such number to reflect the reality of varied care provision in a diverse country like Australia. For example, these expectations should:

- **Reference independent market benchmarks** - for example, data from valuers, lenders, and sector analysts such as StewartBrown or CBRE—to estimate realistic capital costs and yields;

¹² Data spotlights profitability divide between for-profit and not-for-profit providers,” *Hello Leaders Australia*, 24 June 2024 (last updated 11 July 2024), accessed 5/11/2025, <https://helloleaders.com.au/article/data-spotlights-profitability-divide-between-for-profit-and-not-for-profit-providers>

- **Recognise that acceptable returns will vary by service type and geography.** Remote facilities or homelessness services will never achieve metropolitan commercial yields, yet they deliver essential public value;¹³ and
- **Embed a principle that rates of return must be sufficient to enable reinvestment,** not to generate profit distributions.

By grounding supplement and pricing settings in independent cost evidence rather than negotiated targets, government can maintain transparency and public confidence while avoiding perceptions of rent-seeking.

Linking capital policy to broader fiscal efficiency

Government already bears higher costs when not-for-profit capacity declines. New state-built residential facilities - such as those commissioned in Victoria¹⁴ - demonstrate that direct public provision often costs substantially more than enabling existing mission providers to renew and expand stock of affordable and age-friendly housing options for vulnerable and marginalised cohort of older people.

The Review should include a comparative fiscal analysis quantifying these replacement costs and the long-term savings delivered by for-purpose providers operating on sub-commercial returns. This will reinforce the case for sustained accommodation subsidies and targeted thin-market loadings. Protecting homes with high supported resident ratios from punitive BCT deductions is also fiscally prudent, as their closure would trigger significant downstream costs to Government.

The Future - towards a demand-based system

As the Senate Inquiry into Aged-Care Service Delivery recommended, the sector must progressively transition from rationing to needs-based access. Residential accommodation policy should evolve in parallel with Support at Home reforms so that capital and service funding operate seamlessly across the continuum of care.

The existing variance in financial performance of the sector has meant that a one-size pricing model may have contributed to unintended inequities, service withdrawal, or limitations in quality of care provision. Underfunding of supported resident accommodation is a false economy that risks the sustainability of facilities with high ratios of supported residents and particularly of rural and remote residential homes. Without reform, cross-subsidisation from non-supported to supported residents will persist, undermining fairness and affordability for older Australians across the residential care sector.

As such, demand-driven model will require:

- Funding frameworks that scale predictably with population ageing and regional demand.
- Continuous data sharing between IHACPA, the Department and providers to track true cost movements.
- Clear capital-planning signals that enable providers to commit to multi-year investment pipelines.

¹³ UTS Ageing Research Collaborative (UARC), *Australia's Aged Care Sector Reports*, University of Technology Sydney, accessed 5/11/2025, <https://www.uts.edu.au/research/centres/uarc/research-themes-programs-and-projects/australias-aged-care-sector-reports>

¹⁴ Jones, Katarina. (2025). Vic state budget measures target older people, *Australian Ageing Agenda*, accessed online: <https://www.australianageingagenda.com.au/executive/vic-state-budget-targets-cost-of-living-health/>