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DISCUSSION PAPER ON AN-ACC PRICE AND HOTELLING SUPPLEMENT

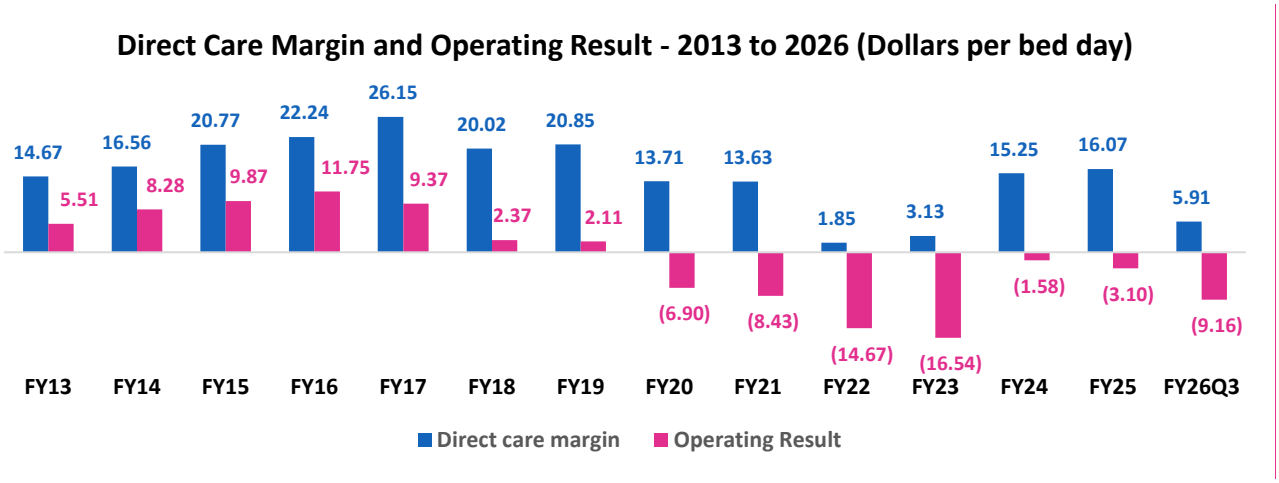
Current Sector Financial Performance

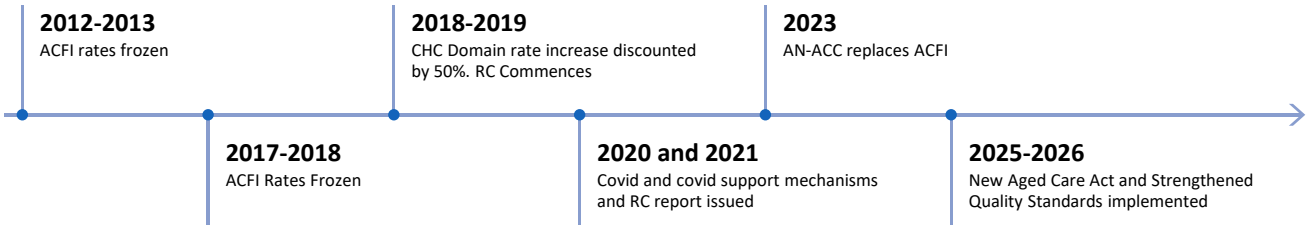
$9.16 pbd deficit
Average operating result for Mar-26, a swing from the $0.91 pbd surplus at Mar-25

62% of homes
Operated at a loss in Mar-26, up from 49% at Mar-25

The financial performance of residential aged care homes nationally has been deteriorating since FY24 and are now approaching levels last seen prior to the introduction of the AN-ACC funding system. Noting that in FY20 64% of homes were operating at a loss (excluding COVID-19 net funding). While the Government has introduced reforms that will improve the revenue streams for everyday living and accommodation, some of those revenue streams such as retentions from RAD's will not reach maturity for several years.

Historically there has been and remains a direct correlation between the direct care margin and the operating result of a residential aged care home as illustrated in the graph below.





The sector has seen how effective cuts or freezes in funding levels have impacted operating results such as in 2012-13 and again in 2017-18 and 2018-19. Past subsidy rate freezes occurred while the sector was still generating operating profits however, residential aged care homes are currently already averaging operating losses, leaving the sector financially vulnerable before any changes to settings that could adversely affect profitability.

Residential aged care must be restored to a financially sustainable footing to support sector investment and enable the development of additional beds to meet the needs and expectations of an ageing population.

AN-ACC Price

On 2 September 2026 Minister Rae announced that from 1 October 2026 the Australian National Aged Care Classification (AN-ACC) price will increase to $303.19 per resident per day (prpd). This represents 2.55% increase or $7.55 on the current AN-ACC price of $295.64 prpd. The Minister stated that *"Making sure older Australians and their families have a quality, affordable and safe aged care system that is properly funded is a priority of the Albanese Government."*

The price is in line with the pricing advice provided to the Minister by the Independent Health and Aged Care Pricing Authority (IHACPA) as detailed in its Residential Aged Care Pricing Advice 2026-27 supported by The Residential Aged Care Pricing Advice 2026-27 Technical Specifications also released on 2 September 2026.

The 2.55% rate increase falls below recent growth in residential aged care operating costs and broader economic indicators, including:

- Consumer Price Index (CPI) of 3.5% for the year to June 2026 and 3.8% for the year to July 2026
- Wage Price Index (WPI) for public and private health employees excluding bonuses of 3.9% for the year to June 2026
- National wage decision of 4.75% increase from 1 July 2026

The *StewartBrown Aged Care Financial Performance Survey (Survey)* data indicates that average direct care costs, including an allocation of administration overheads, has increased by 9.5% in the nine months to March 2026 compared to FY25.

IHACPA's methodology for calculating the AN-ACC price is consistent with previous years and is primarily based on indexing a cost base for known changes in wages and non-labour inflation. The methodology is sound in principle; however, its weakness is that it relies on FY24 data, which no longer reflects the current operating environment. This is particularly important given the implementation of the new Act, strengthened quality standards and increased reporting obligations, all of which add complexity and cost to operating a residential aged care home.

StewartBrown has undertaken analysis below to recalculate the AN-ACC price by applying IHACPA's indexation methodology to more recent StewartBrown Survey cost data, using March 2026 quarter-to-date cost base. This is the first standalone quarter of data with a cost base associated with the *new Act and Standards.* The table compares these estimates with IHACPA's calculation to show the funding level required to reflect current labour and non-labour costs in residential aged care. This alternative cost base provides a better indication of the cost of operating a residential aged care home in the current operating environment.

The result of the analysis and modelling is as follows:

	IHACPA Calculation (based on 2023-24 dollars indexed to 1 July 2026)	**StewartBrown Estimate based on QTD Q3FY26**
Labour Cost component		
Cost base - 1 July 2026	254.63	264.10[1]
1 July 2026 indexation rate - 4.08%	265.01	274.87
1 July 2027 indexation rate - 3.20%	273.54	283.67
Adjustment for days at each rate		
1 October 2026 to 30 June 2027 - 273 days	265.01	274.87
1 July 2027 to 30 September 2027 - 92 days	273.54	283.67
Weighted average labour costs	**267.16**	**277.12**
Non-Labour Component		
Base cost	29.89[2]	30.42
Non-labour component after indexation of annual growth rate of 4.48%	**34.47[3]**	**32.23**
Adjustment of aged care outbreak management support supplement	1.56	1.56

[1] This is the cost pbd converted to an NWAU equivalent using a conversion rate of 1.069 based on current conversion of AN-ACC price to average funding estimate
[2] This is the 2023-24 reference cost
[3] This is IHACPA's indexed non-labour component for 1 October 2026 to 30 September 2027

	IHACPA Calculation (based on 2023-24 dollars indexed to 1 July 2026)	StewartBrown Estimate based on QTD Q3FY26
Estimated/recommended AN-ACC price	**303.19**	**310.91**
Increase on current price	7.55	15.27
% increase	**2.55%**	**5.17%**

The fundamental difference in the calculations is the indexed cost-base from 2023-24 not taking into consideration changes that have occurred the operating environment of residential aged care since that time and that the indexation rates used to adjust the 2023-24 base costs are inadequate to take account of those changes. The modelling is using the same cost-based principles of IHACPA in that its advice to government is based on the cost of care.

StewartBrown recommends increasing the AN-ACC price to at least $310.91 representing an increase of 5.17% to ensure that the funding levels meet the increases in costs associated with operating an aged care home under the current operating environment including the new Act and strengthened Quality Standards.

StewartBrown strongly believes the AN-ACC price should include a margin to support investment in innovation, staffing above 3-star average levels, varied service delivery models, providers of different sizes, regional considerations, community expectations, and regulatory requirements for high-quality care. While the appropriate margin can be debated, the need for an appropriate margin within the AN-ACC price should not be in question.

The financial viability of residential aged care homes in Australia is already a significant issue at current funding levels. A 2.55% increase in the AN-ACC price represents an effective cut in operating margins. For the nine months to 31 March 2026, 62% of aged care homes in the StewartBrown Survey incurred an operating loss, with 35% operating at an EBITDA loss. This percentage is likely to increase for the full FY26 financial year and will increase further should the current 2.55% increase in the AN-ACC price not be increased. The Aged Care Quality and Safety Commission (ACQSC) recognise that there is a clear link between a provider's financial health and the wellbeing, safety, and quality of life of older people in care. As a result, the ACQSC has issued the Financial and Prudential Standards which set out clear expectations for how providers need to manage their finances. These standards are designed to support strong governance, financial sustainability, and quality aged care. To this end providers require an operating environment that fosters financial sustainability.

Recommendation 3 b xix from the Royal Commission **stated that one of the principles underpinning the new Aged Care Act should be that "the Australian Government will fund the aged care system at the level necessary to deliver high quality and safe aged care and ensure the aged care system's sustainability, resilience and endurance."**

The proposed AN-ACC price from 1 October 2026 does not hold to that principle nor does it foster an environment of financial sustainability.

Hotelling Supplement

Introduction

Recommendation 10 of the Aged Care Taskforce was that funding for daily living needs to cover the full cost of providing these services. It is recommended that this be comprised of the Basic Daily Fee (BDF) and a supplement. The government responded positively to this recommendation and introduced the hotelling supplement to cover the gap between the basic daily fee and the costs of providing everyday living services comprising nutrition, cleaning, laundry, and utilities. IHACPA was tasked with costing everyday living to assist with setting the price of the supplement.

Recommendation 11 addressed additional services or what is now Higher Everyday Living Fees (HELF). This recommendation established the grounds for enabling residents and their representatives to negotiate better or more daily living services for a higher fee, subject to at least:

- publishing prices and services
- only allowing agreement to higher fees for agreed services to be made after a participant has entered care
- a cooling off period and regular review opportunities to ensure the resident still wants the services and can still use them.

These recommendations were embedded in the new Act and Rules as part of the government response to the Taskforce recommendations.

Methodology of Calculating Cost Gap

In its residential aged care pricing advice for 2024-25 IHACPA first noted the following:

Additional and/or extra hotel services, such as higher quality meals, bedding, furnishings, or preferred brands of toiletries can be offered and paid for by residents through additional service fees, and/or extra service fees. While the fees for the delivery of services in additional to required hotel services are out of scope for IHACPA's advice on hotel funding, the costs associated with these services cannot be isolated in the data available. For this reason, IHACPA has included additional service fees and/or extra service fees as hotel revenue.

This explanation has been included in its pricing advice since that date.

This reasoning for including additional and extra services revenue in the calculation of the gap means that if a home does not charge for additional or higher services, the gap will not be met and revenues from everyday living will not cover costs. The reasoning also supports a premise that higher or everyday living fees should only cover costs and there should be no margin on these fees. One of the reasons that providers introduced additional services is to introduce a higher level of service for residents and to achieve a margin to get a return on their investment. Providers also often use this margin to help cross subsidise the same or similar service at a lower rate for supported residents.

In the pricing advice for 2025-26 and now 2026-27 IHACPA has recognised that for those homes that do not charge an additional or extra services fee the gap is greater than the "all homes" average which it adopts for its calculations and makes the following statement:

When only residential care homes that did not receive revenue from ASF or ESF in 2023–24 are selected, everyday living costs are estimated to be $97.66 with everyday living revenue to be $91.85 per OBD. The subsequent gap is estimated to be a deficit of $5.81 per OBD. IHACPA notes that residential care homes in certain segments of the market may be more likely to charge additional service fees or extra service fees. Therefore, the everyday living cost gap for residential care homes that did not receive revenue from ASF or ESF in 2023–24 is not considered to be nationally representative of the gap between the costs of everyday living services and revenue from the BDF and hotelling supplement across the aged care sector.

StewartBrown considers that the revenue base for calculating the hotelling cost gap should be limited to the BDF and exclude revenue from additional and extra services, now referred to as HELF. Homes that do not charge for these services provide the most appropriate basis for this calculation. StewartBrown acknowledges that it is difficult to identify the costs of providing additional and extra services separately to the core costs of providing everyday living services. However, as shown in table 32 of the 2026-27 Pricing Advice technical specification paper there is only a $0.38 difference between the cost base of "all homes" and the homes that do not charge for additional services. The absence of a gap in the "all homes" average is primarily due to the inclusion of additional and extra services revenue, which StewartBrown considers should be excluded from the calculation.

Using IHACPA's own assessment of that gap based on homes not charging for additional or extra services would lead to an increase in the hotelling supplement of $5.81 pbd. Based on StewartBrown's Mar-26 Survey the gap for standalone quarter for this group is $8.52 pbd. For the nine months to March the gap for this group was $11.18 pbd but that included a period prior to the increase in the hotelling supplement to its current level of $22.15.

StewartBrown strongly recommends increasing the Hotelling Supplement from $22.15 to at least $27.96 per day, so homes that do not offer additional or extra services now referred to as HELF can recover the cost of providing everyday living services. This would allow any revenue from additional services to provide a return or margin on those services, rather than merely offsetting the core cost gap.

Regionality

A further consideration for IHACPA should be a loading of the hotelling supplement based on regionality and the fact that, even based on its current methodology of calculating the gap, the amount of revenue received in regions outside major population centres is lower, so the revenue/cost gap is greater.

The following table is based on the StewartBrown's Mar-26 Survey and represents the data for the standalone Mar-26 quarter.

	MM 1 (671 Homes) QTD 2026 Q3	MM 2 (96 Homes) QTD 2026 Q3	MM 3 (119 Homes) QTD 2026 Q3	MM 4 (79 Homes) QTD 2026 Q3	MM 5 (101 Homes) QTD 2026 Q3
	$ pbd	$ pbd	$ pbd	$ pbd	$ pbd
EVERYDAY LIVING					
EVERYDAY LIVING REVENUE					
Basic daily fee - resident	65.31	65.29	66.34	65.69	65.45
Hotelling supplement – government	22.21	22.04	21.17	22.17	21.95
Fees for additional services and extra services	6.93	3.04	3.34	2.28	1.86
Everyday living revenue	**94.45**	**90.37**	**90.86**	**90.14**	**89.26**
Expenditure - hotel services	62.71	66.68	65.15	68.61	71.54
Expenditure - utilities	8.63	11.33	9.60	10.58	9.75
Everyday living overhead allocation	18.92	18.54	19.93	19.90	20.07
Total everyday living expenditure	**90.26**	**96.55**	**94.69**	**99.09**	**101.37**
Everyday living margin (revenue/cost gap)	**4.19**	**(6.18)**	**(3.83)**	**(8.94)**	**(12.11)**
Margin after exclusion of fees for additional and extra services	(2.74)	(9.22)	(7.17)	(11.22)	(13.97)

Regional homes are clearly not recovering the full cost of providing everyday living services under current operating conditions, even where some homes charge additional or extra services fees.

This could be addressed through a regional top-up supplement or a loading like the BCT location-based loadings. StewartBrown does not consider that any additional supplement should be means tested, as this would require regional residents to contribute more towards the Hotelling Supplement than residents in major metropolitan locations such as MM1.

StewartBrown recommends that the Government and IHACPA review how the Hotelling Supplement is calculated and paid with particular focus on regionality and consider incorporating a loading/top-up supplement to recognise the increased cost based and reduced ability to charge the same level of fees for additional or extra services (now HELF) as those providers in the major population centres.