



# Prudential Standards

## Liquidity Standard



The 4 Prudential Standards (contained in the *Aged Care Act 1997* and the *Fees and Payments Principles 2014 (No. 2)*) help you manage consumers' refundable deposits. The Prudential Standards cover:

- governance
- liquidity
- records
- disclosure.

The Prudential Standards detail your responsibilities about the use and management of your consumers' refundable deposits. They help you limit risk and manage finances. When you meet the Prudential Standards, your organisation can grow and you can continue to improve aged care and services. It can also help build consumer trust in you as a provider. The Prudential Standards work together to make best practice financial governance and operations your everyday standard.



### Liquidity Standard purpose

The Liquidity Standard requires you to identify your yearly liquidity needs and hold enough liquid assets to meet these. This means you can refund your consumers on time, every time.

#### **i** Liquidity

Liquidity is about assets you can easily and quickly change into cash. Common types of liquidity include cash, commercial lines of credit, shares and bonds. You need enough liquidity to pay your operational costs and return your consumers' refundable deposits when they are due.

## Liquidity management strategy (LMS)

If you hold a refundable deposit, you must have enough liquidity to refund any refundable deposits due in the next 12 months. You must also start, maintain and document an LMS.

You can choose the structure of your LMS to suit your organisation. Your LMS should:

- show how you follow the Liquidity Standard
- be available to give to the Commission if it asks.

### Requirements

Your LMS must:

state the amount needed (in whole dollars) to refund any refundable deposits that may be due in the next 12 months.

This is your minimum level of liquidity (MLL)

detail the factors (reasons and/or calculations) you use to decide your MLL

state the form (how and where) you hold your MLL funds (for example, cash, bank bills, guarantees and/or credit).

You must:

have a written version of your LMS

keep the nominated liquidity amount in the form/s stated in your LMS

make sure your LMS is up to date – check your LMS at least once a year

change or replace your LMS if it stops meeting any requirements.

**Remember, the amount of cash and liquid assets you hold needs to match the MLL you state in your LMS.**

### Further information

[Prudential Standards webpage](#)

[Australian Government Business webpage, Review your finances](#)

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