

Senate Community Affairs Committee
ANSWERS TO ESTIMATES QUESTIONS ON NOTICE
SOCIAL SERVICES PORTFOLIO
2013-14 Additional Estimates Hearings

Outcome Number: 3

Question No: 537

Topic: Bonds Scheme

Hansard Page: Written

Senator Polley asked:

- 1) How much is held in residential bonds at this moment? What is the percentage of the defaults?
- 2) What strategies are in place to minimise the risk of defaults?

Answer:

1) At 30 June 2013 approved providers held accommodation bonds of approximately \$14.2 billion. It is anticipated that approximately \$7.3 million will be paid in respect of the two default events that occurred in 2013-14. This represents approximately 0.05% of the total bond pool.

2) Accommodation bonds provide a capital source of funding for investment in aged care infrastructure and, where not required for capital investments, accommodation bonds can be used to make prudent investments to generate additional income. Approved providers must comply with the Prudential Standards defined in the *Aged Care Act 1997* (the Act) relating to liquidity, disclosure, records and governance.

The Act and User Rights Principles also set out how providers manage and use accommodation bonds. The Act requires that approved providers only use accommodation bonds for permitted uses, and refund bonds in accordance with the requirements of the Act.

Approved providers are permitted to use accommodation bonds, among other things, for capital expenditure for investment in aged care infrastructure, to repay debt accrued for the purposes of capital expenditure, making loans subject to specified conditions, repaying accommodation bonds and to invest in prudent financial products.

Where a provider fails to use bonds for the permitted uses specified in the Act and does not repay accommodation bonds, both the approved provider and its key personnel may be subject to criminal charges.

The Department of Social Service's monitoring of an approved providers' compliance with their responsibilities under the Act includes annual monitoring of an approved provider's financial position. Providers are also required to submit an audited Annual Prudential Compliance Statement that discloses their compliance with their prudential obligations. Where concerns are identified, the Department engages with providers and takes compliance action where necessary.