



# **Accommodation pricing in Residential Aged Care**

Investability, supply and the  
importance of certainty

May 2026

# Contents

<a href="#">Foreward</a>	3
<a href="#">Executive summary</a>	4
<a href="#">Background and context</a>	5
<a href="#">Demand for residential care beds</a>	6
<a href="#">Immediate impact of the Accommodation Pricing Review</a>	7
<a href="#">Investability in residential aged care</a>	8
<a href="#">Funding and financing considerations</a>	11
<a href="#">Specific matters for consideration in the consultation paper</a>	14
<a href="#">Sensitivity analysis of a feasibility study for a single RACS</a>	17
<a href="#">Conclusion</a>	21
<a href="#">Appendix – Consultation questions</a>	22
<a href="#">About Grant Thornton</a>	23



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# Foreword

In September 2025, the Australian Government released a consultation paper for its independent Accommodation Pricing Review, examining whether current accommodation pricing policy supports a sustainable and investable residential aged care sector. Grant Thornton contributed to that consultation process, and this report draws on that work.

The Review was released on 22 April 2026. On the same day, the Government announced a \$3 billion response, including targeted capital subsidies, increases to the Accommodation Supplement, tiered payments for facilities with higher proportions of supported residents, and a commitment to 5,000 additional beds per year from July 2027.

With these changes now announced and implementation underway, the focus has shifted to how these settings operate in practice. Providers and investors are now assessing the implications for development feasibility, capital allocation and investment decisions across the residential aged care sector.

This report analyses how accommodation pricing settings, including RADs, DAPs and the Accommodation Supplement, influence the feasibility of new development and the decision to proceed with projects.

It also demonstrates how relatively small changes in pricing parameters can materially affect development viability.

This report is intended as a practical reference for providers, investors and other stakeholders as they assess the implications of the Review and the Government's response. It focuses on the commercial realities of delivering new supply and the factors that continue to shape investment decisions in residential aged care.

We welcome the opportunity to discuss how it applies to your specific circumstances.

# Executive summary

Australia's residential aged care sector is facing a widening gap between projected demand for new beds and the pace of new development. With estimates of required new supply ranging from 6,000 to 11,000 beds per year, and a net increase in supply of approximately 800 beds in FY2025, the scale of the shortfall requires attention from policymakers, investors and providers alike.

This report examines the key financial, structural and regulatory factors currently constraining investment in residential aged care, in the context of the Australian Government's Independent Review of Residential Aged Care Accommodation Pricing (the Review). It draws on publicly available policy material, industry data and sector experience to assess how current and proposed pricing arrangements affect the commercial viability of new and upgraded facilities. The analysis is offered as a contribution to the Review's evidence base and does not seek to pre-empt its findings.

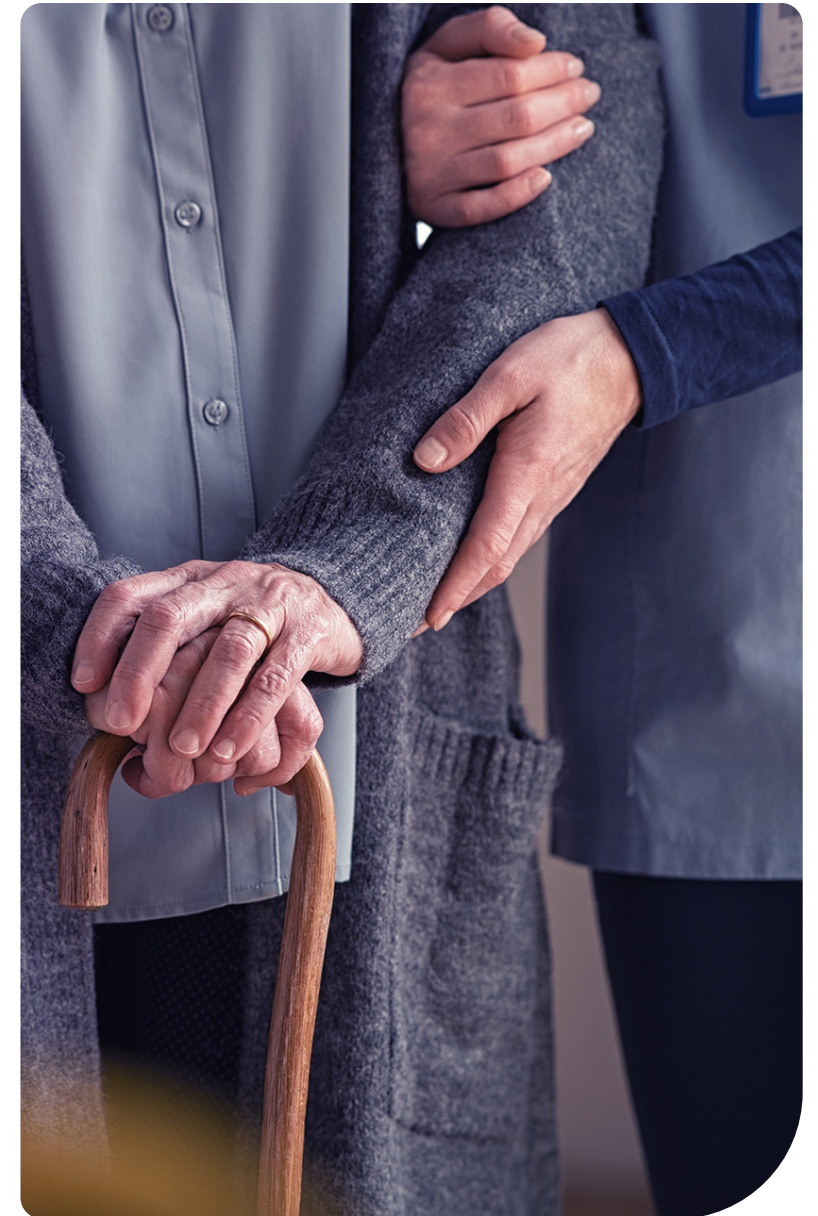
Several findings emerge from this analysis. First, the Review itself is already having a measurable impact on the investment pipeline. Discussions with providers show that between 20 and 30 planned developments have been deferred or placed on hold pending its outcomes, representing an estimated 3,000 beds delayed by 18 to 24 months, on top of an already constrained development pipeline. Second, construction costs, acknowledged to be \$550,000 to \$650,000 per bed, have risen substantially, tilting new development toward higher-end markets and away from supported residents. Third, a range of regulatory barriers, including the sequencing of approved provider status for new entrants and the Independent Health and Aged Care Pricing Authority (IHACPA) pricing approval process, are acting as practical impediments to new capital entering the sector.

The paper also examines the implications of proposed changes to accommodation supplements, Refundable Accommodation Deposits (RADs), Daily Accommodation Payments (DAPs) and the Higher Accommodation Supplement (HAS) for asset valuations, banking appetite and long-term financial sustainability. Specific matters addressed include the Capital Grants Program, additional and Higher Everyday Living Fees (HELFs), backlog maintenance in ageing facilities, and the current configuration of supported resident ratios and incentives.

A sensitivity analysis of a representative 144-bed new build demonstrates how relatively modest changes to key pricing parameters (RAD values, retention rates and supplement levels), can each reduce first-year EBITDA by more than \$500,000. Combined, these effects would place a material number of prospective developments below the threshold of commercial viability.

Across these issues, a consistent theme emerges: the need for stable, predictable funding policy over the long-term.

Long-term infrastructure investment requires long-term revenue certainty. The current environment is having a direct effect on the investment decisions the sector needs. The Review provides an important opportunity to establish a clearer, more durable framework that supports both affordability for residents and viability for providers and investors.



# Background and context

On 12 September 2024, the Australian Government released its response to the recommendations of the Aged Care Taskforce (Taskforce). As part of that response, the government committed to an Independent Review of Residential Aged Care Accommodation Pricing. The following is an extract from the consultation paper highlighting matters for consideration by the Independent Reviewers, Mr Nigel Ray PSM and Associate Professor Nicole Sutton.

## Matters for consideration by the Review<sup>1</sup>

The Review will consider the appropriateness of current settings or the Accommodation Supplement and accommodation pricing. In doing so, the Review will take a resident-focused approach in line with the Statement of Rights as per Part 3.1.23 of the Aged Care Act 2024; and also have regard to the ongoing sustainability of the aged care sector, the fiscal impact of reforms, and the efficient delivery of aged care services over the short and long term. The Review will provide advice on policy, program, funding, and administrative settings that should:

- provide equity of contribution and outcomes regardless of how a particular individual's aged care accommodation costs are met or where they are located,
- ensure that low means residents have access to high quality accommodation within residential aged care,
- support the capacity of providers to invest in and deliver places in high quality residential aged care homes that will meet the needs of Australia's ageing population,
- foster a sector able to innovate and attract investment, and
- examine the adequacy of accommodation revenue, including the supplement, having regard to the impact of recent reforms, including changes to the RADs (2 per cent retention and increasing the maximum room price from \$550,000 to \$750,000 on 1 January 2025).

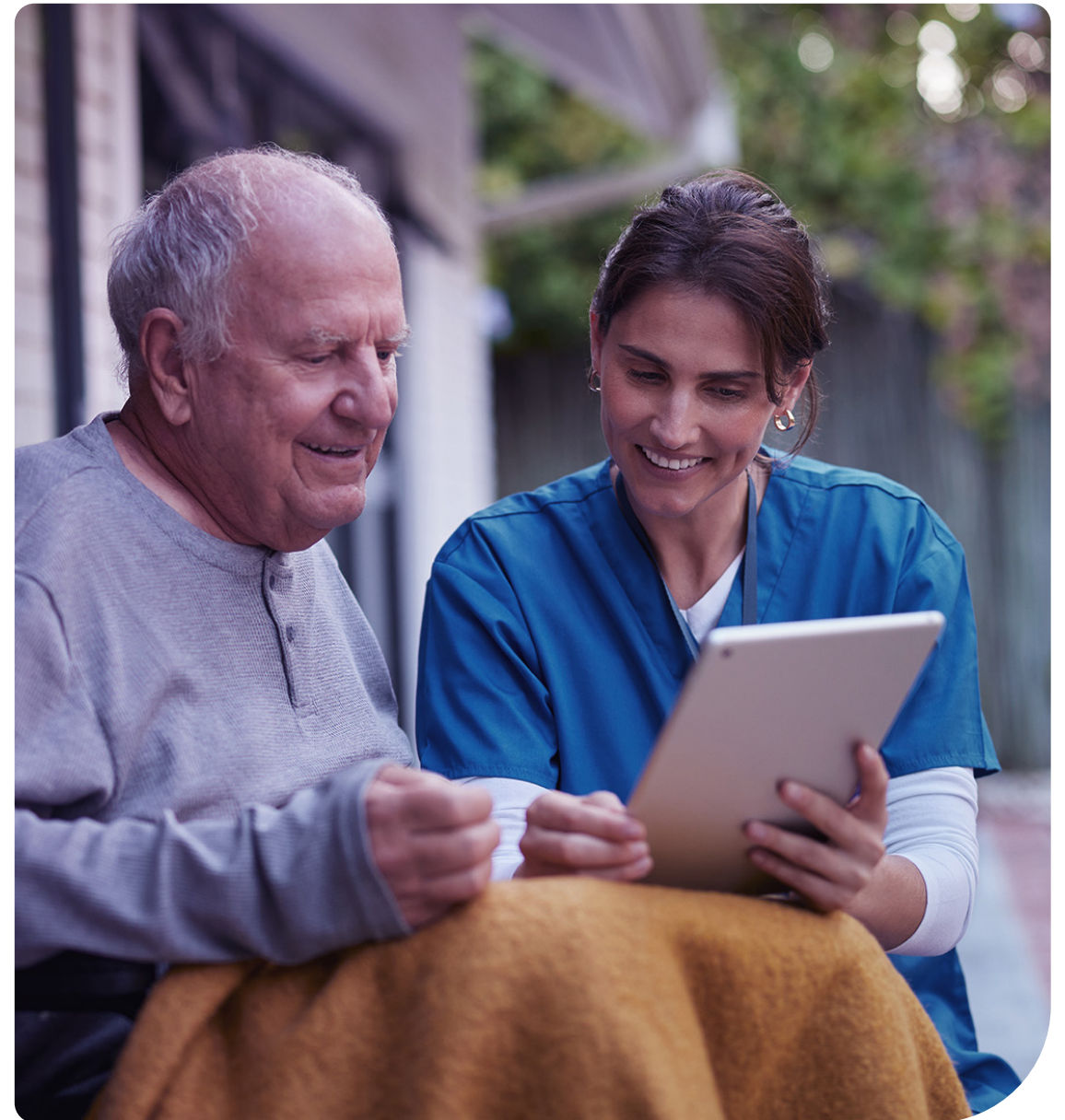
1. Accommodation Pricing Review Consultation Paper, September 2025.  
<https://www.health.gov.au/resources/publications/accommodation-pricing-review-consultation-paper?language=en>



# Demand for residential care beds

Various reports indicate that demand for residential beds over the next decade is forecast to range from 9,000 to 11,000 per year. These forecasts first appeared on the Department of Health, Disability and Ageing (DHDA) website several years ago. The most recent analysis, published by Bolton Clarke, offers a more conservative but still significant estimate of 6,000 to 7,000 beds per year, and notes that the net increase in supply after new development and facility closures was approximately 800 beds in FY2025.<sup>2</sup>

Aged care facilities are built to last 40 years. When assessing whether to build, investors project short-term revenues based on current funding settings and then extrapolate those figures across the full life of the asset. This means that when funding changes reduce near-term viability, the consequences flow through the entire investment case, affecting long-term revenue forecasts, investment confidence and sector trust.



2. 2024/25 residential care bed supply analysis. Hicks October 2025  
[https://www.boltonclarke.com.au/globalassets/251015-2024-25-residential-care-bed-supply-analysis\\_final.pdf](https://www.boltonclarke.com.au/globalassets/251015-2024-25-residential-care-bed-supply-analysis_final.pdf)

# Immediate impact of the Accommodation Pricing Review

Recent discussions with several aged care providers indicate that somewhere between 20 and 30 residential aged care developments will be slowed down, deferred or put on hold until the results of the Review. With the submission of the Review's final report due no later than 1 July 2026, and providing time for Parliament to review it, it is unlikely that the government response will be available to the sector by late 2026. Any projects that are restarted will require a 'ramp up' phase, likely three to six months, meaning that approximately 3,000 beds due to come online over the next five years have been deferred or delayed for approximately 18 to 24 months. These delays are on top of an already very constricted pipeline of development.

This information has been gathered from a small sample of providers who have been planning developments and does not represent a whole-of-industry analysis. The delays reflect uncertainty created by the Review. New developments are not proceeding until the policy settings are known. The consultation paper identifies several factors contributing to this uncertainty:

- A subsequent independent legislated review by 2030 will consider the use of RADs. The Review is also examining the RAD and DAP relationship, contributing to a progressive reduction in reliance on RADs as a source of capital funding. For providers whose developments depend on RADs, this uncertainty about the funding model's long-term future is a reason to pause.
- The appropriateness of current HAS policy parameters is under consideration by the Review. It could be argued that services that have been determined as significantly refurbished have an end date added to the HAS based on the type of refurbishment work. This uncertainty about the HAS is contributing to providers deferring refurbishment decisions.

- The recent Financial Report on the Australian Aged Care Sector 2023-24<sup>3</sup> showed that total per resident per day income for accommodation was \$51.45, with related expenses sitting at \$59.88 (inclusive of administration cost), both below the current maximum value of the Accommodation Supplement of \$69.79. These figures raise questions about whether current funding settings are adequate to support new development. The Review will examine why income and expenses do not align, including whether RAD management affects reported income and whether all costs are being fully captured.
- The consultation paper proposes making the DAP the default accommodation payment method. If this occurs, the Maximum Permissible Interest Rate (MPIR)-related fluctuations in pricing move from daily payments to refundable lump sums. This may be more similar to what occurs in real estate markets, however, in these markets typically both rents and prices increase over time. The degree of volatility in the current MPIR approach would see greater fluctuations than in housing markets, including times where the lump sum prices may decline. In these situations, there may be liquidity risks as a provider is required to refund a RAD where the new RAD does not cover the outgoing amount.

Any revenue changes that reduce the viability of future investments will directly impact the development of new residential aged care facilities.

3. Financial Report on the Australian Aged Care Sector 2023-24. Australian Government Department of Health and Aged Care 2025. <https://www.health.gov.au/sites/default/files/2025-07/financial-report-on-the-australian-aged-care-sector-2023-24.pdf>

# Investability in residential aged care

At September's Ageing Australia National Conference 2025, Minister Rae announced a Residential Aged Care Accommodation Pricing Review for supported residents. Elaborating further on the reasoning behind the review, Minister Rae told Australian Ageing Agenda (AAA) it is essential to establishing not just an investable sector, but an equitable sector too. *"I say this pretty regularly, we want every older Australian to be able to access safe, dignified and high-quality aged care"*.<sup>4</sup>

## Capital investment

Discussions with CEOs, banks and investors over the last few years have revealed a high level of interest in making additional investments in residential aged care services (RACS), underpinned by a strong social and moral obligation to improve access to quality care. The central concern, however, is whether those investments can be sustained over the long term at a rate of return sufficient to justify commitment and generate the operational cash flows needed to continue the investment cycle. In practice, this means using RADs from incoming residents to retire development debt on completed facilities, while building capacity for future investment.

There has been increased merger and acquisition activity in recent years, which has been driven in part by the increased cost of construction. With per-bed construction costs now widely acknowledged at \$550,000 to \$650,000, and considerably higher for high-rise facilities, escalating costs are tilting investor focus toward higher-end markets and residents with greater financial means, reducing the commercial incentive to accommodate supported residents. While this consolidation activity is understandable, it does not add new beds to the market to meet demand.

For the sector to attract sufficient new investment to meet even a fraction of projected demand, sustained stimulus will be required, and it must remain consistent over the full lifecycle of facilities, which is on average 40 years. The challenge is compounded by competition from alternative investments: retirement living, land lease developments, technology and media all offer significantly higher returns, raising the bar for what residential aged care must deliver to attract and retain capital. Even if conditions for new investment were established immediately, the first beds would take three years to become available for those already holding land, development approvals and funding, and five to seven years for those starting from scratch.

Investment decisions are ultimately assessed against hard financial metrics. Any reform that adversely affects profitability, EBITDA, interest cover, LVR (Loan-to-Value Ratio), IRR (Internal Rate of Return), and equity returns, risks undermining the investment case directly. Any delay or uncertainty in providing sustained stimulus will be felt in those assessments, prolonging the shortage of residential aged care beds and placing additional strain on existing facilities. Uncertainty about the future role of RADs in the capital model adds a further layer of risk to investment assessments, compounding the challenges already facing the sector.

## Capital Grant Program

The most recent round of the Capital Grants Program delivered \$300 million to build or reopen 315 beds, predominantly in regional and remote Australia. At an average cost of \$952,000 per bed, this significantly exceeds the \$550,000 to \$650,000 range faced by metropolitan providers, reflecting the genuine cost disadvantage in rural and remote markets.

Despite its importance, the program is chronically underscaled relative to demand. The scheme is highly competitive, funds are limited, and the complexity and cost of preparing an application means many providers withdraw from the process altogether. The most recent round funded 315 beds, down from 400 in the prior round, despite no reduction in need.

Without meaningful scaling of the program, these markets will remain structurally underserved, and the beds that are most needed in the communities that need them most will not get built.

<sup>4</sup>. Aged care a rewarding challenge, Minister Sam Rae tells AAA. Katarina Lloyd Jones. October 10, 2025  
<https://www.australianageingagenda.com.au/features/aged-care-a-rewarding-challenge-minister-rae-tells-aaa/>

## Additional service fees, extra service fees, and higher everyday living fee (HELFF)<sup>5</sup>

Many providers currently charge residents additional service fees through a bundled 'basket of services' that all residents can access on entry. All residents are asked to sign up on entry, which provides the scale and consistency of funding needed to deliver the labour, goods and services reliably and at a small profit.

Under HELFF, residents can choose specific services or opt out entirely. This creates significant uncertainty in the provision of suitable labour, goods and services. When take-up is inconsistent, some services become uneconomical to provide due to insufficient scale. In a state of continued diminishing participation and returns, these services run the risk of being permanently discarded. Patchy and inconsistent take-up will also inevitably create inequities between residents.

The uncertainty created by HELFF is already affecting investment in new builds. Providers are planning facilities with fewer amenity options such as hairdressers, beauty salons and gyms because consistent revenue from these services can no longer be guaranteed. Larger providers with more space to deliver HELFF services are particularly affected, as there is no longer a guaranteed revenue stream to justify the investment. While early indications from the Department were that residents could choose upon entry whether to enter a HELFF home or not, given the current shortage of available beds, this is not a realistic choice in practice.

## Backlog maintenance

Backlog maintenance is an underacknowledged issue with direct consequences for resident amenity and long-term sector viability. An estimated 25 per cent of current residential aged care facilities are at, or near end of life. This is the result of prolonged fiscal restraint that has left many in a significantly deteriorated condition, affecting the quiet enjoyment of residents in their homes. In most cases, these facilities would not now meet the National Aged Care Design Principles and Guidelines published in June 2024.<sup>6</sup>

The financial implications extend beyond individual facilities. All benchmarking data relied upon by the sector, including government and private datasets, currently excludes the appropriately assessed cost of backlog maintenance, meaning the true cost of accommodation provision is systematically understated in any analysis of supplement adequacy. Discussions with providers reveal that where restoration costs are significant and profitability is already low or non-existent, the calculation is increasingly pointing toward closure rather than reinvestment, and this trend is accelerating.

## New entrants and facilities


New entrants represent new capital and new beds, unlike mergers and acquisitions, which transfer existing facilities between owners without adding to supply. Under the new Aged Care Act, however, new entrants face a structural barrier that effectively closes off this pathway.

New entrants can only apply for approved provider status once an operating certificate has been issued, which in turn requires the facility to be built and operational. Constructing that facility requires bank funding, but banks will not advance finance without the confidence that approved provider status will be granted. This circular impediment locks new capital out of the sector and will need to be resolved if new beds are to enter the market at the scale required.



5. Higher everyday living, additional and extra service fees.  
<https://www.health.gov.au/our-work/residential-aged-care/charging/higher-everyday-living-additional-and-extra-service-fees>

6. National Aged Care Design Principle and Guidelines. June 2024.  
<https://www.health.gov.au/resources/publications/national-aged-care-design-principles-and-guidelines?language=en>



## Independent Health and Aged Care Pricing Authority (IHACPA)

Another impediment to new investment is the prior approval required by IHACPA for any room price above the maximum accommodation price. The application process requires a range of information including images of beds and rooms no more than six months old, however providers with new builds do not have photographs of unconstructed rooms and will not proceed without agreement from IHACPA on bed prices, particularly in high-demand, high socio-economic markets. Banks are similarly reluctant to advance debt unless RAD prices are clearly known and can be relied upon in their financial risk and credit assessments. This combination locks providers into thin financial positions, undermining lenders' ability to conduct meaningful risk and credit assessments, and represents a significant impediment to new investment in residential aged care.

# Funding and financing considerations

## Supported resident ratios and financial performance

The consultation paper states: *“The underlying policy supporting the Accommodation Supplement is to ensure that all residents, regardless of means, have access to quality accommodation. Ensuring that all the costs related to accommodation are effectively captured can be difficult and involve how providers depreciate and refresh their significant assets.”*<sup>1</sup>

In practice, this means the Accommodation Supplement should meet the cost of providing safe, quality accommodation to supported and partly supported residents. In the short term, with occupancy nearing 100 per cent across the sector, providers can select residents and without appropriate incentives, supported residents risk missing out as providers favour those with greater financial means. A future supplement regime should be designed to address this directly.

### Cost

Establishing a single cost to support the pricing of the Accommodation Supplement across approximately 2,600 residential aged care services is challenging. The costs of developing a facility varies significantly across time and markets, as do factors such as age, maintenance requirements and utilities. As mentioned earlier, for many older facilities, backlog maintenance costs are not captured in any government or private benchmarking data, making current analysis even more difficult, and any supplement adequacy assessment incomplete.

This raises three questions that the Review should consider:

1. Has the Accommodation Supplement been set too low over time to allow providers to maintain their assets at a suitable standard?
2. Have providers underspent on necessary maintenance, meaning cost reviews have not identified the level of expenditure required to support an appropriate supplement?
3. What is needed to evaluate the full extent of backlog maintenance in the system, whether remediation can 'save' some facilities, and what the implications are for supplement settings going forward?

Establishing a robust and consistently applied cost base for the Accommodation Supplement warrants further dedicated analysis and would materially strengthen the evidence base for future reform.

### Other considerations in maintaining supported resident ratios

Current modelling indicates that providers become more profitable once the supported resident ratio falls below approximately 28 per cent, creating a financial incentive for investment in high socio-economic markets where there are fewer supported residents. This dynamic warrants attention in the design of any future supplement regime.

A related equity issue arises in markets where there are simply not enough people qualifying as supported residents to meet the 40% threshold. Providers in these markets who are accommodating as many supported residents as are available should not be penalised for falling short of a benchmark that the local population cannot support.

1. Accommodation Pricing Review Consultation Paper. September 2025.  
<https://www.health.gov.au/resources/publications/accommodation-pricing-review-consultation-paper?language=en>

## Financial and Prudent Standards

Any reduction in revenue and profitability will, over time, erode provider reserves and compromise their ability to meet both the default and evaluated liquidity requirements under the Financial and Prudential Standards. This is not a theoretical risk: according to the Aged Care Financial and Prudential Standards Consultation Paper, approximately 16 per cent of providers are already in this position under current arrangements.<sup>7 8 9</sup>

## Valuations

Residential care assets can be valued using three broad methodologies: the cost approach, the market approach, and the Discounted cash flow (DCF) approach. The way each is applied varies between providers and their valuers. For example, different valuers may apply different discount rates under the DCF approach, and the matters under consideration in this Review will have different impacts on valuation outcomes depending on which approach is used.<sup>10</sup>

Periods of policy review introduce significant uncertainty regarding future funding, regulatory settings, and market conditions, which can lead valuers and investors to adopt more conservative assumptions such as higher discount rates or lower projected cash flows, reducing asset valuations and making investment decisions more cautious. The timing and clarity of policy outcomes are therefore critical, as prolonged uncertainty can depress valuations, delay new developments and ultimately reduce the supply of new beds. Generally, increasing the level of supplements will drive higher valuations, potentially increasing the capital that investors and banks can deploy into the sector. Further tiering of supplements at higher amounts can increase valuations in some circumstances, providing an additional lever for stimulating new development.

### Cost approach

The cost approach estimates value on the principle that a buyer will pay no more for an asset than the cost of obtaining one of equal utility, whether by purchase or construction, accounting for time and risk. Value is calculated by reference to current replacement or reproduction cost with allowances for depreciation and obsolescence. In an appreciating property market, this approach will generally produce a figure below market value, as the market value of existing assets tends to rise faster than their replacement cost.

### Market approach

The market approach estimates value by comparing the subject asset against identical or comparable assets for which price information is available, analysing and adjusting observable metrics accordingly. The introduction of retentions complicates this as it will take time for retention income to flow through income statements to determine the likely profitability of any given asset, and further time for sufficient residential aged care facility sales to occur with retentions applying to all residents. Until those acquisitions take place, comparative market data will not be available.

### Discounted cashflow approach

The DCF approach estimates value by projecting future cash flows and discounting them back to a present value using a chosen discount rate. Valuations under this approach will need to factor in retentions, which becomes difficult given that current residents and people on some home care packages are exempt from paying retentions from RADs. Assumptions around the length of stay of residents and the 'roll in' of qualified home care package holders will cause significant variations in cash flow forecasts and therefore in valuations produced under this methodology.



7. Aged Care Financial and Prudential Standards 2025 Exposure Draft. February 2025. <https://www.agedcarequality.gov.au/resource-library/financial-and-prudential-standards-consultation-draft>
8. The Financial and Prudential Standards, Guidance for providers <https://www.agedcarequality.gov.au/sites/default/files/media/financial-and-prudential-standards-guidance-for-providers.pdf>
9. Considerations for the Aged Care Quality and Safety Commission's proposed Financial Standards <https://www.grantthornton.com.au/insights/reports/considerations-for-the-aged-care-quality-and-safety-commissions-proposed-financial-standards/>
10. API. Valuation Protocol: Valuation Approaches and Methods. December 2025. API Valuation Methodologies <https://www.api.org.au/professional-development/knowledge-hub/valuation-protocol-valuation-approaches-and-methods/>

## Banking

Providers rely on banks to fund development and ongoing operations. Grant Thornton's report on the capital model for the aged care sector<sup>11</sup> noted that in 2020, banks contributed \$2.3 billion in total sector funding, representing 4.18 per cent of total funding. This figure will be higher today.

When banks decide whether to lend to an aged care provider, they assess the value of the assets securing the loan, the cash flows the business generates, the ability to meet interest payments, and broader financial performance measures known as banking covenants. Changes to current funding arrangements that reduce asset values or cash flows will directly affect these assessments, resulting in reduced lending.

The key factors that influence banking appetite are set out below.

### Banking management capacity

Assessments are made around governance strength, financial stewardship, and a demonstrated ability to execute strategy. Strong management capacity is consistently correlated with financial resilience and investment readiness.

### Supporting development and redevelopment

New builds and refurbishments are financed where execution capability is clear, with due diligence covering builder capability, contractor performance, financial strength, and overall delivery risk. For new entrants, an additional complication arises as the Aged Care Quality and Safety Commission (ACQSC) does not grant approved provider status until a facility is operational, yet funders require confidence that status will be approved before advancing debt. This is discussed further in the 'New Entrants' section of this report.

### Preference for predictable operational earnings

Lending appetite increases where sustainable, recurring operating revenue underpins debt service and providers are not reliant on variable or timing-dependent funding sources. Several of the matters raised in the Consultation Paper directly impact these assessments, including proposed changes to RADs, DAPs and Accommodation Supplement settings, which are examined in the 'Specific matters for consideration' section of this report.

### Alignment with quality uplift and modern design standards

Providers investing in contemporary, fit-for-purpose accommodation are better positioned to attract capital and meet the needs of future residents.

11. A capital model for the aged care sector Darrell Price. October 2023.  
<https://www.grantthornton.com.au/insights/reports/a-capital-model-for-the-aged-care-sector/>



# Specific matters for consideration in the consultation paper

## Low means residents

The Review seeks to ensure that low means residents have access to high quality accommodation, support providers' capacity to invest and deliver places, and foster a sector that can innovate and attract investment. These objectives are addressed throughout this paper, particularly in the sections on investability, supported resident ratios, capital grants, and funding and financing considerations.

## Interest free loans by the Commonwealth to pay Refundable Accommodation Deposits (RADs)

The provision of interest free loans to supported residents has some merit. However, there are a few benefits and concerns that would need to be worked through.

Key matters for consideration:

- **Borrower:** Clarity is needed on whether the loan would be provided to the resident, who then advances funds to the provider, or directly to the provider. In line with the Accommodation Supplement regime, it appears it would be the former. This raises questions of repayment liability on exit and whether a tripartite agreement would be required to provide financiers with confidence on how development debt is repaid.
- **Pricing:** In line with the issues raised in relation to the Accommodation Supplement and the HAS, the basis on which the loan would be priced requires resolution – whether by market assessment, median house price, building cost, asset valuation, RAD input funding based on a feasibility study, or some other means. The treatment of providers who do not meet the 40 per cent supported resident ratio also requires consideration, including whether subsequent RADs would be discounted and how providers would be incentivised to target the 40 per cent threshold.
- **Inequality:** A supported resident in a metropolitan setting would likely receive a higher RAD than one in a rural or remote setting, despite those areas requiring the greatest investment. Consideration should be given to whether the MMM (Modified Monash Model) could be used to load interest free loans in those markets to address this inequity.
- **Retentions:** The treatment of retentions requires clarification, specifically whether the provider would deduct a retention on repayment to the resident on exit or back to the Commonwealth, and what would the removal of retentions mean for feasibility studies.
- **Partly supported residents:** The application of interest free loans to partly supported residents requires consideration, including whether the loan would be reduced and with the partly supported resident topping up the balance through their own RAD contribution or DAP.
- **Banking:** The impact of interest free loans on the banks' appetites to fund developments requires assessment, including whether such loans would be treated as subordinate debt to bank securities.
- **RAD Guarantee Scheme:** The extent to which this arrangement would increase the Commonwealth's exposure to loan write-offs relative to the current RAD guarantee schemes requires evaluation.

### Benefits

Banks may be more inclined to fund new developments where the Commonwealth will advance interest free loans to residents to pay for their accommodation rather than provide an accommodation supplement. The capital input would reduce or eliminate development debt, allowing the provider to continue business as usual operations, at low or no debt.

### Disbenefits

Residential aged care facilities currently rely on a combination of capital and revenue flowing through RADs and DAPs to fund their operations. The election by residents about how they choose to pay introduces greater uncertainty into this mix, though providers have generally been able to get the balance right for their particular services.

Advancing interest free loans to residents or providers to fund RADs for supported residents is likely to remove much needed cash flow to fund operations, potentially creating funding shortfalls that impact quality, safety and viability. Rigorous administration would also be required by the relevant agency, with providers needing to produce clear business plans and financial forecasts to qualify.

## Higher Accommodation Supplement (HAS)

Capital investment and refurbishments have been undertaken based on the rules in place at the time. This included the payment of the HAS once any of these investments were made. Any changes to these arrangements will require a suitable lead-in period to allow providers time to make qualifying investments before new settings take effect. In the case of refurbishments, a lead-in period of five years is suggested as an example. Other matters for consideration:

1. Split the HAS into a Refurbishment Supplement with a lifespan of seven to ten years and a step down in the mid-point.
2. Consideration should be given to using the MMM to assess relative remoteness of services and provide a loading to the HAS to incentivise refurbishment of rural and remote services in line with point above.<sup>12 13</sup>
3. Create a new 'Capital Incentive Supplement' at the same rate as the above HAS Refurbishment supplement, applying over the planned useful life of the asset at approximately 40 years with a step-down at the mid-point, at which time a refurbishment is likely to be required. This incentivises mid-point asset renewal, maintains amenity over the useful life of the asset and prevents the build-up of backlog maintenance issues. The HAS Refurbishment Supplement should not be paid while the higher rate of Capital Incentive is in place.

Providers who invested in the initial significant refurbishment scheme did so on the basis that the HAS would be retained and not stepped down. The current rate will need to be maintained as the baseline, with any future refurbishments funded under a further top up supplement.

12. Review of the remoteness classification system for aged care. DHDA  
<https://www.health.gov.au/topics/aged-care/aged-care-reforms-and-reviews/review-of-the-remoteness-classification-system-for-aged-care?language=en>

13. Aged care in rural and remote Australia. AIHW. 2022-23  
[https://www.gen-agedcaredata.gov.au/getmedia/31f416f6-19a9-4332-a687-a661ed1d0ebe/Aged-care-in-rural-and-remote-Australia\\_2022%E2%80%9323.pdf?ext=.pdf](https://www.gen-agedcaredata.gov.au/getmedia/31f416f6-19a9-4332-a687-a661ed1d0ebe/Aged-care-in-rural-and-remote-Australia_2022%E2%80%9323.pdf?ext=.pdf)



## The relationship between Refundable Accommodation Deposits (RADs) and Daily Accommodation Payments (DAPs)

Currently the relationship between the RAD and the DAP is defined in the formula:

$$\text{DAP} = (\text{room price (RAD)} \times \text{MPIR}) / 365$$

The MPIR is a government-set rate used to determine the DAP in aged care based on agreed room price. It is not an interest charge, it is set at a level to ensure that daily payments will adequately cover accommodation costs for residents who choose not to pay a lump sum.

There are several reasons why setting the RAD as a default is appealing:

- The 'price' is more easily compared between providers by prospective residents and families than daily payment equivalents.
- The RAD can be readily benchmarked against local property prices, helping residents assess whether they can afford to pay the lump sum.
- Competition for beds in any given market naturally limits how high RAD prices can be set, as providers charging above what the local market will support will lose residents to competitors. For RADs above \$750k, IHACPA approval provides an additional check, preventing price gouging in thin markets where competition alone may not be sufficient to keep prices in line. In both cases, the RAD ceiling flows through to the DAP via the MPIR, the appropriateness of which as a long-term mechanism is discussed below.
- In rural and remote settings, the RAD is dictated by market conditions and those with RADs that are too high have vacant beds.

It is easy to understand why the relationship between RADs and DAPs was established. The question is will the MPIR remain the most appropriate mechanism over time.

Some providers have suggested using the Weighted Average Cost of Capital (WACC) to define the relationship between the RAD and the DAP. This is a potentially useful measure, though it can be difficult to calculate consistently given that WACC varies significantly across the sector by provider size, debt and capital structure. One possible approach to introduce the WACC is for larger more sophisticated providers, say those operating over 5,000 beds, who can accurately calculate and report their WACC, to have it approved and applied, while others remain on the default MPIR.

Some views indicate potential flaws in using the MPIR, suggesting it creates inequities in some markets and may not stand the test of time. Other possible solutions are to link the measure used for the relationship between the RAD and the DAP to a more tangible and credible source, such as cash rate or Bank Bill Swap Yield (BBSY) – with a variable margin or lever, that can adapt to market conditions at the time. This would provide greater public disclosure, though it remains underpinned by having a clear relationship between RAD and DAP, no matter the measure used. The counterargument is that these rates are more volatile than a 'published' quarterly measure endorsed by the Minister, which could cause frequent repricing of RADs and DAPs and create confusion for consumers.

# Sensitivity analysis of a feasibility study for a single residential aged care facility

The following is a sensitivity analysis undertaken on a new build of a single residential aged care facility with the following constant characteristics:

1. 144 beds
2. Build cost at \$550k per bed
3. Occupancy at 95 per cent
4. AN-ACC (Australian National Aged Care Classification funding) – steady
5. Basic daily living and means tested fees – steady

It is based on a live example, modified to deidentify the provider. The model is for a start-up with construction and operational ramp-up, with FY2030 representing the first year of operations. Individual Income Statements and Balance Sheets have been prepared to support each scenario in the table.

Baseline )		FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033	FY2034	FY2035
<b>Revenue</b>											
Direct care revenue	[A\$]			263,457	10,978,577	17,002,979	17,513,068	18,579,614	19,137,003	19,137,003	19,711,113
Everyday living revenue	[A\$]			70,212	2,925,806	4,531,318	4,667,257	4,951,493	5,100,038	5,100,038	5,253,039
Accommodation revenue	[A\$]			32,499	1,345,762	2,083,614	2,216,558	2,276,821	2,345,126	2,345,126	2,415,479
<b>Total revenue</b>	<b>[A\$]</b>			<b>366,168</b>	<b>15,250,145</b>	<b>23,617,911</b>	<b>25,124,885</b>	<b>25,807,929</b>	<b>26,582,166</b>	<b>26,582,166</b>	<b>27,379,631</b>
<b>Pre-commencement costs</b>											
Direct care costs	[A\$]			(799,852)	(12,494,123)	(14,494,123)	(15,191,306)	(15,689,914)	(16,611,457)	(16,599,950)	(17,097,949)
Everyday living costs	[A\$]			(245,314)	(3,831,931)	(4,523,450)	(4,659,153)	(4,812,076)	(4,942,896)	(5,091,183)	(5,243,918)
Accommodation costs	[A\$]			(280,539)	(3,634,032)	(3,785,615)	(3,739,107)	(3,703,187)	(3,663,326)	(3,633,766)	(3,609,582)
<b>Total costs</b>	<b>[A\$]</b>			<b>(1,325,705)</b>	<b>(19,960,086)</b>	<b>(23,057,906)</b>	<b>(23,589,567)</b>	<b>(24,205,176)</b>	<b>(24,722,679)</b>	<b>(25,324,899)</b>	<b>(25,951,449)</b>
Other income	[A\$]				653,920	1,095,293	1,122,458	1,154,902	1,188,168	1,222,861	1,258,308
Net interest expense	[A\$]		(642,246)	(1,914,670)	(555,429)	1,101,7390	1,335,150	1,688,704	2,068,603	2,477,495	2,915,585
<b>Net profit for the period</b>	<b>[A\$]</b>		<b>(642,246)</b>	<b>(2,874,208)</b>	<b>(4,611,450)</b>	<b>2,672,688</b>	<b>3,194,489</b>	<b>3,763,314</b>	<b>4,342,022</b>	<b>4,957,624</b>	<b>5,602,076</b>
EBITDA	[A\$]			(765,890)	(1,779,279)	3,838,692	3,948,149	4,073,333	4,185,944	4,310,570	4,438,648
EBIT	[A\$]			(959,538)	(4,056,021)	1,655,297	1,859,339	2,074,610	2,273,418	2,480,129	2,686,491
EBIT/ per occupied bed per day	[A\$ / pbpd]			(1,149.86)	(121.85)	33.15	37.24	41.14	45.53	49.67	53.80

The following is a summary of data inputs for scenario analysis.

Scenario selection										
Scenario Number	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5	Scenario 6	Scenario 7	Scenario 8	Scenario 9	Scenario 10
<b>Key modelling assumptions</b>										
1. Total number of beds	144	144	144	144	144	144	144	144	144	144
<b>Breakdown by room type</b>										
Single room – ensuites	144	144	144	144	144	144	144	144	144	144
Single room – shared bathrooms	0	0	0	0	0	0	0	0	0	0
Double room – ensuites	0	0	0	0	0	0	0	0	0	0
Room type 1	0	0	0	0	0	0	0	0	0	0
Room type 2	0	0	0	0	0	0	0	0	0	0
Room type 3	0	0	0	0	0	0	0	0	0	0
2. Occupancy rate	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%
3. RAD value	750,000	750,000	750,000	750,000	750,000	750,000	500,000	500,000	500,000	500,000
4. Rad retention	2%	2%	1%	1%	0%	0%	2%	2%	1%	1%
5. Building Type (New/Refurbished or old/Unfurnished)	New	Old	New	Old	New	Old	New	Old	New	Old
Government supplements – accomodation	69.79	45.51	60.79	45.51	69.79	45.51	69.79	45.51	69.79	45.51
Government supplements – accomodation (post 25% discount)	69.79	45.51	60.79	45.51	69.79	45.51	69.79	45.51	69.79	45.51
<b>6. Resident Mix</b>	<b># of residents</b>									
Fully supported resident mix	58	40%	40%	40%	40%	40%	40%	40%	40%	40%
<b>Partial supported RAD/DAP resident mix</b>	19	13%	13%	13%	13%	13%	13%	13%	13%	13%
RAD resident mix	10	50%	50%	50%	50%	50%	50%	50%	50%	50%
DAP resident mix	9	50%	50%	50%	50%	50%	50%	50%	50%	50%
<b>Non supported RAD/DAP resident Mix</b>										
RAD resident mix	68	47%	47%	47%	47%	47%	47%	47%	47%	47%
DAP resident mix										
Partial RAD/DAP residents										
Resident Mix Check		100%	100%	100%	100%	100%	100%	100%	100%	100%

The results of the scenario analysis are as follows.

Scenario	Assumptions			Year 1 of Operations		Variance to Baseline	
	RAD value	RAD Retention (%)	Accommodation Supplement (\$/pbpd)	EBITDA (\$)	EBITDA per bed per day (\$ pbpd)	EBITDA (\$)	EBITDA per bed per day (\$ pbpd)
<b>Baseline</b>	<b>750,000</b>	<b>2%</b>	<b>69.79</b>	<b>3,838,682</b>	<b>33.15</b>	<b>-</b>	<b>-</b>
Lower RAD	500,000	2%	69.79	3,305,627	22.48	(533,054)	(10.68)
Higher RAD	1,000,000	2%	69.79	4,371,736	43.83	533,054	10.68
Lower Retention %	750,000	1%	69.79	3,293,947	22.24	(544,734)	(10.91)
No Retention	750,000	0%	69.79	2,743,389	11.22	(1,095,293)	(21.94)
Lower Accommodation Supplement	750,000	2%	45.51	3,289,088	22.14	(549,594)	(11.01)

The table above shows the financial impact that changing key modelling assumptions has on the first year of operations EBITDA and EBITDA per bed per day (EBITDA \$pbpd).

The Baseline scenario assumes a RAD value of \$750k, a RAD retention amount of 2 per cent per annum (for a maximum of five years) and the use of the HAS. The Baseline scenario produces an EBITDA of circa \$3.8 million and an EBITDA \$pbpd of \$33.15.

The following page of this report outlines the scenarios and their individual impacts.





### RAD Prices

If the RAD value is reduced by \$250k to \$500k, the first year of operations EBITDA is reduced by circa \$533k and EBITDA \$pbpd is reduced by \$10.68, conversely if the RAD was increased by \$250k to \$1 million, EBITDA and EBITDA \$pbpd would increase by those corresponding amounts.

### Retentions

Lowering the RAD retention amount from 2 per cent to 1 per cent per annum would reduce first year of operations EBITDA by circa \$544k and EBITDA \$pbpd by \$10.91, and reducing the retention amount to 0 per cent would reduce the EBITDA by circa \$1.1 million and EBITDA \$pbpd by \$21.94.

### Accommodation Supplement / HAS

Applying the lower Accommodation Supplement ( \$45.51 pbpd versus \$69.79 pbpd ), would reduce EBITDA by circa \$550k compared to the Baseline and EBITDA \$pbpd by \$11.01.

### Key findings

Taken individually, each of these changes reduces first-year EBITDA by approximately \$530,000 to \$550,000. In combination, their effect would be compounding, placing a material number of prospective developments below the threshold of commercial viability and reinforcing the case for stable, predictable accommodation pricing settings.

# Conclusion

The residential aged care sector is at a point where the decisions made today will either unlock the investment needed to meet future demand, or entrench the supply gap for years to come. Demand for beds is growing, existing stock is ageing, and the pipeline of new development is not keeping pace. At the same time, investment decisions are being deferred, construction costs have escalated significantly, and the regulatory and funding environment continues to evolve in ways that introduce uncertainty rather than reduce it.

This Report has identified a range of structural and policy factors contributing to this dynamic. Some, such as construction cost escalation and competition from alternative investment classes, are largely external to government policy. Others, including the sequencing of approved provider status for new entrants, the IHACPA pricing approval process, the configuration of accommodation supplements, and the design of capital incentive mechanisms, are areas where targeted policy settings could meaningfully shift investment behaviour.

The sensitivity analysis presented in this report illustrates how acutely the financial viability of a new residential aged care facility responds to changes in accommodation pricing parameters. A reduction in RAD values, retention rates or supplement levels (each individually modest in policy terms) can reduce first-year EBITDA by more than \$500,000 on a 144-bed facility operating at 95 per cent occupancy. In combination, the effect is compounding. For many prospective developments, particularly those targeting supported residents or located in regional and remote areas, these margins may represent the difference between proceeding and not.

Several constructive reform pathways have been identified in this report. Tiering the HAS to reflect the age and type of investment, introducing a dedicated Capital Incentive Supplement for new builds over the full lifecycle of an asset, applying MMM loadings to better support rural and remote development, and resolving the approved provider sequencing issue for new entrants are all measures that could stimulate new supply without requiring fundamental restructure of the sector's funding model.

The Accommodation Pricing Review is an important opportunity to establish a clearer, more durable framework – one that supports both affordability and access for residents and long-term viability for providers and investors.

What the sector requires, above all else, is certainty. Certainty on supplement settings, on the future role of RADs and DAPs, and on the capital incentive framework that will underpin decisions made over the next decade. Investments in residential aged care are made with a 40-year horizon. Policy settings should be designed with that horizon in mind. The cost of prolonged uncertainty, or of settings that weaken investment incentives without adequate replacement mechanisms, will ultimately be felt by by older Australians who cannot access the care and accommodation they need.

# Appendix

## Consultation paper questions

The appendix sets out the consultation questions published as part of the Residential Aged Care Accommodation Pricing Review.

These questions are included to provide transparency regarding the matters under consideration by the Review and to assist readers in understanding the policy context in which accommodation pricing, supplements and related funding arrangements are being examined.

1. Outline how you think the Accommodation Supplement could be reformed to ensure quality accommodation for residents of low means.
2. Should the value of the Accommodation Supplement be universal or tiered such as by location or proportion of residents or other basis?
3. Should the Higher Accommodation Supplement be staggered over time, so that as the accommodation facilities age the supplement is reduced (with the full value payable again after a new renovation)?
4. How suitable is the current incentive structure to encourage providers to accept low means residents (a discount on the Accommodation Supplement based on a single threshold of 40% supported residents)? How could those incentives be preserved or enhanced?
5. How can the Accommodation Supplement be reformed to support an uplift in the quality of accommodation?
6. Outline how the Accommodation Supplement pricing impacts on incentives for capital investment in residential aged care.
7. In what ways could the Accommodation Supplement be reformed to better incentivise capital investment in residential aged care?
8. To what extent are the current rates of the Accommodation Supplement sufficient to cover providers' capital and operational costs relating to accommodation?
9. How do the costs of providing accommodation vary across different operating environments, such as differences in location?
10. What factors should be considered in setting an equivalence mechanism and rationale for each?
11. What is an appropriate rate of return on lump sum for providers? Is this an appropriate level for setting an MPIR?
12. How does this change with economic conditions? Does the MPIR link to the General Interest Charge represent an appropriate way of adjusting equivalence in line with economic conditions?
13. Would a Weighted Average Cost of Capital be an appropriate equivalence mechanism? If so, how should this be derived?
14. Is there a case for an equivalence range rather than a single point of equivalence defined by the MPIR and why? How might this work?
15. Should the government introduce a mandated minimum accommodation payment that prevents providers receiving less revenue from non-supported residents than they do from supported residents?
16. What are the advantages and disadvantages of moving the MPIR-related fluctuations in pricing from the DAP to the RAD?
17. Would setting DAPs as the default make accommodation pricing easier to understand for prospective residents and their families?
18. Are there other relevant factors to consider in relation to setting the DAP as the default payment type?
19. Do you think the DAP should be set as the default payment type? Why?

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