



Australian Government

Department of Health

**GUIDE TO
CHANGES TO THE
AGED CARE FINANCIAL
REPORT**

Background

The Government has announced it will implement the Royal Commission's recommendations to introduce more stringent reporting requirements and to strengthen prudential requirements of providers. These recommendations will be implemented through a new Financial and Prudential Monitoring, Compliance and Intervention Framework (the framework), which will be phased in over three years, and improve accountability and transparency of the sector.

As part of Phase 1 of the framework, a number of changes will be introduced to the Aged Care Financial Report (ACFR), commencing with the submission of the 2020-21 ACFR.

The changes will improve transparency and accountability in reporting and address a number of recommendations from the Royal Commission, as well as the outcomes from the Review of Prudential and Reporting Framework which was undertaken by StewartBrown in 2019.

The Department has conducted targeted and sector wide consultations on the proposed changes to the ACFR. Feedback received through this process has been taken into consideration and a transitional approach to the new ACFR will be implemented.

For the 2020-21 financial year, providers will be required to report a segment level note and submit facility level residential income and expenses at a more granular level. However, these changes will include various reporting options to allow for an easier transition, which are detailed in the relevant sections below.

Phase 1 will also include amendments to legislation to further strengthen transparency and accountability in reporting. This will lead to further minor changes in the ACFR. Information on additional minor changes will be provided once legislative amendments are finalised.

Major Phase 1 changes to the ACFR from 2020-21

The three major changes are outlined below and involve the collection of residential segment income and expense statements at the facility level, enhanced approved provider reporting and consolidated group level segment reporting.

Detailed information is set out in the revised ACFR at **Attachment 1**.

1. Consolidated Parent Level Segment Report (Segment Report tab of Attachment 1)

StewartBrown found that many Approved Providers have operating and capital activities beyond those governed by the *Aged Care Act 1997* and are part of corporate structures that did not submit financial information to the Department. In order to make a reasonable assessment of the Approved Provider's overall financial viability and adherence to their prudential legislative requirements, greater visibility over the financial operations of the consolidated group is required.

A new Consolidated Parent Level Segment Note - capturing income, expenses, assets and liabilities data across the consolidated related group - will be introduced. The Department acknowledges that if items are held centrally, apportioning the balance sheet items between segments can be difficult and may not be reflective of operational circumstances. Therefore, 'Cash and Cash Equivalents', 'Financial Assets' and 'Equity items' will only be collected at

the consolidated level and are not required to be segmented.

Providers should make reasonable estimates to apportion other segment level balance sheet information where a clear distinction cannot be made between segments. For example, items such as Loans Receivables could be apportioned based on the source of funds (e.g. all RAD funds loaned out should be categorised under the residential segment).

2. Strengthened Approved Provider Reporting (AP Balance Sheet, and the 6 tabs that follow of Attachment 1)

StewartBrown also raised the need to improve the collection of financial information about prudential compliance and viability of Approved Providers (this was consistent with the earlier findings of both Ernst & Young and Deloitte).

To address this, the following additional items will be collected in the ACFR:

- Reconciliations statements for financial assets, loans receivable (related and non-related entities), non-current assets, refundable loans and borrowings. This will allow the ACFR to be more closely aligned with providers' audited GPFS and should mostly not require additional calculations not already disclosed in providers' GPFS.
- Liquidity Balance Sheet - The liquidity balance sheet allows providers to split RADs into amounts payable within 12 months and after 12 months, in turn providing the Department with a better understanding of an Approved Provider's liquidity position.
 - As part of the 2019-20 ACFR, providers were required to report RADs in a similar way. The difference was that even with the 12 months split, all RADs were still categorised under Current Assets in 2019-20 (as required by the Accounting Standards).
 - The new liquidity split (for RADs) should be based on providers' individual circumstances. Using a standard formula may not be a true reflection of liquidity, particularly for smaller providers with only a few RAD paying residents.
 - Some of the other fields will be pre-populated from the reconciliations provided (above point on reconciliations) and will resemble the Current/Non-Current split in the audited GPFS. There will be no requirement for the providers to adopt the Liquidity Balance Sheet within their GPFS.

Clarification: State Government and Local Government approved providers are not required to submit the Approved Provider (above) sections, similar to the 2019-20 financial year. The Department's forms submission portal will automatically direct providers to their relevant sections based on their organisation type. Government providers are required to complete the detailed facility level Residential Income and Expenses statements and the Permitted uses reconciliation.

3. Residential Segment Income Statement – Facility Level (Residential Income & Residential Expenses tabs of Attachment 1)

The following new sections will be introduced to the ACFR:

- Residential income – captures similar residential aged care income data items as the current ACFR Residential Income Statement but at the individual facility level;
- Residential expenses – captures residential aged care expense data in more detail than in the current ACFR Residential Income Statement and at the individual facility level. New data requirements include more details on staff costs across care, hotel, accommodation and administration including care staff hours, hotel costs split between catering, cleaning, laundry and maintenance and more details on non-labour care costs.

The Department appreciates that some providers may not have their accounting systems setup to capture the expanded requirements. For providers that are currently unable to capture information at this level, the Department will allow transitional reporting provisions.

For the 2020-21 financial year, the Department will provide guidance to those who do not have systems in place to record actual revenue and expenditure. This would involve allocation and apportionment principles to assist reporting facility results. In the case where a provider is unable to use the allocation and apportionment principles, the Department has engaged StewartBrown Pty Ltd to assist providers to understand the expanded reporting requirements.

From the 2021-22 financial year, providers will need to set up general ledgers to capture actual costs at this granular level. Facility level reporting will become mandatory from 2021-22.

Requests for ACFR support should be sent via email to:

ACFR.FacilityReporting.Help@Health.gov.au.

General queries relating to the ACFR and all queries regarding the ACFR online portal should be sent to Forms Administration at:

health@formsadministration.com.au

Clarification: The Department is not requesting residential balance sheet information at individual facility level.

Additional information

Audit and Accountability

The data submitted in the ACFR is not required to be audited but, as currently specified in section 35(2) of the *Accountability Principles 2014*, needs to be signed off by one of the providers' authorised key personnel. 'Key personnel' is defined by section 8b under the *Aged Care Quality and Safety Commission Act 2018*. The department may contact providers if the totals reported in the Approved Provider section of the ACFR (e.g. Total Assets/Liabilities/Income and Expenses) do not align with the General Purpose Financial Statements.

Permitted Uses Reconciliation

The Permitted Uses reconciliation statement will provide greater clarity as to whether RAD funds have been correctly used for permitted uses in accordance with the legislation. It will show where the new RADs received have been used, predominantly in residential aged care land and building costs, loan repayments associated with that activity, loans to third parties for permitted use expenditure or currently invested in liquid cash assets. Information will be pre-filled from the providers' ACFR & APCS with further granular data required in the reconciliation.

The Department understands that for the reconciliation to be complete, prior year excess permitted uses expenditure may need to be considered. The Department holds this information through prior year submission of audited Annual Prudential Compliance Statements, and will be using this in its analysis.

Bulk information upload

The Department understands the demands on providers to prepare and manually input the data for the ACFR online, particularly if reports must be made for multiple facilities. Subsequently, the ability to upload a single spreadsheet for the facility level income and expenditure statements has been built into the new ACFR portal as an additional feature.