# Catholic Health Australia – Submission on the proposed new Financial and Prudential Standards

March 2025

Catholic Health Australia
www.cha.org.au

Catholic Health Australia (CHA) is Australia's largest non-government grouping of health, community, and aged care services. CHA Members provide approximately 12 per cent of all aged care facilities across Australia, in addition to 20 per cent of home care provision.

Our members account for over 15 per cent of hospital-based healthcare in Australia and operate hospitals in each Australian state and in the Australian Capital Territory, providing about 30 per cent of private hospital care and 5 per cent of public hospital care in addition to extensive community and residential aged care.

CHA not-for-profit providers are a dedicated voice for the disadvantaged which advocates for an equitable, compassionate, best practice and secure health system that is person-centred in its delivery of care.

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# Executive summary

Catholic Health Australia (CHA) is Australia's largest non-government grouping of health, community, and aged care services accounting for approximately 12 per cent of aged care facilities across Australia, in addition to 20 per cent of care provision in the home. Catholic aged care providers have a vital interest in working with the Australian Government to ensure the sustainable provision of aged care and support services for older Australians meet community expectations of safe and quality of care.

CHA appreciates the opportunity to provide input into the *Aged Care Financial and Prudential Standards 2025 Exposure Draft* (ED) and to the guidance and consultation document The new Financial and Prudential Standards | Aged Care Quality and Safety Commission (the guidance and consultation document). We look forward to working with the Aged Care Quality and Safety Commission (the Commission) during the drafting period to ensure the new Standards achieve their intended outcomes. Our goal is to ensure they fully support a high-quality and safe aged care system for all Australians irrespective of their wealth or geography.

CHA is supportive of the intent of the new Standards in addressing the Royal Commission recommendations that the Australian Government has an interest in managing its prudential risk. CHA also appreciates the work undertaken by the Commission to address the Royal Commission recommendations on ensuring financial viability of the aged care sector.

However, as drafted, the proposed Liquidity Standard would have a significantly detrimental impact on providers' operations and the investability of the aged care sector to little discernable benefit on the sector's financial and prudential health. This is unwarranted given that it is the understanding of CHA and its members that there have been very few prudential failures in the aged care sector. The proposed standard unduly penalises providers who have been financially responsible and prudent. CHA and its members have serious concerns relating to the scope outlined in the proposed new Liquidity Standard, with extensive unintended consequences noted on investing in property and refurbishments; on retirement villages, independent living units and other entities of the provider; and on the ability of CHA members to invest in our Mission work. The transition timeframe is also far too short and would be extremely hard for many providers' Boards to comply with.

Instead, assets of an aged care entity that are not related to the residential aged care service should be out of scope (e.g. retirement living or other social services) and providers should be required to identify and report on their own minimum liquidity amounts based on their own individual circumstances. If this is not possible, set an agreed percentage between 5-10% (as clarified with the sector) of the residential aged care asset refundable accommodation deposits as the minimum liquidity amount.

We have also recommended changes to wording in the ED and to the guidance document to better align with the Royal Commission's findings and the scope of what is required to perform prudential management compared to financial management of residential aged care services.

Other observations and issues related to the new Standards articulated in our submission include:

1. **Financial and Prudential Management Standard:** CHA and its members are concerned with the language contained in the Exposure Draft (ED) of the financial and prudential management standard. In the main, members are concerned with the

lack of objectivity being used in outlining the requirements to implement and maintain a financial and prudential management system.

2. **Investment Standard:** Most providers are already undertaking the activities set out in the Investment Standard. CHA and its members are concerned about the inconsistency in wording, and therefore, potential misinterpretation, between supporting guidance documents about the Standards and the ED of the Aged Care Financial and Prudential Standards 2025. There is a need for greater consistency and alignment between future factsheets and the finalised Aged Care Financial and Prudential Standards 2025 to support its implementation.
3. **Implementation:** Given the significant compliance changes impacting the sector, and other reforms in parallel, CHA recommends that implementation of the new Standards is deferred until business impacts are better known, or at least to 1 July 2026. It is equally important that the sector has access to the funds required to better support implementation of the changes.

# Our list of recommendations

CHA makes the following recommendations to the Commission for amendments to the new Financial and Prudential Standards (the Standards):

**Recommendation 1:** Undertake a more detailed consultation process with leaders in the aged care sector to address identified issues with financial management. Specific outcomes of this process could include co-designed mechanisms for oversight over financial and prudential matters that is balanced with enabling providers to be empowered in managing their own finances.

**Recommendation 2:** Allow for an extended timeframe for a provider's Board to authorise compliance, such as 1 July 2026, instead of the 1 July 2025 deadline, given the significant changes proposed under the new Standards.

**Recommendation 3:** Develop and implement a clear pathway for providers to work with the Commission on implementing the new Standards. This pathway should also include processes for seeking exemptions and triggers for opportunities to provide explanations for any discrepancies.

**Recommendation 4:** Outline clear definitions and descriptions around the applicability of the financial and prudential management standard in guidance materials to support providers in developing a financial and prudential management framework to meet the expectations of the Commission.

**Recommendation 5:** Remove paragraphs 8 (2)(c)(i) and 8 (2)(c)(ii) of the Exposure Draft (ED) of the *Aged Care Financial and Prudential Standards 2025* to mitigate the risk of these broad requirements hindering long-term financial viability of the sector. Instead, replace these with specific and practicable requirements.

**Recommendation 6:** Remove the word "regularly" from paragraph 9 (2)(a) of the ED to mitigate the risk of imposing administrative burden on providers in reviewing their financial and prudential management system.

**Recommendation 7**: Consistent with the Royal Commission's final report, remove the current draft objects of the Exposure draft of the *Aged Care Financial and Prudential Standards 2025* to replace with a focus on fulfilling a need for:

- liquidity and capital adequacy standards for residential aged care; and
- improved capacity within the regulator to use the information effectively.

**Recommendation 8**: Remove references to the new Liquidity Standard overseeing financial management in the ED and new Liquidity Standard.

**Recommendation 9**:

9.1 Ensure that liquidity is broadly defined to include investment funds, direct shares, term deposits, bonds, other commercial instruments, lines of credit, and cash in the bank.

9.2 Ensure that lines of credit is considered a sustainable way of maintaining liquidity and its treatment is made clear in the guidelines.

**Recommendation 10**:

10.1 Ensure that assets of an aged care entity that are not related to the residential aged care service are out of scope and providers are required to identify and report on their own minimum liquidity amounts based on their own individual circumstances. If this is not possible, set an agreed percentage between 5-10% (as clarified with the sector) of the residential aged care asset refundable accommodation deposits should be required as the minimum liquidity amount.

10.2 Clarify the key assumptions used in the current methodology to calculate the minimum liquidity amount with the sector.

**Recommendation 11**:

11.1 Remove reference to stress scenarios in the new Liquidity Standard as they instead pertain to risk management and scenario modelling for the particular crisis.

11.2 Appropriately recognise the benefits of locked up capital in the new Liquidity Standard such as to deploy it to buy more services, residential aged care buildings or software to meet reporting requirements.

**Recommendation 12**:

12.1 Remove the requirement in Part 3 s11 (3)(iv) of the ED and guidelines that the 10% component should include 10% of refundable retirement village payment amounts, which is reflected in the Liquidity Calculator.

12.2 If the reference to retirement villages is meant to capture only those parts of retirement villages (if any) which are also aged care homes, and not all retirement villages, this should be clarified through clearer language.

12.3 Remove the requirement for independent living units and disability and other businesses to be included in the Liquidity Standard and instead clearly exclude them.

**Recommendation 13**: Consult with the sector on what is appropriate to include in the requirements of a Liquid Management Strategy to respond to the findings of the Royal Commission.

**Recommendation 14**:

14.1 If the 10% of refundable deposit liabilities is retained, reflect the new Liquidity Standard as outlined in Recommendation 10.1 above in the new Liquidity calculator, otherwise remove the proposed calculator.

14.2 If the Liquidity calculator is retained, ensure it reflects the changes outlined in the above recommendations, including removing independent living units and disability and other businesses from the calculator. Also remove reference to Australian Accounting Standards Board 16 (AASB16) regarding leases from the calculator.

14.3 Incorporate a warning alert system into the Liquidity calculator to account for nuances that relate to cash costs, such as the mandatory care minutes requirements, so that potential risks can be noted and managed accordingly.

**Recommendation 15**: Implement the new Liquidity Standard as proposed by CHA in this submission by 1 July 2026.

**Recommendation 16:** For future revisions of the guidance and consultation paper and/or factsheets on the new Financial and Prudential Standards, include explicit references to the finalised version of the *Aged Care Financial and Prudential Standards 2025*.

**Recommendation 17:** Ensure that the Prudential Regulator has access to the people, skills, systems and other resources required to perform its functions, as outlined in Recommendation 137 of the Royal Commission into Aged Care Safety and Quality.

# Overview of the Financial and Prudential Standards

CHA is supportive of the intent of the new Financial and Prudential Standards (the Standards) in addressing the Royal Commission recommendations. However, CHA and its members have specific concerns relating to the descriptions and scope outlined in the new Standards, and thus, their applicability to support the financial viability and sustainability of the aged care sector.

CHA members provide a diverse range of residential care and home care services to older people, with many members operating nationally. They are leaders in financial and operational matters across the sector. CHA members are well-positioned to provide detailed insight on how the impact of financial and prudential management decisions made at each organisation could be better articulated to the Commission. As the Exposure Draft (ED) was only recently provided to the sector with a brief consultation period to Friday 14 March, CHA recommends that the Commission undertake a more detailed consultation process with leaders and financiers in the sector to address any identified issues with financial management. As part of this process, the Commission could look to co-design specific mechanisms to provide necessary oversight on financial and prudential matters across the sector that is balanced with enabling providers to be empowered in managing their own finances. These mechanisms would inform the Standards methodology, which has implications for borrowing costs, investment strategies, and the operational management of providers, all of which require considerate co-design with the sector. This would form part of the support provided by the Commission on the implementation of the new Standards.

**Recommendation 1:** Undertake a more detail consultation process with leaders in the aged care sector to address identified issues with financial management. Specific outcomes of this process could include co-designed mechanisms for oversight over financial and prudential matters that is balanced with enabling providers to be empowered in managing their own finances.

## Board responsibility to authorise compliance by 1 July 2025

CHA and its members are concerned that the Board of directors for each provider is unable to authorise compliance with the proposed new Financial and Prudential Standards within the proposed timeframe, by 1 July 2025, given the extent of the changes proposed. It is the experience of CHA and its members that the new Standards require more detailed information on the financial and prudential matters of each organisation. Most organisations will need to review existing funding arrangements, capital structures, inflight projects, and have detailed discussions with financial institutions, which is unlikely to be completed by 1 July 2025. This is exacerbated by the uncertainty around the implications of non-compliance and whether organisations will have enough capital to meet the proposed liquidity requirements, therefore resulting in the Board of provider organisations being unable to sign off on the financial accounts by 1 July 2025.

For example, it is the experience of CHA and its members that the Liquidity Calculator provides misleading figures as the calculator includes the prepayment by Service Australia in the Q2 balance as ‘available cash’ despite it being a committed prepayment amount. This issue is further detailed in the next section. Another example would be the Calculator being a historical measure, as opposed to being a forward-looking measure. This excludes any

known increases in operational costs, such as pay rises (e.g., Aged Care Work Value Case[1]). These discrepancies should be clarified ahead of the implementation of the new Standards. Specific issues of transition timing are also addressed in Section 2 below.

CHA recommends that the Commission should allow for an extended timeframe for a provider's Board to authorise compliance instead of the 1 July 2025 deadline, given the significant changes proposed for implementation in the new Standards and the broader suite of reform being implemented at the same time.

**Recommendation 2:** Allow for an extended timeframe for a provider's Board to authorise compliance, such as 1 July 2026, instead of the 1 July 2025 deadline, given the significant changes proposed for implementation in the new Standards.

### Ability for providers to work with the Commission

It is important that an accessible process for seeking exemptions is put in place and clearly communicated to providers. This could include a buffer of 10-15% of the minimum liquidity amount triggering a process to contact the Commission to communicate changes and next steps required. A buffer based on the minimum liquidity amount, as opposed to the providers' liquidity reserves being anything below this amount, provides flexibility for providers to work directly with the Commission to implement the new Standards. This would encourage communication between providers and the Commission on financial and prudential matters, and mitigate the potential risk of misinterpretation around how the Standards were intended to be implemented in practice. CHA recommends that there is a clear pathway to work with the Commission on implementing the new Standards. This pathway should also include processes for seeking exemptions and triggers for opportunities to provide explanations for any discrepancies.

**Recommendation 3:** Develop and implement a clear pathway for providers to work with the Commission on implementing the new Standards. This pathway should also include processes for seeking exemptions and triggers for opportunities to provide explanations for any discrepancies.

## Section 1: Financial and Prudential Management Standard

### Broad applicability of the Financial and prudential management Standard

CHA and its members are concerned with the language contained in the ED of the financial and prudential management standard. In the main, members are concerned with the lack of objectivity being used in outlining the requirements to implement and maintain a financial and prudential management system. CHA recommends that clear definitions and descriptions around the applicability of the financial and prudential management standard is

[1] Department of Health and Aged Care (2025), accessed at: https://www.health.gov.au/topics/aged-care-workforce/what-were-doing/better-and-fairer-wages

outlined in guidance materials to support providers in developing a **financial and prudential management framework** to meet the expectations of the Commission.

**Recommendation 4:** Outline clear definitions and descriptions around the applicability of the financial and prudential management standard in guidance materials to support providers in developing a financial and prudential management framework to meet the expectations of the Commission.

### Requirements around the financial and prudential management system are not objectively defined

CHA and its members are uncertain about the practical application of Section 8(c) of the ED and the reporting of its outcomes. It is the experience of CHA and its members that there are numerous circumstances and scenarios where an appropriate financial decision is required that may not be perceived as meeting the concepts set out in Section 8 (c). For example, the extent to which a financial decision made by a provider might not be easily justified as being "fair" or "equitable" but would be considered "reasonable" in light of specific circumstances. It is unclear how these concepts are intended to be assessed or demonstrated by providers in practice. CHA recommends that paragraph 8 (2)(c)(i) of the ED is either removed, or specific practicable requirements are included to replace this paragraph.

Additionally, the purpose of financial management is to ensure the ongoing success and viability of any organisation to be able to continue service provision. The focus on the individual resident, as set out in paragraph 8 (2)(c)(ii), risks narrowing the interpretation of the Standard to a specific point in time that discounts the interests of future residents over current ones. Within this context and the Principles set out in the new Act, CHA recommends that paragraph 8 (2)(c)(ii) is removed to mitigate the potential risks of these requirements hindering long-term financial viability of the sector.

**Recommendation 5:** Remove paragraphs 8 (2)(c)(i) and 8 (2)(c)(ii) of the Exposure Draft of the new Rules to mitigate the risk of these broad requirements hindering long-term financial viability of the sector. Instead, replace these with specific and practicable requirements.

### Requirements around the review of the financial and prudential management system are not specified

Section 9 (2)(a) of the ED describes that a provider needs to review and assess their financial and prudential management system regularly, and at least once in each financial year. This requirement, alongside the various reporting obligations set out in Stage 3 Release of the Rules on provider obligations, will increase the administrative burden placed on providers to "regularly" report on financial and prudential matters. CHA recommends that the review of the financial and prudential management system occurs at least once each financial year, and removing the word "regularly" from paragraph 9 (2)(a). CHA believes that paragraph 9 (2)(b) is already comprehensive in nature and would be interpreted as a regular,

consistent review of the system and therefore is an appropriate response to the Royal Commission recommendations.

**Recommendation 6:** Remove the word "regularly" from paragraph 9 (2)(a) of the ED to mitigate the risk of imposing administrative burden on providers in reviewing their financial and prudential management system.

# Section 2: Proposed Liquidity Standard

## Issues with the proposed Standard

### Overview

Members are very concerned about substantial overreach in the draft Liquidity Standards that would have a significant detrimental effect on the investability of the aged care sector, particularly residential aged care, as well as unintended consequences for retirement villages, independent living units and providers' related entities. The transition timeframe is also far too short and would be extremely hard for many providers' Boards to comply with.

**Case Study**

A CHA MEMBER IS IN A STRONG FINANCIAL AND CASH POSITION, HOWEVER THESE CHANGES WOULD INCREASE THE ORGANISATION'S MINIMUM LIQUIDITY REQUIREMENTS, DECREASING FUNDS AVAILABLE FOR REINVESTMENT AND CAPITAL EXPENDITURE.

Aged care providers are already held to stringent regulations and standards. The requirement to hold additional capital could make it challenging to meet these requirements, as funds are diverted from essential compliance-related activities. For example, regular audits and quality assurance activities require funding, and financial constraints imposed through the requirements outlined in the proposed Standard can hinder these efforts.

CHA notes that the Royal Commission recommendation 132 regarding liquidity and capital adequacy requirements is broadly stated. It is that from 1 July 2023, the Prudential Regulator should be empowered under statute to impose liquidity and capital adequacy requirements on approved providers, for the purpose of identifying and managing risks relating to whether:

a. Providers have the financial viability to deliver ongoing high quality care
b. Providers of residential care services that hold Refundable Accommodation Deposits are able to repay these deposits promptly as and when required.[2]

This is to contribute to creating a rigorous system of prudential regulation given the Australian Government's interest in managing its prudential risk and protecting taxpayers' investment in aged care services,[3] as the Royal Commission's final report states.

However the proposed Liquidity Standard widens the scope of the current Liquidity Standards significantly, in a way that the final report does not articulate. This would not financially improve the industry but rather would add costs and more administration for

[2] Royal Commission into Aged Care Quality and Safety Final Report - Care, Dignity and Respect: Volume 1 page 299.
[3] Ibid page 160.

providers. The direction of this control is also inappropriate in that a blunt instrument to measure liquidity is not how any organisation would measure financial sustainability.

### Liquidity does not equal financial sustainability

The objects of the Exposure draft of the *Aged Care Financial and Prudential Standards 2025* are to prescribe minimum standards relating to financial and prudential matters:

(a) to ensure the financial viability and sustainability of registered providers in relation to the delivery of funded aged care services by those providers; and

(b) to enable registered providers delivering funded aged care services to individuals to offer continuity of care to those individuals.

However, the draft Liquidity Standards and relevant provisions of the Exposure Draft do not achieve these objectives because they mischaracterise the relationship between the liquidity and the financial viability of a registered provider. Liquidity does not equal financial sustainability. Liquidity, or lack thereof, is the outcome of income less costs. Financial sustainability leads to liquidity, liquidity doesn't lead to financial sustainability as this Exposure Draft assumes and pursues.

In the aged care sector, financial sustainability is already driven by the Government through AN-ACC pricing. The Exposure Draft and draft Liquidity Standard treats the outcome (liquidity) instead of the causes of financial sustainability (in the experience of CHA members, this is limited pricing, increasing costs, more governance and reporting, etc.), and hence the approach will not be effective in meeting the stated objectives.

The objects of the Exposure draft should instead refer to fulfilling a need for (only):

- liquidity and capital adequacy standards
- improved capacity within the regulator to use the information effectively.

These are the relevant aspects of the Royal Commission's final report with regards to financial and prudential regulation[4] given that the report's identified need for more comprehensive financial reporting and more regular and timely reporting[5] are being addressed through quarterly and annual financial reporting requirements.

**Recommendation 7**: Consistent with the Royal Commission's final report, remove the current draft objects of the Exposure draft of the *Aged Care Financial and Prudential Standards 2025* to replace with a focus on fulfilling a need for:

- liquidity and capital adequacy standards for residential aged care; and
- improved capacity within the regulator to use the information effectively.

[4] Royal Commission into Aged Care Quality and Safety Final Report - Care, Dignity and Respect: Volume 1 page 161.
[5] Ibid page 161.

## Financial management is much broader than liquidity

The Exposure Draft is proposing a shift to control financial management. Financial management is far beyond liquidity, it is a tremendous shift of potential control and oversight, in which the Commission would seem to place itself as the arbiter of a provider's financial decisions.

Other aged care reforms already address the issue of ensuring strong financial management of aged care providers, such as Quarterly Financial Reporting and Aged Care Financial Reports, with associated legislative requirements.

**Recommendation 8**: Remove references to the new Liquidity Standard overseeing financial management in the ED and new Liquidity Standard.

## Definition of liquidity

Liquidity must allow a provider to liquidate in time to meet needs. This needs to include instruments that manage risk and returns whilst allowing real liquidity (investment funds, direct shares, term deposits, bonds, other commercial instruments) that still meet the prudential requirements but are not just cash in the bank. Therefore, there needs to be a clear and broadly defined definition of liquidity to mitigate the risk of 'liquidity' being associated only as the funds being held in bank accounts of aged care providers. While CHA and its members understand that leaving liquidity undefined enables flexibility for its application, this flexibility is considered not as important as the benefits of a clearly defined and understood definition of liquidity within the context of the new Standards.

It is the understanding of CHA and its members that lines of credit arrangements can be used to meet the minimum liquidity amount requirements during periods of significant capital investments. However, it was noted in the Commission's webinar that lines of credit were considered repayable debt (short-term fixed yield liquidity), and were not considered a sustainable way of maintaining liquidity.[6] CHA members strongly disagree with this approach and CHA urges the Commission to provide clarity on the treatment of lines of credit within the new Liquidity Standard.

**Recommendation 9**:

9.1 Ensure that liquidity is broadly defined to include investment funds, direct shares, term deposits, bonds, other commercial instruments, lines of credit, and cash in the bank.

9.2 Ensure that lines of credit is considered a sustainable way of maintaining liquidity and its treatment is made clear in the guidelines.

## Duplication of existing laws and Accounting Standards

This approach to managing liquidity of aged care providers seems to be seeking to replace and/or duplicate the role of the Corporations Act, Accounting Standards/general purpose

[6] Maintaining access to a line of credit provides a safety net, allowing an entity to quickly access funds if liquidity drops below the minimum threshold. Minimum Liquidity | eCapital

financial reports, Insolvency law and external audit by applying a blunt measurement and unclear parameters about decision making.

### The proposed minimum liquidity amount is excessive

CHA and its members disagree with the proposed new minimum liquidity amount as it is overly simplistic and contrary to the Royal Commission's findings, which note that the liquidity and capital adequacy ratios would be expected to differ between providers.[7] These are complex matters and a simple X by Z% calculation will not be effective, nor meaningful, to be implemented across such a large sector.

CHA and its members feel strongly that the proposed liquidity ratio of 35% of cash expenses plus 10% of refundable deposit liabilities is excessive. It is also inconsistent with the approach suggested by the Royal Commission in its final report. The Royal Commission found that:

*We recommend that in setting liquidity and capital adequacy requirements for residential and home care providers, the decisions of the Prudential Regulator should be based on clear and transparent criteria, including:*

- *the provider's business circumstances, including its capital requirements and the size of its financial liabilities*
- *the provider's financial risk, balance sheet strength and financial viability*
- *the nature of the provider's services—residential care only, home care only, residential care combined with home care, residential or home care combined with other non-aged care services.*[8]

Hence CHA and its members consider that it would be more sensible, achievable and effective for providers to calculate their liquidity ratio based on their individual needs to meet shortfalls in the coming quarter. Having the proposed new minimum liquidity amount comprise such a high percentage of cash expenses (35%) and both the 35% and 10% components including the provider's businesses outside of aged care would have a significantly harmful impact on providers without a discernable benefit. Moreover it is the understanding of CHA and its members that the 35% quarterly operational expenses does not consider the switch by Treasury to pay in arrears. This will produce adverse impacts on the calculator at the time of the change.

**The minimum liquidity amount is insufficiently tailored to individual providers**

Residential aged care providers receive 60% of their revenue through government subsidies and supplements; and a further 31.5% through contributions from residents and other payments and grants which are regulated by Government.[9] Expenses are regulated to a large extent through labour requirements to meet care minutes and 24/7 nursing care targets. Given this, CHA believes that it is inappropriate and overly simplistic for the '35% of expenses' component to accurately capture viability concerns for aged care providers that don't hold Refundable Accommodation Deposits (RADs). It is the understanding of CHA and its members that the Government already has substantial control of providers' margins, which leads to the '35% of expenses' measure being redundant. It is the view of CHA and its members that modelling the proposed new Liquidity Standard on sectors such as banking or

[7] Royal Commission into Aged Care Quality and Safety Final Report - Care, Dignity and Respect: Volume 1 Page 163.
[8] Royal Commission into Aged Care Quality and Safety Final Report - Care, Dignity and Respect: Volume 1 Page 163.
[9] Financial Report on the Australian Aged Care Sector 2022–23, page 68, chart 3.3.

insurance is not relevant because of key differences between these sectors. The modelling should account for the unique nuances present in the aged care sector, and fundamentally reflect the financial context that aged care providers operate in.

CHA understands that the 10% measure is based on available data. However it is a simplistic, one-size-fits-all approach. Despite the statement in the guidance and consultation paper that the minimum liquidity amount is not a fixed threshold for the sector but instead is tailored to each provider's financial circumstances, the minimum liquidity amount remains a fixed threshold for the sector. The arbitrary nature of the 10% measure should be revisited with robust empirical support to ensure that it aligns with the actual financial dynamics of the sector. It is the understanding of CHA and its members that the current approach may consider that the industry average resident turnover is 33%, as well as around 30% of residents paying full RADs, but may have overlooked the probate requirement of 180 days. This means that the draft minimum liquidity amount may not have considered the full delay in pay outs as a result of the probate requirement (i.e., the amount would be calculated as 5% instead of the drafted 10%). CHA recommends that the key assumptions used in the calculation of the 10% measure is clarified with the sector.

CHA proposes instead that if the Government priority is to mitigate against its own contingent liability on RADs, providers should have liquidity requirements based only on the volume of RADs. In addition, providers are best placed to identify and report on their own minimum liquidity amounts based on their own individual circumstances and knowledge of their businesses, including their revenue and staff costs. If this is not possible, for providers with refundable deposits, only an agreed percentage between 5-10% (as clarified with the sector) of the 10% of refundable deposit liabilities component of the minimum liquidity amount should be required.

**Recommendation 10:**

10.1 Ensure that the assets of an aged care entity that are not related to the residential aged care service are out of scope and providers are required to identify and report on their own minimum liquidity amounts based on their own individual circumstances. If this is not possible, set an agreed percentage between 5-10% (as clarified with the sector) of the residential aged care asset refundable accommodation deposits to be required as the minimum liquidity amount.

10.2 Clarify the key assumptions used in the current methodology to calculate the minimum liquidity amount with the sector.

**Stress scenarios are not relevant and locked up capital has benefits**

Finally, the guidance and consultation paper notes that the minimum liquidity level formula balances:

1. supporting providers to meet liquidity requirements in a stress scenario; and
2. minimising the amount of locked up capital.

In relation to 1, it is the experience of CHA members that in stress scenarios, an operating liquidity calculation is not relevant but rather what is required is risk management and scenario modelling for the crisis, which differs depending on the crisis.

In relation to 2, CHA members note that locked up capital may be useful for the benefit of the service and its aged care residents, such as to deploy it to buy more services, residential aged care buildings or software to meet reporting requirements. These benefits should not be underestimated through the design of this new Standard.

**Recommendation 11**:

11.1 Remove reference to stress scenarios in the new Liquidity Standard as they instead pertain to risk management and scenario modelling for the particular crisis.

11.2 Appropriately recognise the benefits of locked up capital in the new Liquidity Standard such as to deploy it to buy more services, residential aged care buildings or software to meet reporting requirements.

The impact on retirement villages, independent living units and other businesses of the registered provider are outlined in the following section on 'unintended consequences.'

### Unintended consequences

The constraints on financial resources can impact facility provision, service quality, investment in innovation and research, and long-term sustainability. It is crucial to find a balance that ensures financial stability without compromising the ability to reinvest in people and facilities, put additional pressure and constraints on providers who are financially responsible and especially at a time when significant reforms are being implemented under the Act.

This section describes the unintended consequences of the proposed new Liquidity Standard; including on investing in property and refurbishments; on retirement villages, independent living units and other entities of the provider; and on the ability of CHA members to invest in our Mission work.

### . . . On investing in property and refurbishments

This Standard seeks to drive up industry liquidity. This needs to be carefully calibrated so as not to reduce the investment in hard assets and slow down or decease current activities relating to development, purchase/consolidation, and reinvestment in property. This is counterintuitive to current and projected demand from an aging population requiring residential care and housing. Excess liquidity is considered as poor a financial outcome as insufficient liquidity, given that it reduces service growth to meet unmet demand.

Providers would be discouraged from taking on higher RAD balances, as these balances would increase liquidity requirements. Higher RAD balances are traditionally used to fund new developments or major refurbishments of existing facilities. This would result in significantly less opportunity to undertake new developments or major refurbishments to improve models of care for older people and/or drive innovative within the sector. It is the understanding of CHA and its members that it is not the Government, nor the Commission's intent to reduce innovation within the sector.

Furthermore, this step-change in required liquidity amounts would be harmful to the credit and risk profile of individual providers. Providers could be less inclined to continue a marginal or ageing operation that requires a large RAD base and opt instead to close or sell. This in turn would result in a reduced number of aged care services available to older

people, which may be further exacerbated by considerations relating to service delivery within a regional, rural and/or remote context that affects financial viability. Put simply, these measures are value-destructive to existing providers and would lead to negative reactionary provider behaviour.

The increase in liquid assets may increase borrowing costs for providers in response to financial instability in the sector. An increased borrowing cost may affect the providers' Loss Versus Rebalancing (LVR) measures if there are higher costs required to maintain a higher liquidity position. This would result in a new outflow of funds from the sector as borrowing costs would be higher than investment returns. This is due to investors seeking better returns elsewhere, resulting in reduced investability in the aged care sector.

Additionally, as liquidity is normally held in low risk, low return assets, the new requirements restrict organisations from reinvesting in redevelopment and future property developments. This results in decreasing revenues and will lead the sector to explore options to optimise returns, such as through higher risk investments, which contradicts the original intent of the requirement for providers to hold larger amounts of capital.

### Detailed member case study

Based on the Liquidity template and the QFR inputs, a CHA member would be directed to increase their capital requirements by a factor of five, which is flawed and unsustainable. The requirement to hold an excessive liquidity standard and its short transactional timeframe would impact the member's ability to meet current and evolving needs of older people. Specific potential impacts to the member of holding additional liquid assets are set out below:

*Impacts on Service Quality*

- Facility upgrades and development – Many of the member's homes are older properties requiring capital investment. Requiring additional funds for capital purposes limits available funds for residential aged care reinvestment. This also hinders future housing development, which is counterintuitive given the growing demand from an aging population.
- Resident experience - Reduced investment threatens both care quality and resident satisfaction. The member organisation prioritises quality care and research, with university partnerships needing significant investment to support industry knowledge growth in delivering quality care.

*Impacts on Long-term sustainability*

- Staff Attraction and Retention - Given acute skilled labour shortages, without adequate investment in people, such as through provision of focused training and benefits, the member will continue to struggle to attract and retain quality aged care workers.
- Innovation and Growth strategies - The member continues to invest in digital transformation to improve their operations and systems capability, as well as investing in new care models like their Specialist Dementia Care home in Sydney to meet the growing needs of older people who have transitioned from a long period in hospital. Limited financial flexibility can stifle innovation and growth opportunities, and making it challenging for providers to adapt to changing needs and expectations.

There is no equivalent measure being taken for private providers without a RAD base or Support at Home aged care providers. Relatively speaking, this measure significantly harms

the investability of residential aged care only – with no equivalent adjustment to these other, growing sectors.

**. . . On retirement villages and independent living units**

The provision in *Part 3 s11(3)(i)* of the ED and summarised at page 11 of the guidance and consultation paper notes that the new liquidity amount comprises 35% of cash expenses for the previous quarter plus 10% of refundable deposit liabilities. The scope of the provider's cash expenses to be included, in terms of its business outside of residential aged care, is not defined in these documents, though CHA notes that it was confirmed in the Commission's webinar and in the Liquidity Calculator that it applies to the whole of organisation expenditure, and is not isolated to the expenditure of residential care. While this approach recognised the interconnected nature of aged care providers' operations, in practice, it should require a more nuanced approach as care provision for the older person should be holistic as opposed to having many different and distinct components.

Part 3 s11 (3)(iv) of the ED provides that the 10% component should include 10% of refundable retirement village payment amounts, which is reflected in the Liquidity Calculator. It would be detrimental to aged care providers' non aged-care businesses, without any apparent benefit to prudential regulation, for liquidity calculations to include aspects of providers' businesses outside of residential aged care. Where a provider engages in multiple business activities, with only a small portion relating to residential care, this may result in a significant portion being held in liquid assets relating to non-residential care activities. CHA and its members also do not consider it to be justifiable for aged care to be regulating other sectors such as retirement villages, independent living units and disability care, mental health or community housing, which already have their own regulations. Moreover the legal authority for the Commonwealth to regulate retirement villages would need to be confirmed.

Case Study

A CHA MEMBER CURRENTLY RETAINS 5% OF TOTAL RETIREMENT VILLAGE INGOING CONTRIBUTIONS AS THEIR MINIMUM LIQUIDITY AMOUNT IN ACCORDANCE WITH INTERNAL POLICY AND GOOD FINANCIAL MANAGEMENT PRACTICES. FOR PERSPECTIVE, LAST FINANCIAL YEAR RESULTED IN AN OVERALL NET SURPLUS OF FUNDS RECEIVED FOR RETIREMENT VILLAGE INGOING CONTRIBUTIONS. RETAINING 10% IN LIQUID ASSETS ON A QUARTERLY BASIS FOR RETIREMENT VILLAGES, A STATE BASED LEGISLATION OUTSIDE THE SCOPE OF THE AGED CARE ACT, SIGNIFICANTLY LIMITS CASH USAGE THAT COULD OTHERWISE BE REDIRECTED TO MUCH NEEDED CAPITAL INVESTMENT ACROSS THE INDUSTRY.

If the reference to retirement villages is meant to capture only those parts of retirement villages (if any) which are also aged care homes, and not all retirement villages, the wording does not say this. It would be helpful if the meaning of the requirement is clarified through clearer language.

It is the experience of CHA and its members that the vast majority of retirement villages never result in a cash outflow as an organisation sells the lease, receipts the new fund, then repays the outgoing resident, hence including retirement villages in the scope of the proposed Liquidity Standard is not warranted.

As well as not being warranted, including these entities in the Liquidity Standard requirements would be a disincentive for an aged care provider to invest in new businesses that would be affected, such as new retirement villages or independent living units. This is not an outcome that would have been intended by the proposed new Standard.

**. . . On Mission work**

CHA not-for-profit providers are a dedicated voice for the disadvantaged which advocates for an equitable, compassionate, best practice and secure health system that is person-centred in its delivery of care to the vulnerable cohorts of individuals. Further, CHA members run over 100 social outreach programs across Australia that service a diverse range of communities and marginalised populations. It is the understanding of CHA and its members that the increase in liquidity requirements, whether cash or non-cash, represents funding capacity that would then not be able to be allocated towards members' Mission or social outreach initiatives, particularly to underserved cohorts across Australia. Furthermore, it is likely that reduced capital may result in further consolidation across the sector, particularly in regional, rural and remote areas given the increased costs of service provision. This ultimately leads to less choice of aged care services for older people, which is hinders the principal objects set out in the Act.

Case Study

MANY CHA MEMBERS OPERATE IN REGIONAL, RURAL AND REMOTE AREAS WHO EXPERIENCE SIGNIFICANTLY INCREASED COSTS OF SERVICE PROVISION, PARTICULARLY FOR OPERATING OUTREACH PROGRAMS TO MEET COMMUNITY NEEDS. REDUCED ACCESS TO FUNDS WILL PLACE SIGNIFICANT FURTHER PRESSURE ON THESE PROVIDERS TO UNDERTAKE CONSOLIDATION AND REDUCE CONSUMER CHOICE FOR AGED CARE SERVICES.

Recommendations 10.1 and 12 address these unintended consequences.

**Recommendation 12**:

12.1 Remove the requirement in Part 3 s11 (3)(iv) of the ED and guidelines that the 10% component should include 10% of refundable retirement village payment amounts, which is reflected in the Liquidity Calculator.

12.2 If the reference to retirement villages is meant to capture only those parts of retirement villages (if any) which are also aged care homes, and not all retirement villages, this should be clarified through clearer language.

12.3 Remove the requirement for independent living units and disability and other businesses to be included in the Liquidity Standard and instead clearly exclude them.

## Liquidity Management Strategy

The requirement for what needs to be included in a Liquidity Management Strategy (LMS) outlined in the guidance and consultation paper does not appear to be aligned with the requirements set out in the Exposure Draft. CHA and its members suggest that the Commission should consult with the sector on what is appropriate to include in the requirements of a Liquidity Management Strategy to respond to the findings of the Royal Commission in this regard.

CHA and its members support the statement on page 14 of the guidance and consultation paper suggesting providers carry out quarterly reviews of their LMS when they submit their Quarterly Financial Report, or monthly updates as needed. CHA and its members consider that monitoring liquidity should be based on the financial circumstances of each provider, i.e. if there are no known liquidity issues, monitoring should be less frequent to reduce the administrative burden of the Commission and aged care providers.

**Recommendation 13**: Consult with the sector on what is appropriate to include in the requirements of a Liquid Management Strategy to respond to the findings of the Royal Commission.

### Liquidity calculator

It is the understanding of CHA and its members that the Liquidity calculator looks at the current operational costs but not the future costs. For example, if providers take a commercial view towards the provision of care minutes against the funding required, they may have significant cash costs not included in the Quarterly Financial Report (QFR). This means that these cash costs would also not be considered as part of the calculator. As a result, the calculator may provide a misleading level of assurance to providers without a clear cross-reference to the actual care minutes. CHA recommends that a warning alert is incorporated into the calculator to state that: *"Costs are currently above the required level but risk noted due to lower costs as a result of failure to meet care minute requirements,"* or similar.

As outlined above, CHA and its members do not consider that the proposed liquidity requirements and calculations are fit-for-purpose. CHA also notes that although the ED notes that the calculation should just be on cash items, the calculator refers to Australian Accounting Standards Board 16 (AASB16) regarding leases. Leases are not defined as cash so AASB 16 should not be included, nor should any other non-cash items, in this context.

Case Study

ANOTHER CHA MEMBER PROVIDES RESIDENTIAL AGED CARE, HOME CARE, DISABILITY, RETIREMENT LIVING AND EDUCATION, WITH SIGNIFICANT EXPENSES ACROSS THESE BUSINESSES. ALL WOULD BE INCORPORATED INTO THE LIQUIDITY CALCULATION, MEANING THAT UNDER THE PROPOSED REFORMS, THEIR LIQUIDITY REQUIREMENT COULD BE A SEVERAL TIMES MULTIPLE FROM WHAT IT IS TODAY. THIS CHANGE WOULD SIGNIFICANTLY COMPLICATE THEIR FORWARD-PLANNING AND THEIR ABILITY TO EFFICIENTLY ENSURE ONGOING COMPLIANCE, STRATEGY, AND OPERATIONAL PLANNING.

**Recommendation 14**:

14.1 If the 10% of refundable deposit liabilities is retained, reflect the new Liquidity Standard as outlined in Recommendation 10a above in the new Liquidity calculator, otherwise remove the proposed calculator.

14.2 If the Liquidity calculator is retained, ensure it reflects the changes outlined in the above recommendations, including removing independent living units and disability and other businesses from the calculator. Also remove reference to Australian Accounting Standards Board 16 (AASB16) regarding leases from the calculator.

14.3 Incorporate a warning alert system into the Liquidity calculator to account for nuances that relate to cash costs, such as the mandatory care minutes requirements, so that potential risks can be noted and managed accordingly.

### Timing for implementing the Liquidity Standard

CHA and its members consider that the changes in these proposed new Financial and Prudential Management Standards are not feasible or reasonable for aged care providers to implement by 1 July 2025, given that they impact hundreds of millions of dollars of funding and investments. The financial challenge is compounded by the fact that funding is moving from being in advance to in arrears.[10] Two years would be more appropriate for such far-reaching changes. However, the targeted changes proposed by CHA and its members in this proposal addressing the Royal Commission's findings could be achieved in 16 months, by 1 July 2026. This includes changes to ICT systems, business processes and policies, and staff training.

**Recommendation 15**: Implement the new Liquidity Standard as proposed by CHA in this submission by 1 July 2026.

## Section 3: Investment Standard

It is the understanding of CHA and its members that the existing requirements for an investment management strategy (IMS) have now moved to the separate Investment Standard. It is also the experience of CHA and its members that most providers are already undertaking the activities set out in the Investment Standard. Noting that there are interrelated components between the proposed Standards, the new Liquidity Standard will impact the investment class(es) for some providers, given the need to have liquid assets (either cash amounts or near cash) and limited returns on longer-term investments (i.e., corporate bonds and 12-month Term Deposits). This means that the new Liquidity Standard will fundamentally require a potentially significant amount of changes in a number of aged care providers' investment portfolios. CHA notes that this is an additional implementation consideration regarding providers' IMS and adherence to the Investment Standard.

Some members noted minor inconsistencies between the content set out in the Consultation Paper in comparison to the detail in the ED. CHA recommends that the Consultation Paper should explicitly refer to the details contained in the ED. This means that the ED should be the single source of information for the sector to mitigate potential risk of misinterpretation of the requirements of providers.

**Recommendation 16:** For future revisions of the guidance and consultation paper and/or factsheets on the new Financial and Prudential Standards, include explicit references to the finalised version of the Aged Care Financial and Prudential Standards 2025.

[10] Starting from July 1, 2026, the Australian Government will transition residential aged care providers to a payment system based on services delivered, rather than paying them in advance Paying residential aged care providers on services delivered.

# Section 4: Resourcing of the Commission

CHA and its members are supportive of the final report of the Royal Commission's call for additional investment to ensure that the Prudential Regulator has access to the people, skills, systems and other resources required to perform its functions, as outlined in Recommendation 137. This is a key enabler for the successful implementation of the new Standards and ensures that the sector has the confidence in the Prudential Regulator having the prudential capability to support the financial sustainability and viability of the aged care sector.

**Recommendation 17:** Ensure that the Prudential Regulator has access to the people, skills, systems and other resources required to perform its functions, as outlined in Recommendation 137 of the Royal Commission into Aged Care Safety and Quality.