

AGED CARE PRUDENTIAL STANDARDS POLICY

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1.0 Prudential Standards

The Prudential Standards as set out in the *Fees and Payments Principles 2014 (No 2)* (the Principles) outline the regulatory requirements of providers in respect of their prudential management of refundable accommodation deposits, accommodation bonds and entry contributions (collectively known as accommodation deposits).

The *Aged Care Act 1997* requires that all Approved Providers must comply with the Prudential Standards as set out in the Principles.

There are four Prudential Standards being:

- Liquidity Standard
- Records Standard
- Governance Standard; and
- Disclosure Standard.

One of the requirements contained in the Disclosure Standard is the disclosure each year of certain information to the Department of Health. The Approved Provider must submit to the Secretary a statement in the form specified disclosing matters relating to the compliance with the Prudential Standards during the year and disclose instances or periods of non-compliance with those Standards (included with the Annual Prudential Compliance Statement).

2.0 Permitted uses

Division 52N of the *Aged Care Act 1997* defines permitted uses. The use of refundable accommodation deposits (RADs) is regulated by Part 6 of the Principles.

An Approved Provider is permitted to use RADs for the following:

- a) Capital expenditure for residential or flexible aged care purposes
- b) Investing in certain financial products
- c) To make a loan (with certain conditions to be satisfied)
- d) To refund or repay debt accrued for the purposes of refunding accommodation deposits

- e) To repay debt accrued for the purposes of capital expenditure as referred to in (a) above
- f) To repay debt accrued before 1 October 2011 (the application date for the current permitted use rules) if the debt is accrued for the purposes of providing aged care to care recipients
- g) For a use permitted by the Fees and Payments Principles.

3.0 Annual Prudential Compliance Statement

Approved Providers that hold RADs are required by 52N-1 of the *Aged Care Act 1997* to comply with the Prudential Standards. The Disclosure Standard requires to complete and submit the Annual Prudential Compliance Statement (APCS) to the secretary of the Department within four months of the end of their financial year.

The APCS acts to demonstrate the compliance with the four Prudential Standards. The APCS must be audited by an independent external auditor.

The APCS contains questions about the number and value of the accommodation deposits held, whether refunds were paid on time, and whether they complied with Prudential Standards. Approved Providers are also required to provide information to support their compliance with permitted uses for accommodation deposits.

4.0 Financial Reporting Requirements

Division 2 of the Principles requires Approved Providers to submit to Department the following:

- Aged Care Financial Report (ACFR) (which includes the Annual Prudential Compliance Statement)
- General Purpose Financial Report.

5.0 Corporate Governance

Governance refers to the systems that are in place to “govern” or control an organisation. Each organisation must consider how this is best achieved for their organisation which can depend on for example, the size and complexity of the organisation as a whole.

Those charged with governance - such as the Board of Directors are the primary stakeholders influencing corporate governance of the organisation and have the ultimate responsibility and accountability of ensuring strategic goals are met, financial

sustainability is maintained, as well as to comply with obligations as set by the regulatory environment in which the organisation operates.

For Approved Providers, with regards to financial reporting and prudential compliance, the Directors must ensure compliance with the following (depending on the type of organisation):

- Corporations Act 2001 (for listed companies, and for-profit companies)
- Australian Charities and Not-for-Profits Commission Act 2012 (for registered not-for-profit entities)
- Income Tax Assessment Act 1997
- Aged Care Act 1997
- Fees and Payments Principles 2014 (No 2)
- Accountability Principles 2014.

The Directors must ensure appropriate mechanisms have been implemented to ensure compliance with the above regulatory environment in addition to a significant number of other legislative and statutory obligations. This includes the responsibilities relevant to managing prudential risk within the organisation and ensuring compliance with the current Standards as set out in the respective *Principles*.

With particular reference to the Governance Standard, the Directors must ensure that the organisation only uses RADs for permitted uses and that RADs are refunded to residents or their estates within the specified timeframe. The Governance Standard also sets out the minimum governance system that should be adopted by an Approved Provider including those in relation to reporting and delegation. An important component is the requirement to enable a robust risk management environment.

Division 1: Liquidity Standard

Requirement for sufficient liquidity

If an Approved Provider holds one or more refundable deposit balances, accommodation bond balances or entry contribution balances, the Approved Provider must maintain sufficient liquidity to ensure that the Approved Provider can refund, in accordance with the Act and these principles, any of those balances that can be expected to fall due in the following 12 months.

Requirement to implement, maintain and comply with liquidity management strategy

An Approved Provider that holds one or more refundable deposit balances, accommodation bond balances or entry contribution balances must implement and maintain a written liquidity management strategy (LMS) that sets out:

- a) the amount (expressed as an amount of whole dollars) required to ensure that the Approved Provider has sufficient liquidity for the purposes of section 43 (the minimum level of liquidity); and
- b) the factors that the Approved Provider had regard to in determining the minimum level of liquidity; and
- c) the form in which the Approved Provider will maintain the minimum level of liquidity.

Current Blue Haven considerations for LMS calculation @ 30 June 2022

Blue Haven's historical occupancy has been at a minimum 90% for many years and the concessional ratio of Blue Haven has ranged between 23% and 25%. The average length of stay currently is around 2.15 years. These factors suggest:

- 46% of the RAD / Bond balance may be subject to departure and therefore repayment (within the likely 6 month period including obtaining a grant of probate)
- likelihood of an incoming resident to replace the outgoing resident is high ie 90%
- likelihood the incoming resident will pay a RAD is high ie 68%.

Based on the above considerations, it is determined that a minimum amount of \$4.75M of the RAD / Bond balance will be maintained in liquid cash investments with an appropriate financial institution and/or utilise an overdraft facility, for the purposes of ensuring efficient and timely repayment of an outgoing RAD / Bond.

- RAD and Bond balances @ 30 June 2022 of \$30.9M require cash reserves of \$4.75M for LMS purposes

Though not prescribed by the NSW Retirement Villages Act, it is determined to apply a similar methodology for internal prudential governance purposes for its retirement village resident loans.

- Independent Living Unit Entry Contribution balances @ 30 June 2022 of \$101.9M requires cash reserves of \$4.28M for internal prudential purposes

Division 2: Records Standard

Refundable deposit register

An Approved Provider must establish and maintain a register (the refundable deposit register) that includes:

- a) the information in relation to refundable deposits, accommodation bonds and entry contributions as provided by this Division; and
- b) any other information in relation to refundable deposits, accommodation bonds or entry contributions determined, by legislative instrument, by the Secretary.

An Approved Provider maintains such a register and forms the basis for its annual reporting requirements within the Disclosure Standard.

Division 3: Governance Standard

Requirement for governance system

An approved provider that holds one or more refundable deposit balances or accommodation bond balances must implement and maintain a governance system that ensures that those balances:

- a) are used only for permitted uses; and
- b) are refunded to care recipients in accordance with section 52P-1 of the Act.

Without limiting the matters that an approved provider's governance system may deal with, the system must provide for the following:

- a) allocating responsibilities to the key personnel of the approved provider in relation to the management of refundable deposit balances or accommodation bond balances held by the provider
- b) monitoring and controlling any delegation or outsourcing of the allocated responsibilities
- c) reporting mechanisms for the allocated responsibilities that ensure that the key personnel who are responsible for the executive decisions of the approved provider can effectively monitor and control the use of refundable deposit balances and accommodation bond balances
- d) ensuring that the key personnel who are allocated responsibilities, and persons to whom responsibilities are delegated or outsourced, are aware of the requirements of the Act and these principles in relation to refundable deposits and accommodation bonds
- e) detecting, recording and responding to any failure to comply with the requirements referred to in paragraph d.

The Blue Haven Board through the Chief Executive Officer / Management and underlying internal control environment (including the external audit of the annual prudential compliance statement) ensure the governance expectations are met.

Requirement for investment management strategy

Where refundable deposits and bonds are not immediately required for other permitted uses, providers may choose to invest them in order to generate additional income. The Act allows for refundable deposits and bonds to be invested in a broad range of financial products ie. a financial product covered by any of paragraphs 52N-1(3)(b) to (e) of the Act

While investment in particular financial products and religious charitable development funds is a permitted use for refundable deposits and bonds, these investments bring with them a range of risks that need to be recognised and appropriately managed.

If a provider invests bonds and refundable deposits solely in a deposit taking facility provided by an authorised deposit-taking institution, then the provider is not required to implement an investment management strategy. Otherwise, the Approved Provider must implement and maintain a written investment management strategy that sets out the following:

- a) the Approved Provider's investment objectives
- b) the Approved Provider's assessment of the level of risk to the provider's ability to refund refundable deposit balances or accommodation bond balances in accordance with the Act
- c) a strategy for achieving the investment objectives while ensuring that the Approved Provider is able to refund refundable deposit balances and accommodation bond balances in accordance with the Act
- d) the asset classes the approved provider may invest in
- e) investment limits for each asset class that are consistent with the investment objectives
- f) key personnel with appropriate skills and experience who are responsible for implementing the investment management strategy.

Division 4: Disclosure Standard

Annual prudential compliance statement

An Approved Provider must give the Secretary a statement (the annual prudential compliance statement) for a financial year for the approved provider that includes the following:

- a) information about refundable deposits and refundable deposit balances referred to in section 52
- b) information about accommodation bonds and accommodation bond balances referred to in section 53
- c) information about entry contributions and entry contribution balances referred to in section 54
- d) information about other fees referred to in section 54A
- e) the statements and other information referred to in section 55
- f) any other statements and information determined, by legislative instrument, by the Secretary.

Audit of annual prudential compliance statement

An annual prudential compliance statement must be supported by an independent audit provided by:

- a) a registered company auditor within the meaning of the Corporations Act 2001; or
- b) a person approved by the Secretary under subsection (2).

Disclosure to care recipients

Providers have responsibilities for information that must be provided to care recipients (or their representatives).

➤ Copy of accommodation agreement

Within seven days after an accommodation agreement is entered into, providers must notify the care recipient, in writing, that the provider will give the care recipient, within 7 days of a request by the care recipient, the information and documents set out in section 57 of the Fees and Payments Principles which include:

- a) a summary of the permitted uses that refundable deposits and bonds have been used for in the previous financial year

- b) if refundable deposits and bonds have been invested in financial products other than through an authorised deposit-taking institution, a statement explaining the provider's investment objectives and the asset classes they may invest in
- c) information about whether the provider has complied with the prudential requirements and permitted uses for refundable deposits and bonds
- d) a copy of the independent audit opinion of the annual prudential compliance statement from the previous financial year
- e) information about the number of refundable deposit balances and bond balances that were not refunded in accordance with the Act or, for entry contributions, a formal agreement
- f) the provider's most recent audited accounts or, if the service is part of a broader organisation, the statement relating to the aged care component
- g) a copy of the resident's entry in the refundable deposit register, current at the time of the request.

➤ **Routine provision of information at the end of each financial year**

Within four months after the end of each financial year, providers are required to provide care recipients who have paid a refundable deposit, a bond or an entry contribution with the following information:

- a) a copy of the resident's entry in the refundable deposit register, as at the end of the financial year (assuming that the resident had paid a refundable deposit or an bond prior to the end of the financial year), and
- b) a written statement that the provider will provide, within seven days of request, the information and documents specified in section 57(1)(a)-(g) - (3), Fees and Payments Principles.

➤ **Routine provision of information at any other time**

If a care recipient who has paid a refundable deposit, a bond or entry contribution requests the information and documents set out in section 57(1)(a)-(g) - (3), and provider must provide it within seven days. That information includes the following:

- a) a summary of the permitted uses that refundable deposits and bonds have been used for in the previous financial year

- b) if refundable deposits and bonds have been invested in financial products other than through an authorised deposit-taking institution, a statement explaining the provider's investment objectives and the asset classes they may invest in
- c) information about whether the provider has complied with the prudential requirements and permitted uses for refundable deposits and bonds
- d) a copy of the independent audit opinion of the annual prudential compliance statement from the previous financial year
- e) information about the number of refundable deposit balances and bond balances that were not refunded in accordance with the Act or, for entry contributions, a formal agreement
- f) the provider's most recent audited accounts or, if the service is part of a broader organisation, the statement relating to the aged care component
- g) a copy of the resident's entry in the refundable deposit register, current at the time of the request.

Blue Haven completes and submits its audited annual prudential compliance statement. Accommodation Agreements are prepared for each resident and all other information is provided and/or advised that it is available on request. Annual disclosure requirements are also met.

How to contact Council and Blue Haven

Post

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PO Box 75
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Telephone

Council +61 (02) 4232 0444
Blue Haven Care +61 (02) 4203 4055
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