PARLIAMENT OF AUSTRALIA
DEPARTMENT OF PARLIAMENTARY SERVICES

PARLIAMENTARY LIBRARY

FlagPost | 27 September 2024

Refundable Accommodation Deposits and the Aged Care Bill 2024

Eleanor Malbon

Confidential, Impartial, Timely

Refundable Accommodation Deposits

Refundable accommodation deposits (RADs) are lump sum payments that a resident of a residential aged care facility can pay to their aged care facility to cover the costs of their care. A resident (or people acting on their behalf) may pay for their aged care accommodation via RAD, daily accommodation payments (DAP) or a combination of both. This system favours users who can pay their RAD in full because the RAD is refunded to the resident (or their estate) when they no longer require the aged care place, whereas money paid through DAP is not refunded.

Providers may use RADs for a range of financial management purposes, including as capital expenditure for new builds and significant renovations, obtaining commercial loans, investment, and debt repayment. The interest earned from investing the RAD pays for the costs of the resident's accommodation and care. The Annual Prudential Compliance Statement guidelines set out rules governing how RADs may be used.

The final report of the Royal Commission into Aged Care Quality and Safety (Royal Commission) describes the RAD as an 'interest free loan':

> A Refundable Accommodation Deposit effectively acts as an interest-free loan from the person living in aged care to an aged care provider. These lump sum payments are refunded when the person leaves residential aged care (vol 2, p. 36).

It included a recommendation to phase out RADs based on an over reliance on this form of capital and investment-based profit making over more sustainable forms (Recommendation 142). The recent Aged Care Taskforce report also recommended phasing out RADs by 2035 (Recommendation 12), provided an independent review is satisfied certain conditions are met.

To retain or remove?

The case for **retaining** the RAD model centres around the sector's need for a continued source of capital to fund investment in aged care facilities to support an aging population. Providers are increasingly utilising RADs as a source of capital. RADs now finance two thirds of the sector's assets (p. 12), and the proportion of assets funded by RADs is trending upward.

A March 2021 Aged Care Financing Authority report on the current and future role of RADs favours retaining RADs but with some adjustments. The report notes the importance of capital expenditure for quality and availability of aged care facilities, particularly in rural and remote locations, and for services targeting disadvantaged cohorts. It highlights continued reliance on RADs, and concludes that:

> there is no obvious and immediate alternative to RADs for non-government financing of capital expansion and renewal. Having a system that includes, in some way at least, both RADs and DAPs and consumer choice of payment method, continues to be appropriate (p. 31).

There are two key arguments in the case for **removing** the RAD model:

- RADs contribute to inequity between residents, whereby estates that pay a full RAD receive it back, and estates that pay via DAP make a significant non-refundable contribution
- the sector lacks overall financial stability due to a reliance on RADs for capital expenditure, posing serious long-term risks. Alternative forms of stable funding should be provided.

On inequities between residents, the Aged Care Taskforce final report states:

> RADs create inequity between residents based on how they pay for their accommodation. Wealthier residents who can afford a RAD receive their deposit back in full when they leave care and make no direct contribution to their accommodation costs, while DAP payers make a significant annual contribution (p. 30).

It goes on to describe stakeholder perspectives that RADs encourage unsustainable business models focused on investment over care:

> In addition, there is some evidence that Refundable Accommodation Deposits are encouraging business models that are built around property rather than care. Ms Julie-Anne Mizzi, Partner and Global Co-Head of Social Care at AMP Capital and a Board Member of Opal Aged Care, told us that Refundable Accommodation Deposits have been so successful in attracting capital that:
>
>> "accommodation is currently the only component on which aged care providers are able to earn a return, the aged care sector has effectively become a property industry rather than a care industry."
>
> The Grattan Institute submitted to us that Refundable Accommodation Deposits encourage undesirable investment, in light of the preference of older people to remain in their own home:
>
>> "The vast majority of older Australians want to receive care at home, rather than in a residential care facility. Yet the current financing model encourages a growing residential aged care sector. The interest-free financing for residential care providers encourages reinvestment of these funds into yet more residential care infrastructure." (vol 2, p. 199).

An alternative to RADs

In the Royal Commission final report, Commissioner Briggs proposed RADs be replaced by a capital funding facility, with caveats on the funding requiring providers to create accommodation with a focus on high quality home-like care (Recommendation 142).

The Aged Care Bill 2024

The Aged Care Bill 2024, introduced to Parliament on 12 September 2024, does not provide for the phasing out of RADs, or contain any provisions requiring providers to use capital funds towards improving care for residents.

The Bill does, however, provide that RADs would no longer need to be fully refunded (see cl 307 and cl 308). Providers would be entitled to retain a percentage of the RAD each year, with the retainable percentage to be specified in delegated legislation. The Minster's second reading speech indicates the percentage will be set at 2% per year for 5 years, representing a possible 10% retention of RADs by aged care providers. There is no requirement that percentages retained from RADs be used to fund better services. With the lack of decisive action on RADs, financial stability of the sector will continue to be an issue, and further action is likely to be needed to provide for Australia’s aging population.

Acknowledgement of Country

We acknowledge the traditional owners and custodians of country throughout Australia and acknowledge their continuing connection to land, waters and community. We pay our respects to the people, the cultures and the elders past, present and emerging.

The Parliamentary Library of Australia was established in 1901 and serves as a trusted source of information, analysis and advice for the Australian Parliament. The Library is part of the Department of Parliamentary Services.

Our services are confidential, impartial, and offered on an equal basis to all parliamentarians, parliamentary committees, and to staff acting on their behalf.

Our published material is available to everyone at:

aph.gov.au/library

Australian Parliamentary Library

@ParlLibrary

Confidential, Impartial, Timely