

MANAGEMENT GUIDELINE	
Reference Number	933412 (previous – 827575)
Responsible Business Unit	Corporate Services
Responsible Officer	General Manager Corporate Services
Legislation	Aged Care Act 1997
Relevant Delegations	General Manager, Corporate Services Manager, Lerwin
Related Policies Management Guidelines Frameworks	Lerwin Nursing Home Refundable Deposits Governance Policy Lerwin Nursing Home Governance Management Guideline
Link to Strategic Plan	Objective 4.4 - Develop a sustainable organisation
Date Effective from	1 July 2019
Date Adopted	11 May 2020, 72.2
Review Date	2021
Previous Revisions	13 August 2018 24 October 2016 14 October 2015

PURPOSE

This document describes the liquidity management strategy of the Lerwin Nursing Home.

INTRODUCTION

This Liquidity Management Strategy has been prepared to meet prudential requirements of the Aged Care Act 1997 that took effect from 1 July 2014. These requirements include ensuring sufficient readily available funds to allow refundable deposits to be refunded as they fall due through each financial year.

In preparing this strategy, the Council has found it necessary to determine the minimum level of liquidity that the provider will need to maintain in order to meet the aims of the strategy. To determine this, the Council has reviewed the guidelines set out by the Department of Social Services and has also taken into consideration the activity of resident deposits over the last 36 months.

LIQUIDITY REQUIREMENT

Lerwin has only been in receipt of refundable deposits since 1 July 2014 and has only a short history to determine a pattern of when refundable deposits are likely to fall due. However, when examining the history of concessional ratios, average length of stay, refundable deposit history to date and industry standards, the following is observed:

- The average length of stay is 2.5 years
- The likelihood of any particular resident leaving in a particular month is therefore 1/30 or 3.33%
- The theoretical expected payment in a particular month is therefore 3.33% times the value of deposits on hand
- Due to probate, refundable deposits take an average of 181 days to be refunded (industry average)
- The receipt of new refundable deposits takes 103 days on average to be paid in full (industry average)
- Assume funds not held at call are deposited and have a 3 month notice period

- The amount to be held at call will be 3 times 3.33% of the funds deposited ie 10%

The concessional ratio is on average greater than or equal to 60% therefore it can be expected in the medium term that 40% or 30 of the 75 residents will make refundable deposits. Refundable deposits received from a total of 6 residents for the 12 month period 1 January 2019 to 31 December 2019 amounts to \$862,279. The balance of outstanding Refundable Deposits as at 31 December 2019 is \$3,930,837 which is held for 18 residents.

The theoretical amount to be held on call at 31st December 2019 would be 10.00% of \$3,930,837 or \$393,084.

For 2019-20, a minimum amount of deposits of 10.00% will be held at call but until the number of depositors' reaches 30, a more conservative approach will continue to be adopted and 30% of funds will be held at call (equating to 2 depositors leaving in a 3 month period). The amount to be held at call will therefore be a minimum of \$1,179,251. These funds will be deposited in at call accounts at the Commonwealth Bank of Australia or the Local Government Finance Authority of Australia.

The remaining balance up to 70% will be either deposited for periods of between 3 month and 12 months, or used to finance the Lerwin Expansion project (in place of other alternative borrowings), dependent on interest rates and the projects progress. Any deposits will be made in accordance with the Council's Lerwin Nursing Home Refundable Deposits Governance Policy.

It is intended to hold at least this amount in the at call account throughout the year to cover potential refunds to be made within any given month. As the new residents pay their refundable deposits, the funds will be transferred to the account to offset any additional refundable deposits awaiting refund. The account balance will be reviewed regularly to determine if any excess funds can be transferred and utilised accordingly, or if any funds need to be returned to the at-call account at term deposit maturity or project milestones.

REVIEW

In order to accurately estimate the required liquidity level, the Liquidity Management Strategy Guideline will be reviewed annually by Council Administration taking into account the number of admissions, discharges and the ratio of concessional to refundable deposit paying residents. A less conservative approach will be considered at the next review date however due to the low level of interest rates at the time of adopting this guideline the financial impact is minimal.