Royal Commission
into Aged Care Quality and Safety

CAPITAL FINANCING FOR RESIDENTIAL AGED CARE

CALL FOR SUBMISSIONS

SEPTEMBER 2020

The Royal Commission into Aged Care Quality and Safety was established by Letters Patent on 8 October 2018. Replacement Letters Patent were issued on 6 December 2018, and amended on 13 September 2019 and 25 June 2020.

The Honourable Tony Pagone QC and Ms Lynelle Briggs AO have been appointed as Royal Commissioners. They are required to provide a final report by 26 February 2021.

This call for submissions and its associated content has been prepared by staff of the Office of the Royal Commission. The views expressed in this paper are not necessarily the views of the Commissioners.

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Introduction

The Royal Commissioners are required to consider how to best deliver aged care services in a sustainable way, including through investment in capital infrastructure. The Royal Commissioners are making inquiries into capital financing arrangements for residential aged care. They are seeking input from interested individuals and organisations on whether the current capital financing arrangements are appropriate and sufficient for the future requirements of residential aged care, and whether there are potential improvements to these arrangements that should be recommended. In aged care, capital infrastructure can be thought of as the physical assets necessary to deliver care. For example, the provision of residential aged care requires the investment of substantial amounts of capital for the purchase or construction of a building and for equipment.

In general, businesses raise the capital that they need to pay for new capital infrastructure in a variety of ways. This may include equity investments, loans from financial institutions, or from their accumulated profits. While aged care providers use these forms of capital financing, they are also supported by arrangements within the aged care system that assist them both to access capital, and to pay for the required returns on investments and service debts. Residential aged care providers have access to interest free loans from residents in the form of Refundable Accommodation Deposits, previously known as Accommodation Bonds. The Australian Government also provides capital grants to build or upgrade residential aged care accommodation in particular areas or for particular cohorts of people. Providers can raise the revenue to pay for their capital investment from residents, through Daily Accommodation Payments, and from the Australian Government, which pays an Accommodation Supplement in respect of those residents who cannot pay for their own accommodation costs.

The amount of capital investment necessary in residential aged care into the future requires careful consideration. In 2019, the Aged Care Financing Authority estimated that the combined total investment for new and rebuilt residential care places over the next decade will be about $55 billion.[1] This compares to $16.7 billion in building approvals for new and rebuilt residential care places over the decade to 30 June 2020.[2] The average cost of building a new residential aged care bed sits at around $250,000.[3] Additional investment may also be required to improve the quality of accommodation. Residential aged care facilities need to be suitable for delivering the care necessary for older and frail people. They also need to be designed in ways that support a high quality of life for residents, which research suggests may be achieved through smaller facilities.[4] However, people's preference to remain at home as they age and the reflection of this preference through aged care policy and programs may reduce the amount of capital financing required in residential aged care over time.

Apart from the quantum of capital investment necessary, a number of reports have identified issues with the current arrangements for capital financing in aged care.[5] These include their effectiveness and efficiency, prudential oversight risks, and concerns about the way in which the arrangements may affect the viability of providers and their ability to maintain a sufficient standard of accommodation into the future. Issues with the current arrangements may be compounded by the financial challenges some providers in the sector are facing and their ability to raise funds for capital infrastructure generally.[6]

The capital financing arrangements for aged care need to ensure that there is sufficient accommodation available, at an appropriate standard, and in the right locations, to enable access to and choice of high quality residential aged care.

This paper provides a brief history of capital financing arrangements for residential aged care, as well as an overview of current arrangements. A number of questions for consideration are provided at the end, together with details on how to make a submission.

History of capital financing arrangements

The Australian Government has a long history of supporting both access to capital, and returns on capital infrastructure investments for aged care accommodation. For the first half of the twentieth century, the main source of accommodation for older people who were unable to look after themselves, and who did not have access to an appropriate level of informal care, were state institutions such as asylums and hospitals. The Australian Government's initial role in aged care was as a funder of maintenance subsidies for pensioners living in what were referred to as 'Benevolent Asylums'.[7] However, by the late 1940s, the ongoing presence of long-term residents suffering from chronic disease and disability in state-run hospitals was leading to overcrowding and State Governments began seeking financial assistance from the Australian Government.[8]

Capital grants

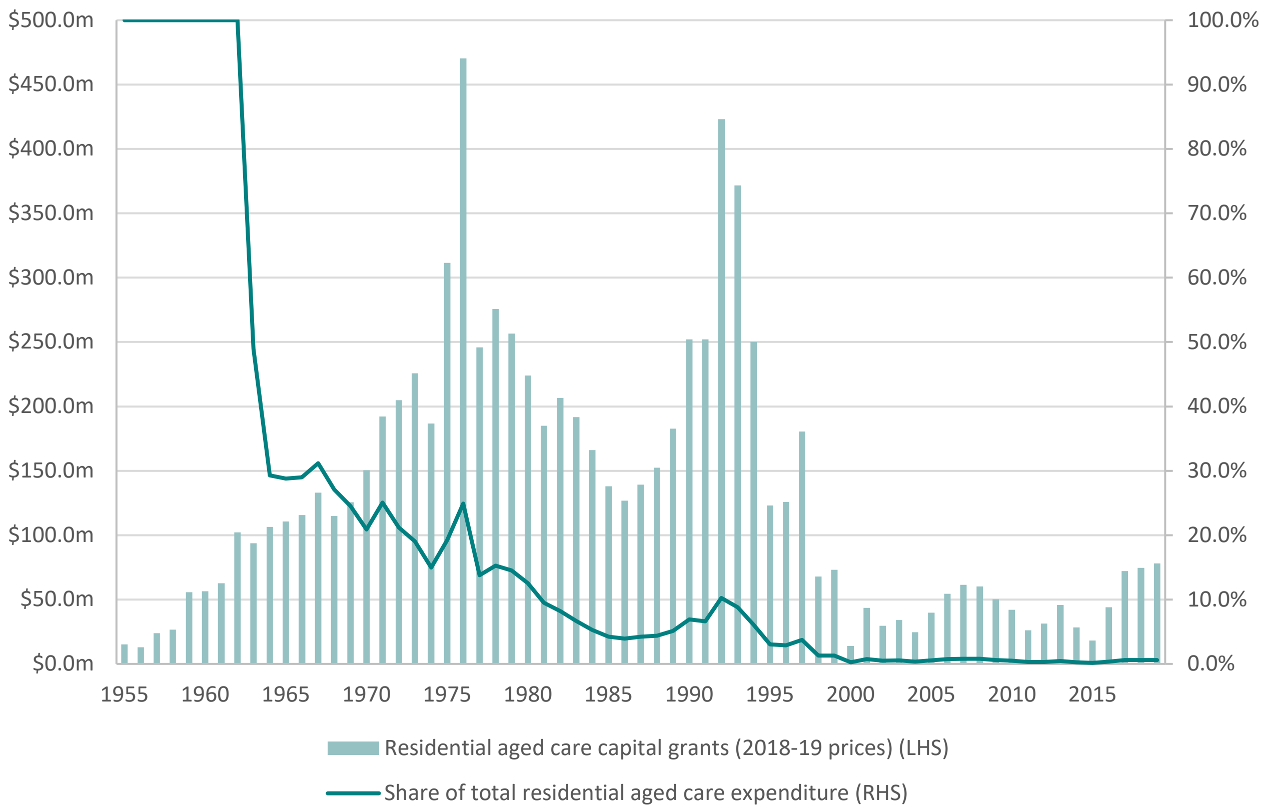
In response to these concerns, the Australian Parliament passed the *Aged Persons Homes Act 1954* (Cth), which provided capital grants for suitable homes for older people.[9] The rationale for the Australian Government's intervention was that the needs of older people could not be met solely by the payment of pensions. It was considered that the impacts of a lack of accommodation were 'felt more keenly by aged persons than by any other section of the community'.[10]

In the early years of the operation of *Aged Persons Homes Act*, the emphasis was on providing housing suitable for older people, rather than aged care. Matched grants for 'homes for the aged' were provided initially to religious and charitable organisations on a £1 for £1 basis, before rising to a £2 for £1 basis. Often charities fundraised from their local communities to raise matching capital for aged care services, and this continues today.

Government capital support for self-contained accommodation for older people was wound back in the mid-1980s. Capital grants continued for nursing homes and hostels into the 1990s. However, the 1993 *Review of the Structure of Nursing Home Funding Arrangements* found that cuts to the Australian Government's capital program were aggravating severe problems of deteriorating physical infrastructure (see Figure 1 below).[11]

Capital grants have been a key form of support from the Australian Government to capital financing for residential aged care providers. The Australian Government provided $8.4 billion in capital grants to residential aged care providers between 1954–55 and 2018–19, representing 3.1% of all Australian Government expenditure on residential aged care over that period (in 2018–19 prices).

Figure 1: Australian Government expenditure on residential aged care capital grants, 1954–55 to 2018–19



Source: Author calculation based on data from annual reports of the Australian Government Departments of Health and Social Services (and their predecessors).

Accommodation subsidies

Over time, there was a trend towards greater control and monitoring of capital grants and a move towards encouraging private investment through the provision of adequate returns on investment for aged care providers. In 1987, the Australian Government introduced a new formula for subsidising the infrastructure costs of non-government nursing homes. The *Standard Aggregated Module* provided nursing homes with a uniform flat amount for each day they cared for a resident. This was to cover food, electricity, building maintenance, administrator and domestic staffing salaries, and a notional return on investment.[12] In addition to the return on investment component, whatever was not spent from the Standard Aggregated Module payment was available as surplus or profit. The Standard Aggregated Module was intended to provide greater equity between states and regions, more effective control of the increase of Australian Government nursing home expenditures, incentives for efficiency, and simplified administration.[13]

By 1993, the report of the first stage of the *Review of the Structure of Nursing Home Funding Arrangements* criticised the Standard Aggregated Module as providing neither sufficient funds, nor incentives, for providers to fund capital works.[14] The Australian Government introduced the *Additional Recurrent Funding* program in 1992–93. Under this program, owners of non-government nursing homes were entitled to a monthly additional recurrent payment for 10 years if they invested in rebuilding older nursing homes where the care standards could not be met because of the condition of the buildings.[15]

Resident capital contributions and fees

Residents have made capital contributions towards the cost of their care since the Australian Government began providing capital grants. ‘Founder donations’ were used by voluntary organisations to attract matching funds for grants under the Aged Persons Homes Act. In some cases, residents were given a limited guarantee they would be accommodated. In others, founder donors had the right to bequeath their place to another resident. Sometimes the donations were returned to the resident or their estate when they left the home.[16]

By 1987, there was a significant issue with people being unable to afford to access nursing home care. At that time, the ongoing fees that people could be asked to pay for their accommodation and ordinary costs of living were not regulated. The aged care reform strategy addressed this ongoing fees problem by setting the maximum level of the resident contribution in nursing homes at 87.5% of the sum of the maximum age pension and rent assistance.[17] In addition, hostel funding arrangements were reformed to:

- increase a hostel operator’s access to capital funds through borrowings and refundable contributions from residents
- ensure financial protection for residents by preventing ongoing donations being charged to financially disadvantaged people
- target Australian Government capital subsidies to financially disadvantaged people.[18]

The 1993 *Review of the Structure of Nursing Home Funding* found that access to capital through refundable entry contributions was one of the reasons that building standards in hostels were considerably higher than nursing homes.

Aged Care Act 1997

The enactment of the *Aged Care Act 1997* (Cth) resulted in a number of changes to the capital financing arrangements for residential aged care. Residential aged care services that met certain building standards were allowed to require residents with sufficient assets to pay uncapped entry contributions, known as Accommodation Bonds. The Australian Government’s original intention was that Accommodation Bonds be extended from hostels to include nursing homes as part of a single system of residential care services, increasing residents’ contributions to their accommodation costs and facilitating greater levels of capital investment.[19]

Ultimately, providers were only allowed to ask low care residents to pay accommodation bonds. Other residents, with sufficient assets, could be asked to pay a daily accommodation charge. Passage of the Aged Care Act also coincided with the replacement of the previous *Care Aggregated Module* and *Standard Aggregated Module* with the *Resident Classification Scale.* Under the *Resident Classification Scale*, providers received a Concessional Supplement for residents who were unable to pay an Accommodation Bond or daily accommodation charge.[20] At the same time, the Australian Government discontinued general capital assistance for residential aged care. It established a targeted capital assistance fund to assist services that were not in a position to attract accommodation payments (Accommodation Bonds or daily accommodation charges).[21]

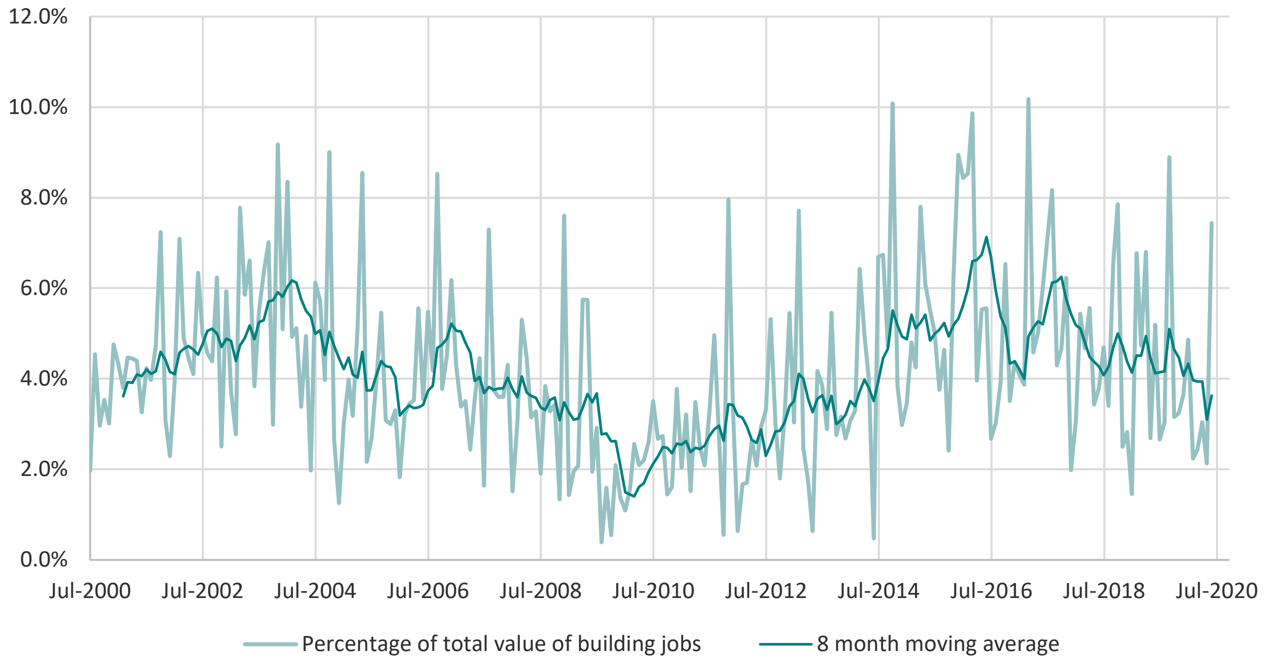
The next round of major changes to capital financing for residential aged care came with the introduction of the *Aged Care (Living Longer Living Better) Act 2013* (Cth) (the Living Longer Living Better reforms). The reforms came into effect on 1 July 2014 and have broadly been in place since then. These changes included:[22]

- lump sum accommodation payments became known as Refundable Accommodation Deposits instead of Accommodation Bonds
- providers were able to charge a Refundable Accommodation Deposit to any eligible resident

- providers were no longer able to deduct a retention amount from Refundable Accommodation Deposits
- residents became able to, at their discretion, choose to pay a Refundable Accommodation Deposit, a Daily Accommodation Payment, or any combination of the two
- providers were required to publish the maximum price for their rooms.

There was a steady increase in the value of aged care facility building approvals as a proportion of all non-residential building jobs between July 2010 and July 2016, but there has been a decline since then (as Figure 2, below, shows).

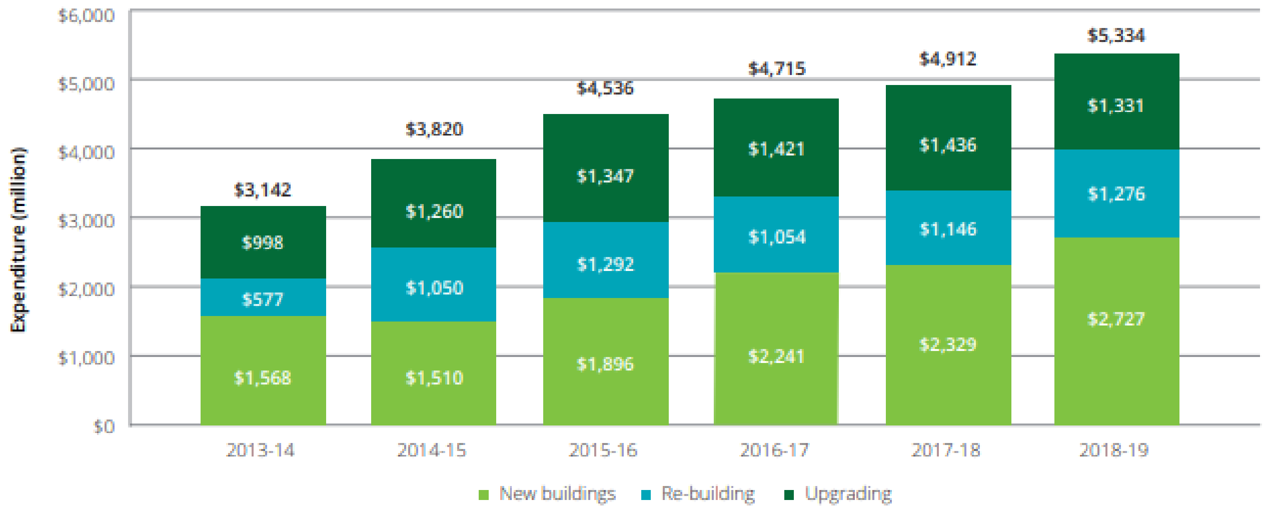
Figure 2: Aged care facilities, percentage of total value of non-residential building jobs, 2000–01 to 2019–20



Source: Author calculation based on Australian Bureau of Statistics, *8731.0 Building Approvals, Australia*, Table 51: Value of Non-residential Building Approved, By Sector, Original–Australia. Australian Government, 2020, https://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/8731.0Jul%202020?OpenDocument, viewed 3 September 2020.

Despite this, the value of residential aged care building activity steadily increased from 1 July 2014, from $3.1 billion in 2013–14 to $5.3 billion in 2018–9.

Figure 3: Residential care building activity (completed or in-progress), 2013–14 to 2018–19



Source: Aged Care Financing Authority, *Eighth report on the Funding and Financing of the Aged Care Industry*, chart 7.17, p 103.

Current capital financing arrangements

The current capital financing arrangements for aged care can be grouped into two categories. The first relates to how aged care providers access the capital they need for investment. The second is how aged care providers pay the required returns on investments and service debts.

Accessing capital

Currently, residential aged care providers access capital from four main sources:[23]

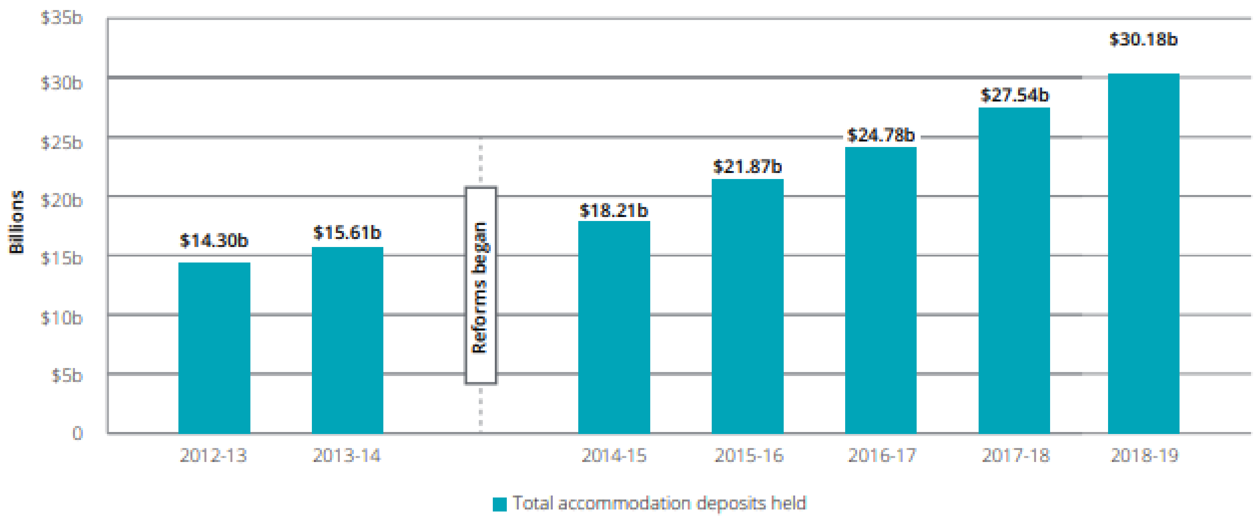
- interest free loans from residents receiving care through Refundable Accommodation Deposits ($30.2 billion or 57.4% of total provider assets in 2018–19)
- loans from financial institutions, who expect both a return on the loan (interest) and a return of their investment (principal) ($2.1 billion or 4.1% of total provider assets in 2018–19)
- loans from related parties who also expect both a return on the loan (interest) and a return of their investment (principal) ($2.3 billion or 4.4% of total provider assets in 2018–19)
- equity investments that they provide, and on which they expect to receive a return on their investment, as well as the return of their investment ($13.5 billion or 25.7% of total provider assets in 2018–19).

Some capital also comes from grants and philanthropic donations.

Refundable Accommodation Deposits

A Refundable Accommodation Deposit is a lump sum payment from a resident to a provider for accommodation. These lump sum payments are refunded on leaving residential aged care. Refundable Accommodation Deposits act as an interest free loan from people living in residential aged care to providers, allowing residential aged care providers to avoid significant interest costs. Refundable Accommodation Deposits are a significant source of funding for capital investment in residential care, accounting for 57.4% of residential aged care providers' total assets.[24] The value of accommodation deposits has almost doubled since 2013–14.

Figure 4: Total pool of accommodation deposits held, 2012–13 to 2018–19



Source: Aged Care Financing Authority, *Eighth report on the Funding and Financing of the Aged Care Industry*, chart 7.1, p 90.

At 30 June 2019, a total of $30.2 billion of Refundable Accommodation Deposits were held by providers. This equates to 94,870 Refundable Accommodation Deposits with an average value of $318,000. As Table 1 demonstrates, the average value of Refundable Accommodation Deposits has steadily increased over the last six years.[25]

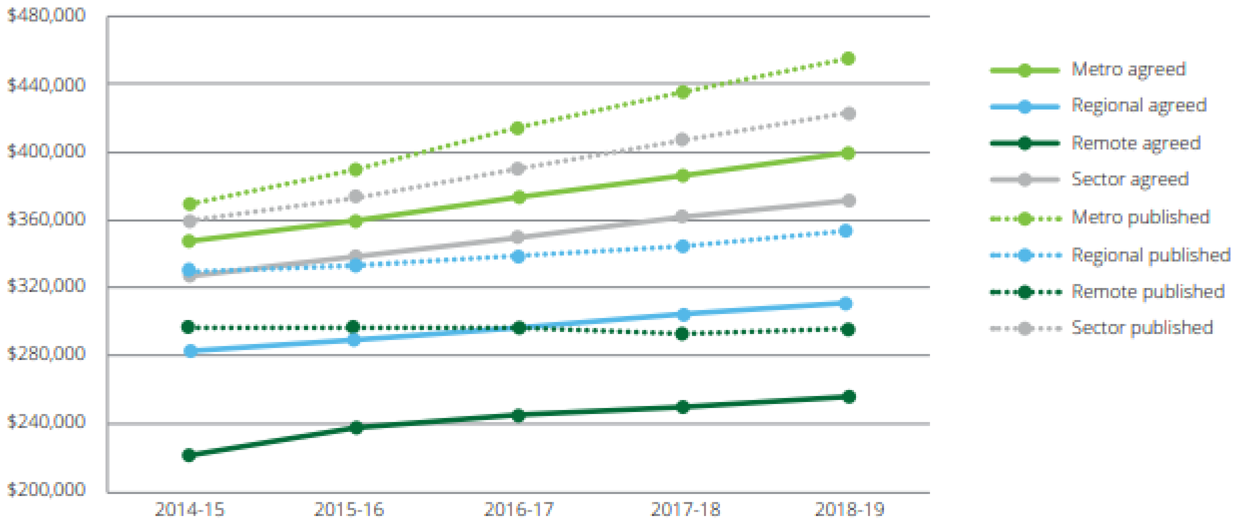
Table 1: Average value of Refundable Accommodation Deposits held by providers, 2013–14 to 2018–19

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
$229,000	$248,000	$267,000	$283,000	$303,000	$318,000

Source: Aged Care Financing Authority, *Eighth report on the Funding and Financing of the Aged Care Industry*, table 7.1, p 89.

The average value of both the published and agreed price for new Refundable Accommodation Deposits has similarly increased over this period. This increase has been broadly in line with increases in residential housing prices, which have risen by approximately 24% over the same period.[26] In terms of location, the average published and agreed price in metropolitan areas was significantly higher than in regional and remote areas. This may reflect the difference in house prices across these areas, and that prices for Refundable Accommodation Deposits are set according to the ability of people to pay, rather than the value of the accommodation services being received.

Figure 5: Average agreed and published accommodation prices (lump sum equivalent), by location, 2014–15 to 2018–19



Source: Aged Care Financing Authority, *Eighth report on the Funding and Financing of the Aged Care Industry*, chart 7.7, p 93.

The maximum amount of a Refundable Accommodation Deposit allowed to be charged is set by the Minister for Aged Care. The current maximum amount is $550,000, which has remained unchanged since July 2014.[27] Providers can apply to the Aged Care Pricing Commissioner for approval to charge a higher amount.[28] In 2018–19, the Aged Care Pricing Commissioner approved Refundable Accommodation Deposits in excess of $550,000 for 8117 rooms.[29]

Payment is not required until six months after entry into residential aged care if a person chooses to pay by Refundable Accommodation Deposit. Daily Accommodation Payments are charged until the Refundable Accommodation Deposit is paid.[30] A person may choose to pay a Refundable Accommodation Deposit at any time after having entered into an accommodation agreement, for example after a house sale is finalised.[31]

The use of Refundable Accommodation Deposits by providers is limited under the Aged Care Act. Permitted uses include for capital expenditure, investment in financial products, and making or repaying loans.[32]

Refundable Accommodation Deposits are guaranteed to residents by the Australian Government through the Accommodation Payment Guarantee Scheme.[33] This means that the Australian Government bears any financial risk from a provider becoming insolvent and being unable to refund the Refundable Accommodation Deposits of people living in its facilities. The Australian Government can place—but so far has not placed—a levy on providers for the costs associated with the Accommodation Payment Guarantee Scheme.[34]

Research undertaken by Ipsos for the information of Commissioners, has concluded that there is a highly variable understanding about Refundable Accommodation Deposits among people accessing the aged care system. It also concluded that the level of funding required for a Refundable Accommodation Deposit was daunting for many who feared it would significantly reduce their available disposable income.[35]

The Aged Care Financing Authority has highlighted a number of issues with Refundable Accommodation Deposits:

- Unlike other sources of capital, such as equity or commercial loans, residential aged care providers, other than listed public companies, relying primarily on Refundable Accommodation Deposits are not subject to any scrutiny as to how effectively funds will be used. The result may be a tendency towards complacency and a less effective and efficient operation.[36]
- Effective prudential oversight of Refundable Accommodation Deposits is important to maintaining stability and confidence in the aged care industry.[37] However, a review conducted by EY concluded that the data provided to the Department of Health by providers is inadequate, there are deficiencies in the disclosure and liquidity standards, and there are limited resources to conduct and adequately review and assess providers' compliance with prudential standards.[38]
- The need to repay Refundable Accommodation Deposits when a person leaves a residential aged care facility in an overall environment of declining occupancy could put pressure on the viability of some providers. The continued fall in occupancy during 2018–19 indicates this issue continues to grow.[39]

Bank loans and loans from related parties

Loans from banks and other financial institutions are not currently a significant source of capital finance for residential aged care. Providers borrow more from related parties within corporate group structures, and through interest free loans from residents. The Aged Care Financing Authority reported that as at 30 June 2019, the residential aged care sector had $2.1 billion in liabilities to financial institutions, and a further $2.3 billion in liabilities to related parties.[40] Residential aged care providers service bank loans and loans from related parties through Refundable Accommodation Deposits and income generated from Daily Accommodation Payments, the Accommodation Supplement, as well as other sources.

Some providers may have difficulty accessing bank loans for capital financing purposes. The Aged Care Financing Authority has reported that:

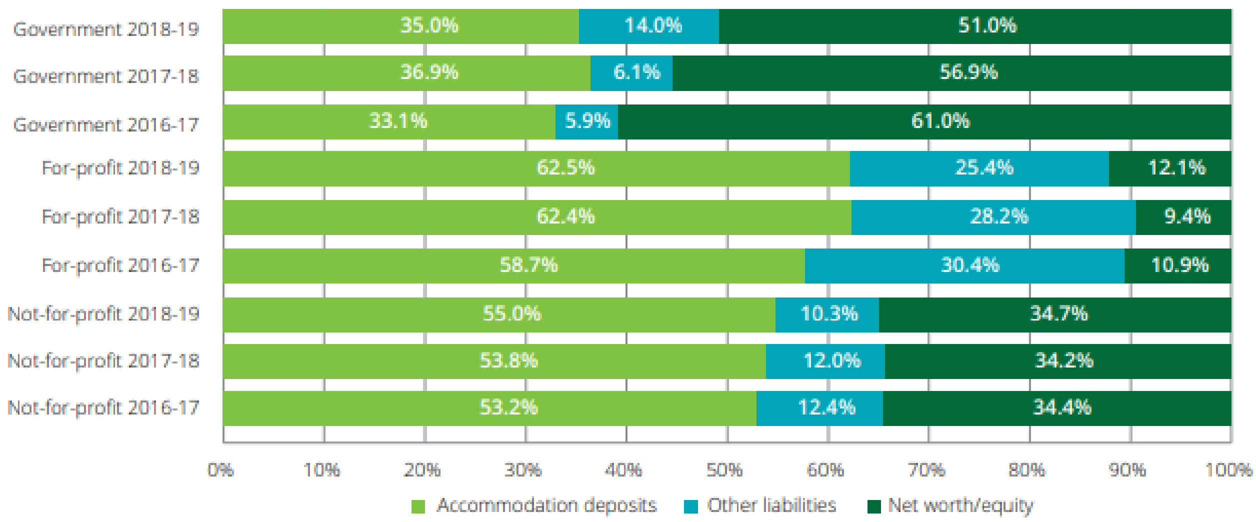
> … feedback from the banking sector suggests that there are a significant number of aged care providers, particularly smaller providers, who are considered to be an unacceptable credit risk.[41]

If that is the case, there are implications for peoples' ability to access residential aged care and the level of competition between providers.

Equity

In this context, equity refers to the value of an owner's investment in a residential aged care provider. The Aged Care Financing Authority reported that as at 30 June 2019, the residential aged care sector had $13.5 billion in net assets (total assets minus total liabilities), or equity.[42] This equates to 25.7% of total assets. The levels of equity in residential aged care as a proportion of total assets varies significantly by provider type. Equity was 34.7% of total assets for not-for-profit providers, but only 12.1% for for-profit providers.

Figure 6: Liabilities and net worth as a proportion of total assets, by provider ownership type, 2016–17 to 2018–19



Source: Aged Care Financing Authority, *Eighth report on the Funding and Financing of the Aged Care Industry*, chart 7.9, p 96.

Residential aged care providers that are listed on the stock exchange potentially have scope to raise additional equity from the financial markets. In addition, there have been recent media reports that private equity firms have been considering investment opportunities in the aged care sector.[43]

Rural, Regional and Other Special Needs Building Fund

The Australian Government also provides capital grants to build or to upgrade residential aged care accommodation through the Rural, Regional and Other Special Needs Building Fund as part of the Aged Care Approvals Round. These grants are allocated in accordance with the Aged Care Act and the *Grant Principles 2014*.[44] To be allocated a grant, the approved provider must meet one of the following requirements:

- be located in a rural, regional or remote area
- focus on residential aged care for people from special needs groups or people with low means
- provide services in a region that needs extra residential aged care services.

The 2018–19 Aged Care Approvals Round provided approximately $60 million in capital grants to 28 residential aged care facilities.[45] The average grant was $2.1 million. In the context of $5.3 billion in building activity in 2018–19, the capital grants provided from the Rural, Regional and Other Special Needs Building Fund only play a small role in expanding and improving the stock of residential aged care.

Paying for capital

Aged care providers secure the funds that they need to repay loans and provide returns to investors from two main sources:

- Daily Accommodation Payments from residents
- Daily Accommodation Supplements paid by the Australian Government in lieu of payment from residents with less means.

In general these payments provide a return on the capital invested, and an income stream to repay bank loans. Providers may also pay for capital using profits that can be made on funding provided for care.

Outside of aged care, one approach for estimating a fair rate of return for the providers of investment capital (both equity and debt), reflective of the risk borne by those investors, is the Weighted Average Cost of Capital model. The Office of the Royal Commission asked Frontier Economics to develop an estimate of the Weighted Average Cost of Capital for the residential aged care sector. This paper reporting the results, *The Required Return for Aged Care Service Providers* is available at https://agedcare.royalcommission.gov.au/publications/required-return-aged-care-services-providers

Daily Accommodation Payments

As noted above, as an alternative to a Refundable Accommodation Deposit, people can choose to pay a Daily Accommodation Payment, or a combination of the two. In their current form, Daily Accommodation Payments (or Daily Accommodation Contributions for partially supported residents) were introduced as part of the Living Longer Living Better reforms. The Daily Accommodation Payment amount is derived from the agreed room price using the Maximum Permissible Interest Rate based on the following legislatively proscribed formula:

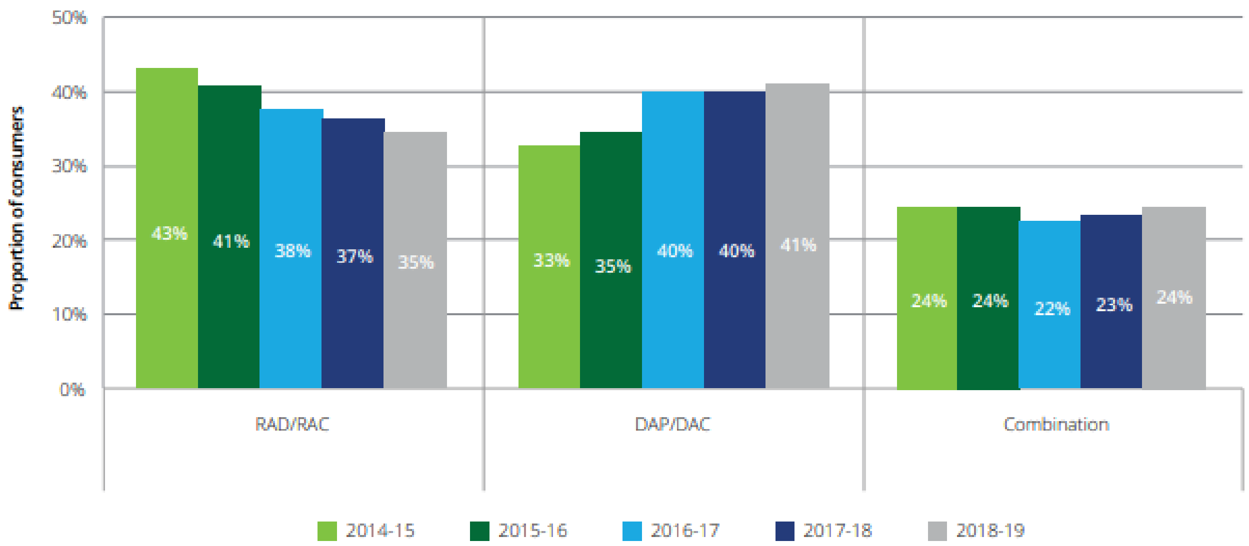
$$DAP = RAD \times MPIR/365$$ [46]

The Maximum Permissible Interest Rate for the period 1 July 2020 to 30 September 2020 is 4.1%.[47] Changes in the Maximum Permissible Interest Rate are linked to the monthly average yield of 90-day Bank Accepted Bills published by the Reserve Bank of Australia.[48]

The Daily Accommodation Payment that an approved provider would receive is $35.72 per day based on the current Maximum Permissible Interest Rate, and the average value of a Residential Accommodation Deposit of $318,000. The Daily Accommodation Payment rises to $61.78 per day assuming the maximum value of a Residential Accommodation Deposit without seeking approval from the Aged Care Pricing Commissioner of $550,000.

The proportion of people choosing Daily Accommodation Payments or Daily Accommodation Contributions has gradually increased over the four years from 33% in 2014-15 to 41% in 2018-19. This trend has not been caused by a change in the number of non-supported residents as that has been stable at around 50–52% since 2014–15.

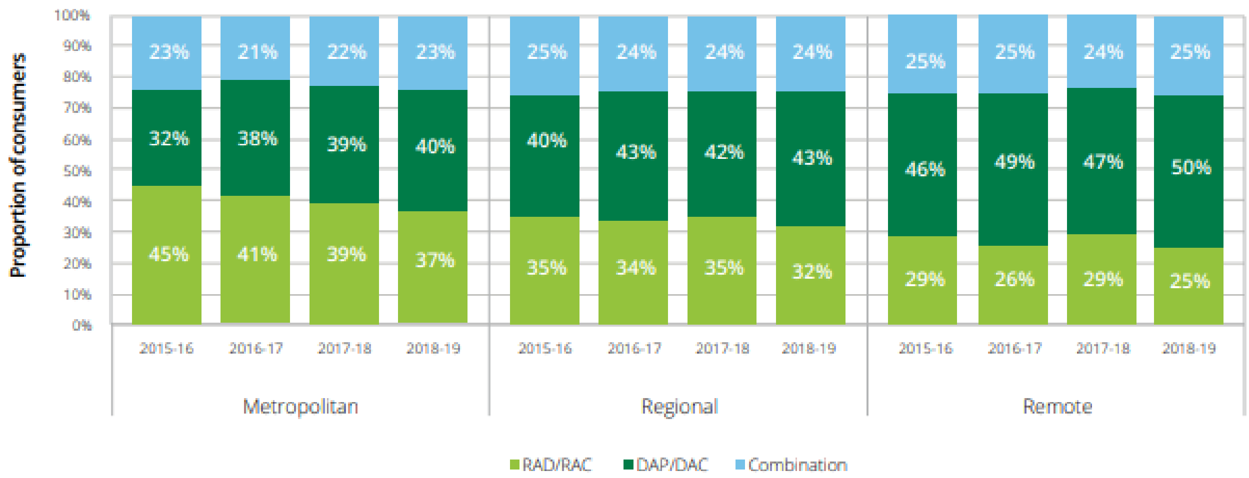
Figure 7: Resident method of accommodation payment, 2014–15 to 2018–19



Source: Aged Care Financing Authority, *Eighth report on the Funding and Financing of the Aged Care Industry*, chart 7.2, p 90.

Of those people making a payment or contribution toward their accommodation costs, there is a greater preference for Daily Accommodation Payments / Daily Accommodation Contributions in regional and remote areas compared with metropolitan areas, as Figure 8 below shows.

Figure 8: Resident choice of payment method, by location, 2015–16 to 2018–19



Source: Aged Care Financing Authority, *Eighth report on the Funding and Financing of the Aged Care Industry*, chart 7.4, p 92.

The performance of the housing market is also linked to the mix of Refundable Accommodation Deposits and Daily Accommodation Payments.[49] Residential property prices in the capital cities peaked in the December quarter of 2017 and have not yet returned to those levels.[50] The most recent housing price figures do not account for the full impact of COVID-19, with significant increases in house prices unlikely in the short term. The Aged Care Financing Authority has noted that:

> … a downturn in the housing market as a consequence of COVID-19 would flow through to lower use and lower value of RADs.[51]

If this assessment is accurate, the implication would be that the trend towards increasing use of Daily Accommodation Payments is likely to continue, at least in the short term.

Accommodation Supplement

The Australian Government supports access to permanent residential care by people who are assessed as not being able to meet all or part of their own accommodation costs. It does this by paying providers an Accommodation Supplement on their behalf. These people are known as supported (or low-means) residents. Accommodation Supplement payments from the Australian Government to residential aged care providers totalled $1.2 billion in 2018–19.[52]

Since the Living Longer Living Better reforms began on 1 July 2014, eligibility for a full or partial Accommodation Supplement is determined by a combined assessment of the person's income and assets (the means test). The amount of the Accommodation Supplement received by a provider on behalf of a supported resident depends on all of these factors:

- the outcome of the person's means test assessment
- whether the residential care facility has been built or significantly refurbished since 20 April 2012
- whether the facility provides more than 40% of its care days to supported residents.

The maximum amount payable under the Accommodation Supplement is currently $58.19 per supported resident per day.[53] Lower amounts are payable for older facilities or facilities that have not been significantly refurbished. Providers with 40% or fewer supported residents in a facility have the Accommodation Supplement they receive for all supported residents in that facility reduced by 25%.[54]

As Table 2 demonstrates, the proportion of supported residents has been relatively stable in recent years. Supported residents make up a greater proportion of total people in regional and remote locations as compared to metropolitan locations.

Table 2: Proportion of claims for supported residents, by location, 2014–15 to 2018–19

Location	2014-15	2015-16	2016-17	2017-18	2018-19
Metropolitan	49.1%	50.1%	48.7%	47.9%	47.1%
Regional	53.2%	54.0%	52.8%	51.8%	50.9%
Remote	66.0%	68.1%	67.9%	65.9%	63.6%
Australia	**50.5%**	**51.5%**	**50.2%**	**49.3%**	**48.4%**

Source: Aged Care Financing Authority, *Eighth report on the Funding and Financing of the Aged Care Industry*, table 3.8, p 32.

In addition, not-for-profit providers have a higher proportion of supported residents compared with for-profit providers.[55]

The Aged Care Financing Authority has stated that the higher Accommodation Supplement has created an incentive for approved providers to invest in residential aged care.[56]

Call for submissions

The Royal Commissioners are inquiring into the capital financing arrangements for residential aged care. They are seeking input from interested individuals and organisations on whether the current capital financing arrangements are appropriate and sufficient for the future requirements of residential aged care, and whether there are improvements to these arrangements that should be recommended.

For those interested members of the public and organisations who wish to make submissions to the Royal Commissioners, we note particular interest in receiving submissions that address the following topics:

1. Whether the current capital financing arrangements are appropriate for the aged sector as it exists today, and as it is likely to evolve into the future.
2. How the capital financing arrangements might need to change to support a progressive shift in the balance of care from residential to home care.
3. The current state of capital investment and infrastructure in residential aged care, including whether the sector is undercapitalised and any evidence that the capital stock is not of sufficient quality.
4. The appropriate role for the Australian Government in capital financing for the residential aged care sector.
5. Whether the current taxpayer and care recipient contributions to the capital financing of the residential aged care sector are equitable, efficient and appropriate.
6. Whether the current prices for Refundable Accommodation Deposits are appropriate given that the average per bed construction cost of residential accommodation is approximately $250,000.
7. Whether there should be reforms to the existing capital financing arrangements for residential aged care, and if so, the policy rationale for these reforms. Examples of reforms could include:

    a. Linking the level of Residential Accommodation Deposits more closely with the value of the accommodation received.

    b. Phasing out Refundable Accommodation Deposits and, if so, whether that would need to be subject to an alternative arrangements and a transition period.

    c. Fixing the amount paid to providers by residents as Daily Accommodation Payments, and by the Australian Government through the Accommodation Supplement, to the weighted average cost of capital for aged care providers. In addressing this area, comments can also be provided on the Frontier Economics report, *The Required Return for Aged Care Service Providers*, available at https://agedcare.royalcommission.gov.au/publications/required-return-aged-care-services-providers

    d. Measures to encourage equity investment from a wider range of sources, such as superannuation funds, real estate investment trusts or private equity firms.

    e. Expanding the Australian Government's capital grants program. This could include a general capital grants program similar to the arrangements that operated from 1954-97, or a more targeted program designed to improve access to residential aged care and support the establishment of providers of last resort.

8. How capital financing arrangements could be used to support the development of innovative or emerging models of accommodation.

9. Whether the current accountability and reporting arrangements around the use of capital grants from government and contributions from care recipients are sufficient.
10. Whether investment of capital grants from government and contributions from care recipients should be restricted strictly to aged care activities.
11. Whether there should be different capital financing arrangements for specialist facilities such as for people who are homeless or at risk of homelessness, or Aboriginal and Torres Strait Islander people.
12. The management of any transition issues if the existing capital financing arrangements were reformed, including the roles that both government and the aged care sector should play.

The final date to provide submissions is 2 October 2020. The Commissioners intend to publish all submissions received on the Royal Commission's website. However, they reserve the right to not publish submissions, or to redact information in submissions, before publication.

Please email submissions to: ACRCCapitalFinancing@royalcommission.gov.au.

In providing a submission, you can also:

- write to the Royal Commission at GPO Box 1151 Adelaide SA 5001 or
- telephone 1800 960 711 (between 8:00 am and 6:30 pm ACST Monday to Friday except on public holidays—interpreter service available).

Endnotes

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