



Response to the Aged Care Taskforce - Accommodation Reform

The need for change

There is an urgent need to improve the viability of residential aged care accommodation funding arrangements. In 2022-23, 46% of providers made a loss from accommodation.

Current funding arrangements will not deliver the total \$56 billion in capital funding required by 2050.

The Australian Government's package of accommodation measures responds to the need to support viability while setting out a pathway to phase out Refundable Accommodation Deposits (RADs) in the longer term.

Increasing the maximum accommodation price to \$750,000 and indexing over time

Under current arrangements, providers must seek the agreement of the Independent Health and Aged Care Pricing Authority to charge above \$550,000 for a room. This has not changed since 2014, despite significant increases in accommodation costs over the past decade.

The government has accepted the Aged Care Taskforce (Taskforce) recommendation to immediately increase this price and index it over time. From 1 January 2025, the government will increase the price requiring approval to \$750,000 and index it on 1 July each year to the consumer price index. This is in line with a recommendation of the 2017 Legislated Review of Aged Care (the Tune Review).

This change will reduce red tape for providers and give them greater confidence in developing or updating high quality accommodation. It will also make it easier for providers to plan new builds by giving confidence they can be financially viable projects.

This change will not impact existing residents and there will still be a range of accommodation available at lower prices. Providers will still be able to apply to have room prices above the new maximum.

Introducing Refundable Accommodation Deposit Retention

From 1 July 2025, providers will be required to keep a small portion of each new RAD, with the amount of retention capped at 5 years to protect residents who remain in care for a long time.

The amount retained would be calculated based on a retention rate of 2% per annum of the RAD balance, with the amount debited monthly. This change would also apply to Refundable Accommodation Contributions (RACs) which are used by residents that receive support for some but not all of their accommodation deposits.

The *no worse off* principle for existing residents means this change will not apply to the RADs or RACs of residents who enter residential care before 1 July 2025.

Introducing Daily Accommodation Payment Indexation

The Daily Accommodation Payment (DAP) that residents pay is currently fixed at the time of entry and this means that over time the value of the accommodation payments residents make to providers reduces in real terms, as the cost of maintaining that accommodation increases. To address this inconsistency, the government will require that the DAPs for all residents entering after 1 July 2025 be indexed.

Under this arrangement, providers will increase the DAP they charge residents twice per year in line with changes in the consumer price index. This is consistent with increases to the government-funded accommodation supplement for supported residents.

This change will not apply to Daily Accommodation Contributions (DACs).

The *no worse off* principle for existing residents means this change will also not apply to the DAPs of residents who enter residential care before 1 July 2025.

Review of accommodation supplement and accommodation price settings

The government will undertake a review of the accommodation supplement and a number of other accommodation settings over the next 2 years. This review will consider:

- the current rates of accommodation supplement
- incentives for providers to develop and maintain good quality accommodation and
- incentives to accept low means participants.

Viable pathway to phase out RADs in the longer term

Subject to a review of sector readiness in 2030, the Taskforce recommended that the sector be transitioned to not accept new RADs by 2035. The Taskforce noted the concerns raised by the Royal Commission into Aged Care Quality and Safety (Royal Commission) about the sector's reliance on RADs. However, the Taskforce considered the Royal Commission's suggested timeframe for phasing out RADs from July 2025 was considered too aggressive and would disrupt the sector, putting service availability for older people at risk.

The Government will commission an independent review of sector readiness in 2029-30, to support consideration of phasing out RADs by 2035.