LEVEL 2 / TOWER 1 / 495 VICTORIA AVE
CHATSWOOD NSW 2067 / AUSTRALIA

PO BOX 5515
CHATSWOOD NSW 2057 / AUSTRALIA

TEL: 61 2 9412 3033
FAX: 61 2 9411 3242
EMAIL: INFO@STEWARTBROWN.COM.AU
WEB: WWW.STEWARTBROWN.COM.AU
ABN: 63 271 338 023

Discussion Paper

Residential Aged Care Pricing 1 October 2025

Abstract

The Minister for Aged Care and Seniors (The Hon Sam Rae MP) announced on Friday 12 September 2025 the following funding increases for residential aged care:

"From 1 October 2025, the Australian National Aged Care Classification (AN-ACC) price will increase to $295.64 per resident, per day, providing more essential support for the over 200,000 older people in residential aged care.

From 20 September 2025, the hotelling supplement will increase by 42 per cent from $15.60 to $22.15 per resident, per day. This will help providers cover everyday essentials like food, cleaning and laundry so residents continue to receive safe, high quality services.

Care minutes for each AN-ACC class will also be adjusted from 1 October, to align with the AN-ACC funding changes"

The funding increases were in repose to advice provided by the Independent Health and Aged Care Pricing Authority (IHACPA) "*Residential Aged Care Pricing Advice 2025-26*" (July 2025) (Residential Aged Care Pricing Advice 2025–26 | Resources | IHACPA).

Embargoed Reports

StewartBrown has a strict policy of providing an embargoed draft version of all Survey Reports, Discussion Papers and Analysis Reports to the Department of Health, Disability and Ageing (Department), Aged Care Quality and Safety Commission and IHACPA (as appropriate for each report) to review the analysis and content and provide suggested amendments and inclusions to be considered for the final public reports. This enables proper transparency and balance for the respective reports.

In the case of this Discussion Paper, the Department suggested certain amendments which were agreed to, and the wording was revised to reflect this in those specific instances.

With respect to IHACPA, after their consideration they provided specific quotes to be included verbatim.

AN-ACC Funding

IHACPA calculated the recommended AN-ACC price based on the average cost per national weighted activity unit (NWAU) in the 2022-23 financial year adjusted for care minute requirements, known cost increases (including Fair Work Commission [FWC] rulings, superannuation guarantee scheme increases) and indexed to estimate the cost of delivering residential and respite aged care services from 1 October 2025 to 30 September 2026.

A summary of the revised AN-ACC pricing from 1 October 2025 is as follows:

- AN-ACC price increased from $282.44 per resident per day to $295.64 per resident per day (4.67% increase)
- IHACPA reweighted the AN-ACC classes based on evidence from its costing study with the result that the AN-ACC funding (subsidy received) per day will increase from $306 to $316 (3.27%) based on the Department estimate, implicitly reflecting a reduction in average NWAUs per day from this reweighting
- Outbreak management supplement of $1.59 per day will now be included in the AN-ACC price

Analysis

The increase in the AN-ACC subsidy needs to take into consideration the following factors:

- Award and EA increase from 1 July 2025
- Superannuation Guarantee increase from 1 July 2025
- Workers compensation premium increase
- FWC work-value increase from 1 August 2026
- Inflation (CPI)

The effect of IHACPA reweighting the AN-ACC classes may be significant. When IHACPA has assessed the differential in how care staff spend their time it may not have necessarily matched the weights and accordingly resulted in the higher weighted classes being down weighted. Since those classes are now more prevalent in the sector, this may result in fewer average activity units per bed day.

StewartBrown has performed an analysis of the potential financial effect of the increase in the AN-ACC price and the amendments to the NWAUs, taking into consideration the factors noted above.

StewartBrown analysis suggests that the overall increase in AN-ACC funding per day may be insufficient to meet ordinary cost increases and the additional costs associated with the FWC work-value award and other FWC non-award increases from 1 October, in order to maintain the current direct care margin surplus.

Whilst the direct care margin surplus is likely to decrease, there remains sufficient surplus to meet the additional staffing and related cost increases, however, this will negatively impact on the operating results.

IHACPA Comment

Recommended AN-ACC price for 2025-26

"The recommended Australian National Aged Care Classification (AN-ACC) price for 2025-26 is derived from the average cost per national weighted activity unit in the 2022-23 financial year. This base cost has been adjusted to reflect known cost increases and indexed to estimate the cost of delivering residential aged care and residential respite care services from 1 October 2025 to 30 September 2026."

"In developing the recommended AN-ACC price, IHACPA has considered a range of factors that impact the cost of care, including wage decisions made by the Fair Work Commission and the rate at which these decisions are passed on to aged care workers, superannuation guarantee increases, care minute targets as set by the department, outbreak management costs, and historical and forecast growth in labour and non-labour costs."

"IHACPA balances a range of government policy objectives when developing transparent and sustainable pricing and costing advice, including promoting person-centred, high-quality care and supporting improvements in the sustainability and efficiency of the aged care system."

Price weights and casemix considerations

"Price weights for each AN-ACC class and BCT category are informed by the relative costs of care, as measured through IHACPA's 2023 and 2024 residential aged care cost collections."

"IHACPA is aware of the changes in casemix in the sector since the introduction of AN-ACC, noting that adjusting prices based on a single point in time can introduce volatility and uncertainty, which is not in the best interests of providers."

"To support sector sustainability and control for fluctuations in costs within AN-ACC classes, IHACPA's pricing advice was informed by a broad sample of residential aged care services costed throughout 2023 and 2024."

"IHACPA continuously monitors and reviews AN-ACC and BCT price weights to ensure they reflect the evolving costs of care delivery and maintain relativity in its pricing advice to government. As data volume and quality improves over time, cost allocation becomes more accurate, enhancing the robustness of pricing advice."

Future Policy Consideration

There was a distinct policy change from the 2018 financial year to decrease the direct care margin. In 2018 this was achieved by the (then) direct care subsidy, being Aged Care Funding Instrument (ACFI), having no indexation (COPE) increase.

The Royal Commission endorsed this policy direction by stating that the direct care funding should equate more closely to the actual cost of delivery direct care services. Within IHACPA's charter, it calculates the recommended direct care subsidy (AN-ACC) to align with the actual cost of delivering these services.

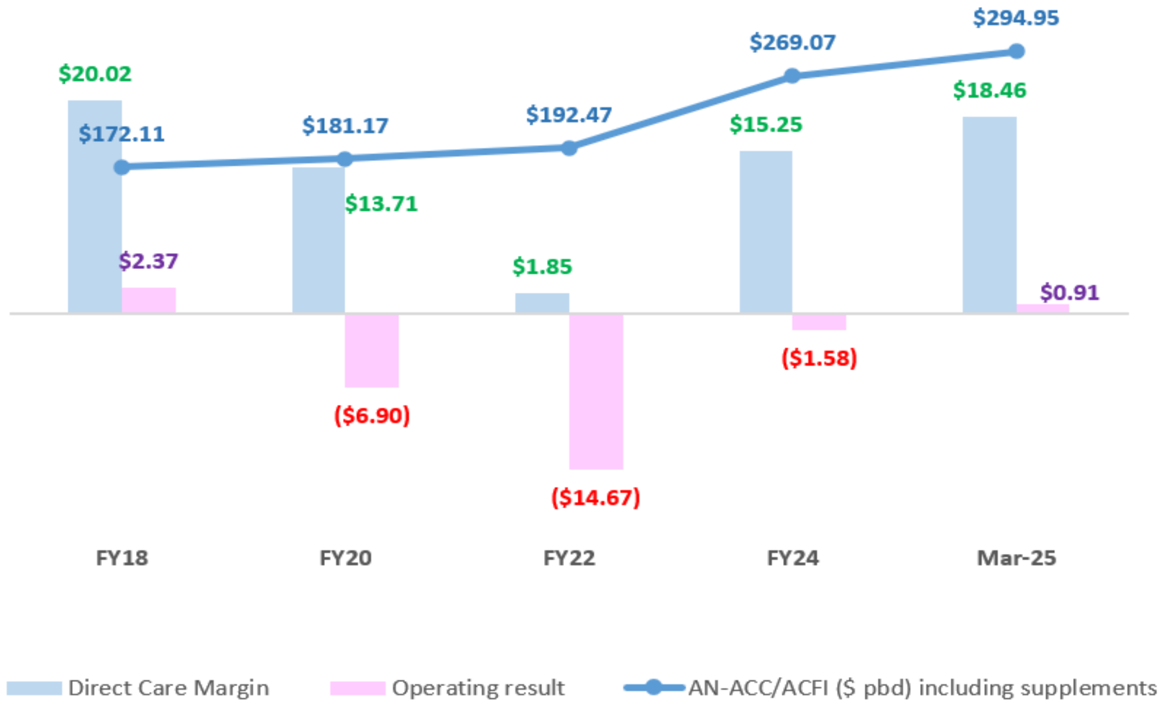
The transition from ACFI to the AN-ACC subsidy and also incorporating the requirement to meet mandated direct care minutes per resident per day has resulted in an increased direct care margin from FY23 to date. This has been influenced by providers receiving the full subsidy whilst not meeting the direct care minutes in many instances. This anomaly will cease and will progressively reduce the direct care margin. IHACPA has adjusted up the cost of services not meeting their staffing minutes when estimating the reference cost.

For many years, the hotel (everyday living) and accommodation margins have been in deficit and essentially cross-subsidised by the direct care margin. This is still the case.

The recent increased direct care margin has resulted in improved operating performance for the sector, which has been very beneficial after over 5 years of financial deficits and created a significant improvement in the appetite for increased investment.

To illustrate the effect of the direct care margin on the overall operating result, *Figure 1* shows the direct care margin (AN-ACC/ACFI subsidy less direct care costs) and the operating result expressed in $ per bed day.

Figure 1: Direct care margin, AN-ACC/ACFI subsidy and operating result trend ($ pbd)



By comparison with the StewartBrown results above, IHACPA has amended their administration allocation methodology (refer later section) which has the resultant effect of increasing the administration component of the direct care costs by $4.35 pbd, therefore reducing the direct care margin by this amount but increasing the cost base for direct care costs. This would result in an adjusted margin for the Mar-25 YTD being $14.11 pbd ($18.46 less $4.35) which represents a margin of 4.78% of AN-ACC revenue.

StewartBrown has, however, regularly cautioned that the direct care margins will decrease and our analysis suggests that the new AN-ACC funding levels will not sustain the current margin level. It is likely the direct care margin will continue to reduce in the medium term under the current policy guidelines of cost-based pricing. There is no target average direct care margin that we are aware of. Under the cost-based pricing methodology we would expect the direct care margin to continue to fall and may settle at a small care surplus of around (say) $5.00 pbd.

Advocacy for a direct care margin based on specific criteria around meeting quality of care outcomes, staffing levels and innovation to provide a financial incentive for providers is required. A reasonable direct care margin is essential to ensure financial sustainability. StewartBrown recommends this advocacy should now commence.

IHACPA Comment
Cost-based pricing approach
"IHACPA's cost-based approach to pricing does not incorporate provider margins and complies with the Minister's Letter of Expectations 2022, which instructed IHACPA to provide pricing advice based entirely on the costs of care."

"Government expects the scope of annual advice from the Pricing Authority to comprise advice on …a National Efficient Price for residential aged care, based on funding the actual cost of care" - Minister of Health and Aged Care Letter of Expectations 2022."

"IHACPA's cost collections will continue to be refined over time to improve accuracy and representativeness, address limitations within the data set and increase efficiency of collection methods."

Hotelling Supplement

IHACPA calculated the estimated gap between the costs of delivering hotel services and related revenue received as follows:

- $6.24 per occupied bed day (pbd) for all residential aged care services in 2025–26 (from 1 July 2025 to 30 June 2026)
- $12.48 per occupied bed day (pbd) for residential aged care services that do not receive revenue through additional service fees or extra service fees in 2025–26 (from 1 July 2025 to 30 June 2026)

The *StewartBrown Aged Care Financial Performance Survey* (Survey) Sector Report for the nine-month period ending March 2025 included the following comments:

"The costs of providing these services are greater than the revenue earned and currently the sector average everyday living margin is a $6.60 pbd deficit. The deficit for those without additional/extra services is $11.65 pbd. The Survey analysis concludes that for the hotelling supplement to equate to meet the full cost of everyday living services, the announced hotelling supplement effective from 1 July 2025 of $15.60 pbd is insufficient to meet this criteria by around $8.00 pbd."

Analysis
Figure 2 shows the effect of the increased hotelling supplement. On this basis the supplement will still have a shortfall of $1.73 pbd, which is consistent with the above comment that a further $8.00 pbd was required to meet the costs of providing everyday living services.

Figure 2: Analysis of Everyday living (hotel) margin based on increased hotelling supplement ($ pbd)

	Facilities with additional services	Facilities without additional services	Difference
	$ pbd	**$ pbd**	**$ pbd**
Basic daily fee - resident	63.01	63.15	(0.13)
Hotelling supplement - government	22.15	22.15	0.00
Fees for additional/extra services	8.95	0.00	8.95
Everyday living revenue	**94.12**	**85.30**	**8.82**
Hotel services expenditure	59.71	61.11	(1.39)
Utilities	8.54	9.06	(0.52)
Administration allocation	18.30	16.86	1.44
Everyday living expenditure	**86.55**	**87.03**	**(0.48)**
Everyday living margin	**$7.56**	**($1.73)**	**$9.29**

IHACPA has amended their administration allocation methodology (refer below section) with the resultant effect of reducing the administration allocation for everyday living by $1.90 pbd. On this basis the new hotelling supplement appears reasonable.

StewartBrown has consistently noted in the Sector Survey Reports the differential in the everyday living margin for each MMM geographic location (*refer Mar-25 Sector Report page 12*). It is recommended that the hotelling supplement not be a broad based amount but be adjusted depending on the geographic location of the residential aged care facility to provide a more equitable basis.

IHACPA Comment
Hotel cost gap
"The fees for the delivery of additional services and extra services above the required hotel services are out-of-scope for IHACPA's advice on hotel cost gap. However, the costs associated with providing additional services and extra services cannot be isolated in the current data available, so IHACPA compares total revenue for hotel services with total costs to calculate the estimated hotel gap. This method is consistent with the calculation of the hotel cost gap in IHACPA's pricing advice for 2023-24 and 2024-25."

"The government is seeking IHACPA's advice on the cost differentials in the provision of required hotel services, considering factors such as geographic location, assessed AN-ACC class of a resident, service size and provider structure."

"Final outcomes of IHACPA's hotelling supplement review will form the basis of any recommendations to the government on options for tiering of the hotelling supplement."

Administration Costs Allocation
IHACPA stated that administration costs were apportioned between the three streams of residential aged care funding i.e. direct care, everyday living (hotel) and accommodation, using the following methodology:

- Corporate recharge is allocated to care, hotel and accommodation streams based on the proportion of total expenses in their respective streams
- All remaining administration costs are evenly distributed between hotel and accommodation with 50% allocated to hotel costs and 50% to accommodation costs.

The allocation of administration cost between the three distinct revenue segments is consistent with the StewartBrown approach which was introduced in 2022.

IHACPA has adopted a pragmatic allocation methodology for corporate recharge by using total expenses as the denominator. This differs from that adopted by StewartBrown where the corporate recharge allocation is calculated on an activity-based approach by reference to the detailed *StewartBrown Corporate Administration Financial Survey* (Administration Survey) data which captures the corporate administration costs and staffing for each division from providers, including clinical, finance, HR, payroll, property, IT, strategic, executive and hotel.

Based on the StewartBrown Mar-25 YTD Survey, the administration allocation comparison is as follows:

	StewartBrown		IHACPA		Difference
	$ pbd	***%***	**$ pbd**	***%***	**$ pbd**
Direct care	19.42	*37.0%*	23.77	*45.3%*	(4.35)
Everyday living (hotel)	17.64	*33.6%*	15.74	*30.0%*	1.90
Accommodation	15.42	*29.4%*	12.97	*24.7%*	2.45

Whilst the IHACPA methodology has merit in this circumstance, basing it on segment costs means that the actual percentage allocation will vary from facility to facility due to the respective total costs being directly relational to resident acuity (AN-ACC subsidy), additional hotelling services being the Higher Everyday Living Fee (HELF), percentage of supported residents and varied accommodation payments due to resident preferences.

StewartBrown will continue with the approach of the administration allocation being a fixed percentage and strictly calculated on an activity based analysis from the detailed Administration Survey and monitor any significant variation with the IHACPA methodology. We do not consider it likely that the differences to be material.

IHACPA Comment
Administration cost allocation
"IHACPA has based the following methodology on StewartBrown's process to allocate administration costs:

Corporate Recharge Costs are allocated proportionally across the three expenditure streams—care, hotel services, and accommodation - based on each stream's share of total expenditure.

Remaining Administration Costs are split evenly between hotel services and accommodation, with 50% allocated to hotel services and 50% to accommodation. No portion of these costs is allocated to care."

Forecast Operating Performance

Figures 3 and 4 show the forecast operating performance by revenue segment (direct care, everyday living and accommodation) using the following scenarios:

- Hotelling supplement to be $22.15 per resident per day from October 2025
- Refundable accommodation deposit (RAD) retention of 2% pa to be phased in for new residents from 1 November 2025
- RAD pricing (accommodation price) for MMM1 facilities to be progressively increased each year to move toward an average of $680,000 in FY29. Facilities located in other areas follow the same movement in percentage
- Daily accommodation payment (DAP) pricing to be based on 8% pa floor (MPIR)
- Accommodation Supplement to increase by CPI based on current amount

StewartBrown advocates that for the residential aged care sector to be investable will require that an average EBITDA of between $20,000 and $22,000 per bed per annum is required.

To achieve this required level of EBITDA return, an appropriate margin must be achieved by each revenue segment including direct care. However, the sole reliance on the direct care margin as has been the case for many years needs to change.

An important component to achieve an investable result will be a significant increase in the Accommodation Supplement received for financially supported residents. The current gap between the Supplement ($70.94 pbd if the facility has over 40% of supported residents and $53.21 pbd is less than 40%) and an average DAP of $125 pbd based on a $600,000 room price is also inequitable and will likely be disadvantageous for financially supported residents seeking to gain entry into an aged care home.

As noted earlier, IHACPA takes its statutory guidance from the 2022 Expectations Setting Paper from the Minister which specifies that IHACPA's development of pricing advice will be "based on funding the actual cost of care, consistent with how the national efficient price is determined for public hospitals", which does not reference consideration of provider profit margins.

Additionally, the Expectations Setting Paper outlines the Department's role as system manager and that issues pertaining to the financial viability of the sector remain the responsibility of the Department.

Figure 3: Projected operating results by revenue segment ($ per bed day)

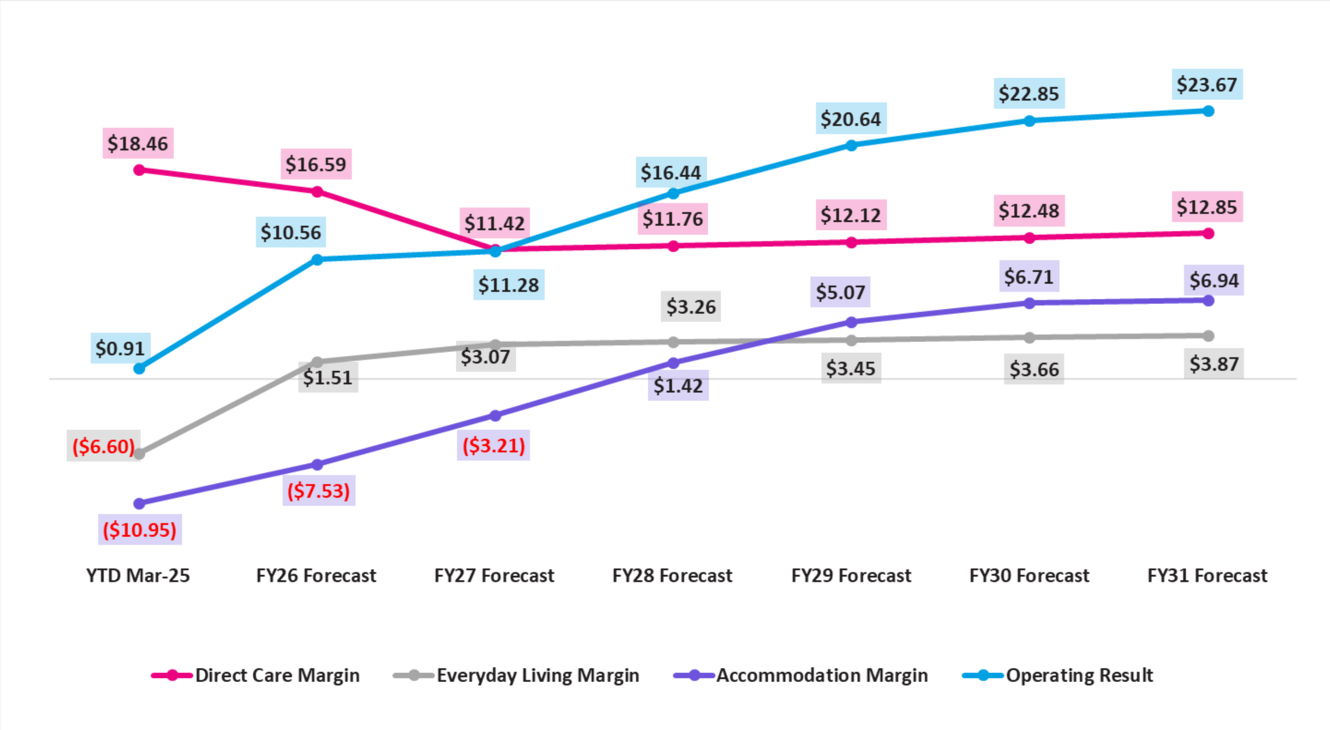


Figure 4: Projected EBITDA operating results by revenue segment ($ per bed per annum)