Residential Aged Care Pricing Advice 2025–26

Technical Specifications

Version 1.0
July 2025

IHACPA

Residential Aged Care Pricing Advice 2025–26 Technical Specifications — July 2025

Contents

Acronyms and abbreviations 5

1 Overview 7

1.1 Purpose 7
1.2 Background 7
1.3 The scope of IHACPA's Residential Aged Care Pricing Advice 2025–26 7
1.4 Residential aged care pricing advice process 8
1.4.1 Data sources 8
1.4.2 Methodology overview 9

2 Data preparation 11

2.1 Overview 11
2.2 Aged Care Financial Report 2022–23 11
2.2.1 Deflation 11
2.2.2 Data adjustments 13
2.2.3 Supplementary data 14
2.2.4 Trimming 15
2.2.5 Adjustment for care minutes responsibility 16
2.2.6 In-scope costs 18
2.3 Residential Aged Care Cost Collections 19
2.3.1 Indexation 20
2.3.2 Trimming 20
2.3.3 In-scope costs 21
2.3.4 Adjustments to in-scope costs 22
2.3.5 Sample weighting 23
2.4 Quarterly Financial Report 2022–23 and 2023–24 24
2.4.1 Trimming 24

3 Pricing model 26

3.1 Overview 26
3.2 Base cost model 26
3.2.1 Individual cost model 26
3.2.2 Shared care cost 28
3.3 Derivation of a reference cost 28

3.3.1 Total NWAU 28
3.3.2 Reference cost 30
3.4 Cost calibration 30
3.4.1 Services funded based on occupied places (BCTs 4, 5, 6 and 7) 30
3.4.2 Services funded based on operational places (BCTs 1, 2 and 3) 31
3.4.3 Cost calibration to ACFR 32
3.5 Price weights 32
4 Indexation 33
4.1 Overview 33
4.2 Cost proportions 33
4.3 Labour cost indexation and adjustments 34
4.3.1 Overview 34
4.3.2 Impact of Fair Work Commission work value case decisions on labour costs 35
4.3.3 Wage Price Index adjustment 37
4.3.4 Step 1: Indexation and adjustments to 1 October 2025 44
4.3.5 Step 2: Indexation to 1 July 2026 49
4.3.6 Step 3: Adjustments to 1 August 2026 49
4.3.7 Summary of labour cost indexation and adjustments 50
4.4 Non-labour cost indexation 51
4.4.1 Non-labour index 51
4.4.2 Indexation 52
4.5 Summary of indexation 54
4.6 Outbreak management support supplement 54
5 Hotel cost gap 55
5.1 Overview 55
5.2 Hotel costs 55
5.2.1 Overview 55
5.2.2 Labour cost indexation 56
5.2.3 Non-labour cost indexation 57
5.2.4 Total hotel costs 61
5.3 Hotel revenue 61
5.3.1 Overview 61
5.3.2 Revenue indexation 62
5.4 Hotel gap 63

Acronyms and abbreviations

Acronym/abbreviation	Description
ABD	Available bed day
ABS	Australian Bureau of Statistics
ACFI	Aged Care Funding Instrument
ACFR	Aged Care Financial Report
ACQSC	Aged Care Quality and Safety Commission
Aged Care Act	*Aged Care Act 1997* (Cth)
Aged Care Award	*Aged Care Award 2010*
Aged Care Work Value Case	Fair Work Commission Work value case – Aged care industry
AIHW	Australian Institute of Health and Welfare
AIN	Assistant in nursing
AN-ACC	Australian National Aged Care Classification
ANZSCO	Australian and New Zealand Standard Classification of Occupations
ANZSIC	Australian and New Zealand Standard Industrial Classification
AWR	Annual Wage Review
BCT	Base care tariff
BDF	Basic daily fee
CHSP	Commonwealth Home Support Programme
CPI	Consumer Price Index
EBA	Enterprise bargaining agreement
EN	Enrolled nurse
FTE	Full time equivalent
HCP	Home Care Packages
IHACPA	Independent Health and Aged Care Pricing Authority
MM	Modified Monash
NHR Act	*National Health Reform Act 2011* (Cth)
Nurses and Midwives Work Value Case	Fair Work Commission Work value case – Nurses and Midwives
NWAU	National weighted activity unit
OBD	Occupied bed day
PCW	Personal care worker

Acronym/abbreviation	Description
Pricing Authority	The governing body of IHACPA established under the *National Health Reform Act 2011* (Cth)
QFR	Quarterly Financial Report
RACCC	Residential Aged Care Cost Collection
RACCS	Residential Aged Care Costing Study
RACPA25	Residential Aged Care Pricing Advice 2025–26
RBA	Reserve Bank of Australia
RN	Registered nurse
The department	Department of Health, Disability and Ageing
The government	The Australian Government
WPI	Wage Price Index

1 Overview

1.1 Purpose

This document has been produced as an accompaniment to the Residential Aged Care Pricing Advice 2025–26 (RACPA25). It provides the technical specifications for how the Independent Health and Aged Care Pricing Authority (IHACPA) developed the pricing advice provided to the Australian Government (the government).

1.2 Background

IHACPA is established under the *National Health Reform Act 2011* (Cth) (the NHR Act) and by virtue of section 131A(1) of the NHR Act is invested with the following functions relevant to RACPA25:

a) to provide advice to each relevant Commonwealth Minister in relation to one or more aged care pricing or costing matters, including in relation to methods for calculating amounts of subsidies to be paid under the *Aged Care Act 1997* (Cth) (the Aged Care Act) or the *Aged Care (Transitional Provisions) Act 1997* (Cth)
b) such functions relating to aged care (if any) as are specified in regulations made for the purposes of this paragraph
c) to conduct, or arrange for the conduct of, one or more of the following activities for the purpose of performing a function mentioned in paragraph (a) or (b):
    i) the collection and review of data
    ii) costing and other studies
    iii) consultations
d) to do anything incidental to or conducive to the performance of the above functions.

RACPA25 is an output to the performance of those functions by the Pricing Authority.

1.3 The scope of IHACPA's Residential Aged Care Pricing Advice 2025–26

Operating under the NHR Act and the Aged Care Act, The Pricing Authority will provide the government with advice on the following:

- the recommended Australian National Aged Care Classification (AN-ACC) price for residential aged care and residential respite care, based on funding the cost of care
- any recommended adjustments to the AN-ACC funding model, such as national weighted activity unit (NWAU) price weights, base care tariff (BCT) categories and AN-ACC classes
- the gap between the cost of delivering hotel services and related revenue received.

In May 2025, the Minister for Health and Ageing requested that IHACPA provide additional advice on the gap between the costs of delivering hotel services and related revenue received, excluding residential aged care services that provide additional services or extra services.

RACPA25:

- is evidence-based and developed transparently
- is based on services meeting the standard of care required in government policy and legislation
- aims to account for all costs and revenue for items in Schedule 1—Care and services for residential care services of the *Quality of Care Principles 2014* under section 96-1 of the Aged Care Act.

1.4 Residential aged care pricing advice process

1.4.1 Data sources

RACPA25 was informed by several different data sources including the following collected by or provided to IHACPA:

- Residential Aged Care Cost Collection (RACCC), 2024
- Residential Aged Care Costing Study (RACCS), 2023
- Aged Care Financial Report (ACFR), 2022–23
- Quarterly Financial Reports (QFR), 2022–23 and 2023–24
- AN-ACC assessment data
- Services Australia AN-ACC claims, 2022–23 and 2023–24
- Services Australia Aged Care Funding Instrument (ACFI) claims, 2022–23
- Care minutes responsibility from 1 October 2025, as provided by the Department of Health, Disability and Ageing (the department)
- Aged Care Wage Estimation Tool
- Aged Care Provider Workforce Survey, 2023
- StewartBrown Aged Care Administration Allocation methodology
- Government Provider Management System extracts.

In addition, IHACPA relied on other publicly available data sources, including:

- Aged Care Quality and Safety Commission (ACQSC) non-compliance decision logs, 2022–23 and 2023–24
- Star ratings quarterly data extracts, 2023 and 2024
- Care minutes responsibility – Guide for residential aged care providers
- 24/7 registered nurse responsibility – Guide for residential aged care providers
- Schedule of Subsidies and Supplements for Aged Care
- Australian Institute of Health and Welfare (AIHW) GEN Aged care service list, 30 June 2021 to 30 June 2024
- Australian Bureau of Statistics (ABS) Consumer Price Index (CPI) series, December 2024
- ABS Annual weight update of the CPI and Living Cost Indexes
- ABS CPI: Concepts, Sources and Methods

- ABS Wage Price Index (WPI) series, December 2024
- ABS Employee Earnings and Hours, 2021
- ABS Income and Work: Census, 2021
- Reserve Bank of Australia (RBA) Statement on Monetary Policy, February 2025
- Fair Work Ombudsman minimum award wages
- Fair Work Commission annual wage reviews (AWR)
- Fair Work Commission Work value case – Aged care industry (Aged Care Work Value Case) Stage 2 and 3 decisions
- Fair Work Commission Work value case – Nurses and midwives (Nurses and Midwives Work Value Case) decision
- University of Wollongong Resource Utilisation and Classification Study.

1.4.2 Methodology overview

AN-ACC pricing advice

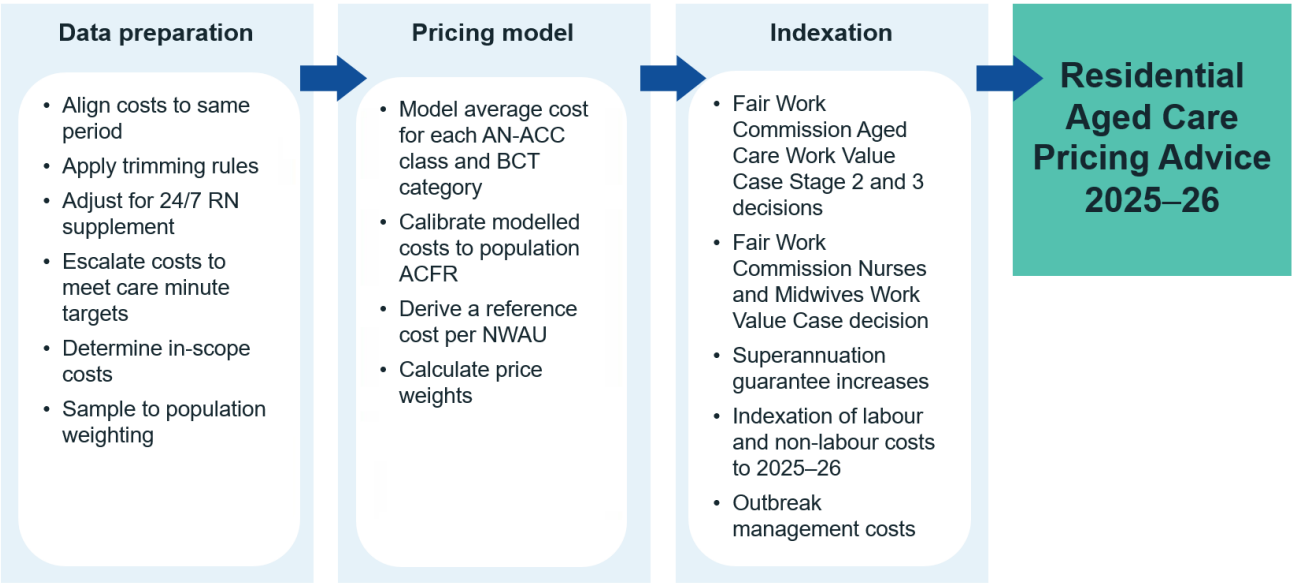
A key element of IHACPA's residential aged care and residential respite care pricing advice relates to the AN-ACC funding model.

The elements of care that are in-scope for the AN-ACC funding model are specified in Parts 2 and 3 of Schedule 1—Care and services for residential care services of the *Quality of Care Principles 2014* under section 96-1 of the Aged Care Act.

The recommended AN-ACC price is based on the average cost per NWAU in the 2022–23 financial year, adjusted to account for known cost increases, then indexed to estimate the cost of delivering residential aged care services between 1 October 2025 and 30 September 2026. The recommended price weights for each AN-ACC class and BCT category are based on the relative costs of care as measured in the RACCS and RACCC.

Figure 1 summarises the processes and key aspects considered in the development of the pricing methodology for RACPA25.

Figure 1: Summary of methodology



Estimated hotel gap

IHACPA has also produced 2 estimates of the gap between the cost of hotel services and related revenue received: one including all residential aged care services nationally, and a second based on the subset of residential aged care services that do not provide additional services or extra services. This is provided as a separate output in RACPA25.

2 Data preparation

2.1 Overview

IHACPA relied on 3 main sources of cost data in preparing RACPA25:

- ACFR 2022–23, for population-level cost data used to determine the recommended AN-ACC price and the estimated hotel gap
- RACCS and RACCC, to understand differences in the cost of care between AN-ACC classes and BCT categories.

IHACPA also relied on the QFR to model the impact of Fair Work Commission work value case decisions on labour costs.

The methodology used to prepare each of those data sources for modelling is described in the relevant sections below.

2.2 Aged Care Financial Report 2022–23

At the time of modelling, the ACFR 2022–23 was the most recent source of cost data for the full population capturing all relevant cost categories. IHACPA applied a series of cleansing, trimming and adjustment steps before using the ACFR data for modelling to ensure that it was fit for purpose.

2.2.1 Deflation

Some aged care providers report their ACFR data on a calendar year (1 January 2023 to 31 December 2023) rather than a financial year (1 July 2022 to 30 June 2023) basis. IHACPA deflated costs for services reporting their ACFR on a calendar year basis by removing inflation and other cost increases to align all costs to the 2022–23 financial year.

This consisted of 3 steps:

a. exclusion of Aged Care Work Value Case Stage 2 decision to increase wages for direct care workers, recreational activities/lifestyle officers and head chefs/cooks effective 30 June 2023
b. exclusion of the superannuation guarantee increase effective 1 July 2023
c. deflation of labour and non-labour costs from the 2023 calendar year to the 2022–23 financial year.

Aged Care Work Value Case Stage 2 decision

The Aged Care Work Value Case Stage 2 decision increased minimum wages for various aged care workers by 15% effective 30 June 2023. IHACPA adjusted relevant labour costs by the amounts stipulated in Table 1. Refer to section 4.3.4 for further details on the adjustment applied.

Table 1: Aged Care Work Value Case Stage 2 decision adjustment

Labour cost component	Stage 2 decision adjustment
Registered nurses (RN), enrolled nurses (EN)	11.41%
Care management	5.67%
Personal care workers (PCW), assistants in nursing (AIN), recreational activities/lifestyle officers, head chefs/cooks*	15.00%
Allied health, other care, hotel (except head checks/cooks), administration	-

* One per service.

Superannuation guarantee increase

The superannuation guarantee increased from 10.5% to 11.0% on 1 July 2023. IHACPA adjusted the superannuation component of labour costs by $\frac{1.110}{1.105} - 1 = 0.45\%$ to reflect this increase, using the methodology described in section 4.3.4.

Labour cost indexation

Consistent with sections 4.3.4 and 5.2.2, IHACPA assumed the following indexation rates when deflating labour costs.

Table 2: Labour cost indexation rates

Labour cost component	Indexation rate
Direct care	3.61%
Hotel, maintenance, administration	5.75%

Application – adjusting labour costs

To align labour costs for services reporting costs for the 2023 calendar year to the 2022–23 financial year, IHACPA adjusted labour costs over the 184 days costs between 1 July 2023 and 31 December 2023 for the impact of the Aged Care Work Value Case Stage 2 decision, superannuation guarantee increase, and indexation.

Each labour cost component was adjusted as follows:

$$\text{financial year cost} = \frac{365 \times \text{calendar year cost}}{365 + 184\ [\ (1 + \text{Stage 2 decision adjustment}) \times (1 + 0.45\%) \times (1 + \text{labour indexation rate}) - 1\ ]}$$

where the Stage 2 decision adjustment and labour indexation rates are as given in Table 1 and Table 2.

Non-labour cost indexation

IHACPA constructed indexes from relevant CPI groups, sub-groups and expenditure classes weighted by direct care, hotel, maintenance and associated administration non-labour costs reported in the ACFR to measure inflation of non-labour costs in residential aged care. The methodology for constructing the non-labour cost indexes and deriving the annualised indexation

rates for care, hotel and maintenance costs is detailed in sections 4.4 and 5.2.3. The indexation rates are given in Table 3.

Table 3: Non-labour cost indexation rates

Non-labour cost component	Indexation rate*
Direct care (including associated administration costs)	4.77%
Hotel (including associated administration costs)	6.03%
Maintenance	4.72%

* The indexation rates presented in Table 3 differ from the rates in sections 4.4 and 5.2.3 as the cost proportions used to derive these indexes only include providers reporting costs on a financial year basis.

Application – adjusting non-labour costs

IHACPA adjusted non-labour costs to remove 184 days of inflation for providers reporting their ACFR on a calendar year basis as follows:

$$\text{financial year cost} = \frac{\text{calendar year cost}}{(1 + \text{non-labour indexation rate})^{\frac{184}{365}}}.$$

Application – adjusting hotel revenue

IHACPA deflated hotel revenue for services reporting their ACFR on a calendar year basis by the ratio of the weighted average basic daily fee (BDF) paid over the 2022–23 financial year ($56.98) to the weighted average BDF paid during the 2023 calendar year ($59.06):

$$\text{financial year revenue} = \text{calendar year revenue} \times \frac{\$56.98}{\$59.06}.$$

This adjustment was applied to all components of hotel revenue.

2.2.2 Data adjustments

Duplicate service IDs

In cases where a residential aged care service changes ownership during the year, 2 ACFRs may be submitted each covering part of the financial year. For such services, IHACPA aggregated costs, hours, and bed days into a single record for each unique service ID.

Adjustments to bed days

IHACPA identified anomalies in the number of occupied bed days (OBDs) and available bed days (ABDs) reported in the ACFR for some services, whereby reported values differed significantly from alternative data sources.

IHACPA cross-checked the OBDs against claim days from AN-ACC payments between 1 October 2022 to 30 June 2023 (scaled up by 365/273 to reflect a full year of data) for services that reported their ACFR data on a financial year basis and payments between 1 January 2023 to 31 December 2023 for services that reported their ACFR data on a calendar year basis. IHACPA checked ABDs against residential places from the 30 June 2023 AIHW GEN aged care service list (multiplied by 365). Services were flagged if bed days from these alternative sources differed by more than ±10% compared to the ACFR.

In some cases, IHACPA was able to identify the cause of the reporting error, for example, services that reported operational places instead of OBDs, or the number of unoccupied places instead of ABDs. For these services, IHACPA applied a series of business rules to correct the reported bed days and maximise the ACFR sample as listed in Table 4.

Table 4: Summary of adjustments to care days

Reporting error	Rule	Treatment	Number of services
1. Operational places reported instead of ABDs	ABDs outside ±10% threshold AND ABDs less than or equal to residential places	ABDs multiplied by 365	7
2. Occupied places reported instead of OBDs	OBDs outside ±10% threshold AND OBDs less than or equal to residential places	OBDs multiplied by 365	1
3. Unoccupied bed days reported instead of ABDs	ABDs outside ±10% threshold AND Sum of OBDs and ABDs divided by 365 equal to the number of residential places or approved places	ABDs set to the reported ABDs plus OBDs	2
4. ABDs and OBDs swapped	ABDs outside ±10% threshold AND OBDs outside ±10% threshold AND OBDs are greater than ABDs AND ABDs is greater than 730 (assuming a minimum of 2 operational places per service throughout the year)	ABDs and OBDs swapped	15
Total			**24***

* 1 service required multiple bed day adjustments.

2.2.3 Supplementary data

New entrants

IHACPA counted the number of initial entry adjustment payments for each service ID between 1 October 2022 and 30 June 2023 from the 2022–23 AN-ACC claims data. The number of new entrants was scaled up by 365/273 to reflect a full year of data and merged onto the ACFR.

Resident casemix

IHACPA determined the casemix profile (that is, the composition of AN-ACC classes of care recipients) for each service from the AN-ACC claims data. For each service and AN-ACC class, IHACPA divided the total subsidy paid between 1 October 2022 and 30 June 2023 by the relevant AN-ACC daily subsidy. IHACPA then calculated the proportion of residents by AN-ACC class and merged this onto the ACFR.

2.2.4 Trimming

Following the data adjustments, IHACPA applied 2 sets of trimming rules to the ACFR. First, several rules were applied to exclude erroneous reporting, as summarised in Table 5.

Table 5: Errors identified in the ACFR

Rule	Records for care costs	Records for hotel costs and revenue
Original ACFR dataset	**2,655**	**2,655**
1. Service did not report OBDs and/or ABDs	-8	-8
2. Unknown casemix during FY2022-23 (excluding Q1)	-4	-4
3. Service was not listed on the GPMS or GEN service list	-12	-12
4. OBDs reported are not within 10% of claim days (after bed day adjustments)	-156	-156
5. ABDs reported are not within 10% of residential places for remote services (after bed day adjustments)	-4	N/A
6. Service reported zero RN or (EN or PCW) costs	-	N/A
7. Labour costs are reported with zero care hours, or care hours reported with zero cost	-1	N/A
8. Negative aggregate values reported for at least one care component (labour costs, resident expenses, total care expenses, total administration expenses)	-1	N/A
9. Negative aggregate values reported for at least one hotel component (administration, catering, cleaning, laundry, other hotel, maintenance)	N/A	-5
10. Negative hotel income reported	N/A	-
Cleansed ACFR dataset	**2,469**	**2,470**

IHACPA applied further trimming rules to identify and exclude services subject to non-compliance decisions by the ACQSC, as well as low- and high-cost outliers. The trimming rules and their impact on the ACFR sample are summarised in Table 6.

Table 6: Summary of ACFR trimming rules

Trimming rule	Records for care costs	Records for hotel costs and revenue
Cleansed ACFR dataset	**2,469**	**2,470**
1. Service had a sanction imposed by the ACQSC in 2022–23	-10	-10
2. Service received a notice of requirement to agree from the ACQSC in 2022–23	-16	-16
3. Service received a non-compliance notice from the ACQSC in 2022–23	-77	-77
4. Service received a notice to remedy from the ACQSC in 2022–23	-40	-40
5. Service received an overall star rating of less than 3 stars in May 2023	-72	-71
6. RN cost per hour less than minimum award rate plus 10% superannuation and 20% on-costs	-6	N/A
7. EN cost per hour less than minimum award rate plus 10% superannuation and 20% on-costs	-39	N/A
8. PCW cost per hour less than minimum award rate plus 10% superannuation and 20% on-costs	-10	N/A
9. RN cost per hour more than the upper bound*	-	N/A
10. EN cost per hour more than the upper bound*	-9	N/A
11. PCW cost per hour more than the upper bound*	-5	N/A
12. Total care labour cost per OBD more than the upper bound*	-3	N/A
13. Consumables cost per OBD more than the upper bound*	-7	N/A
14. Other care costs per OBD more than the upper bound*	-3	N/A
15. Administration cost per OBD more than the upper bound*	-15	N/A
16. Administration cost per OBD more than the upper bound*	N/A	-22
17. Catering cost per OBD more than the upper bound*	N/A	-5
18. Cleaning cost per OBD more than the upper bound*	N/A	-5
19. Laundry hotel cost per OBD more than the upper bound*	N/A	-11
20. Other cost per OBD more than the upper bound*	N/A	-2
21. Maintenance cost per OBD more than the upper bound*	N/A	-2
22. Reported BDF less than 95% of the BDF rate as at 1 July 2022	N/A	-109
23. Reported BDF more than 105% of the BDF rate as at 30 June 2023	N/A	-125
Final trimmed ACFR dataset	**2,157**	**1,975**

* High-cost outliers were identified from the distribution of costs observed using a quantile-quantile plot.

2.2.5 Adjustment for care minutes responsibility

From 1 October 2024, the care minutes responsibility is set at a sector-wide average of 215 minutes per OBD, including 44 minutes of RN care. IHACPA adjusted the labour costs in the ACFR in recognition that the care minutes responsibility was not mandated in 2022–23, and that the labour costs reported in the ACFR may not be representative of the costs that would have been incurred had the care minutes responsibility been mandated. In making this adjustment, IHACPA used the

care minutes responsibility by AN-ACC class applicable from 1 October 2025, as provided by the department.

From 1 October 2024, approved providers are able to meet up to 10% of their registered nurse care minutes responsibility with care time delivered by enrolled nurses[1]. For RACPA25, in line with government policy, IHACPA has assumed that 100% of the registered nurse care minutes responsibility continues to be delivered by registered nurses.

This adjustment used the occupied bed days OBD_s, and the following care expenses from the ACFR:

- RN labour cost (C_R)
- EN labour cost (C_E)
- PCW labour cost (C_P)
- RN labour hours (H_R)
- EN labour hours (H_E)
- PCW labour hours (H_P).

For each residential aged care service, IHACPA calculated the RN care minutes responsibility per OBD, denoted $M_{R,D}^T$, and the total direct (including RNs, ENs and PCWs) care minutes responsibility per OBD, denoted $M_{L,D}^T$, based on the casemix and care minute allocations by AN-ACC class as given in the Care minutes responsibility – Guide for residential aged care providers.

The average actual RN care minutes per OBD $M_{R,D}$, was calculated as:

$$M_{R,D} = \frac{60 \times H_R}{\mathrm{OBD_s}}.$$

The average EN and PCW care minutes per OBD, denoted $M_{E,D}$ and $M_{P,D}$ respectively, were calculated similarly.

The care minute adjustment to the ACFR data was implemented in 4 steps. For each service in the ACFR, IHACPA:

a. identified the increase required in RN care minutes per OBD, if any, for the RN care minutes to be at least $M_{R,D}^T$
b. inflated both RN care minutes and RN labour cost by the factor identified in (a)
c. identified the increase required in residual (EN and PCW), care minutes, if any, for the total care minutes to be at least $M_{L,D}^T$ minutes
d. inflated the residual care minutes and costs (after accounting for step (b) above) by the factor identified in (c).

These steps were accomplished as follows. k_R was defined to be the increase required for RN care minutes to be at least $M_{R,D}^T$ minutes. That is:

$$k_R = \max\left(1, \frac{M_{R,D}^T}{M_{R,D}}\right).$$

[1] Refer to section 4.5.1 of the Care minutes responsibility – Guide for residential aged care providers.

Then the imputed RN care minutes per OBD were calculated as $M_{R,D}^{'} = k_R M_{R,D}$, or:

$$M_{R,D}^{'} = k_R M_{R,D} = \begin{cases} M_{R,D} & \text{if } M_{R,D} \geq M_{R,D}^{T}, \\ M_{R,D}^{T} & \text{otherwise.} \end{cases}$$

Similarly, the imputed RN labour cost was calculated as $C_R^{'} = k_R C_R$.

The required increase in residual care minutes k_L was then calculated as:

$$k_L = \max\left(1, \frac{M_{L,D}^{T} - M_{R,D}^{'}}{M_{E,D} + M_{P,D}}\right).$$

Note that if $M_{R,D}^{'} + M_{E,D} + M_{P,D} \geq M_{L,D}^{T}$, then $k_L = 1$. The imputed EN and PCW care minutes per OBD were than calculated as $M_{E,D}^{'} = k_L M_{E,D}$ and $M_{P,D}^{'} = k_L M_{P,D}$.

Similarly, the imputed EN and PCW labour costs were calculated as $C_E^{'} = k_L C_E$ and $C_P^{'} = k_L C_P$.

The impact of the adjustments to RN and total direct care costs for the services in the trimmed ACFR is shown in Table 7. The total additional cost to meet the mandatory care minute requirements applicable from 1 October 2025 is $1,388.4 million compared to what was reported in the ACFR.

Table 7: Effect of 1 October 2025 care minutes responsibility on labour costs in the ACFR

	Service count	Additional cost (compared to ACFR)
Registered nurses		
Services meeting care minutes responsibility	492	-
Services not meeting care minutes responsibility	1,665	$691.6m
Total direct care (after RN adjustment)		
Services meeting care minutes responsibility	694	-
Services not meeting care minutes responsibility	1,463	$696.8m
Total*		**$1,388.4m**

* Components may not add due to rounding.

For all aspects of the RACPA25 calculations hereafter, the imputed RN cost ($C_R^{'}$) and care minutes ($M_{R,D}^{'}$), imputed EN cost ($C_E^{'}$) and care minutes ($M_{E,D}^{'}$) and imputed PCW cost ($C_P^{'}$) and care minutes ($M_{P,D}^{'}$) are used in place of their source counterparts reported in the ACFR.

2.2.6 In-scope costs

After adjusting for the additional cost to meet the mandated care minute requirements, IHACPA calculated the total in-scope care cost for funding under AN-ACC as the final step in preparing the ACFR data for modelling.

Administration costs

IHACPA apportioned administration costs reported in the ACFR, excluding payroll tax, between the care, hotel, and accommodation expense streams for each service using the allocation methodology shown in Table 8.

Table 8: Allocation of administration costs

ACFR cost category	Care	Hotel	Accommodation
Corporate recharge	Care proportion of total expenses*	Hotel proportion of total expenses*	Accommodation proportion of total expenses*
Administration employee labour costs, WorkCover premium for administration staff, Fringe benefits tax, Quality, compliance and training external costs, Insurance, Other administration costs	-	50%	50%

* Total expenses are the summation of care, hotel and accommodation expenses.

The portion of administration costs allocated to care were considered in-scope for modelling costs funded under AN-ACC.

Care supplements

In addition to AN-ACC subsidies, the Australian Government pays a range of supplements to cover the cost of meeting specific care needs. For people living in residential aged care, the enteral feeding, oxygen, and veterans' supplements assist with covering specific care costs.

IHACPA calculated the total enteral feeding, oxygen, and veterans' supplements by service from the 2022–23 AN-ACC claims data (9 months of data from 1 October 2022 to 30 June 2023). The total supplement value was then scaled up by 365/273 to be equivalent to a full year of data.

The value of care supplements was subtracted from the total in-scope cost to ensure that the modelled costs reflect the component of care funded through the AN-ACC funding model.

Total in-scope cost

IHACPA calculated total in-scope cost for each service from the ACFR as the total care cost excluding payroll tax, plus associated administration costs, minus the value of care supplements. In calculating the total care cost, IHACPA used the escalated labour costs calculated in section 2.2.5 after adjusting for the care minutes responsibility.

2.3 Residential Aged Care Cost Collections

The RACCS and RACCC datasets reported the care, hotel, accommodation, and administrative overhead costs for each participating resident for each day in the data collection period, broken down into various labour and non-labour cost categories.

A series of data cleaning rules were applied in preparing the costed dataset, which are detailed in section 7.1.2 of the RACCS final report. Similar rules were applied to the RACCC dataset.

2.3.1 Indexation

Labour and non-labour costs in RACCS and RACCC were sourced from various QFRs and ACFRs as detailed in Table 9.

Table 9: Data sources for RACCS and RACCC

Cost category	RACCS	RACCC
Labour costs	Q3 2022–23 QFR (single quarter)	Cumulative Q1, Q2 and Q3 2023–24 QFR
Non-labour costs	ACFR 2021–22	ACFR 2022–23, indexed to 2023–24 by 6.03%*

* Based on the change in the *All groups* CPI between June 2022 (126.1) and June 2023 (133.7), i.e. 133.7/126.1-1=6.03%.

As costs were sourced from various data sources across different periods, IHACPA applied indexation and adjustments to align costs to Q2 2023–24.

Table 10: Indexation applied to RACCS and RACCC care costs

Dataset	Cost category	Deflation rate	Stage 2 decision adjustment*	Superannuation guarantee adjustment*	Indexation rate^
			Labour costs		
RACCS	RNs, ENs	-	11.41%	0.45%	3.61%
	PCWs, AINs, recreational activities/ lifestyle officers	-	15.00%	0.45%	3.61%
	Allied health, other staff	-	-	0.45%	3.61%
RACCC	All labour costs	-	-	-	-
			Non-labour costs		
RACCS	All non-labour costs	-	-	-	9.19%
RACCC	All non-labour costs	6.03%⁺	-	-	4.19%

* Refer to section 4.3.4 for derivation of Stage 2 decision adjustment and superannuation guarantee adjustment.
^ Refer to section 4.3.4 for derivation of labour indexation rates. Non-labour indexation rates for RACCS and RACCC were calculated using the annualised rate of 4.80% (derived in section 4.4) applied for 1.877 and 0.877 years respectively.
⁺ Non-labour costs in RACCC were indexed by the change in *All groups CPI*. As this was higher than IHACPA's annualised non-labour indexation rate, IHACPA deflated these costs then re-indexed them using the calculated non-labour indexation rate by 0.877 years.

For each cost category, IHCAPA calculated the indexed cost as:

$$\text{indexed cost} = \text{reported cost} \times \frac{(1 + \text{Stage 2 decision adjustment}) \times (1 + \text{superannuation guarantee adjustment}) \times (1 + \text{indexation rate})}{(1 + \text{deflation rate})}.$$

2.3.2 Trimming

IHACPA applied additional trimming rules to the RACCS and RACCC datasets to prepare them for modelling. The impact of the trimming rules on the RACCS and RACCC samples is shown in Table 11.

Table 11: Summary of RACCS and RACCC trimming

Trimming rule	RACCS records	RACCC records
Untrimmed dataset	**136,119**	**70,985**
1. Services captured in both costing studies	-5,003	-1,676
2. Missing, null or duplicated Aged Care ID	-	-1,007
3. Resident missing AN-ACC class	-1,243	-1,925
4. Zero in-scope costs	-849	-21
5. Service had a sanction imposed by the ACQSC*	-	-
6. Service received a notice of requirement to agree from the ACQSC*	-	-
7. Service received a non-compliance notice from the ACQSC*	-4,749	-
8. Service received a notice to remedy from the ACQSC*	-3,209	-
9. Service received an overall star rating of less than 3 stars in the relevant period^	-1,908	-
Trimmed dataset	**119,158**	**66,356**

* As reported in the ACQSC non-compliance decision log in 2022–23 (RACCS) or 2023–24 (RACCC).
^ Overall star rating as at May 2023, August 2023 or December 2023 for RACCS, or July 2024 or November 2024 for RACCC, to align with the collection period for each service.

2.3.3 In-scope costs

All care cost categories and associated overheads in the RACCS and RACCC datasets, excluding payroll tax, were considered in-scope for IHACPA's advice on the recommended AN-ACC price and AN-ACC price weights.

Individual and shared care costs

Care costs reported in RACCS and RACCC were split into individual and shared components to model the average cost of each AN-ACC class and BCT category respectively. The allocation of these costs was informed by the Resource Utilisation and Classification Study[2], as shown in Table 12.

Table 12: RACCS and RACCC care cost allocation

Cost category	Individual care costs	Shared care costs
Labour costs		
RNs, ENs, PCWs, AINs, allied health, recreational activities/lifestyle officers	50%	50%
Other staff (including care management)	-	100%
Non-labour costs		
Medical supplies, incontinence supplies, nutritional supplies, oral health supplies, other resident services, consumables	100%	-
Pastoral care	50%	50%

[2] See Table 3.1 in Report 7.

IHACPA calculated the total shared care cost per service per day using the proportions in Table 12 and split this evenly across all residents within that service. The residual cost for each OBD was taken to be the individual (AN-ACC) component.

Note the proportions in Table 12 represent the allocation of costs at a service level and thus the allocation will vary for individual residents depending on the complexity of their care needs.

Overhead allocation

In the RACCS dataset, overheads (defined as other direct care costs and the care component of administration expenses) were allocated across each labour and non-labour cost category proportional to expenditure. These overhead costs were then allocated between individual and shared components using the same methodology as the underlying care costs.

Conversely, overheads were reported in aggregate in the RACCC dataset. For each record, IHACPA calculated the proportion of total direct care costs attributable to direct care labour (RN, EN, PCW, AIN, allied health and recreational activities/lifestyle officer labour costs), other labour plus pastoral care, and non-labour costs. Overheads were allocated between the 3 categories proportional to expenditure then separated into individual and shared components, assuming direct care labour overheads were 50% individual and 50% shared, other labour overheads were 100% shared and non-labour overheads were 100% individual.

For records that did not have any direct care costs, it was assumed that the resident was on leave, and all overheads were allocated to the shared component.

2.3.4 Adjustments to in-scope costs

Adjustment for care minutes responsibility

Consistent with the adjustment applied to labour costs in the ACFR detailed in section 2.2.5, IHACPA calculated the care minutes responsibility for each service in RACCS and RACCC based on their resident casemix from the AN-ACC claims data over the same period that labour costs were sourced from and care minutes responsibility by AN-ACC class effective 1 October 2025. IHACPA then compared the care minutes responsibility for each service to the delivered RN, EN and PCW care minutes sourced from the relevant QFRs, and adjusted labour costs to reflect the cost of meeting the care minute requirement.

Note that the care minute adjustment was calculated at the service level not resident level, that is, the RN, EN and PCW labour costs were scaled up by the same factor for all residents within a given service rather than separately for each AN-ACC class.

Across RACCS and RACCC, there were 104 services not meeting their RN care minutes responsibility and 91 not meeting their overall care minutes responsibility. The overall impact of the care minute adjustments was a 10.59% increase in the total in-scope costs across all services in RACCS and RACCC.

24/7 RN adjustment

From 1 July 2023, small residential aged care services have been eligible for the 24/7 RN supplement to cover costs associated with meeting the 24/7 RN requirement not otherwise covered by the care minute responsibility. There were 18 services in RACCC that received the 24/7 RN

supplement during Q1, Q2 or Q3 2023–24. IHACPA applied an adjustment to RN costs in the RACCC to avoid double counting costs funded through the supplement for these services.

For each service, IHACPA calculated the total value of the 24/7 RN supplement paid from the Q1, Q2 and Q3 2023–24 AN-ACC claims data and the total RN labour costs from the Q1, Q2 and Q3 2023–24 QFRs (after adjusting for the care minute responsibility). RN costs were then adjusted for each record as follows:

$$\text{adjusted RN cost} = \text{RN cost} \times \left(1 - \frac{\text{24/7 RN supplement}}{\text{QFR RN cost}}\right).$$

For services receiving the 24/7 RN supplement, this adjustment resulted in a 20.66% decrease in RN costs, representing a 1.40% decrease in the total in-scope costs across all services in RACCC.

Care supplements

Costing study participants receiving enteral feeding, oxygen and veterans' supplements were identified from the 2022–23 and 2023–24 AN-ACC claims data. Analogous to the treatment in the ACFR, IHACPA subtracted the value of any care supplements received in 2023–24 dollars from the daily individual care cost of these residents to ensure that the modelled cost reflected the component of care funded through the AN-ACC funding model.

Care supplements represented 0.05% of the total in-scope costs in the trimmed RACCS and RACCC samples.

2.3.5 Sample weighting

The sample of participating residents in RACCS and RACCC represented 3.23% of all people living in residential aged care in Australia and 5.30% of residential aged care services. To account for potential sample selection issues and ensure the sample was representative of the population, IHACPA applied sample to population weights. Weights were calculated to align the representativeness of the sample across several categories: Modified Monash (MM), jurisdiction, service size, provider type, specialisation, and occupancy rate.

Sample weights were calculated using the steps outlined below.

Population dataset

IHACPA constructed a reference dataset containing a list of all residential aged care services that were operational during Q4 2023–24 and characteristics of those services. The list of data sources used to construct this dataset and the relevant variables are shown in Table 13.

Table 13: Data sources used to construct population dataset

Source	Variables Used
QFR 2023–24	NAPS service ID, service name, NAPS provider ID, provider name, OBDs, ABDs
NAPS service list	NAPS service ID, MM, jurisdiction, provider type, BCT category, status
GEN aged care service list	Service name, MM, jurisdiction, provider type
Co-located facilities list	NAPS service ID, co-located group ID

IHACPA used the QFR to identify services that were operational during Q4 2023–24. Services that appeared in other data sources that had not submitted a QFR in Q4 2023–24 were removed.

Services that were identified as co-located were aggregated and treated as a single facility for the purpose of sample to population weighting.

Service sizes were defined using the number of ABDs in the Q4 QFR 2023–24 divided by 91 as a proxy for the number of operational places. Small services were defined as those with 1-50 places, medium as those with 51-100 places and large as those with more than 100 places.

Occupancy rates were defined as the number of OBDs divided by the number of ABDs reported in the Q4 QFR 2023–24 and grouped into services with low (<80%), medium (80-90%) and high (≥90%) occupancy.

Iterative proportional fitting

IHACPA used an iterative proportional fitting (also known as raking) method to weight OBDs in the RACCS and RACCC samples to reflect the true characteristics of residents in the population.

Due to sample size limitations, some MM classifications and jurisdictions were aggregated together before calculating the sample weights. A list of service characteristics and groupings is presented in Table 14.

Table 14: Service characteristics

Characteristic	Levels of variable used for weighting
MM	1, 2, 3, 4, 5, 6/7
Jurisdiction	ACT/NSW, VIC, QLD, WA, SA, NT/TAS
Size	Small (≤50 operational places), medium (51-100 operational places), large (>100 operational places)
Provider type	Government, not for profit, for profit
Specialisation*	Homeless, non-specialised
Occupancy rate	Low (<80%), medium (80-90%), high (≥90%)

* No specialised Aboriginal or Torres Strait Islander services participated in the RACCS or RACCC.

Sample to population weights were calculated by comparing the number of OBDs in the RACCS and RACCC to the total number of OBDs reported in the Q4 2023–24 QFR for services with any given level of a characteristic. Sample weights were adjusted iteratively until the sum of sample weights matched the population distribution, with a tolerance of one bed day for any given level of a characteristic.

2.4 Quarterly Financial Report 2022–23 and 2023–24

The QFR reports residential care labour costs and hours on a quarterly basis. IHACPA used the QFR to assess the impact of Fair Work Commission work value case decisions on labour costs.

2.4.1 Trimming

The trimming rules that IHACPA used to prepare QFR data are outlined in Table 15. Trimming rules were aligned as closely as possible to the ACFR.

Table 15: Errors identified and trimming rules applied to QFR datasets

Rule	2022–23 quarter 2	2023–24 quarter 2
Original QFR dataset	**2,667**	**2,618**
1. Service reported zero RN or (EN or PCW) costs	-7	-9
2. Labour costs are reported with zero care hours, or care hours reported with zero labour cost	-1	-2
Cleansed QFR dataset	**2,659**	**2,607**
3. Service had a sanction imposed by the ACQSC	-11	-2
4. Service received a notice of requirement to agree from the ACQSC	-22	-3
5. Service received a non-compliance notice from the ACQSC	-85	-
6. Service received a notice to remedy from the ACQSC	-43	-25
7. RN cost per hour less than the minimum award rate plus 10% superannuation and 20% on-costs	-7	-7
8. EN cost per hour less than the minimum award rate plus 10% superannuation and 20% on-costs	-59	-49
9. PCW cost per hour less than the minimum award rate plus 10% superannuation and 20% on-costs	-21	-33
10. Care management cost per hour less than the minimum award rate plus 10% superannuation and 20% on-costs	-90	-88
11. RN cost per hour more than the upper bound*	-	-
12. EN cost per hour more than the upper bound*	-11	-3
13. PCW cost per hour of labour more than the upper bound*	-4	-2
14. Care management cost per hour more than the upper bound*	-19	-14
Trimmed QFR dataset	**2,287**	**2,381**

* High-cost outliers were identified from the distribution of costs observed using a quantile-quantile plot.

3 Pricing model

3.1 Overview

The RACPA25 pricing model is used to derive the recommended AN-ACC price and price weights for each AN-ACC class and BCT category and is based on cost and activity data from the RACCS, RACCC and ACFR.

IHACPA used cost and activity data from the RACCS and RACCC to determine the relative costs of care for each AN-ACC class and BCT category. These costs were calibrated to the ACFR to ensure that the total modelled cost equalled the total actual cost across all services in the trimmed ACFR and to derive the reference cost.

The pricing model consists of the following steps:

- base cost model, to determine the relative costs of care for each AN-ACC class and BCT category
- derivation of the reference cost, which is the average cost per NWAU
- calibration of the cost model to the ACFR
- calculation and stabilisation of price weights, limiting the movement in any given AN-ACC class to ± 20% of the previous year's weight when rounded and any given BCT category weight to ± 5% of the previous year's weight when rounded
- indexation, to inflate the modelled costs to a level reflective of the estimated cost of delivering residential aged care services in 2025–26.

In this document, the 2022–23 AN-ACC price weights are referred to as NWAU22, the 2024–25 AN-ACC price weights are referred to as NWAU24, and the recommended price weights for 2025–26 are referred to as NWAU25.

3.2 Base cost model

IHACPA used the trimmed RACCS and RACCC dataset containing 185,514 records from section 2.3 to model the average cost of care per OBD for each AN-ACC class and BCT category.

3.2.1 Individual cost model

IHACPA performed a multiple weighted linear regression to estimate the average individual care cost per OBD for each AN-ACC class a, using the sample weights described in section 2.3.5.

The model took the form:

$$\text{individual care cost}_x = \alpha_a + \varepsilon_x$$

where:

- $\text{individual care cost}_x$ is the individual care cost for OBD x in AN-ACC class a
- α_a is the average individual care cost for AN-ACC class a (modelled cost)
- ε_x is the error term.

Note that the regression model uses the individual care cost per OBD, meaning that each participating resident contributed up to 30 data points depending on the number of days they participated in RACCS and RACCC.

Permanent classes with insufficient data

AN-ACC classes 1, 98 and 99 had limited coverage in the RACCS and RACCC samples. Therefore, IHACPA pegged these classes to other classes with the same NWAU24 price weights.

For example, the average cost for AN-ACC class 1 was set to the modelled average cost for AN-ACC class 13.

Table 16: Pegged permanent classes

AN-ACC class	Pegged to class
Class 1, Class 98	Class 13
Class 99	Class 8

Respite classes with insufficient data

There were a limited number of independently mobile residents in residential respite care that participated in the RACCS and RACCC. Due to the small sample size, IHACPA calculated a weighted average for respite class 101 using relativities to permanent classes 2 and 3 (independently mobile without and with compounding factors).

IHACPA calculated the weighted average NWAU24 price weight for independently mobile residents as:

$$\overline{\text{NWAU}_{\text{independently mobile}}} = \frac{\text{NWAU}_2 \times n_2 + \text{NWAU}_3 \times n_3}{n_2 + n_3}$$

where:

- $\overline{\text{NWAU}_{\text{independently mobile}}}$ is the weighted average NWAU24 price weight across the independently mobile permanent AN-ACC classes
- NWAU_a is the NWAU24 price weight for AN-ACC class a
- n_a is the total number of residents in AN-ACC class a using the casemix calculated in section 2.2.3.

This calculation was similarly repeated to determine the weighted average individual care cost per OBD:

$$\overline{\alpha_{\text{independently mobile}}} = \frac{\alpha_2 \times n_2 + \alpha_3 \times n_3}{n_2 + n_3}$$

where:

- $\overline{\alpha_{\text{independently mobile}}}$ is the weighted average modelled individual care cost across the independently mobile permanent AN-ACC classes
- α_a is the modelled individual care cost per day for residents in AN-ACC class a.

The modelled individual care cost for respite class 101 was then calculated as:

$$\alpha_{101} = \frac{\text{NWAU}_{101}}{\text{NWAU}_{\text{independently mobile}}} \times \overline{\alpha_{\text{independently mobile}}}.$$

Respite class 100, the default class for residents entering respite care, was pegged to class 102, as they have the same NWAU24 price weights.

3.2.2 Shared care cost

Analogous to the method used for individual care costs, IHACPA modelled the average shared cost β_b per OBD for each BCT category b using weighted multiple linear regression:

$$\text{shared care cost}_x = \beta_b + \varepsilon_x \,.$$

Insufficient data was collected in the RACCS and RACCC to estimate the average shared care cost for BCT categories 1, 2 or 3. This is addressed later in section 3.4.2.

3.3 Derivation of a reference cost

After IHACPA estimated the average cost for each AN-ACC class and BCT category, the next step was the derivation of a reference cost per NWAU. The reference cost forms the basis for the recommended AN-ACC price and is used to convert the average cost parameters to price weights.

IHACPA calculated the reference cost using the total in-scope cost in the trimmed ACFR as defined in section 2.2.6 divided by the total NWAU22 for 2022–23. This is to ensure that the total NWAU remains constant over time, and changes in the reference cost reflect changes in unit costs, excluding any influence of underlying changes in activity over time (whether that be casemix, service BCT categories or the number of recipients of initial entry adjustment payments).

Note that the total NWAU22 for 2022–23 was calculated based on the BCT category definitions and AN-ACC and BCT price weights effective between 1 October 2022 and 30 June 2023.

3.3.1 Total NWAU

The total NWAU for each service in 2022–23 comprises the sum of the NWAU22 from the individual (AN-ACC) and shared (BCT) components, plus any initial entry adjustment payments.

AN-ACC component

To calculate the total AN-ACC component NWAU22, the number of OBDs in 2022–23 per AN-ACC class was required for each service. Since this breakdown is not reported in the ACFR, it was estimated using the service casemix from the AN-ACC claims data and total OBDs in the ACFR.

For each service s, the proportion of residents in each AN-ACC class a was multiplied by the number of OBDs reported in the ACFR. The resulting estimates of the number of OBDs in each AN-ACC class were multiplied by the NWAU22 price weights to get the total AN-ACC component NWAU22 in 2022–23:

$$\text{ANACC NWAU}_s = \sum_a P_{s,a} \times \text{OBD}_s \times \text{NWAU}_a$$

where:

- ANACC NWAU_s is the total AN-ACC component NWAU22 for service s in 2022–23
- $P_{s,a}$ is the proportion of residents in service s in AN-ACC class a
- OBD_s is the number of occupied bed days in service s
- NWAU_a is the NWAU22 price weight for AN-ACC class a.

BCT component

The BCT component NWAU22 for a service is dependent on the BCT category and either the number of OBDs or ABDs, depending on whether the service is funded based on occupied or operational places. The number of bed days for service s in BCT b was defined as follows:

$$D_{s,b} = \begin{cases} \text{OBD}_s, & \text{BCT} = 4,5,6,7 \\ \text{ABD}_s, & \text{BCT} = 1,2 \\ \min(\text{ABD}_s, 29 \times 365), & \text{BCT} = 3\text{H} \\ \max(\text{ABD}_s - 29 \times 365, 0), & \text{BCT} = 3\text{L} \end{cases}$$

where:

- $D_{s,b}$ is the number of bed days allocated to BCT category b in service s
- OBD_s is the number of occupied bed days in service s
- ABD_s is the number of available bed days in service s.

Analogous to the calculation above for AN-ACC component NWAU22, IHACPA multiplied the number of OBDs or ABDs by the NWAU22 price weights to get the total BCT component NWAU22 for each service in 2022–23:

$$\text{BCT NWAU}_s = \sum_b D_{s,b} \times \text{NWAU}_b$$

where:

- BCT NWAU_s is the total BCT component NWAU22 for service s in 2022–23
- NWAU_b is the NWAU22 price weight for BCT category b.

Initial entry adjustment

An initial entry adjustment of 5.28 NWAU is payable when a new resident enters permanent care to cover the costs associated with this transition. In the absence of reliable data to understand the costs associated with new residents entering permanent care, IHACPA retained the existing initial entry adjustment price weight.

The total number of new entrants from section 2.2.3 was multiplied by 5.28 to calculate the total NWAU attributable to initial entry adjustment payments over the 2022–23 year.

3.3.2 Reference cost

To calculate the average cost per NWAU, also known as the reference cost, IHACPA divided the total in-scope cost after adjusting for the cost of meeting the care minute responsibility ($13,127m) by the total NWAU22 (59.26m) across all services in the trimmed ACFR. This results in an average cost per NWAU of **$221.50** in 2022–23.

By design, the total NWAU is constant when the NWAU22 and NWAU25 price weights are applied to the population. NWAU may be reallocated between AN-ACC classes and BCT categories to reflect changes in the relative costs of care, however there is no impact on the total NWAU across all residents and residential aged care services.

3.4 Cost calibration

Given the average cost for each AN-ACC class and BCT category were calculated from the RACCS and RACCC representing only a sample of the population, a recalibration step was required to ensure that the total modelled cost equalled the actual in-scope cost when applied to the full population in the ACFR.

3.4.1 Services funded based on occupied places (BCTs 4, 5, 6 and 7)

There was insufficient data in RACCS and RACCC to model the costs for BCT categories 1, 2 and 3. Therefore, the model was initially calibrated to the subset of services in BCT categories 4, 5, 6 and 7. The treatment of BCT 1, 2 and 3 is discussed in section 3.4.2.

In-scope cost

As discussed in section 3.3.1, IHACPA retained the existing price weight for the initial entry adjustment payment. Therefore, the costs relating to new entrants were excluded before the model calibration, using the total NWAU associated with initial entry adjustment payments and the reference cost. The in-scope cost excluding costs associated with new entrants for service s was calculated as follows:

$$\text{in scope cost excluding new entrants}_s = \text{in scope cost}_s - \text{new entrant NWAU}_s \times \text{reference cost.}$$

Modelled cost

The average cost parameters for each AN-ACC class a and BCT category b derived in section 3.2. were multiplied by the number of bed days to determine the total modelled cost for each service s:

$$\text{modelled cost}_s = \sum_a P_{s,a} \times \text{OBD}_s \times \alpha_a + \sum_b D_{s,b} \times \beta_b.$$

Given no average costs for BCT categories 1, 2 or 3 could be calculated from RACCS and RACCC, this process was restricted to the services in BCT categories 4, 5, 6 and 7.

Cost calibration

IHACPA then calculated the ratio of the total in-scope cost, excluding costs associated with new entrants, to the total modelled cost, including AN-ACC and BCT components, across all services in BCT categories 4-7. This cost ratio represents the amount by which average costs should be adjusted to ensure that the total modelled cost equals the actual cost when restricted to those BCT categories.

The average individual and shared care costs for each AN-ACC class a and BCT category b (4, 5, 6 or 7) were then re-calibrated by multiplying by the cost ratio.

3.4.2 Services funded based on operational places (BCTs 1, 2 and 3)

IHACPA used the ACFR to model the average cost for BCT categories 1, 2 and 3 where insufficient data was available in RACCS and RACCC.

The BCT subsidy for services in MM 6 and 7 is based on the number of operational places rather than OBDs, and thus the modelled cost is sensitive to the occupancy rates of those services. Given the limited number of services in MM 6 and 7 and sensitivity to occupancy rates, IHACPA maintained the existing relativities between BCTs 3H, 3L, 1 and 2 to ensure price stability, particularly for the limited number of specialised Aboriginal or Torres Strait Islander services in remote and very remote locations.

Standard MM 6-7 (BCT 3)

The total shared care cost for each service s in BCT category 3 was calculated by subtracting the modelled individual care cost after calibration from the total in-scope cost excluding new entrants:

$$\text{shared component of in scope cost}_s = \text{in scope cost excluding new entrants}_s - \sum_a P_{s,a} \times \text{OBD}_s \times \alpha\_\text{adj}_a$$

where α_adj_a is the average individual modelled cost for AN-ACC class a after calibration.

IHACPA then modelled the average shared care cost per ABD for BCTs 3H and 3L using the total shared cost and number of ABDs across all BCT 3 services in the ACFR. 2 conditions were enforced:

1. The total modelled cost across all BCT 3 services must equal the total actual cost in the ACFR. That is, the modelled cost for BCT 3H multiplied by the number of ABDs plus the modelled cost for BCT 3L multiplied by the number of ABDs equals the shared component of in-scope costs:

$$\sum_{s(\text{BCT}=3)} \text{shared component of in scope cost}_s = \sum_{s(bct=3)} D_{s,3H} \times \beta\_\text{adj}_{3H} + D_{s,3L} \times \beta\_\text{adj}_{3L}$$

   where β_adj_{3H} and β_adj_{3L} are the average shared care costs for BCT categories 3H and 3L.

2. The ratio of price weights between BCTs 3L to 3H was maintained:

$$\frac{\beta\_\text{adj}_{3L}}{\beta\_\text{adj}_{3H}} = \frac{\text{NWAU}_{3L}}{\text{NWAU}_{3H}} = \frac{0.52}{0.68}.$$

Here NWAU_{3L} and NWAU_{3H} refer to the NWAU24 price weights.

The average cost parameters β_adj_{3L} and β_adj_{3H} were calculated to satisfy those conditions.

Specialised Aboriginal or Torres Strait Islander MM 6-7 (BCT 1 and 2)

Insufficient data was available in the trimmed ACFR to confidently model the average shared care cost for services in BCT categories 1 and 2. IHACPA therefore maintained the existing relativities to services in BCT 3 to estimate the average shared care cost per ABD for these services.

The average shared care cost per ABD for services in BCT 1 was calculated as:

$$\beta\_\text{adj}_1 = \beta\_\text{adj}_{3H} \times \frac{\text{NWAU}_1}{\text{NWAU}_{3H}} = \beta\_\text{adj}_{3H} \times \frac{1.80}{0.68}.$$

The modelled cost for BCT category 2 was calculated similarly.

3.4.3 Cost calibration to ACFR

The adjusted costs for each AN-ACC class and BCT categories 4, 5, 6 and 7 from section 3.4.1 and BCT categories 1, 2 and 3 from section 3.4.2 were re-calibrated to ensure that modelled costs were equal to actual costs across all services in the population.

Following the same process described in section 3.4.1, IHACPA calculated the total in-scope cost and modelled cost for all services in the trimmed ACFR. The individual and shared care cost parameters were re-calibrated by multiplying by the cost ratio.

3.5 Price weights

IHACPA calculated the final price weights, measured in NWAU, by dividing the stabilised costs by the reference cost per NWAU.

Consistent with IHACPA's Aged Care Pricing Policy, price weight movements for AN-ACC classes were restricted to be ± 20% of the previous weights (effective 1 October 2024) after rounding, and BCT categories were restricted to be ± 5% of the previous weights after rounding. The NWAU25 price weights were stabilised using an iterative process, whereby after each iteration the un-stabilised price weights were recalibrated to ensure that the total modelled cost matched the total actual cost.

4 Indexation

4.1 Overview

Following the calculation of the reference cost in 2022–23 dollars, IHACPA adjusted for known cost increases then indexed the reference cost to determine the recommended AN-ACC price from 1 October 2025 to 30 September 2026.

The key aspects considered by IHACPA in the indexation methodology included:

- Aged Care Work Value Case Stage 2 decision to increase wages for direct care workers and recreational activities/lifestyle officers
- Aged Care Work Value Case Stage 3 decision to further increase wages for direct and indirect care aged care workers and adjust the classification structure
- Nurses and Midwives Work Value Case decision to increase wages for aged care nurses and adjust the classification structure
- superannuation guarantee increases
- indexation of historical cost data to account for underlying price inflation
- outbreak management costs.

IHACPA separately indexed labour and non-labour costs to the period from 1 October 2025 to 30 September 2026, as discussed in the relevant sections below.

4.2 Cost proportions

To apply these adjustments and index costs to the period from 1 October 2025 to 30 September 2026, IHACPA first disaggregated the reference cost of $221.50 into labour and non-labour components.

IHACPA calculated the proportion of total costs associated with each expense category from the ACFR, after trimming and adjustments to reflect the cost of meeting the care minute responsibility.

As discussed in section 2.2.6, all care expense items in the ACFR except payroll tax have been considered in-scope in RACPA25, plus the component of administration costs allocated to care. The total in-scope costs from the ACFR, disaggregated into labour and non-labour components, are summarised in Table 17.

Table 17: Summary of in-scope costs from the trimmed ACFR

Cost component	Total (ACFR)	Proportion	Reference cost (2022–23 dollars)
Labour cost	$11,479.7m	87.66%	$194.16
Non-labour cost	$1,616.7m	12.34%	$27.34
Total*	**$13,096.5m**	**100.00%**	**$221.50**

* Components may not add due to rounding.

4.3 Labour cost indexation and adjustments

4.3.1 Overview

To account for the compounding impact of various factors, IHACPA applied labour cost adjustments for 3 distinct time periods:

1. Step 1: indexation and adjustments to 1 October 2025
    a. adjust for Aged Care Work Value Case Stage 2 decision
    b. adjust for Aged Care Work Value Case Stage 3 decision (tranches 1 and 2)
    c. adjust for Nurses and Midwives Work Value Case decision (tranches 1 and 2)
    d. adjust for superannuation guarantee increases from 2022–23 to 2025–26
    e. indexation from 2022–23 to 2025–26
2. Step 2: indexation to 1 July 2026
    a. indexation from 2025–26 to 2026–27
3. Step 3: adjustments to 1 August 2026
    a. adjust for Nurses and Midwives Work Value Case decision (tranche 3).

The labour component of the recommended AN-ACC price was calculated as the average labour cost over the periods from 1 October 2025 to 30 June 2026, 1 July 2026 to 31 July 2026, and 1 August 2026 to 30 September 2026, weighted by the number of days in each period.

Impact of Fair Work Commission work value case decisions on labour costs

The Commonwealth's submission to the Aged Care Work Value Case states that most of the aged care workforce covered by the Aged Care Award are covered by enterprise bargaining agreements (EBAs), but that these workers are only marginally better off than aged care workers who are award reliant. Conversely, a significant proportion of aged care nurses covered by the Nurses Award are on active EBAs and are broadly paid 15% above awards.

IHACPA undertook analysis of labour costs and hours for RNs, ENs and care management staff from the QFR to assess the impact of the Aged Care Work Value Case Stage 2 decision on labour costs for aged care nurses.

At the time of analysis, the QFR data was available up to December 2024, and thus did not capture the impacts of the Aged Care Work Value Case Stage 3 decision or Nurses and Midwives Work Value Case decision. Therefore, IHACPA's analysis is restricted to the Stage 2 decision.

Wage Price Index

To determine the underlying growth rate for labour costs, IHACPA used quarterly index numbers from the ABS index series *6345.0 WPI, Australia, December 2024*.

As approximately 90% of aged care providers are private entities, it is reasonable to expect that public providers are competitive with private wages. Therefore, IHACPA selected the index series *Quarterly Index; Total hourly rates of pay excluding bonuses; Australia; Private; Health care and social assistance* (Series ID A2602929A) to determine wage price growth.

All earnings statistics published by the ABS, including the WPI exclude employers' social contributions such as superannuation[3], and therefore the superannuation increase will not be double counted through this indexation process.

Due to the composition of the *Quarterly Index; Total hourly rates of pay excluding bonuses; Australia; Private; Health care and social assistance* WPI, aged care workers eligible for the Aged Care Work Value Case Stage 2 decision minimum wage increase only represent a minority of the sample. Therefore, the impact of this decision on the labour cost in aged care was only partially reflected in the index.

As a separate adjustment is applied for the Stage 2 decision, IHACPA deflated the WPI series to remove the impact of the wage increase for aged care workers, to avoid double counting when adjusting for underlying inflation. No adjustments were made for the Aged Care Work Value Case Stage 3 decision or Nurses and Midwives Work Value Case decision, as they had not yet been reflected in WPI. IHACPA applied a similar adjustment to the *Quarterly Index; Total hourly rates of pay excluding bonuses; Australia; Private and Public; All industries* (Series A2603609J) ("headline WPI").

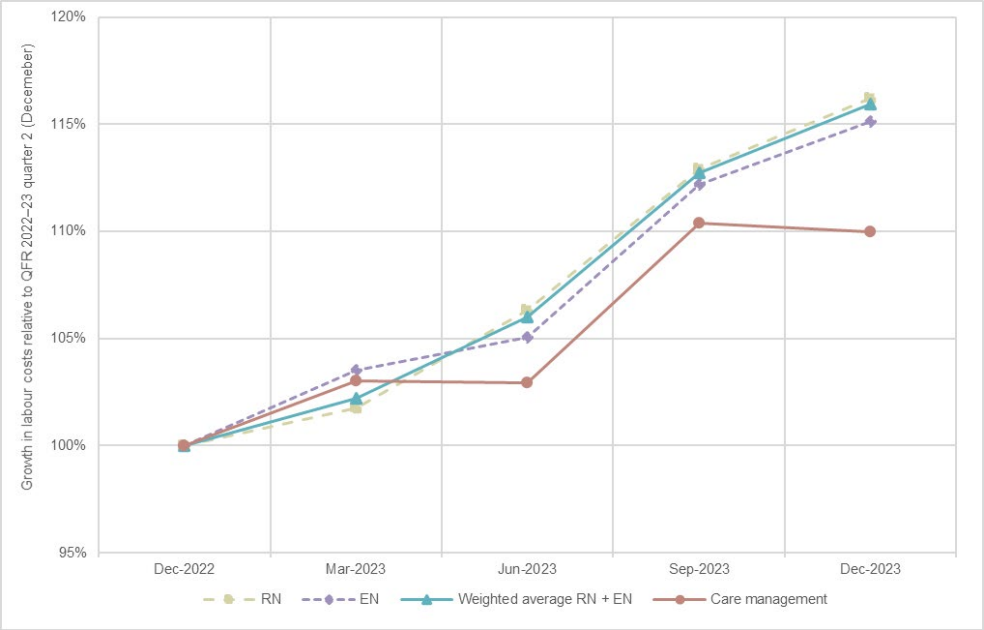
4.3.2 Impact of Fair Work Commission work value case decisions on labour costs

To assess the impact of the Aged Care Work Value Case Stage 2 decision on labour costs for aged care nurses, IHACPA calculated the increase in hourly labour costs between the QFR 2022–23 quarter 2 (December 2022) and the QFR 2023–24 quarter 2 (December 2023).

As illustrated in Figure 2, the growth rates for RN and EN labour costs were broadly similar, whereas there was less growth in labour costs for care management staff over the same period. Therefore, IHACPA considered the growth in labour costs for RNs and ENs in aggregate, maintaining the ratio of costs between RNs and ENs from the QFR 2022–23 quarter 2 to ensure that the average growth rate was not impacted by changes in the staff mix over time.

[3] https://www.abs.gov.au/statistics/understanding-statistics/guide-labour-statistics/earnings-guide

Figure 2: Growth in labour costs relative to 2022–23 quarter 2 (December)



For RNs and ENs and care management staff, IHACPA compared the change in hourly labour costs between December 2022 and December 2023 to the change in the adjusted value of the *Private; Health care and social assistance* index series between December 2022 and December 2023, combined with adjustments for the 1 July 2023 superannuation guarantee increase and the Aged Care Work Value Case Stage 2 decision. The comparison was set up as follows:

$$\frac{\text{hourly labour cost}_{Dec-23}}{\text{hourly labour cost}_{Dec-22}} = \frac{\text{adjusted WPI}_{Dec-23}}{\text{adjusted WPI}_{Dec-22}} \times \frac{1+sg_{Dec-23}}{1+sg_{Dec-22}} \text{ x } (1 + \text{Stage 2 wage increase} \times \text{ pass through rate})$$

where sg_{Dec-22} and sg_{Dec-23} are the superannuation guarantee rates in December 2022 and December 2023 respectively.

IHACPA solved for $\text{pass through rate}_{RN\_EN}$ and $\text{pass through rate}_{CM}$, representing the rate at which the Aged Care Work Value Case Stage 2 decision translated to wage increases for RNs and ENs and care management staff respectively. This was done by minimising the sum of squared errors using a least squares approach to satisfy the following:

$$\text{RNs and ENs: } 115.95\% = \frac{\text{Adjusted WPI}_{Dec-23}}{\text{Adjusted WPI}_{Dec-22}} \times \frac{1+11.0\%}{1+10.5\%} \times \left(1 + 15.0\% \text{ x pass through rate}_{RN\_EN}\right)$$

$$\text{Care management: } 109.97\% = \frac{\text{Adjusted WPI}_{Dec-23}}{\text{Adjusted WPI}_{Dec-22}} \times \frac{1+11.0\%}{1+10.5\%} \times (1 + 15.0\% \text{ x pass through rate}_{CM}).$$

The results are summarised in Table 18.

Table 18: Fair Work Commission work value case pass-through rates

Labour cost component	Pass-through rate
RNs, ENs	76.07%
Care management	37.78%

IHACPA applied these pass-through rates when adjusting RN, EN and care management labour costs for the impact of the Aged Care Work Value Case Stage 2 decision and Nurses and Midwives Work Value Case decisions.

IHACPA have assumed that all personal care workers, AINs and diversional therapists receive the full value of wage increases resulting from Fair Work Commission work value case decisions.

4.3.3 Wage Price Index adjustment

The WPI is weighted based on the weighted sum of weekly total cash earnings from the Survey of Employee Earnings and Hours. Through analysis of data accessed via TableBuilder, earnings can be disaggregated into divisions, subdivisions, groups and classes of the Australian and New Zealand Standard Industrial Classification (ANZSIC) to determine the relative contributions of different industries to the WPI.

The *Private; Health care and social assistance* WPI index series corresponds to division *Q Health care and social assistance* in the ANZSIC classification. Aged care workers eligible for the Aged Care Work Value Case Stage 2 decision are classified under Class *8601 Aged care residential services* and Class *8790 Other social assistance services*.

Table 19: ANZSIC classification of workers eligible for Aged Care Work Value Case Stage 2 wage increase

Division	Subdivision	Group	Class
Q – Health care and social assistance	*86 - Residential care services*	*860 – Residential care services*	*8601 – Aged care residential services*
	87 – Social assistance services	*879 – Other social assistance services*	*8790 – Other social assistance services*

Private sector employees in the health care and social assistance industry comprise 8.19% of the *Private and Public; All industries* (i.e., the industry classification grouping used for the headline WPI) weighted sum of weekly total cash earnings. Disaggregating further, private *86 Residential care services* and private *87 Social assistance services* comprise 19.68% and 31.31% of the private *Q Health care and social assistance* industry respectively. This is summarised in Table 20.

Table 20: Weighted sum of weekly total cash earnings, ABS Employee Earnings and Hours, May 2021

ANZSIC	Weighted sum of weekly total cash earnings	Proportion of *Private; Health care and social assistance*	Proportion of *Private and Public; All industries*
86 Residential care services, private sector	$260.1m	19.68%	1.61%
87 Social assistance services, private sector	$413.8m	31.31%	2.56%
Q Health care and social assistance, private sector	$1,321.7m	100.00%	8.19%
All industries, private and public	$16,143.1m	-	100.00%

86 Residential care services

To estimate the proportion of workers in residential aged care services eligible for the Aged Care Work Value Case Stage 2 decision minimum wage increase, IHACPA analysed occupation data from the 2021 Census based on the Australian and New Zealand Classification of Occupations (ANZSCO).

Like the industry classifications (ANZSIC), the ANZSCO occupation classification is hierarchical with leading numeric codes. An example is illustrated in Table 21.

Table 21: ANZSCO structure of registered nurses

Major group	Sub-major group	Minor group	Unit group	Occupation
2 – Professionals	25 – Health professionals	254 – Midwifery and nursing professionals	2544 - Registered nurse	254412 – Registered nurse (Aged care)

IHACPA sourced data from TableBuilder on the weighted sum of weekly total cash earnings of subdivision *86 Residential care services* disaggregated by occupation sub-major groups. As earnings data was not available at the minor group or unit group level, IHACPA extracted more granular occupation data from the 2021 Census to determine the proportion of workers in subdivision *86 Residential care services* by unit group who would be eligible for the Stage 2 decision minimum wage increase.

First, IHACPA identified the ANZSCO unit groups corresponding to occupations eligible for the Aged Care Work Value Case Stage 2 decision wage increase. The number of employees in each of these unit groups working in Class *8601 - Aged Care Residential Services* is shown in Table 22.

Table 22: ANZSCO groups in Aged Care Residential Services eligible for Aged Care Work Value Case Stage 2 decision minimum wage increase

Occupation	ANZSCO Sub-Major Group	ANZSCO Unit Group	Number of employees in *8601 Aged Care Residential Services*
Care management	25 Health Professionals	2543 Nurse Managers	2,081
Registered nurses (including nurse practitioners)		2544 Registered Nurses	34,389
Recreational activities/lifestyle officers	27 Legal, social and Welfare Professionals	272612 Recreation Officer	199
	41 Health and Welfare Support Workers	411311 Diversional Therapist	3,479
Enrolled nurses		4114 Enrolled and Mothercraft Nurses	10,042
Personal care workers	42 Carers and Aides	4231 Aged and Disabled Carers 423313 Personal Care Assistant 4230 Personal Carers and Assistants	94,651
Assistants in nursing		4233 Nursing Support and Personal Care Workers not further defined 423312 Nursing Support Worker	25,579
Head chefs/cooks	35 Food Trades Workers	3513 Chefs 3514 Cooks	5,275
All other occupations	-	-	82,579
Total*	-	-	**258,274**

* Components may not add due to rounding.

For each ANZSCO sub-major group, IHACPA then calculated the number of employees eligible for the Aged Care Work Value Case Stage 2 decision wage increase, assuming that all PCWs, AINs, recreational activities/lifestyle officers, 76.07% of RNs and ENs, 37.78% of care management staff (nurse managers) and one head chef/cook per service in the residential aged care industry received the full increase. This is presented in columns C and D of Table 23. For example, 76.07% of ENs are earning less than 15% above the award rate, so the number of eligible employees presented in column D under *41 Health and Welfare Support Workers* is $10{,}042 \times 76.07\% + 3{,}479 \times 100\% = 11{,}118$.

IHACPA used this to calculate the proportion of employees working in *86 Residential care services* eligible for the Stage 2 wage increase by sub-major group (column E).

These proportions were then multiplied by the weighted sum of weekly total cash earnings (column A) to calculate that 56.35% of total earnings within the subdivision *86 Residential care services* ANZSIC are attributable to employees impacted by the Stage 2 decision.

Table 23: Aged care residential services employees eligible for minimum wage increase under Aged Care Work Value Case Stage 2 decision

ANZSCO Sub-Major Group	Weighted sum of *86* weekly total cash earnings (A)	Total employees in *86* (B)	Total employees in *8601* (C)	Number of employees in *8601* eligible for 15% wage increase (D)	Proportion of *86* employees eligible for Stage 2 wage increase (E=D/B)
25 Health Professionals	$35.6m	42,048	36,470	26,945	64.08%
27 Legal and Welfare Professionals	$4.3m	6,807	199	199	2.92%
41 Health and Welfare Support Workers	$30.9m	21,835	13,521	11,118	50.92%
42 Carers and Aides	$118.5m	134,291	120,230	120,230	89.53%
35 Food Trades Workers	$3.6m	5,435	5,275	2,705^	49.77%
Other	$67.1m	69,655	82,579	-	-
Total*	**$260.1m**	**280,071**	**258,274**	**161,196**	**56.35%⁺**

* Components may not add due to rounding.
^ One per residential service, based on the number of residential aged care services from the AIHW GEN Aged care service list, 30 June 2021.
⁺ Weighted by weighed sum of weekly total cash earnings.

87 Social assistance services

In-home aged care workers who provide Home Care Packages (HCP) and Commonwealth Home Support Programme (CHSP) services are classified under Class *8790 Other social services* under ANZSIC. Due to the broad nature of this classification which also includes disability and welfare services, IHACPA analysed data from the Aged Care Provider Workforce Survey 2023 to estimate the number of eligible proportion of workers eligible for the Aged Care Work Value Case Stage 2 decision minimum wage increase.

IHACPA calculated the number of RNs, ENs, PCWs and home care workers reported by residential aged care, HCP and CHSP providers in the survey. IHACPA multiplied the numbers of RNs, ENs, and PCWs reported in the Census under *8601 Aged care residential services* by the ratio of HCP and CHSP to residential aged care staff in the Aged Care Provider Workforce Survey 2023 to estimate the number of staff working for home care package providers.

Table 24: Number of staff reported in Aged Care Provider Workforce Survey 2023

Staff type	HCP and CHSP	Residential aged care	Ratio of in-home aged care to residential aged care workers
RN	8,033	36,216	0.2218
EN	2,638	17,921	0.1472
Home care worker, PCW, AIN	127,581	151,949	0.8396

IHACPA then multiplied the number of employees in *8601 Aged care residential services* from the 2021 census by the ratio of in-home aged care to residential aged care workers from the Aged Care

Provider Workforce Survey 2023 to estimate the corresponding number of in-home aged care employees in the population.

Table 25: Number of in-home aged care employees by ANZSCO occupation group

Occupation	ANZSCO Sub-Major Group	ANZSCO Unit Group	Number of employees in *8601* (A)	Ratio of in-home aged care to residential aged care workers (B)	Estimate of in-home aged care employees (C=AxB)*
Care management	25 Health Professionals	2543 Nurse Managers	2,081	0.2218	462
Registered nurses (including nurse practitioners)		2544 Registered Nurses	34,389		7,628
Recreational activities/lifestyle officers	27 Legal, social and Welfare Professionals	272612 Recreation Officer	199	-	-
	41 Health and Welfare Support Workers	411311 Diversional Therapist	3,479	-	-
Enrolled nurses		4114 Enrolled and Mothercraft Nurses	10,042	0.1472	1,478
Personal care workers	42 Carers and Aides	4231 Aged and Disabled Carers 423313 Personal Care Assistant 4230 Personal Carers and Assistants	94,651	0.8396	79,472
Assistants in nursing		4233 Nursing Support and Personal Care Workers not further defined 423312 Nursing Support Worker	25,579	0.8396	21,477
Head chefs/cooks	35 Food Trades Workers	3513 Chefs 3514 Cooks	5,275	-	-
All other occupations	-	-	82,579	-	-
Total*			**258,274**	**-**	**110,516**

* Components may not add due to rounding.

Using these estimates of the number of in-home aged care employees by ANZSCO sub-major group, IHACPA estimated the number of in-home aged care workers eligible for the Stage 2 wage increase, assuming that all home care workers and AINs, 76.07% of RNs and ENs, and 37.78% of care management staff would receive the wage increase.

Table 26: In-home aged care employees eligible for minimum wage increase under Aged Care Work Value Case Stage 2 decision

ANZSCO Sub-Major Group	Weighted sum of *87 Social assistance services weekly* total cash earnings (A)	Total employees in *87* (B)	Estimated number of in-home aged care employees eligible for 15% wage increase (C)	Proportion of employees eligible for 15% wage increase (D=C/B)
25 Health Professionals	$4.9m	9,452	5,977	62.63%
41 Health and Welfare Support Workers	$81.8m	32,317	1,124	3.48%
42 Carers and Aides	$173.4m	218,458	100,949	46.21%
Other	$153.6m	136,789	-	-
Total*	**$413.8m**	**397,106**	**108,050**	**20.80%^**

* Components may not add due to rounding.
^ Weighted by weighed sum of weekly total cash earnings.

IHACPA estimated that 20.80% of weekly total cash earnings within the subdivision *87 Social assistance services* are attributable to employees impacted by the Stage 2 decision.

Application of WPI deflation

Combining Table 23 and Table 26 with their respective weightings in Table 20, the proportion of earnings in the *Private; Health care and social assistance* index series attributable to employees eligible for the Aged Care Work Value Case Stage 2 wage increase is:

$$19.68\% \times 56.35\% + 31.31\% \times 20.80\% = 17.60\%$$

Similarly, 1.44% of the *Australia; Private and Public; All industries* index series (headline WPI) represents employees who were eligible for the Stage 2 wage increase.

The *Private; Health care and social assistance* and headline WPI values were adjusted for September 2023 to December 2024 to remove the impact of the 15% increase in minimum wages for aged care workers effective 30 June 2023. Index values were adjusted as follows:

$$\text{adjusted index}_n = \frac{\text{index}_n}{1 + \text{proportion of index eligible for Stage 2 decision minimum wage increase} \times 0.15}$$

where:

- index_n is the value of the index series at time n
- adjusted index_n is the value of the index series at time n after adjusting to remove the impact of the Aged Care Work Value Case Stage 2 decision.

WPI forecast

At the time of modelling, ABS WPI data was available up to the December 2024 quarter. IHAPCA used the RBA's headline WPI forecast from the Statement on Monetary Policy – February 2025 to forecast values of the *Private and Public; All industries* WPI from March 2025 to December 2026.

Following deflation of the headline WPI and *Private; Health care and social assistance* index series to remove the impact of the Stage 2 decision, IHACPA undertook analysis of the relative growth

rates of the 2 index series. Over the past 3 years, the *Private; Health care and social assistance* index series has increased at an annual rate of approximately 0.02% higher than the headline WPI.

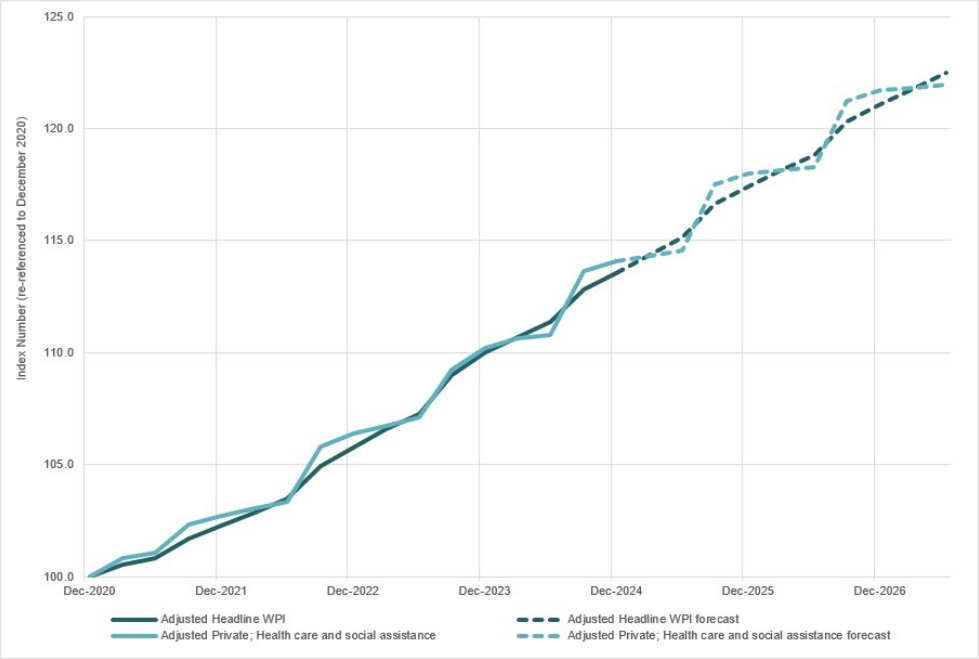
For each quarter n, IHACPA forecast the value of the *Private; Health care and social assistance* index based on growth in the headline WPI:

$$\begin{aligned}&\text{adjusted } Private; Health\ care\ and\ social\ assistance\ index_n \\ &\quad = \text{adjusted } Private; Health\ care\ and\ social\ assistance\ index_{n-4} \times \frac{\text{adjusted WPI}_n}{\text{adjusted WPI}_{n-4}} \\ &\quad \times 1.0002\end{aligned}$$

where $\text{adjusted } Private; Health\ care\ and\ social\ assistance\ index_n$ and $\text{adjusted WPI index}_n$ are the values of the respective index series in quarter n after adjusting to remove the impact of the Stage 2 decision.

The adjusted index, re-referenced to the December 2020 quarter, is shown in Figure 3.

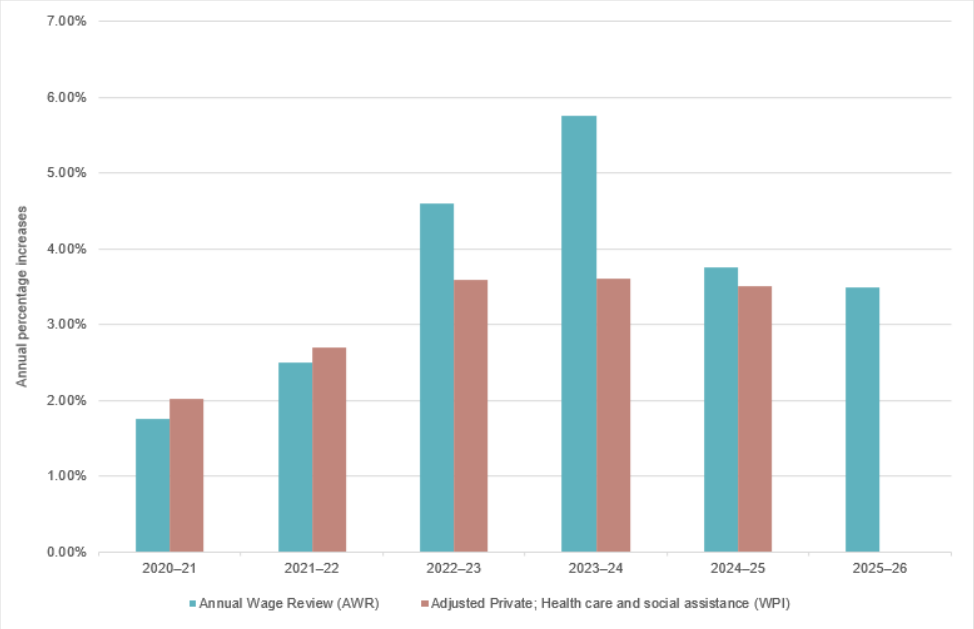
Figure 3: Adjusted headline WPI and adjusted *Private; Health care and social assistance* index series



AWR impact

IHACPA undertook analysis of the impact of the Fair Work Commission's AWR decisions on the *Private; Health care and social assistance* index series.

Figure 4: Comparison of AWR decisions and annual growth in the adjusted *Private; Health care and social assistance* index series



In Figure 4, the columns compare AWR decisions with the annual growth in the *Private; Health care and social assistance* index series to the December quarter. These 2 values being equal would indicate that the *Private; Health care and social assistance* index series increased at the same rate as the minimum wage as determined by the Fair Work Commission.

In 2020–21 to 2021–22, the annual growth in the *Private; Health care and social assistance* index series was higher than the AWR decisions, suggesting that workers on average received above award wage increases. This trend appears to have reversed from 2022–23 onwards, suggesting that workers on average received a lower wage increase relative to the award rate.

Over the 5 years from 2020–21 to 2024–25, there has been an average of 91.71% pass-through of AWR increase to the annual growth to the December quarter in the *Private; Health care and social assistance* WPI index series.

4.3.4 Step 1: Indexation and adjustments to 1 October 2025

Aged Care Work Value Case Stage 2 decision

The Aged Care Work Value Case related to applications to vary the minimum wages for aged care employees in 3 Awards:

- *Aged Care Award 2010* (Aged Care Award)
- *Nurses Award 2020* (Nurses Award)
- *Social Community, Home Care and Disability Services Industry Award 2010*.

In the Stage 2 decision, the Fair Work Commission announced an increase of 15% to the minimum wages of the following employees under the awards listed above, effective 30 June 2023:

- direct care workers under the awards (defined as RNs, ENs, PCWs and AINs)
- recreational activities/lifestyle officers

- cooks and chefs at level 4-7, provided they are the most senior chef or cook engaged at the service.

Note that the final item does not affect the RACPA25 calculation but may influence the hotel cost gap analysis.

IHACPA applied the increase to the labour cost components as follows:

- nursing and care management costs are inflated by $76.07\% \times 15\% = 11.41\%$ and $37.78\% \times 15\% = 5.67\%$ respectively, as per the calculated pass-through rates in section 4.3.2
- PCW, AIN and recreational activities/lifestyle officers labour costs are inflated by 15%
- other labour costs are not inflated.

The effect of this increase on each labour cost component of the reference cost is shown in Table 27.

Table 27: Aged Care Work Value Case Stage 2 decision

Labour cost component	Reference cost (2022–23 dollars)	Stage 2 decision adjustment	Cost after Stage 2 adjustment (2022–23 dollars)
RNs	$52.16	11.41%	$58.11
ENs	$14.06	11.41%	$15.67
Care management staff	$6.35	5.67%	$6.71
PCWs, AINs, recreational activities/lifestyle officers	$115.49	15.00%	$132.82
Allied health	$6.09	-	$6.09
Total*	**$194.16**	**13.00%**	**$219.40**

* Components may not add due to rounding.

Aged Care Work Value Case Stage 3 decision (tranches 1 and 2)

The Aged Care Work Value Case Stage 3 decision dealt with further wage adjustments for direct and indirect care employees, with a detailed consideration of the classification structure for PCWs. Increases for direct care workers are split over 2 tranches, effective 1 January 2025 (subsequently referred to as tranche 1) and 1 October 2025 (subsequently referred to as tranche 2).

IHACPA calculated the number of residential aged care direct care FTE in 2024–25 at each PCW and AIN classification level using the department's Aged Care Wage Estimation Tool and data from the Aged Care Provider Workforce Survey 2023 to estimate the proportion of PCWs holding a Certificate IV qualification.

IHACPA multiplied these FTE by the annualised pay rates from the Fair Work Ombudsman to estimate the proportion of total PCW and AIN labour costs attributable to each level of the awards, and then by the tranche 1 and 2 percentage increases to get the weighted average increase for PCWs and AINs. In line with the retained rates of pay clause, IHACPA assumed that wages remained constant for impacted PCWs that were reclassified.

The adjustments applied to each labour cost component and the impact on the total labour cost are summarised in Table 28.

Table 28: Aged Care Work Value Case Stage 3 decision (tranches 1 and 2)

Labour cost component	Cost after Stage 2 adjustment (2022–23 dollars)	1 January 2025 adjustment	1 October 2025 adjustment	Cost after Stage 3 adjustment (2022–23 dollars)
RNs	$58.11	-	-	$58.11
ENs	$15.67	-	-	$15.67
Care management staff	$6.71	-	-	$6.71
PCWs, AINs, recreational activities/lifestyle officers	$132.82	2.40%	4.07%	$141.55
Allied health	$6.09	-	-	$6.09
Total*	**$219.40**	**1.46%**	**2.49%**	**$228.13**

* Components may not add due to rounding.

Under the updated classification structure, PCWs, AINs and recreational activities/lifestyle officers are all classified as direct care employees covered by the Aged Care Award. For this reason, labour costs for these employees have been combined and adjusted by the same amount.

Nurses and Midwives Work Value Case decision (tranches 1 and 2)

On 6 December 2024, the Fair Work Commission handed down their decision on the Nurses and Midwives Work Value Case, which included a new classification and pay structure for RNs, ENs and care management staff in the aged care sector. Per this decision, pay increases are to be phased in in 3 tranches, effective:

- 1 March 2025 (subsequently referred to as tranche 1)
- 1 October 2025 (subsequently referred to as tranche 2)
- 1 August 2026 (subsequently referred to as tranche 3).

To determine the appropriate adjustment to RN, EN and care management labour costs, IHACPA calculated the weighted average increase relative to wages as at 1 July 2024 based on the number of FTE at each classification level.

Similar to the methodology applied for PCWs, IHACPA extracted the number of residential aged care direct care FTE in 2024–25 at each RN and EN classification level from the department's Aged Care Wage Estimation Tool. IHACPA also adjusted care management labour costs for RNs working in care management role, using the residential aged care indirect care FTE from the Aged Care Wage Estimation Tool.

These FTE were multiplied by the annualised pay rates from the Fair Work Ombudsman to estimate the proportion of total nursing labour costs attributable to each level of the award, and then by the tranche 1 and 2 percentage increases to get the weighted average increase for RNs, ENs and care management staff. Analogous to the treatment of PCWs, IHACPA retained the existing rates of pay for RNs that were reclassified to a lower pay point in the decision.

IHACPA multiplied the calculated wage increases for RNs and ENs and care management staff by 76.07% and 37.78% respectively, reflecting the pass-through rate of Fair Work Commission work value case decisions as discussed in section 4.3.2.

The adjustments applied to each labour cost component and the impact on the total labour cost are summarised in Table 29.

Table 29: Nurses and Midwives Work Value Case decision (tranches 1 and 2)

Labour cost component	Cost after Stage 3 adjustment (2022–23 dollars)	1 March 2025 adjustment	1 October 2025 adjustment	Cost after Nurses and Midwives adjustment (2022–23 dollars)
RNs	$58.11	2.74%	2.07%	$60.94
ENs	$15.67	3.32%	2.54%	$16.60
Care management staff	$6.71	1.24%	0.32%	$6.82
PCWs, AINs, recreational activities/lifestyle officers	$141.55	-	-	$141.55
Allied health	$6.09	-	-	$6.09
Total*	**$228.13**	**0.96%**	**0.72%**	**$231.99**

* Components may not add due to rounding.

Superannuation guarantee increases from 2022–23 to 2025–26

Section 19(2) of the *Superannuation Guarantee (Administration) Act 1992* stipulates increases in the minimum amount of superannuation an employer pays (the guarantee rate) by 0.50% each year from 1 July 2021 until 1 July 2025.

IHACPA does not have data on which providers are paying superannuation at the guarantee rate and which are on EBAs paying above the guarantee rate.

In the absence of any data on superannuation contributions above the guarantee rate in the aged care workforce, IHACPA has assumed that the workforce is paid at the guaranteed rate. This implies that there will be a 0.50% increase in the superannuation component of labour costs per annum, or a 1.50% increase between 2022–23 and 2025–26.

As increases to the superannuation guarantee are not captured in the WPI or AWR decisions, a separate adjustment is required. This adjustment was made by increasing the superannuation component of labour costs from 10.50% in 2022–23 to 12.00% for 2025–26. The effect of this adjustment on labour costs is shown in Table 30.

Table 30: Superannuation guarantee increases from 2022–23 to 2025–26

Labour cost component	Cost after Nurses and Midwives adjustment (2022–23 dollars)	Superannuation guarantee adjustment	Cost after superannuation guarantee adjustment (2022–23 dollars)
Non-superannuation labour cost	$209.95	-	$209.95
Superannuation component	$22.04	+14.29%	$25.19
Superannuation proportion	10.50%	+1.50%	12.00%
Total*	**$231.99**	**1.36%**	**$235.14**

* Components may not add due to rounding.

Indexation from 2022–23 to 2025–26

As previously discussed, most of the aged care workforce are paid at the award wage. IHACPA therefore assumed that aged care wages rise would increase on 1 July each year in line with Fair Commission AWR decisions, and that wages do not increase throughout the year outside of the cycle of reviews (except for wage increases as a result of Aged Care Work Value Case decisions).

The indexation rate applied to labour costs from 2022–23 to 2025–26 compounds the impact of 3 years of wage increases on 1 July 2023, 1 July 2024, and 1 July 2025:

- the value of the adjusted *Private; Health care and social assistance* index series in December 2023 (mid-point of 2023–24) divided by the value of the actual index in December 2022 (mid-point of 2022–23)
- the value of the adjusted *Private; Health care and social assistance* index series in December 2024 (mid-point of 2024–25) divided by the value of the adjusted index in December 2023 (mid-point of 2023–24)
- 2024–25 AWR, which increased minimum wages by 3.50% effective 1 July 2025, multiplied by the 91.71% pass-through rate.

The Aged Care Work Value Case Stage 3 decision and tranche 1 of the Nurses and Midwives Work Value Case decision included an updated classification structure, where some employees received a lower award rate under the new structure. These employees had their existing award rate of pay preserved but subsequently will not receive wage increases from the AWR until they transition to the new classification structure.

IHACPA therefore calculated the effective AWR increases for nurses and PCWs effective 1 July 2025 assuming that these employees would retain their existing rates of pay until they were surpassed by their new classification.

Table 31: Indexation from 2022–23 to 2025–26

Labour cost component	Cost after superannuation guarantee adjustment (2022–23 dollars)	1 July 2023 indexation rate	1 July 2024 indexation rate	1 July 2025 indexation rate	Cost after indexation (2025–26 dollars)
RNs	$61.77	3.61%	3.52%	2.85%	$68.13
ENs	$16.82	3.61%	3.52%	3.21%	$18.62
Care management staff	$6.91	3.61%	3.52%	2.56%	$7.60
PCWs, AINs, recreational activities/lifestyle officers	$143.47	3.61%	3.52%	3.13%	$158.68
Allied health	$6.17	3.61%	3.52%	3.21%	$6.83
Total*	**$235.14**	**3.61%**	**3.52%**	**3.05%**	**$259.87**

* Components may not add due to rounding.

Indexation has an overall impact of 10.52% on labour costs after the superannuation guarantee adjustment has been applied. This results in a labour cost of $259.87 in 2025–26.

4.3.5 Step 2: Indexation to 1 July 2026

Indexation from 2025–26 to 2026–27

IHACPA calculated the effective AWR increases for indexation up to 1 July 2026 accounting for RNs and PCWs with retained rates of pay, in line with the WPI forecast.

Table 32: Indexation from 2025–26 to 2026–27

Labour cost component	Cost after indexation (2025–26 dollars)	1 July 2026 indexation rate	Cost after indexation (2026–27 dollars)
RNs	$68.13	2.92%	$70.12
ENs	$18.62	3.13%	$19.20
Care management staff	$7.60	2.50%	$7.79
PCWs, AINs, recreational activities/lifestyle officers	$158.68	3.13%	$163.64
Allied health	$6.83	3.13%	$7.05
Total*	**$259.87**	**3.05%**	**$267.80**

* Components may not add due to rounding.

4.3.6 Step 3: Adjustments to 1 August 2026

Nurses and Midwives Work Value Case decision (tranche 3)

Tranche 3 of the Nurses and Midwives Work Value Case decision for RNs, ENs and care management staff in the aged care sector is to be phased in from 1 August 2026.

The methodology follows on from tranches 1 and 2 above in section 4.3.4, with the number of residential aged care direct care FTE in 2024–25 at each RN and EN classification level being multiplied by the annualised pay rates from the Fair Work Ombudsman to estimate the proportion of total nursing labour costs attributable to each level of the award, and then by the tranche 3 percentage increases to get the weighted average increase for RNs, ENs and care management staff.

IHACPA multiplied the calculated wage increases for RNs and ENs and care management staff by 76.07% and 37.78% respectively, reflecting the pass-through rate of Fair Work Commission work value case decisions as discussed in section 4.3.2.

The adjustments applied to each labour cost component and the impact on the total labour cost per NWAU are summarised in Table 33.

Table 33: Nurses and Midwives Work Value Case decision (tranche 3)

Labour cost component	Cost after indexation (2026–27 dollars)	1 August 2026 adjustment	Cost after Nurses and Midwives adjustment (2026–27 dollars)
RNs	$70.12	2.11%	$71.60
ENs	$19.20	2.46%	$19.68
Care management staff	$7.79	0.46%	$7.83
PCWs, AINs, recreational activities/lifestyle officers	$163.64	-	$163.64
Allied health	$7.05	-	$7.05
Total*	**$267.80**	**0.74%**	**$269.79**

* Components may not add due to rounding.

4.3.7 Summary of labour cost indexation and adjustments

Adjustments and indexation of the labour component of the reference cost are summarised in Table 34.

Table 34: Summary of indexation and adjustments applied to the labour cost component of the AN-ACC price

Step	Labour cost	Change
Reference cost (2022–23 dollars)	$194.16	-
Aged Care Work Value Case Stage 2 (effective 30 June 2023)	$219.40	13.00%
Aged Care Work Value Case Stage 3 tranche 1 (effective 1 January 2025) and 2 (effective 1 October 2025)	$228.13	3.98%
Nurses and Midwives Work Value Case tranche 1 (effective 1 March 2025) and 2 (effective 1 October 2025)	$231.99	1.69%
Superannuation guarantee increases from 2022–23 to 2025–26	$235.14	1.36%
Indexation from 2022–23 to 2025–26	**$259.87**	**10.52%**
Indexation from 2025–26 to 2026–27	**$267.80**	**3.05%**
Nurses and Midwives Work Value Case tranche 3 (effective 1 August 2026)	**$269.79**	**0.74%**

IHACPA then calculated the weighted average of the labour cost over the periods from 1 October 2025 to 30 June 2026, 1 July 2026 to 31 July 2026, and 1 August 2026 to 30 September 2026 by the number of days in each period. This represents the average labour component of the AN-ACC price from 1 October 2025 to 30 September 2026.

Table 35: Weighted average labour cost

Period	Labour cost	Days
1 October 2025 to 30 June 2026	$259.87	273
1 July 2026 to 31 July 2026	$267.80	31
1 August 2026 to 30 September 2025	$269.79	61
1 October 2025 to 30 September 2026 (weighted average)*	**$262.20**	**365**

* Weighted average may not match due to rounding.

4.4 Non-labour cost indexation

4.4.1 Non-labour index

The non-labour component of direct care costs in the ACFR consists of:

- resident expenses, including medical supplies, incontinence supplies, oral nutritional supplements, oral health living expenses and other resident services and consumables
- insurance expenses, such as WorkCover premiums
- other direct care expenses, including external costs for quality and compliance and training, chaplaincy/pastoral care, other direct care expenses, and the care component of non-labour administration costs.

As there is no single index that reflects this mix of products, IHACPA constructed a composite index series from CPI sub-groups and expenditure classes to measure inflation of input costs in residential aged care. IHACPA has used the quarterly index numbers from ABS index series *6041.0 CPI, Australia, December 2024*. The sub-groups and expenditure classes were then weighted according to the proportions of total costs in the trimmed ACFR. The composition of this index is summarised in Table 36.

Table 36: Summary of non-labour cost index

CPI sub-group or expenditure class	Series ID	Cost component	Total (ACFR)	Proportion
Index Numbers; Medical products, appliances, and equipment; Australia	A3604438R	Resident expenses	$400.5m	24.77%
Index Numbers; Insurance; Australia;	A3602878J	Insurance	$211.1m	13.06%
Index Numbers; Other financial services; Australia	A2332776R	Other direct care expenses	$1,005.1m	62.17%
Total*			**$1,616.7m**	**100.00%**

* Components may not add due to rounding.

Composing index series

The CPI series are generally referenced to 2011–12 financial year. That is, they are expressed such that the annual index for 2011–12 is equal to 100.0. For example, the *Other financial services* index value for December 2024 is 133.6, indicating that the consumer price for that expenditure class is 33.6% higher in December 2024 than in the 2011–12 financial year.

If index series for sub-groups and expenditure classes published by ABS are combined directly, there is an implicit assumption that the relative cost for each group has been equal since the reference year in 2011–12. This in general is not the case, so each index series must be weighted before combining to reflect the cost proportions in the period of interest.

IHACPA has addressed this in 2 stages. Firstly, each index series was re-referenced to the latest available quarter. Then the re-referenced indexes series were weighted and combined.

Example of re-referencing index

For example, the index series A3604438R (*Medical products, appliances and equipment; Australia*) used for resident non-labour expenses had a value of 108.0 in December 2023, and 111.0 in December 2024, giving a growth of 2.8% in that year. To re-reference this index to 100.0 in December 2024, all index numbers were divided by the December 2024 index value and multiplied by 100. Then the new December 2023 index value was 97.3, and the new December 2024 value was 100.0. The change between the 2 quarters is still 2.8%.

Then, each of the re-referenced index series were weighted according to the relative costs in each group, calculated using the trimmed, adjusted ACFR as summarised in Table 36.

4.4.2 Indexation

The average annual growth rate of the weighted index was determined by fitting an exponential regression model. The model takes the form:

$$\text{index}_n = b \times r^n + \epsilon_n$$

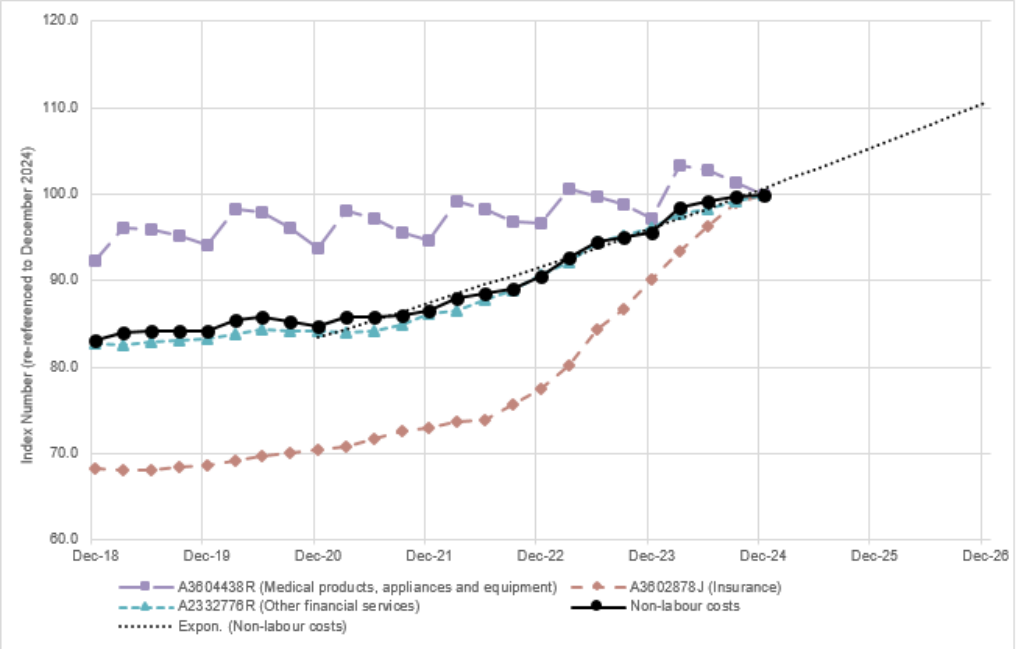
where:

- index_n is the value of the underlying index series at time n
- n is the time unit, in this case the year and quarter for the index value
- b is the estimated value of the index when $n = 0$ (the intercept)
- r is the growth rate per unit change in n (in this case, per quarter)
- ϵ_n is the error term.

The coefficient of interest in this model is the term r, which is the best estimate of the growth rate per quarter. This was then converted to an annual indexation rate $i = r^4$.

IHACPA fit an exponential growth curve to the non-labour composite index series to measure average annual growth. The non-labour direct care cost index series along with the 3 contributing CPI sub-groups and expenditure classes are shown in Figure 5.

Figure 5: Index series used for non-labour direct care cost growth



IHACPA notes the clear seasonality of the medical products index, which is driven by variation in consumer pharmacy costs, likely due to the Pharmaceutical Benefits Scheme's Safety Net.

IHACPA have used the past 4 years of data when fitting the growth model to reflect the higher inflation rate observed in the Australian economy since 2020. This ensures that recent inflation is more accurately reflected when indexing costs from 2022–23 to 2025–26.

The dotted line shows the exponential regression curve fit to the non-labour direct care index as a best estimate of average annual non-labour direct care cost over that period.

The resulting model was:

$$\text{index}_n = 100.7 \times 1.0118^n.$$

This model gives an annual non-labour direct care cost indexation rate i_C of:

$$i_C = 1.0118^4 - 1 = 0.0480.$$

Note that this expression may not evaluate exactly as written due to rounding. Thus, the annualised growth rate used to index the non-labour direct care component of the reference cost is 4.80%.

As given in Table 17, non-labour care costs were estimated to be $27.34 per NWAU in 2022–23. This value was indexed by approximately 3.25 years from 30 December 2022 (the midpoint of the 2022–23 financial year) to 1 April 2026 (the midpoint of 1 October 2025 to 30 September 2026).

The non-labour component of the recommended AN-ACC price from 1 October 2025 to 30 September 2026 is therefore:

$$\$27.34 \times 1.0480^{3.253} = \$31.85.$$

4.5 Summary of indexation

After the labour and non-labour components were separately adjusted and indexed, IHACPA re-combined these to calculate the recommended AN-ACC price per NWAU.

Table 37: Summary of labour and non-labour costs

Residential aged care price	Labour	Non-labour	Total	Change
Reference cost (2022–23 dollars)	$194.16	$27.34	$221.50	-
1 October 2025 to 30 September 2026*	**$262.20**	**$31.85**	**$294.05**	**32.75%**

* Components may not add due to rounding.

4.6 Outbreak management support supplement

The Aged Care Outbreak Management Support Supplement was introduced on 1 January 2024 to contribute to the cost of planning for and managing COVID-19 outbreaks within residential aged care.

The supplement from 1 January 2025 consists of a flat rate of $1.65 per OBD for approved residential aged care providers. The supplement is due to cease on 30 September 2025, at which point it will be included in the AN-ACC price.

IHACPA converted the supplement into a per NWAU basis using the ratio of OBDs to total NWAU in 2022–23:

$$\frac{\text{total OBD}}{\text{total NWAU}} = 0.9629$$

$$\$1.65 \times 0.9629 = \$1.59.$$

This was then added as a loading to the recommended AN-ACC price to cover costs associated with outbreak management.

Thus, the recommended AN-ACC price for RACPA25 is **$295.64** per NWAU from 1 October 2025 30 September 2026.

5 Hotel cost gap

5.1 Overview

IHACPA is required to provide advice to the Australian Government (the government) on the gap between the cost of delivering hotel services, and related revenue received.

The ACFR includes all necessary data items related to the cost and the revenue received for hotel services. These items together allow the gap between hotel costs and revenue to be calculated as expenses, less revenue. RACPA25 assumes that the government will continue to provide a hotelling supplement.

In the Residential Aged Care Pricing Advice 2025-26, IHACPA has calculated an estimated hotel cost gap for all residential aged care services nationally, and a second estimated hotel cost gap based on the subset of residential aged care services that do not provide extra services or additional services. These services have been identified as those that did not receive revenue from additional service fees or extra service fees in the ACFR.

Depending on the intended application, maintenance costs are considered as either hotel or accommodation costs. For the purposes of RACPA25, maintenance costs have been separated in consideration of the gap analysis.

5.2 Hotel costs

5.2.1 Overview

Elements of in-scope hotel costs are outlined in Part 1 of Schedule 1—Care and services for residential care services of the *Quality of Care Principles 2014* under section 96-1 of the Aged Care Act. While the Schedule includes maintenance as part of hotel costs, maintenance can be considered as an accommodation cost depending on the intended application. For RACPA25, maintenance costs have been separated in consideration of the gap between the cost of hotel services and related revenue received.

The hotel costs considered in RACPA25 comprise:

- labour for catering, cleaning and laundry
- consumables and contracts for catering, cleaning and laundry
- utilities, including electricity, gas, council rates and rubbish removal
- motor vehicle operation, maintenance, and repair
- other hotel expenses not covered above
- administrative expenses.

For calculating the hotel gap, IHACPA considered all residential aged care services that submitted an ACFR in 2022–23, other than those excluded through the trimming rules described in Table 5 and Table 6.

IHACPA determined the average hotel cost per OBD by dividing the total hotel cost reported in the ACFR by the total number of OBDs (53.0m). Costs for residential aged care services that do not provide additional services or extra services were calculated separately (where the total number of OBDs was 23.4m). This includes administration expenses that were apportioned to hotel.

Similar to care, hotel costs including administration expenses were disaggregated into labour and non-labour cost components and indexed separately to estimate hotel costs in the 2025–26 financial year. These components are summarised in Table 38.

Table 38: Summary of hotel costs from the trimmed ACFR

Cost component	All services			Services that do not provide additional services or extra services		
	Total	Cost per OBD	Proportion	Total	Cost per OBD	Proportion
Labour cost	$1,838.4m	$34.67	44.81%	$801.3m	$34.28	43.89%
Non-labour cost	$2,264.0m	$42.70	55.19%	$1,024.6m	$43.83	56.11%
Total*	**$4,102.3m**	**$77.38**	**100.00%**	**$1,825.9m**	**$78.10**	**100.0%**

* Components may not add due to rounding.

5.2.2 Labour cost indexation

For indexing hotel labour costs, IHACPA has assumed that all hotel and administration staff are paid the award wage.

Labour costs have been indexed in line with AWR decisions determined by the Fair Work Commission, with adjustments for the Aged Care Work Value Case Stage 2 and Stage 3 decisions, and superannuation guarantee increases.

Aged Care Work Value Case decisions

The Aged Care Work Value Case Stage 2 decision included a 15% increase to minimum wages for head chefs/cooks at level 4-7 of the Aged Care Award, provided they were the most senior chef or cook engaged at the service.

IHACPA quantified the impact by multiplying the annual award wage for a level 7 aged care employee by the number of services in the trimmed ACFR. IHACPA isolated this estimate of the total wages paid to head chefs/cooks from the aggregate catering labour cost and increased this component of the cost by 15%.

The Aged Care Work Value Case Stage 3 decision mandated a 6.96% wage increase for laundry hands, cleaners, and food assistants (excluding head chefs/cooks), and a 3.00% wage increase for other indirect care workers from 1 January 2025.

Superannuation guarantee increases

Consistent with the methodology for care labour costs in section 4.3.4, IHACPA has adjusted the superannuation component of hotel and administration labour costs by 0.50% per annum in line with increases in the superannuation guarantee.

Indexation

As noted above, it was assumed that all hotel and administration staff were paid award wages, and therefore labour costs would increase on 1 July each year in line with Fair Work Commission AWR decisions. IHACPA has therefore indexed labour costs to account for the cumulative impact of:

- 2022–23 AWR, which increased minimum award wages by 5.75% effective 1 July 2023
- 2023–24 AWR, which increased minimum award wages by 3.75% effective 1 July 2024
- 2024–25 AWR, which increased minimum award wages by 3.50% effective 1 July 2025.

The total indexation rate for hotel and administration labour costs from 2022–23 to 2025–26 is therefore:

$$(1 + 5.75\%) \times (1 + 3.75\%) \times (1 + 3.50\%) - 1 = 13.56\%.$$

Summary of labour cost indexation

The adjustments and indexation IHACPA applied to the labour component of hotel costs are summarised in Table 39.

Table 39: Summary of hotel labour cost indexation

Step	All services		Services that do not provide additional services or extra services	
	Cost per OBD	Change	Cost per OBD	Change
Hotel labour cost in 2022–23	$34.67	-	$34.28	-
Aged Care Work Value Case Stage 2 decision for head chefs/cooks*	$34.98	0.88%	$34.64	1.05%
Aged Care Work Value Case Stage 3 decision for indirect care workers (excluding head chefs/cooks)	$37.03	5.88%	$36.65	5.80%
Superannuation guarantee increases to 2025–26	$37.54	1.36%	$37.14	1.36%
Indexation to 2025–26^	**$42.63**	**13.56%**	**$42.18**	**13.56%**

* One per service.
^ Components may not add due to rounding.

5.2.3 Non-labour cost indexation

IHACPA indexed the non-labour component of hotel costs using the same methodology as non-labour direct care costs described in section 4.4. A composite index series was constructed using relevant CPI groups, sub-groups and expenditure classes weighted by the relative cost proportions in the trimmed ACFR and re-referenced to equal 100.0 in the December 2024 quarter. These cost proportions are summarised in Table 40.

Note that the cost proportions for the purpose of determining the hotel non-labour indexation rate were calculated using all services in the trimmed ACFR.

Table 40: Summary of hotel non-labour index

CPI group, sub-group or expenditure class	Series ID	Cost component	Total (ACFR)	Proportion
Index Numbers; Food and non-alcoholic beverages; Australia;	A2325891R	Catering	$925.3m	40.87%
Index Numbers; Cleaning and maintenance products; Australia;	A2328366W	Cleaning	$227.4m	10.04%
Index Numbers; Cleaning, repair and hire of clothing and footwear; Australia;	A2328051C	Laundry	$99.4m	4.39%
Index Numbers; Utilities; Australia;	A2326521X	Utilities	$394.1m	17.41%
Index Numbers; Private motoring; Australia;	A2326656J	Motor vehicles	$14.7m	0.65%
Index Numbers; Insurance; Australia;	A3602878J	Insurance	$89.9m	3.97%
Index Numbers; Audio, visual and computing equipment and services; Australia;	A3604423X	Other hotel costs	$21.8m	0.32%
Index Numbers; Newspapers, books and stationery; Australia;	A3604408A			0.32%
Index Numbers; Other recreation, sport and culture; Australia;	A2331381C			0.32%
Index Numbers; Other financial services; Australia;	A2332776R	Administration	$491.5m	21.71%
Total*			**$2,264.0m**	**100.00%**

*Components may not add due to rounding.

Utilities index adjustment

On 1 July 2023, the government introduced the Energy Bill Relief Fund for households and eligible small businesses with an annual electricity usage below the a threshold which varied by jurisdiction, ranging from 40-160 MWh per year.

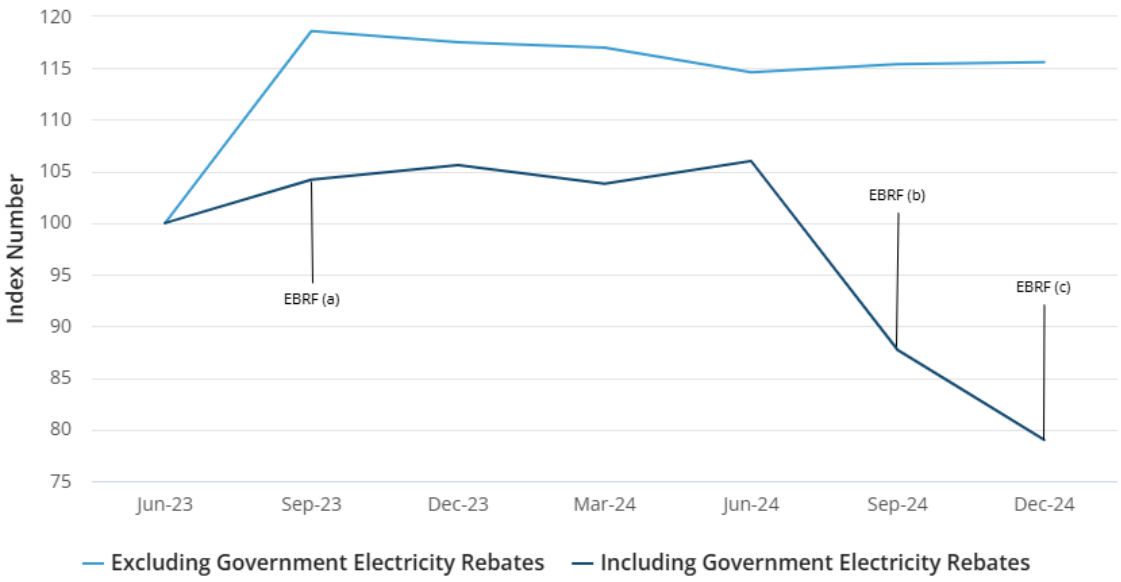
The QLD, WA and TAS state governments also introduced electricity rebates targeted directly to households and small businesses with annual electricity consumption below 50 MWh or 150 MWh in WA and TAS respectively.

A NSW Government audit of energy consumption in 15 residential aged care facilities with between 40-180 beds found that energy consumption ranged from 291-1482 MWh per year, well above the maximum usage to be eligible for the commonwealth or state rebates.

Thus, IHACPA have assumed that no residential aged care services were eligible for the electricity rebates. However, as CPI is a measure of household inflation, the Commonwealth and state electricity rebates caused the *Utilities* index (composed of the electricity, water and sewage, and gas and other household fuels expenditure classes) to be lower than it otherwise would have been in 2023–24 and 2024–25. Using this index directly would therefore underestimate the growth in utilities costs for residential aged care services.

The ABS published a separate index series for *Electricity* excluding government rebates. This is illustrated in Figure 6.

Figure 6: *Electricity* index (June quarter 2023 = 100.0)



(a) Introduction of the 2023-24 Energy Bill Relief Fund (EBRF) for concession households in NSW, VIC, SA, TAS, NT and ACT, and all households in QLD and WA, from July 2023

(b) Introduction of the first instalment of 2024-25 Commonwealth EBRF rebates for all households, and State government rebates in QLD, WA and TAS, from July 2024

(c) Introduction of the second instalment of 2024-25 Commonwealth rebates for all households, and the second instalment of the WA state rebate

Source: Australian Bureau of Statistics (December quarter 2024), *Consumer Price Index, Australia*

IHACPA reconstructed the *Utilities* index to understand the increase in utilities costs excluding government electricity rebates using the alternative index values illustrated in Figure 6, and weights published by the ABS for each expenditure class (Table 41). Consistent with the methodology used by the ABS, IHACPA chained the index following each annual reweight.

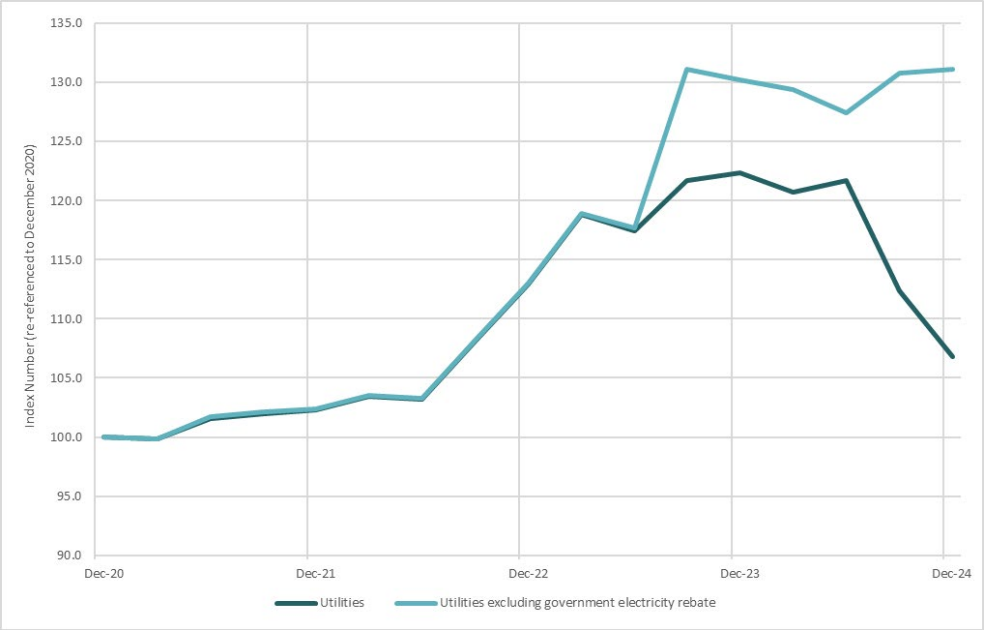
Table 41: *Utilities* weighting patterns in the CPI

Expenditure class	Weights*				
	2021	2022	2023	2024	2025
Water and sewerage	21.46%	21.40%	21.57%	19.90%	23.73%
Electricity	58.33%	56.76%	54.41%	56.59%	50.05%
Gas and other household fuels	20.21%	21.85%	24.02%	23.50%	26.22%

*The ABS reports weights as a percentage contribution to the headline CPI. IHACPA normalised the underlying components of the *Utilities* index.

The reconstructed *Utilities* index series, re-referenced to December 2020 is shown in Figure 7.

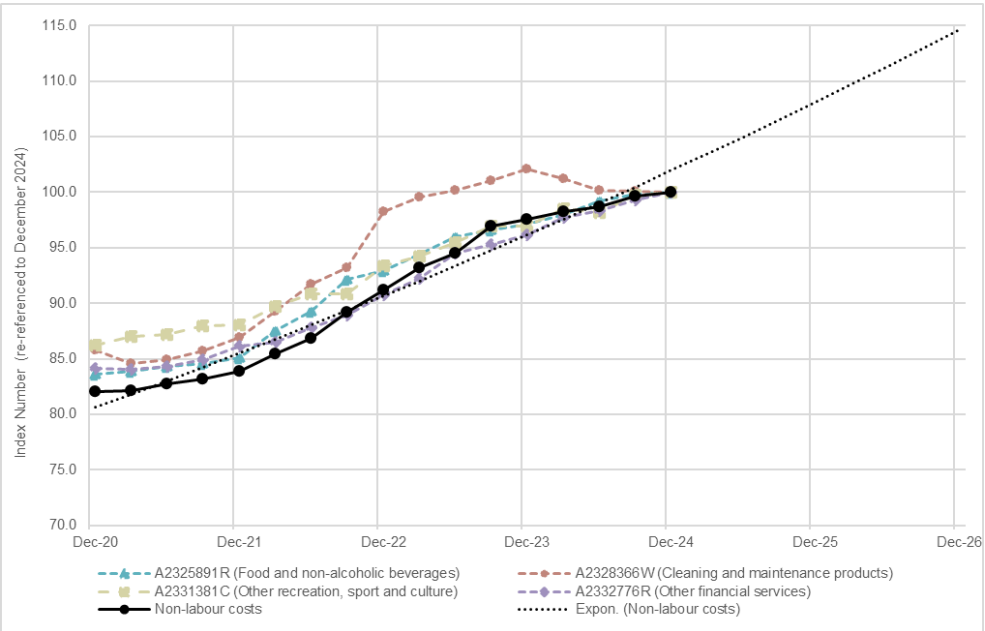
Figure 7: Reconstructed *Utilities* index excluding government electricity rebates



Non-labour cost indexation

Following the adjustment to the *Utilities* index series to exclude government electricity rebates, IHACPA constructed the hotel cost composite index series and fitted an exponential growth curve to the hotel cost index series to measure average annual growth. This is consistent with the method for indexing direct care non-labour costs, The hotel cost index series along with the highest contributing index series are shown in Figure 8.

Figure 8: Index series used for hotel non-labour cost growth



Consistent with care non-labour costs, IHACPA used only the past 4 years of data when fitting the growth model for hotel costs. This ensures that recent inflation is more accurately reflected when indexing costs from 2022–23 to 2025–26.

The resulting model is:

$$\text{index}_n = 102.0 \times 1.0148^n.$$

This model gives an annual hotel non-labour cost indexation rate i_H of:

$$i_H = 1.0148^4 - 1 = 0.0605.$$

Note that this expression may not evaluate exactly as written due to rounding. Therefore, the annualised growth rate used to index hotel non-labour costs is 6.05%. The equivalent indexation rate for maintenance non-labour costs was 4.72%.

Non-labour hotel costs for all services were estimated to be an average of $42.70 per OBD in 2022–23. To estimate non-labour costs per OBD in 2025–26, IHACPA indexed this value by 3 years:

$$\$42.70 \times 1.0605^3 = \$50.93.$$

This same non-labour indexation rate was applied for residential aged care services that do not provide additional services or extra services:

$$\$43.83 \times 1.0605^3 = \$52.27.$$

5.2.4 Total hotel costs

Combining the indexed labour and non-labour components of hotel costs gives an estimated cost in 2025–26 of $93.55 per OBD for all services, and $94.45 per OBD for services that do not provide additional services or extra services.

Table 42: Summary of hotel costs

Hotel cost component	All services		Services that do not provide additional services or extra services	
	2022–23 cost per OBD	Estimated 2025–26 cost per OBD	2022–23 cost per OBD	Estimated 2025–26 cost per OBD
Labour cost	$34.67	$42.63	$34.28	$42.18
Non-labour cost	$42.70	$50.93	$43.83	$52.27
Total*	**$77.38**	**$93.55**	**$78.10**	**$94.45**

* Components may not add due to rounding.

5.3 Hotel revenue

5.3.1 Overview

Hotel costs are primarily funded through payment of the BDF. The BDF is set at 85% of the basic Age Pension with all residents required to pay or apply for hardship or alternative payment options. The Age Pension is indexed twice a year to the higher of the CPI or *Pensioner and Beneficiary Living Cost Index*.

In addition to revenue received through the BDF, on 1 July 2021, the BDF supplement was introduced in the form of a $10 supplement per OBD, intended predominantly to improve the quality

of food and nutrition for residents. The BDF supplement was incorporated into the AN-ACC price from 1 October 2022 to 30 June 2023. This was replaced with a $10.80 hotelling supplement on 1 July 2023. The hotelling supplement is indexed in March and September each year to CPI.

Additional 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 the hotel gap, the costs associated with these services cannot be isolated in the data available. For this reason, IHACPA has included additional service fees and extra service fees as hotel revenue.

The following types of hotel related revenue were considered in IHACPA's analysis:

- BDF
- hotelling supplement
- additional service fees
- extra service fees
- other hotel related revenue.

The ACFR provides information on the BDF, extra service fees, additional service fees and other hotel related revenue. For each service in the trimmed ACFR, IHACPA calculated total reported hotel revenue including the BDF, additional service fees, extra service fees and other hotel related revenue.

The BDF supplement was introduced on 1 July 2021 and incorporated into the AN-ACC price from 1 October 2022. This payment was separated from AN-ACC funding and reintroduced as the hotelling supplement on 1 July 2023. In 2022–23, revenue from the BDF supplement and hotelling supplement was reported under care income in the ACFR. Therefore, IHACPA added the estimated revenue from these supplements to total hotel revenue reported in the ACFR.

5.3.2 Revenue indexation

To estimate future revenue, IHACPA interpolated CPI forecasts from the RBA's Statement on Monetary Policy – February 2025 to estimate the indexation of the BDF and hotelling supplement in September 2025 and March 2026. As these comprise the majority of hotel revenue (92.7% in 2022–23 dollars), IHACPA has applied the same indexation rate to all hotel revenue.

A weighted average was calculated over the 2025–26 financial year to account for the bi-annual indexation of the BDF and hotelling supplement.

The estimate of hotel revenue for all services and services that do not provide additional services or extra services is shown in Table 43.

Table 43: Summary of hotel revenue

Hotel revenue component	All services			Services that do not provide additional services or extra services		
	Total revenue	Revenue per OBD		Total revenue	Revenue per OBD	
	Trimmed ACFR 2022–23	2022–23	2025–26 (estimate)	Trimmed ACFR 2022–23	2022–23	2025–26 (estimate)
Basic daily fee	$3,031.4m	$57.18	$65.33	$1,336.2m	$57.16	$65.31
Supplement^	-	$10.00	$15.91	-	$10.00	$15.91
Extra services fees	$100.8m	$1.90	$2.17	-	-	-
Additional services fees	$148.7m	$2.80	$3.20	-	-	-
Other hotel income	$32.0m	$0.60	$0.69	$15.4m	$0.66	$0.75
Total*	**$3,312.9**	**$72.49**	**$87.31**	**$1,351.6m**	**$67.82**	**$81.97**

* Components may not add due to rounding.
^ The BDF supplement was introduced on 1 July 2021. This was replaced with the hotelling supplement on 1 July 2023.

5.4 Hotel gap

Comparing Table 42 and Table 43 shows that in 2025–26, hotel costs for all residential aged care services, nationally are estimated to be $93.55 with hotel revenue to be $87.31 per OBD. The subsequent gap is estimated to be **$6.24** per OBD. Note, this gap excludes maintenance costs which are estimated to be **$13.16** per OBD in 2025–26.

When only services that do not provide additional services or extra services are selected, hotel costs are estimated to be $94.45 with hotel revenue to be $81.97 per OBD. The subsequent gap is estimated to be **$12.48** per OBD. Note, this gap excludes maintenance costs which are estimated to be **$14.21** per OBD in 2025–26.

IHACPA notes that residential aged care services in certain segments of the market may be more likely to charge additional service fees or extra service fees. Therefore, the hotel cost gap for residential aged care services that do not provide additional services or extra services is not considered to be nationally representative of the gap between the costs of required hotel services and revenue from the BDF and hotelling supplement across the aged care sector.

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