Liquidity Standard

The Liquidity Standard makes sure aged care providers have the systems and strategies they need to manage cash flow and financial risks. As a provider, you must always have access to enough cash or cash equivalents to meet your financial obligations, including operating costs and refundable deposits. This is called liquidity.

Who it applies to

This Standard applies to non-government providers registered in category 6. It applies even if you don't hold refundable deposits.

It **doesn't** apply if you're a:

- government or local government authority provider, including government Multi-Purpose Service Program providers
- National Aboriginal and Torres Strait Islander Flexible Aged Care Program provider.

What's required

Each financial quarter, you must make sure you have enough liquidity to meet your financial obligations and cope with financial shocks.

The Liquidity Standard sets a **minimum liquidity amount (MLA)**. You must hold at least this much liquidity. However, your governing body can decide that your organisation needs to hold more liquidity than the MLA.

Your governing body is responsible for working out how much liquidity your organisation needs, based on your:

- financial obligations
- risks
- operating environment.

They must **review and sign off this amount each quarter**.

There are 2 ways you can show that you meet the minimum liquidity requirements. With:

- a **default MLA** (Calculated using the formula in the Standard)
- an **evaluated MLA**. (Your organisation holds less liquidity than the Standard requires. But, you can show you have reliable access to liquidity, for example through lines of credit or related-party loans.)

You can find more information about how to calculate them below.

You must **calculate both the default and the evaluated MLA** each quarter and decide which one you'll use to show that you comply.

You must also have a **Liquidity Management Strategy (LMS)** that shows these assessments. The LMS must:

- document the default MLA, the evaluated MLA and the amount of liquidity you think your organisation needs
- explain how you'll keep this much liquidity.

You must review and update your LMS regularly – at least once each financial year.

Your governing body must supervise the LMS and monitor it to make sure you continue to meet your liquidity level.

Need more information?
Read our guidance document on the Financial and Prudential Standards

www.agedcarequality.gov.au/resource-library/financial-and-prudential-standards-guidance-providers

Liquidity Standard: checklist for providers

Use this checklist to confirm your organisation meets the Liquidity Standard each quarter.

Liquidity management strategy

- [ ] Have you documented your LMS in writing?
- [ ] Does your LMS clearly record:
  - your MLA and the amount of liquidity you've worked out your organisation needs
  - the forms of liquidity you'll have (for example, cash or lines of credit)?
- [ ] Does your LMS describe:
  - how you monitor cash flow
  - how you prepare financial forecasts, including key assumptions and timelines
  - possible liquidity risks and how you'll manage them?
- [ ] Does your LMS include procedures for:
  - managing unexpected changes to cash flow
  - escalating and addressing situations where there's a risk your liquidity could fall short?

Quarterly compliance steps

- [ ] Have you completed the following steps this quarter:
  - **calculated** your default MLA and evaluated MLA and worked out how much liquidity your organisation needs
  - **recorded** both amounts in your LMS
  - **kept** the required liquidity level?
- [ ] If you've submitted an Evaluated MLA Notification form
  - Have you **maintained** the required or proposed liquidity level?
  - Are the **statements** in your submission still true and correct?

Change in circumstances notification

- [ ] Have you notified the Commission of any changes that could affect your ability to meet your MLA? This includes events such as:
  - a sudden drop in income
  - major capital expenditure
  - unexpected liabilities
  - large or unpredicted expenses
  - changes in access to external funding or internal revenue reserves.

Governance and oversight

- [ ] Does your governing body review the LMS at least once each financial year?
- [ ] Do you clearly define and assign liquidity-related responsibilities in your organisation?
- [ ] Do you have reporting processes to keep your governing body regularly updated on liquidity issues?
- [ ] Do you regularly review your LMS to match changes in your financial position or operations?
- [ ] Have you updated your LMS because of developing financial risk or changes in cash flow?
- [ ] Are you keeping a liquidity amount that meets or exceeds the level your organisation needs?

Best practice

Review your LMS when you submit your Quarterly Financial Report or monthly updates. Use our online calculator to make sure of correct and consistent liquidity assessments.

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