icare™
commercial mind social heart

# An eye for numbers
# A heart for people

Insurance and Care NSW
Financial Statements 2017–18

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# icare

# icare Financial statements

for the year ended 30 June 2018

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## Notes to the financial statements

# Statement by the chairman and chief executive officer

for the year ended 30 June 2018

**Insurance and Care NSW**

**Certificate under Section 41C(1B) and 41C(1C) of the *Public Finance and Audit Act 1983* and Clause 7 of the Public *Finance and Audit Regulation 2015*.**

In the opinion of the Board of Directors:

1. the financial statements of Insurance and Care NSW have been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2015* and the Treasurer's Directions. They have also been prepared in accordance with Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board.

2.the financial statements for the year ended 30 June 2018 exhibit a true and fair view of the position and transactions of Insurance and Care NSW and;

3. the directors are not aware of any circumstances as at the date of this certificate which would render any particulars included in the financial statements misleading or inaccurate.

Signed on behalf of the Board of Directors of Insurance and Care NSW.

**Michael Carapiet**
**Chairman**
**Insurance and Care NSW**
**24 September 2018**

**John Nagle**
**Chief Executive Officer and**
**Managing Director**
**Insurance and Care NSW**
**24 September 2018**

# INDEPENDENT AUDITOR'S REPORT

**Insurance and Care New South Wales**

To Members of the New South Wales Parliament

## Opinion

I have audited the accompanying financial statements of Insurance and Care New South Wales (icare), which comprise the Statement of Comprehensive Income for the year ended 30 June 2018, the Statement of Financial Position as at 30 June 2018, the Statement of Changes in Equity and the Statement of Cash Flows for the year then ended, notes comprising accounting policies and other explanatory information.

In my opinion, the financial statements:

- give a true and fair view of the financial position of icare as at 30 June 2018, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards
- are in accordance with section 41B of the *Public Finance and Audit Act 1983* (PF&A Act) and the Public Finance and Audit Regulation 2015.

My opinion should be read in conjunction with the rest of this report.

## Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under the standards are described in the 'Auditor's Responsibilities for the Audit of the Financial Statements' section of my report.

I am independent of icare in accordance with the requirements of the:

- Australian Auditing Standards
- Accounting Professional and Ethical Standards Board's APES 110 'Code of Ethics for Professional Accountants' (APES 110).

I have fulfilled my other ethical responsibilities in accordance with APES 110.

Parliament promotes independence by ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of public sector agencies
- precluding the Auditor-General from providing non-audit services.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Level 15, 1 Margaret Street, Sydney NSW 2000 | GPO Box 12, Sydney NSW 2001 | t 02 9275 7101 | f 02 9275 7179 | e mail@audit.nsw.gov.au | audit.nsw.gov.au

## Other Information

Other information comprises the information included in icare's annual report for the year ended 30 June 2018, other than the financial statements and my Independent Auditor's Report thereon. The Directors of icare are responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprise the Statement by the Chairman and Chief Executive Officer.

My opinion on the financial statements does not cover the other information. Accordingly, I do not express any form of assurance conclusion on the other information.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude there is a material misstatement of the other information, I must report that fact.

I have nothing to report in this regard.

## The Board's Responsibilities for the Financial Statements

The Board of Directors are responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards and the PF&A Act, and for such internal control as the Directors determine is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing icare's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting except where icare will be dissolved by an Act of Parliament or otherwise cease operations.

## Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to:

- obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions users take based on the financial statements.

A description of my responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_responsibilities/ar4.pdf. The description forms part of my auditor's report.

My opinion does *not* provide assurance:

- that icare carried out its activities effectively, efficiently and economically
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.

D Daniels

David Daniels
Director, Financial Audit Services

2 October 2018
SYDNEY

# Statement of comprehensive income

for the year ended 30 June 2018

| | Notes | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|---|
| | | | |
| **REVENUE** | | | |
| Service fee revenue | 2.1 | 654,712 | 645,916 |
| Investment revenue | 4.1 | 360 | 351 |
| Other revenue | 4.2 | 145 | 352 |
| **Total Revenue** | | **655,217** | **646,619** |
| | | | |
| **EXPENSES** | | | |
| Employee related | 2.2 | 131,073 | 100,394 |
| Other operating expenses | 2.3 | 515,774 | 541,436 |
| Grants | 2.4 | 8,370 | 4,789 |
| **Total Expenses** | | **655,217** | **646,619** |
| | | | |
| **Net result** | | **-** | **-** |
| | | | |
| **TOTAL COMPREHENSIVE INCOME** | | **-** | **-** |

The accompanying notes form part of these financial statements

# Statement of financial position

as at 30 June 2018

| | Notes | 2018 $'000 | 2017 $'000 |
|---|---|---|---|
| | | | |
| **ASSETS** | | | |
| Cash and cash equivalents | 4.3 | 22,975 | 32,814 |
| Receivables and prepayments | 2.5 | 132,983 | 196,583 |
| Property, plant and equipment | 4.4 | 22,251 | 17,672 |
| Intangible assets | 4.5 | 265 | 599 |
| **Total Assets** | | **178,474** | **247,668** |
| | | | |
| **LIABILITIES** | | | |
| Payables | 2.6 | 137,560 | 210,242 |
| Provisions | 4.6 | 27,835 | 24,347 |
| **Total Liabilities** | | **165,395** | **234,589** |
| | | | |
| **Net Assets** | | **13,079** | **13,079** |
| | | | |
| **EQUITY** | | | |
| Accumulated funds | | 13,079 | 13,079 |
| **Total Equity** | | **13,079** | **13,079** |

The accompanying notes form part of these financial statements

# Statement of changes in equity

for the year ended 30 June 2018

| | Accumulated Funds $'000 |
|---|---|
| **Balance at 1 July 2017** | **13,079** |
| | |
| **Net result for the year** | **-** |
| | |
| **Total comprehensive income for the year** | **-** |
| | |
| **Balance at 30 June 2018** | **13,079** |

| | |
|---|---|
| **Balance at 1 July 2016** | **13,079** |
| | |
| **Net result for the year** | **-** |
| | |
| **Total comprehensive income for the year** | **-** |
| | |
| **Balance at 30 June 2017** | **13,079** |

# Statement of cash flows

for the year ended 30 June 2018

| | Notes | 2018 $'000 | 2017 $'000 |
|---|---|---|---|
| | | | |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| **Receipts** | | | |
| Service fees | | 744,486 | 565,869 |
| Interest received | | 614 | 180 |
| Other receipts | | 125 | 352 |
| **Total Receipts** | | **745,225** | **566,401** |
| | | | |
| **Payments** | | | |
| Agent remuneration | | (476,301) | (370,884) |
| Employee related | | (122,906) | (99,816) |
| Grants | | (8,370) | (4,789) |
| Other payments | | (136,764) | (67,216) |
| **Total Payments** | | **(744,341)** | **(542,705)** |
| | | | |
| **NET CASH FLOWS FROM OPERATING ACTIVITIES** | 4.3 | **884** | **23,696** |
| | | | |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchases of property, plant and equipment and intangibles | 4.4 | (10,723) | (16,962) |
| **NET CASH FLOWS USED IN INVESTING ACTIVITIES** | | **(10,723)** | **(16,962)** |
| | | | |
| **NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS** | | **(9,839)** | **6,734** |
| | | | |
| Opening cash and cash equivalents | | 32,814 | 26,080 |
| | | | |
| **CLOSING CASH AND CASH EQUIVALENTS** | 4.3 | **22,975** | **32,814** |

# Notes to the financial statements

for the year ended 30 June 2018

## 1. Overview

### 1.1 About the entity

Insurance and Care NSW (icare) is a NSW government agency. icare is a not-for-profit entity (as profit is not its principal objective) and it has no cash generating units. The reporting entity is consolidated as part of the NSW Total State Sector Accounts.

icare was established on 1 September 2015 in accordance with the *State Insurance and Care Governance Act 2015*.

These financial statements for the year ended 30 June 2018 have been authorised by the Chairman of the Board of icare and the Chief Executive Officer and Managing Director of icare on behalf of the Board of Directors of icare on 24 September 2018.

### 1.2 About this report

This Financial Report includes the financial statements of icare.

The Financial Report includes the four primary statements, namely the statement of comprehensive income (which comprises profit or loss and other comprehensive income), statement of financial position, statement of changes in equity and statement of cash flows as well as associated notes as required by Australian Accounting Standards. Disclosures have been grouped into the following categories in order to assist users in their understanding of the financial statements:

1. **Overview** contains information that impacts the Financial Report as a whole.
2. **Service activities** brings together results and statement of financial position disclosures relevant to icare's service activities.
3. **Risk management** provides commentary on icare's exposure to various financial and capital risks, explaining the potential impact on the results and statement of financial position and how icare manages these risks.
4. **Other** includes additional disclosures required in order to comply with Australian Accounting Standards.

Where applicable within each note, disclosures are further analysed as follows:

- **Overview** provides some context to assist users in understanding the disclosures and the accounting policies relevant to an understanding of the numbers;
- **Disclosures** (both numbers and commentary) provides analysis of balances as required by Australian Accounting Standards; and
- **Critical accounting judgements and estimates** explains the key estimates and judgements applied by icare in determining the numbers.

The notes include information which the directors believe is required to understand the financial statements and is material and relevant to the operations, statement of financial position and results of icare.

Information is considered material and relevant if:

- the amount in question is significant because of its size or nature;
- it is important to assist in understanding the results of icare;
- it helps to explain the impact of significant changes in icare's business; or
- it relates to an aspect of icare's operations that is important to its future performance.

#### 1.2.1 Basis of preparation

These financial statements are general purpose financial statements which have been prepared on an accrual basis in accordance with:

- applicable Australian Accounting Standards (which include Australian Accounting Interpretations);
- the requirements of the *Public Finance and Audit Act 1983* and the *Public Finance and Audit Regulation 2015*; and
- NSW Treasurer's directions.

Judgements, key assumptions and estimations management has made are disclosed in the relevant notes to the financial statements.

These financial statements have been presented on a liquidity basis following receipt of an exemption from TC18-01 by NSW Treasury that statements are presented on a current and non-current basis.

All amounts are rounded to the nearest one thousand dollars and are expressed in Australian currency.

# Notes to the financial statements

for the year ended 30 June 2018

### 1.2.2 Statement of compliance

The financial statements and notes comply with Australian Accounting Standards, which include Australian Accounting Interpretations.

### 1.2.3 Taxation

icare is exempt from income tax under Division 50 of the *Income Tax Assessment Act 1997*.

Income, expenses and assets are recognised net of the amount of associated GST, except that the:

- amount of GST incurred by icare as a purchaser that is not recovered from the Australian Taxation Office is recognised as part of an asset's cost of acquisition or as part of an item of expense; and
- Receivables and payables are stated with the amount of GST included.

Cash flows are included in the statement of cash flows on a gross basis. However, the GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the Australian Taxation Office are classified as operating cash flows.

### 1.2.4 Comparative information

Except when an Australian Accounting Standard permits or requires otherwise, comparative information is disclosed in respect of the previous period for all amounts reported in the financial statements.

Where necessary, comparatives have been restated to conform to changes in presentation in the current year.

### 1.2.5 Changes in accounting policy, including new or revised Australian Accounting Standards.

Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the reporting year ending 30 June 2018. The following new Standards will not have a material impact on the financial performance or position of icare:

- AASB 15, AASB 2014-5, AASB 2015-8 and AASB 2016-3 regarding *Revenue from Contracts with Customers*;
- AASB 16 regarding *Leases*;
- AASB 17 regarding *Insurance Contracts*;
- AASB 1058 *Income of Not-for-profit Entities*;
- AASB 2016-6 Amendments to Australian Accounting Standards - Applying AASB 9 with AASB 4 Insurance Contracts;
- AASB 2016-7 Amendments to Australian Accounting Standards - Deferral of AASB 15 for Not-for-Profit Entities;
- AASB 2016-8 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities;
- AASB 2017-1 Amendments to Australian Accounting Standards – Transfer of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments; and
- AASB 2017-3 Amendments to Australian Accounting Standards - Clarifications to AASB 4.

AASB 9 regarding *Financial Instruments* is being evaluated to assess if there is any impact on the financial performance or position of icare.

# Notes to the financial statements

for the year ended 30 June 2018

## 2. Service activities

**Overview**

This section provides analysis and commentary on icare's service activities. Service activities involve all activities undertaken in relation to the provision of services to the Scheme's serviced by icare.

In accordance with the *State Insurance and Care Governance Act 2015*, icare provides services to Lifetime Care and Support Authority of NSW, New South Wales Self Insurance Corporation, NSW Workers Insurance Scheme, Sporting Injuries Compensation Authority, Workers Compensation (Dust Diseases) Authority and the Building Insurers' Guarantee Corporation.

Under the arrangement some of the Schemes' costs are incurred by icare and recovered at cost by the scheme.

These services include the provision of staff, claims handling, facilities, general business expenses and governance services. Revenue is recognised as the related services are provided to each entity.

icare on behalf of NSW Self Insurance Corporation provides claims management and administrative support such as actuarial services to the Electricity Ministerial Assets Holding Corporation (Generators) and the Electricity Transmission Ministerial Holding Corporation (Transgrid).

### 2.1 Service fee revenue

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| Lifetime Care and Support Authority of NSW | 33,893 | 26,428 |
| New South Wales Self Insurance Corporation | 173,654 | 176,903 |
| NSW Workers Insurance Scheme | 435,072 | 432,028 |
| Sporting Injuries Compensation Authority | 196 | 284 |
| Workers Compensation (Dust Diseases) Authority | 11,256 | 9,875 |
| Building Insurers' Guarantee Corporation | 169 | 223 |
| Generators and Transgrid | 472 | 175 |
| | **654,712** | **645,916** |

# Notes to the financial statements

for the year ended 30 June 2018

## 2.2 Employee related

| | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|
| | | |
| Salaries and wages (including recreation leave) | 101,727 | 75,566 |
| Agency short-term staff | 10,838 | 11,649 |
| Long service leave | 2,383 | 1,495 |
| Superannuation | 8,325 | 5,970 |
| Payroll tax and fringe benefit tax | 6,552 | 4,938 |
| Allowances | 916 | 562 |
| Workers' compensation insurance | 332 | 214 |
| | **131,073** | **100,394** |

icare has made strategic decisions to insource certain capabilities such as underwriting, policy and billing and case management of severely injured workers and to grow other key capabilities such as customer service, technology and project management. Investing in these capabilities enables icare to both improve net cost to serve and thus scheme efficiencies together with the quality of customer service provided to the people of NSW.

# Notes to the financial statements

for the year ended 30 June 2018

## 2.3 Other operating expenses

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Agent remuneration | 342,922 | 460,768 |
| Fees paid to outsourced service providers | 33,025 | - |
| Advertising, promotion and publicity | 3,526 | 2,136 |
| Auditor's remuneration - Audit Office of NSW – audit of financial statements | 128 | 395 |
| Other external audits | 296 | 336 |
| Internal audit and reviews | 385 | 150 |
| Building maintenance, repairs and management | 417 | 232 |
| Board and Committee fees | 1,258 | 1,181 |
| Consultants – Actuarial fees | 7,449 | 11,089 |
| Consultants – Other | 3,857 | 6,271 |
| Contractors | 12,412 | 19,134 |
| Communication expenses | 2,695 | 713 |
| Depreciation and amortisation expense | 6,478 | 4,263 |
| ICT Services- Managed Service | 10,423 | 1,705 |
| Insurance | 385 | 379 |
| Legal Fees | 1,218 | 930 |
| Other miscellaneous | 8,624 | 4,919 |
| Operating lease rental expense | | |
| - minimum lease payments | 6,074 | 6,052 |
| - other related expenses | 3,245 | 2,978 |
| Other repairs and maintenance | 435 | 130 |
| Reinsurance administration fees | 1,313 | 1,307 |
| Printing | 7,048 | 722 |
| Risk Consulting Services | 8,235 | 1,533 |
| Service NSW Service fees | 15,159 | - |
| Software Licences | 32,504 | 6,243 |
| Stores | 1,540 | 3,391 |
| Training | 3,540 | 3,855 |
| Travel and vehicle expenses | 1,183 | 624 |
| | **515,774** | **541,436** |

# Notes to the financial statements

for the year ended 30 June 2018

## 2.3 Other operating expenses (continued)

Agent remuneration is paid to Scheme Agents for services provided to icare for the insurance activities delivered through New South Wales Self Insurance Corporation and NSW Workers Insurance Scheme.

As an organisation engaged in transformation, icare uses the skills and expertise of consultants and contractors where appropriate to deliver improved outcomes to its customers.

## 2.4 Grants

**Overview**

icare through the icare Foundation invests in research, innovation and evidence based initiatives with partners that focus on prevention and post injury care that improve the wellbeing of NSW communities. The icare Foundation commenced on 21 November 2016.

| | 2018<br>$'000 | 2017<br>$'000 |
|---|---:|---:|
| | | |
| Grants | **8,370** | **4,789** |

## 2.5 Receivables and prepayments

**Overview**

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Short-term receivables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial.

Receivables represent amounts due from the entities that icare provides support and services to including Lifetime Care and Support Authority of NSW, New South Wales Self Insurance Corporation, NSW Workers Insurance Scheme, Sporting Injuries Compensation Authority, Workers Compensation (Dust Diseases) Authority, Electricity Assets Ministerial Holding Company (Generators), Electricity Transmission Ministerial Holding Corporation (Transgrid) and the Building Insurers' Guarantee Corporation.

Prepayments primarily relate to agent remuneration paid in advance for the September 2018 quarter in relation to the insurance activities of icare.

No receivables are considered impaired (2017 $nil).

# Notes to the financial statements

for the year ended 30 June 2018

## 2.5 Receivables and prepayments (continued)

Refer to Note 3 for further information regarding credit risk, liquidity risk and market risk arising from receivables.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| **Service fees receivable from relevant entities** | | |
| Lifetime Care and Support Authority of NSW | 4,209 | 4,263 |
| New South Wales Self Insurance Corporation | 14,468 | 68,079 |
| NSW Workers Insurance Scheme | 47,038 | 83,290 |
| Sporting Injuries Compensation Authority | 11 | 64 |
| Workers Compensation (Dust Diseases) Authority | 2,460 | 1,782 |
| Building Insurers' Guarantee Corporation | 22 | 157 |
| Generators and Transgrid | 243 | 175 |
| | | |
| Prepayments | 58,795 | 33,895 |
| Receivables – other | 637 | 1,793 |
| GST receivable | 5,100 | 2,831 |
| Interest receivable | - | 254 |
| | **132,983** | **196,583** |

## 2.6 Payables

### Overview

These amounts represent liabilities for goods and services provided to icare and other amounts. Payables are recognised initially at fair value, usually based on the transaction cost or face value. Short-term payables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial.

Details regarding credit risk, liquidity risk, and market risk, including a maturity analysis of the above payables are disclosed in Note 3.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| Agents remuneration | 106,369 | 181,822 |
| Creditors | 24,685 | 26,948 |
| Accrued salaries, wages and on-costs (Refer Note 4.6) | 6,506 | 1,472 |
| **Total Payables** | **137,560** | **210,242** |

# Notes to the financial statements

for the year ended 30 June 2018

## 3. Risk Management

**Overview**

icare applies a consistent and integrated approach to enterprise risk management (ERM). icare's risk management framework sets out the approach to managing key risks and meeting strategic objectives. icare's risk management framework is articulated in the Risk Management Strategy (RMS) which is approved annually by the Board.

The icare Board is ultimately responsible for identifying and controlling financial and business risk. This is done through the establishment of holistic strategies and policies which are cognizant of risk management.

The framework consists of complementary elements that are embedded throughout the business management cycle and culture of the organisation. Key aspects include: risk appetite, governance, risk management processes, risk reporting and insights, modelling and stress testing, management, monitoring and culture.

Risk management is a continuous process and an integral part of robust business management. icare's approach is to integrate risk management into the broader management processes of the organisation. It is icare's philosophy to ensure that risk management remains embedded in the business and that the risk makers or risk takers are themselves the risk managers. Specifically, the management of risk must occur at each point in the business management cycle.

The key risk categories used by icare to classify financial risk:

- Market risk (Note 3.1);
- Interest rate risk (Note 3.2);
- Liquidity risk (Note 3.3); and
- Credit risk (Note 3.4).

icare's principal financial instruments are outlined below. These financial instruments arise directly from icare's operations or are required to finance these operations. icare does not enter into or trade financial instruments, including derivative instruments, for speculative purposes.

icare's main risks arising from financial instruments are outlined below, together with icare's objectives, policies and processes for measuring and managing risk. Further quantitative and qualitative disclosures are included throughout these financial statements.

icare's Board has overall responsibility for the establishment and oversight of risk management and reviews and agrees policies for managing each of these risks. Risk management policies are established to identify and analyse the risks faced by icare to set risk limits and controls and to monitor risks. Compliance with policies is reviewed by the Audit & Risk Committee on a continual basis.

# Notes to the financial statements

for the year ended 30 June 2018

## 3. Risk Management (continued)

**Financial instrument categories**

| | Notes | Category | Carrying Amount 2018 $'000 | Carrying Amount 2017 $'000 |
|---|---|---|---|---|
| **Financial Assets** | | | | |
| **Class:** | | | | |
| Cash and cash equivalents | 4 | N/A | 22,975 | 32,814 |
| Receivables[1] | 3.4 | Loans and Receivables – at amortised cost | 69,088 | 159,857 |
| **Financial Liabilities** | | | | |
| **Class:** | | | | |
| Payables[2] | 3.3 | Financial liabilities – at amortised cost | 137,560 | 210,242 |

Notes:

[1] Excludes statutory receivables and prepayments (i.e. not within scope of AASB 7)

[2] Excludes statutory payables and unearned revenue (i.e. not within scope of AASB 7).

No collateral is held by icare. icare has not granted any financial guarantees.

### 3.1 Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

icare has no significant exposure to market risk as it does not hold any investments or securities traded in the market.

### 3.2 Interest rate risk

Interest Rate Risk is the risk that the (fair) value of a financial instrument will fluctuate because of changes in market interest rates. The value of Insurance and Care NSW's liabilities is also affected by interest rate fluctuations.

#### 3.2.1 Exposure

Interest rate risk arises as a result of icare holding financial instruments which are subject directly or indirectly to changes in value as a result of interest rate fluctuations. icare liabilities are similarly subject directly or indirectly to changes in value as a result of interest rate fluctuations.

# Notes to the financial statements

for the year ended 30 June 2018

### 3.2.2 Quantitative analysis of exposure

The following table provides the sensitivity analysis of interest rate risk affecting applicable financial assets on the operating result and equity of icare. A reasonably possible change of +/- 1% is used, consistent with current trends in interest rates. The basis will be reviewed annually and amended where there is a structural change in the level of interest rate volatility.

| | Carrying Amount $'000 | -1% | | +1% | |
|---|---|---|---|---|---|
| | | Profit $'000 | Equity $'000 | Profit $'000 | Equity $'000 |
| **2018** | | | | | |
| Cash and cash equivalents | 22,975 | (230) | (230) | 230 | 230 |
| **2017** | | | | | |
| Cash and cash equivalents | 32,814 | (328) | (328) | 328 | 328 |

| | Floating Interest Rate | Fixed Interest Rates | | |
|---|---|---|---|---|
| | | < 1 year $'000 | 1-5 years $'000 | > 5 years $'000 |
| **2018** | | | | |
| **Class** | | | | |
| Cash | 22,975 | - | - | - |
| **Assets** | **22,975** | **-** | **-** | **-** |
| | | | | |
| **2017** | | | | |
| **Class** | | | | |
| Cash | 32,814 | - | - | - |
| **Assets** | **32,814** | **-** | **-** | **-** |

# Notes to the financial statements

for the year ended 30 June 2018

## 3.3 Liquidity risk

Liquidity risk is the risk that icare will be unable to meet its payment obligations when they fall due. During the current year there were no loans payable. No assets have been pledged as collateral. icare is fully funded by the entities to which it provides services.

The liabilities are recognised for amounts due to be paid in the future for goods or services received, whether or not invoiced. Amounts owing to suppliers (which are unsecured) are settled in accordance with the policy set out in NSW Treasury Circular 11/12. For small business suppliers, where terms are not specified, payment is made not later than 30 days from date of receipt of a correctly rendered invoice. For other suppliers, if trade terms are not specified, payment is made no later than the end of the month following the month in which an invoice is received.

The table below summarises the maturity profile of icare financial liabilities, together with the interest rate exposure.

**Interest rate exposure of financial liabilities**

| | Nominal Amount | Interest Rate Exposure | | |
|---|---|---|---|---|
| | $'000 | Fixed Rate $'000 | Variable Rate $'000 | Non-Interest Bearing $'000 |
| **2018** | | | | |
| Payables | 137,560 | - | - | 137,560 |
| | | | | |
| **2017** | | | | |
| Payables | 210,242 | - | - | 210,242 |

**Maturity Analysis of financial liabilities**

| | Maturity Dates | | |
|---|---|---|---|
| | < 1 year $'000 | 1-5 years $'000 | > 5 years $'000 |
| **2018** | | | |
| Payables | 137,560 | - | - |
| | | | |
| **2017** | | | |
| Payables | 210,242 | - | - |

The amounts disclosed are the contractual undiscounted cash flows of each class of financial liabilities based on the earliest date on which icare can be required to pay.

icare does not have any loans payable and no assets have been pledged as collateral. icare's exposure to liquidity risk is deemed insignificant due to the current assessment of risk.

# Notes to the financial statements

for the year ended 30 June 2018

### 3.4 Credit risk

Credit risk arises where there is the possibility of icare's debtors defaulting on their contractual obligations, resulting in a financial loss to icare. The maximum exposure to credit risk at balance date is generally represented by the carrying amount of the financial assets net of any allowance for impairment as indicated in the statement of financial position (refer Note 2.5).

Credit risk arises from the financial assets of icare, including cash and receivables. No collateral is held by icare. icare has not granted any financial guarantees.

#### 3.4.1 Cash

Cash comprises cash on hand and bank balances within the NSW Treasury Banking System. Interest is earned on daily bank balances at the Reserve Bank of Australia's cash rate.

#### 3.4.2 Receivables

All trade debtors are recognised as amounts receivable as at balance date. Collectability of trade debtors is reviewed on an ongoing basis. An allowance for impairment is raised when there is objective evidence that icare will not be able to collect all amounts due. All debts are from government agencies and the credit terms are monitored by management. No interest is earned on trade debtors.

### 3.5 Fair value estimation

The carrying amounts of Insurance and Care NSW financial assets and liabilities at the end of the reporting year approximated their fair values as all financial assets and liabilities held were either at fair value at the end of the reporting year or were short term in nature.

## 4. Other

**Overview**

This section includes other information that must be disclosed to comply with the Australian Accounting Standards.

### 4.1 Investment revenue

**Overview**

Investment revenue is brought to account on an accruals basis. Interest revenue is recognised using the effective interest method as set out in AASB 139 *Financial Instruments: Recognition and Measurement*.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| Interest revenue from bank interest | **360** | **351** |

### 4.2 Other revenue

**Overview**

Other revenue is recognised when the service is provided.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| Fees for events held | 82 | 60 |
| Grants contribution | - | 276 |
| Other | 63 | 16 |
| | **145** | **352** |

# Notes to the financial statements

for the year ended 30 June 2018

## 4.3 Cash and cash equivalents

**Overview**

For the purposes of the statement of cash flows, cash and cash equivalents includes cash at bank and on hand, term deposits with a maturity of less than 3 months and highly liquid investments.

Refer to Note 3 for further information regarding credit risk, liquidity risk and market risk arising from financial instruments.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| Cash at bank and on hand | 22,975 | 32,814 |
| | **22,975** | **32,814** |

Cash and cash equivalent assets recognised in the statement of financial position are reconciled at the end of the financial year to the statement of cash flows as follows:

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| Cash and cash equivalent assets (per statement of financial position) | 22,975 | 32,814 |
| **Closing cash and cash equivalents (per statement of cash flows)** | **22,975** | **32,814** |

**Reconciliation of cash flows from operating activities to Net Result**

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| **Net cash flow from operating activities** | 884 | 23,696 |
| Depreciation and amortisation | (6,478) | (4,263) |
| Increase/(decrease) in receivables | (63,696) | 63,722 |
| (Increase)/decrease in payables | 72,778 | (79,853) |
| (Increase) in provisions | (3,488) | (3,302) |
| **Net result per Statement of Comprehensive Income** | **-** | **-** |

# Notes to the financial statements

for the year ended 30 June 2018

## 4.4 Property, plant and equipment

**Overview**

Plant and equipment are recorded at cost on acquisition.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire the asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised. Physical non-current assets costing more than $5,000 individually are capitalised.

The capitalisation threshold for property, plant and equipment is $5,000 and above individually (or forming part of a network costing more than $5,000).

Physical non-current assets are valued in accordance with the '*Valuation of Physical Non-Current Assets at Fair Value*' Policy and Guidelines Paper (TPP 14-01). This policy adopts fair value in accordance with AASB 13 *Fair Value Measurement* and AASB 116 *Property, Plant and Equipment*.

Non-specialised assets with short useful lives are measured at depreciated historical cost, as an approximation of fair value. icare has assessed that any difference between fair value and depreciated historical cost is unlikely to be material.

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at measurement date.

**Revaluation of property, plant and equipment**

icare revalues each class of property, plant and equipment to ensure that the carrying amount of each asset in the class does not differ materially from its fair value at reporting date.

When assets are revalued, any balances of accumulated depreciation at the revaluation date in respect of those assets are credited to the asset accounts to which they relate. The net asset accounts are then increased or decreased by the revaluation increments or decrements.

Depreciation is provided for on a straight line basis. The rates applied are:

| | 2018<br>% | 2017<br>% |
|---|---|---|
| | | |
| Office machines and equipment | 20.0 | 20.0 |
| Computer hardware | 20.0–33.3 | 20.0–33.3 |
| Motor Vehicle | 20.0 | 20.0 |

Leasehold improvements are depreciated over the unexpired term of the respective leases or the estimated life of the improvements whichever is the shorter.

# Notes to the financial statements

for the year ended 30 June 2018

## 4.4 Property, plant and equipment (continued)

**Restoration costs**

The estimated cost of dismantling and removing an asset and restoring the office sites is included in the cost of an asset, to the extent it is recognised as a liability.

| | Capital Work in Progress $'000 | Leasehold Improvements $'000 | Office Machines and Equipment $'000 | Computer Hardware $'000 | Motor Vehicles $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| | | | | | | |
| **At 1 July 2017 fair value** | | | | | | |
| Gross carrying amount | 2,083 | 19,573 | 323 | 154 | 32 | 22,165 |
| Accumulated depreciation and impairment | - | (4,306) | (90) | (94) | (3) | (4,493) |
| **Net carrying amount** | **2,083** | **15,267** | **233** | **60** | **29** | **17,672** |
| | | | | | | |
| **At 30 June 2018 fair value** | | | | | | |
| Gross carrying amount | 211 | 32,166 | 323 | 154 | 31 | 32,885 |
| Accumulated depreciation and impairment | - | (10,356) | (152) | (116) | (10) | (10,634) |
| **Net carrying amount** | **211** | **21,810** | **171** | **38** | **21** | **22,251** |
| | | | | | | |
| **Reconciliation** | | | | | | |
| A reconciliation of the carrying amount of each class of property, plant and equipment at the beginning and end of the current reporting year is set out below: | | | | | | |
| | | | | | | |
| Net carrying amount at start of the year | 2,083 | 15,267 | 233 | 60 | 29 | 17,672 |
| Additions | 10,149 | 574 | - | - | - | 10,723 |
| Transfers | (12,021) | 12,021 | - | - | - | - |
| Depreciation expense | - | (6,052) | (62) | (22) | (8) | (6,144) |
| **Net carrying amount at end of the year** | **211** | **21,810** | **171** | **38** | **21** | **22,251** |

# Notes to the financial statements

for the year ended 30 June 2018

## 4.4 Property, plant and equipment (continued)

| | Capital Work in Progress $'000 | Leasehold Improvements $'000 | Office Machines and Equipment $'000 | Computer Hardware $'000 | Motor Vehicles $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| | | | | | | |
| **At 1 July 2016 fair value** | | | | | | |
| Gross carrying amount | 4,449 | 607 | 323 | 102 | - | 5,481 |
| Accumulated depreciation and impairment | - | (454) | (27) | (63) | - | (544) |
| **Net carrying amount** | **4,449** | **153** | **296** | **39** | **-** | **4,937** |
| | | | | | | |
| **At 30 June 2017 fair value** | | | | | | |
| Gross carrying amount | 2,083 | 19,573 | 323 | 154 | 32 | 22,165 |
| Accumulated depreciation and impairment | - | (4,306) | (90) | (94) | (3) | (4,493) |
| **Net carrying amount** | **2,083** | **15,267** | **233** | **60** | **29** | **17,672** |
| | | | | | | |
| **Reconciliation** | | | | | | |
| A reconciliation of the carrying amount of each class of property, plant and equipment at the beginning and end of the previous reporting year is set out below: | | | | | | |
| | | | | | | |
| Net carrying amount at start of the year | 4,449 | 153 | 296 | 39 | - | 4,937 |
| Additions | 15,639 | 960 | - | 52 | 32 | 16,683 |
| Transfers | (18,005) | 18,005 | - | - | - | - |
| Depreciation expense | - | (3,851) | (63) | (31) | (3) | (3,948) |
| **Net carrying amount at end of the year** | **2,083** | **15,267** | **233** | **60** | **29** | **17,672** |

# Notes to the financial statements

for the year ended 30 June 2018

## 4.5 Intangible assets

**Overview**

icare recognises intangible assets only if it is probable that future economic benefits will flow to icare and the cost of the asset can be measured reliably. Intangible assets are measured initially at cost. Where an asset is acquired at no or nominal cost, the cost is its fair value at the date of acquisition.

The capitalisation threshold for intangible assets is $100,000 and above (including direct allocation of personnel service costs).

All research costs are expensed. Development costs are only capitalised when certain criteria are met.

icare reviews its amortisation rate and method on an annual basis.

Intangible assets are subsequently measured at fair value only if there is an active market. As there is no active market for icare's intangible assets, the assets are carried at cost less any accumulated amortisation and impairment losses.

Intangible assets are tested for impairment where an indicator of impairment exists. If the recoverable amount is less than its carrying amount, the carrying amount is reduced to recoverable amount and the reduction is recognised as an impairment loss.

Amortisation is provided on a straight line basis for all intangible assets so as to write off the depreciable amount of each asset as it is consumed over it's useful life. The rates applied are:

| | 2018 % | 2017 % |
|---|---|---|
| | | |
| Software | 33 | 33 |

# Notes to the financial statements

for the year ended 30 June 2018

## 4.5 Intangible assets (continued)

| | Software WIP $'000 | Software $'000 | Total $'000 |
|---|---|---|---|
| | | | |
| **At 1 July 2017 – fair value** | | | |
| Cost (gross carrying amount) | - | 993 | 993 |
| Accumulated amortisation and impairment | - | (394) | (394) |
| **Net carrying amount** | **-** | **599** | **599** |
| | | | |
| | | | |
| **At 30 June 2018 – fair value** | | | |
| Cost (gross carrying amount) | - | 993 | 993 |
| Accumulated amortisation and impairment | - | (728) | (728) |
| **Net carrying amount** | **-** | **265** | **265** |

**Reconciliation**

A reconciliation of the carrying amount of each class of intangible assets at the beginning and end of the current reporting year is set out below:

| | Software WIP $'000 | Software $'000 | Total $'000 |
|---|---|---|---|
| | | | |
| **Year ended 30 June 2018** | | | |
| Net carrying amount at start of the year | - | 599 | 599 |
| Amortisation expense | - | (334) | (334) |
| **Net carrying amount at end of the year** | **-** | **265** | **265** |

# Notes to the financial statements

for the year ended 30 June 2018

## 4.5 Intangible assets (continued)

| | Software WIP $'000 | Software $'000 | Total $'000 |
|---|---|---|---|
| | | | |
| **At 1 July 2016 – fair value** | | | |
| Cost (gross carrying amount) | 90 | 622 | 712 |
| Accumulated amortisation and impairment | - | (77) | (77) |
| **Net carrying amount** | **90** | **545** | **635** |
| | | | |
| | | | |
| **At 30 June 2017 – fair value** | | | |
| Cost (gross carrying amount) | - | 993 | 993 |
| Accumulated amortisation and impairment | - | (394) | (394) |
| **Net carrying amount** | **-** | **599** | **599** |

### Reconciliation

A reconciliation of the carrying amount of each class of intangible assets at the beginning and end of the prior reporting year is set out below:

| | Software WIP $'000 | Software $'000 | Total $'000 |
|---|---|---|---|
| | | | |
| **Year ended 30 June 2017** | | | |
| Net carrying amount at start of the year | 90 | 545 | 635 |
| Additions | - | 281 | 281 |
| Amortisation expense | - | (317) | (317) |
| Transfers (out)/in | (90) | 90 | - |
| **Net carrying amount at end of the year** | **-** | **599** | **599** |

# Notes to the financial statements

for the year ended 30 June 2018

## 4.6 Provisions

**Overview**

Provisions are recognised when icare has a present obligation as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| **Employee benefits and related on-costs** | | |
| Annual leave entitlements including on-costs | 8,051 | 6,489 |
| Long service leave entitlements including on-costs | 17,644 | 16,291 |
| Restoration provision | 2,140 | 1,567 |
| **Total Provisions** | **27,835** | **24,347** |
| | | |
| **Aggregate employee benefits and related on-costs** | | |
| Annual leave entitlements including on-costs | 8,051 | 6,489 |
| Long service leave entitlements including on-costs | 17,644 | 16,291 |
| Accrued salaries, wages and on-costs | 6,506 | 1,472 |
| | **32,201** | **24,252** |

**Employee Benefits and Other Provisions**

It is expected that the leave provisions and related on-costs will be settled over the following years:

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| **Expected to be settled no more than twelve months** | | |
| Annual leave and related on-costs | 8,051 | 6,489 |
| Long service leave and related on-costs | 1,186 | 1,140 |
| | **9,237** | **7,629** |
| **Expected to be settled after more than twelve months** | | |
| Long service leave and related on-costs | **16,458** | **15,151** |

# Notes to the financial statements

for the year ended 30 June 2018

### 4.6.1 Salaries and Wages, Annual Leave, Sick Leave and On-Costs

Salaries and wages (including non-monetary benefits) and paid sick leave that are expected to be settled wholly within twelve months after the end of the year in which the employees render the service are recognised and measured at the undiscounted amounts of the benefits.

Annual leave is not expected to be settled wholly before twelve months after the end of the annual reporting year in which the employees render the related service. As such, it is required to be measured at present value in accordance with AASB 119 *Employee Benefits*. icare has determined that the effect of discounting is immaterial to the annual leave liability.

Unused non-vesting sick leave does not give rise to a liability as it is not considered probable that sick leave taken in the future will be greater than the benefits accrued in the future.

### 4.6.2 Superannuation and Long Service Leave

The superannuation expense for accumulation funds is calculated as a percentage of employees' salary. For defined benefits funds the expense is calculated as a multiple of the employee's superannuation contributions.

icare's defined benefit obligations have been assumed by NSW Treasury.

The liability for long service leave is measured as the present value of expected future payments to be made In respect of employee related services received up to the reporting date. Consideration is given to salary levels, long service leave balances, assumed rates of taking leave, rates of death, disablement, retirement and resignation, and rates of salary escalation.

Expected future payments are discounted using markets yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows. The calculation is actuarially performed.

### 4.6.3 Consequential on-costs

Consequential costs to employment are recognised as liabilities and expenses where the employee benefits to which they relate have been recognised. This includes outstanding amounts of payroll tax, workers' compensation insurance premiums and fringe benefits tax.

### 4.6.4 Restoration provision

A restoration provision is recognised for the estimate of future payments for restoration upon termination of the leases of the current office premises. The effect of discounting is immaterial.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| Carrying amount at the beginning of financial year | 1,567 | 607 |
| Additional provisions | 573 | 960 |
| **Carrying amount at end of financial year** | **2,140** | **1,567** |

## 4.7 Commitments for expenditure

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| **Operating lease commitments** | | |
| Future non-cancellable operating lease rentals not provided for and payable: | | |
| Not later than one year | 8,256 | 7,516 |
| Later than one year but not later than five years | 18,850 | 20,863 |
| Later than five years | 3,043 | 3,749 |
| **Total (including GST)** | **30,149** | **32,128** |

Expenditure commitments for icare include input tax credits of $2.7m (2017: $2.9m) which are expected to be recoverable from the Australian Taxation Office. icare has a lease commitment with Government Property NSW for occupancy of its accommodation.

# Notes to the financial statements

for the year ended 30 June 2018

## 4.8 Contingent liabilities and contingent assets

**Overview**

Contingent liabilities are disclosed when the possibility of a future settlement of economic benefits is considered to be less than probable but more likely than remote. If the expected settlement of the liability becomes probable, a provision is recognised.

icare does not have any known contingent liabilities or assets at reporting date.

## 4.9 Related party disclosures

**Overview**

During the year, the entity did not enter into any transactions with key management personnel, their close family members and controlled or jointly controlled entities thereof.

The entity's key management personnel are the Board of Directors of icare, the Chief Executive Officer of icare and their direct reports. Compensation received is as follows:

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| **Short term employee benefits** | | |
| Salaries | 7,649 | 6,113 |
| Other monetary allowances | - | - |
| Non-monetary benefits | - | - |
| Other long-term employee benefits | 456 | 988 |
| Post-employment benefits | - | - |
| Termination benefits | 500 | 473 |
| **Total Remuneration** | **8,605** | **7,574** |

**End of audited financial statements**

# Dust Diseases Care

# Dust Diseases Care Financial statements

for the year ended 30 June 2018

## Contents



## Notes to the financial statements

**WORKERS COMPENSATION DUST DISEASES AUTHORITY OF NSW**

**Actuarial Certificate**
**Outstanding claims liabilities at 30 June 2018**

PricewaterhouseCoopers Consulting (Australia) Pty Ltd (PwC) has been requested by Insurance and Care NSW ("icare") acting for the Workers' Compensation Dust Diseases Authority of NSW ("DDA") to make estimates of outstanding claims liabilities of the DDA under the *Workers Compensation (Dust Diseases) Act* as at 30 June 2018.

**Data**

PwC has relied on historical data and other quantitative and qualitative information supplied by icare, without audit or independent verification. We did, however, review this information for reasonableness and internal consistency, where possible. The accuracy of our results is dependent upon the accuracy and completeness of the underlying data.

**Basis of Our Estimates**

We have made central estimates of the outstanding claims liabilities, which means that our assumptions have been selected to yield estimates that are not knowingly above or below the ultimate liabilities. Our estimates are inflated and discounted, and include an allowance for future expenses and recoveries associated with the claims liabilities. Our valuation has separately considered expected payments for claims that have already been reported ("Known Claims"), and for claims which have not yet been reported but for which the exposure to dust has already occurred and a disease will eventually emerge ("Future Claims").

The estimates do not include any allowance for a risk margin as instructed by icare.

**Valuation Results**

The PwC central estimates of the outstanding claims liabilities, net of recoveries, for Known Claims and Future Claims as at 30 June 2018 is **$1,784.1 m.** The breakdown of the result between Known Claims and Future Claims are shown in the following table.

| Component | Net Central Estimate ($m) |
|---|---|
| Known Claims | 866.4 |
| Future Claims | 917.8 |
| **Total Liability** | **1,784.1** |

It is a decision for the DDA as to the amount adopted in the accounts.

***PricewaterhouseCoopers Consulting (Australia) Pty Ltd, ABN 20 607 773 295***
*One International Towers Sydney, Watermans Quay, Barangaroo NSW 2000,*
*GPO BOX 2650 Sydney NSW 2001*
*T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au*

pwc

**Uncertainty**

There is a limitation upon the accuracy of the estimates in this certificate in that there is an inherent uncertainty in any estimate of outstanding claim liabilities. This is due to the fact that the ultimate liability for claims is subject to the outcome of events yet to occur. In the case of estimating dust disease claims, this is further exacerbated by the long latency periods, difficulties in obtaining reliable data relating to timing and exposure of potential claimants, and general uncertainty surrounding the impact of future medical advancements and benefit reforms on the DDA's liabilities.

In our judgement, we have employed techniques and assumptions that are appropriate, and we believe the conclusions presented herein are reasonable, given the information currently available. However, it should be recognised that future claim experience is likely to deviate, perhaps materially, from our estimates.

**Report**

Full details of data, methodology, assumptions and results are set out in our valuation report dated 30 August 2018.

**Relevant Standards**

Our estimates and reports were prepared in compliance with the Actuaries Institute's Professional Standard 300, which relates to estimation of outstanding claims liabilities.

icare have informed us that the financial statements for the DDA are intended to comply with Accounting Standard AASB 137 which requires the determination of a best estimate. We have been instructed by icare to prepare a central estimate and our report includes the determination of a risk margin intended to achieve higher probabilities of adequacy.

Andrew Smith
FIAA
30 August 2018

Gavin Moore
FIAA
30 August 2018

# Statement by the chairman and chief executive officer

for the year ended 30 June 2018

**Workers Compensation (Dust Diseases) Authority**

**Certificate under Section 41C(1B) and 41C(1C) of the *Public Finance and Audit Act 1983* and Clause 7 of the *Public Finance and Audit Regulation 2015*.**

In the opinion of the Board of Directors:

1. the financial statements of Workers Compensation (Dust Diseases) Authority have been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2015* and the Treasurer's Directions. They have also been prepared in accordance with Australian Accounting Standards (which include Australian Accounting Interpretations) and other authoritative pronouncements of the Australian Accounting Standards Board;
2. the financial statements for the year ended 30 June 2018 exhibit a true and fair view of the position and transactions of Workers Compensation (Dust Diseases) Authority; and
3. the directors are not aware of any circumstances as at the date of this certificate which would render any particulars included in the financial statements misleading or inaccurate.

Signed on behalf of the Board of Directors of Insurance and Care NSW.

**Michael Carapiet**
**Chairman/Director**
**Insurance and Care NSW**
**24 September 2018**

**John Nagle**
**Chief Executive Officer and Managing Director**
**Workers Compensation (Dust Diseases) Authority and**
**Insurance and Care NSW**
**24 September 2018**

# INDEPENDENT AUDITOR'S REPORT

**Workers Compensation (Dust Diseases) Authority**

To Members of the New South Wales Parliament

## Opinion

I have audited the accompanying financial statements of the Workers Compensation (Dust Diseases) Authority (the Authority), which comprise the Statement of Comprehensive Income for the year ended 30 June 2018, the Statement of Financial Position as at 30 June 2018, the Statement of Changes in Equity and the Statement of Cash Flows for the year then ended, notes comprising accounting policies and other explanatory information.

In my opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 30 June 2018, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards
- are in accordance with section 41B of the *Public Finance and Audit Act 1983* (PF&A Act) and the Public Finance and Audit Regulation 2015.

My opinion should be read in conjunction with the rest of this report.

## Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under the standards are described in the 'Auditor's Responsibilities for the Audit of the Financial Statements' section of my report.

I am independent of the Authority in accordance with the requirements of the:

- Australian Auditing Standards
- Accounting Professional and Ethical Standards Board's APES 110 'Code of Ethics for Professional Accountants' (APES 110).

I have fulfilled my other ethical responsibilities in accordance with APES 110.

Parliament promotes independence by ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of public sector agencies
- precluding the Auditor-General from providing non-audit services.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Level 15, 1 Margaret Street, Sydney NSW 2000 | GPO Box 12, Sydney NSW 2001 | t 02 9275 7101 | f 02 9275 7179 | e mail@audit.nsw.gov.au | audit.nsw.gov.au

## Other Information

Other information comprises the information included in the Authority's annual report for the year ended 30 June 2018, other than the financial statements and my Independent Auditor's Report thereon. The Chief Executive Officer of the Authority is responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprise the Statement by the Chairman and Chief Executive Officer.

My opinion on the financial statements does not cover the other information. Accordingly, I do not express any form of assurance conclusion on the other information.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude there is a material misstatement of the other information, I must report that fact.

I have nothing to report in this regard.

## The Chief Executive Officer's Responsibilities for the Financial Statements

The Chief Executive Officer is responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards and the PF&A Act, and for such internal control as the Chief Executive Officer determines is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Executive Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting except where the Authority will be dissolved by an Act of Parliament or otherwise cease operations.

## Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to:

- obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions users take based on the financial statements.

A description of my responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_responsibilities/ar4.pdf. The description forms part of my auditor's report.

My opinion does *not* provide assurance:

- that the Authority carried out its activities effectively, efficiently and economically
- about the assumptions used in formulating the budget figures disclosed in the financial statements
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.

D Daniels

David Daniels
Director, Financial Audit Services

2 October 2018
SYDNEY

# Statement of Comprehensive Income

for the year ended 30 June 2018

| | Notes | 2018 $'000 | 2017 $'000 |
|---|---|---|---|
| | | | |
| **Revenue** | | | |
| Fees and Levies | 2.1 | 61,822 | 115,879 |
| Net investment revenue | 3.1 | 96,622 | 84,721 |
| Other revenue | 5.1 | 11,976 | 3,192 |
| **Total Revenue** | | **170,420** | **203,792** |
| | | | |
| **Expenses excluding losses** | | | |
| Scheme costs | 2.2 | 156,796 | 178,850 |
| Service fees | 5.2 | 13,560 | 10,204 |
| Other operating expenses | 5.3 | 628 | 662 |
| Grants and subsidies | 5.4 | 5,526 | 5,313 |
| **Total expenses excluding losses** | | **176,510** | **195,029** |
| | | | |
| Movement in allowance for impairment | 2.3.5 | (578) | (416) |
| **Net result** | | **(6,668)** | **8,347** |
| | | | |
| | | | |
| **TOTAL COMPREHENSIVE INCOME** | | **(6,668)** | **8,347** |

The accompanying notes form part of these financial statements.

# Statement of financial position

as at 30 June 2018

| | Notes | 2018 $'000 | 2017 $'000 |
|---|---|---|---|
| | | | |
| **ASSETS** | | | |
| Cash and cash equivalents | 5.5 | 19,193 | 10,822 |
| Investments | 3.2 | 1,182,846 | 1,147,541 |
| Receivables | 2.3.5 | 638,839 | 576,705 |
| Assets held for sale | 5.6 | 5,373 | 5,373 |
| Property, plant and equipment | 5.7 | 3,045 | 265 |
| Intangibles | 5.8 | - | - |
| **Total Assets** | | **1,849,296** | **1,740,706** |
| | | | |
| **LIABILITIES** | | | |
| Payables | 2.3.6 | 8,599 | 6,347 |
| Investments payable | 3.2 | 144 | 623 |
| Outstanding claims | 2.3.1 | 1,826,928 | 1,713,443 |
| **Total Liabilities** | | **1,835,671** | **1,720,413** |
| | | | |
| **Net Assets** | | **13,625** | **20,293** |
| | | | |
| **EQUITY** | | | |
| Reserves | | 2,598 | 2,598 |
| Accumulated funds | | 11,027 | 17,695 |
| **Total Equity** | | **13,625** | **20,293** |

The accompanying notes form part of these financial statements.

# Statement of changes in equity

for the year ended 30 June 2018

| | Accumulated Funds $'000 | Asset Revaluation Surplus $'000 | Total $'000 |
|---|---|---|---|
| | | | |
| **Balance at 1 July 2017** | **17,695** | **2,598** | **20,293** |
| | | | |
| **Net result for the year** | **(6,668)** | **-** | **(6,668)** |
| | | | |
| **Total comprehensive income for the year** | **(6,668)** | **-** | **(6,668)** |
| | | | |
| **Balance at 30 June 2018** | **11,027** | **2,598** | **13,625** |
| | | | |
| | | | |
| Balance at 1 July 2016 | 9,348 | 2,598 | 11,946 |
| | | | |
| Net result for the year | 8,347 | - | 8,347 |
| | | | |
| Total comprehensive income for the year | 8,347 | - | 8,347 |
| | | | |
| Balance at 30 June 2017 | 17,695 | 2,598 | 20,293 |

The accompanying notes form part of these financial statements.

# Statement of cash flows

for the year ended 30 June 2018

| | Notes | 2018 $'000 | 2017 $'000 |
|---|---|---|---|
| | | | |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Fees and levies received | | 63,925 | 107,703 |
| Compensation payments | | (102,295) | (89,077) |
| **Net Cash Flows from Scheme Activities** | | **(38,370)** | **18,626** |
| | | | |
| **Receipts** | | | |
| Proceeds from sale of investments | | 1,282,511 | 1,024,297 |
| Interest received | | 48,880 | 23,543 |
| Other | | 3,466 | 3,607 |
| **Total Receipts Excluding Scheme Activities** | | **1,334,857** | **1,051,447** |
| | | | |
| **Payments** | | | |
| Purchases of investments | | (1,267,248) | (1,073,212) |
| Service fees | | (12,118) | (8,180) |
| Other operating expenses | | (360) | (7,046) |
| Grants and subsidies | | (5,526) | (5,313) |
| **Total Payments Excluding Scheme Activities** | | **(1,285,252)** | **(1,093,751)** |
| | | | |
| **NET CASH FLOWS FROM OPERATING ACTIVITIES** | 5.5 | **11,235** | **(23,678)** |
| | | | |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchases of plant and equipment | 5.7 | (2,864) | - |
| **NET CASH FLOWS FROM INVESTING ACTIVITIES** | | **(2,864)** | **-** |
| | | | |
| **NET INCREASE/(DECREASE) IN CASH** | | **8,371** | **(23,678)** |
| | | | |
| **Opening cash and cash equivalents** | | **10,822** | **34,500** |
| | | | |
| **CLOSING CASH AND CASH EQUIVALENTS** | **5.5** | **19,193** | **10,822** |

The accompanying notes form part of these financial statements.

# Notes to the financial statements

for the year ended 30 June 2018

## 1. Overview

### 1.1 About the Authority

The Workers' Compensation (Dust Diseases) Authority (the Authority) is a NSW government entity. The Authority is a not-for-profit entity (as profit is not its principal objective) and it has no cash generating units. The reporting entity is consolidated as part of the NSW Total State Sector Accounts.

Under the *Workers' Compensation (Dust Diseases) Act 1942*, the Authority provides a no-fault compensation scheme to people who have developed a dust disease from occupational exposure to dust as a worker in NSW.

icare was established on 1 September 2015 in accordance with the *State Insurance and Care Governance Act 2015*. Its functions include the monitoring of performance of the insurance or compensation schemes in respect of which it provides services. The Authority is one such scheme.

These financial statements for the year ended 30 June 2018 have been authorised for issue by the Chairman of the Board of icare and the Chief Executive Officer and Managing Director of the Authority on behalf of the Board of Directors of icare on 24 September 2018.

### 1.2 About this report

The Financial Report includes the four primary statements, namely the statement of comprehensive income (which comprises profit or loss and other comprehensive income), statement of financial position, statement of changes in equity and statement of cash flows as well as associated notes as required by Australian Accounting Standards. Disclosures have been grouped into the following categories in order to assist users in their understanding of the financial statements:

1. **Overview** contains information that impacts the Financial Report as a whole.
2. **Scheme activities** brings together results and Statement of financial position disclosures relevant to the Authority's scheme activities.
3. **Investment activities** includes results and statement of financial position disclosures relevant to the Authority's investments.
4. **Risk management** provides commentary on the Authority's exposure to various financial and capital risks, explaining the potential impact on the results and statement of financial position and how the Authority manages these risks.
5. **Other** includes additional disclosures required in order to comply with Australian Accounting Standards.

Where applicable within each note, disclosures are further analysed as follows:

- **Overview** provides some context to assist users in understanding the disclosures and the accounting policies relevant to an understanding of the numbers;
- **Disclosures** (both numbers and commentary) provides analysis of balances as required by Australian Accounting Standards; and
- **Critical accounting judgements and estimates** explains the key estimates and judgements applied by the Authority in determining the numbers.

The notes include information which the directors believe is required to understand the financial statements and is material and relevant to the operations, statement of financial position and results of the Authority.

Information is considered material and relevant if:

- the amount in question is significant because of its size or nature;
- it is important to assist in understanding the results of the Authority;
- it helps to explain the impact of significant changes in the Authority's business; or
- it relates to an aspect of the Authority's operations that is important to its future performance.

# Notes to the financial statements

for the year ended 30 June 2018

### 1.2.1 Basis of preparation

The Authority's financial statements are general purpose financial statements which have been prepared using the accrual basis of accounting and are in accordance with:

- applicable Australian Accounting Standards (which include Australian Accounting Interpretations);
- the requirements of the *Public Finance and Audit Act 1983* and *Public Finance and Audit Regulation 2015*; and
- NSW Treasurer's directions.

Investments backing claims liabilities are measured at fair value. All other assets and liabilities are initially measured at historical cost and then at fair value.

All amounts are rounded to the nearest one thousand dollars and are expressed in Australian currency.

These financial statements have been presented on a liquidity basis following receipt of an exemption from TC18-01 by NSW Treasury that statements are presented on a current and non-current basis.

### 1.2.2 Statement of compliance

The financial statements and notes comply with Australian Accounting Standards which include Australian Accounting Interpretations.

### 1.2.3 Judgements, key assumptions and estimations

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

Judgements, key assumptions and estimations management made are disclosed in the relevant notes to the financial statements.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised. Actual results may differ from these estimates.

In particular information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following notes:

- Note 3 & 4 – Financial instruments;
- Note 2.3 – Outstanding Claims liability and
- Note 2.3.5 - Receivables

### 1.2.4 Taxation

The Authority is exempt from income tax under Division 50 of the *Income Tax Assessment Act 1997*.

Income, expenses and assets are recognised net of the amount of GST, except that:

- the amount of GST incurred by the Authority as a purchaser that is not recoverable from the Australian Taxation Office is recognised as part of the cost of acquisition of the asset or as part of an item of expense; and
- receivables and payables are stated with the amount of GST included.

Cash flows are included in the Statement of cash flows on a gross basis. However, the GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the Australian Taxation Office are classified as operating cash flows.

### 1.2.5 Equity and reserves

#### Asset Revaluation surplus

The revaluation surplus is used to record increments and decrements on the revaluation of property, plant and equipment. This accords with the Authority's policy on the revaluation of property, plant and equipment as discussed in note 5.7.2.

#### Accumulated funds

The category 'Accumulated Funds' includes all current and prior period retained funds.

# Notes to the financial statements

for the year ended 30 June 2018

### 1.2.6 Comparative information

Except when an Australian Accounting Standard permits or requires otherwise, comparative information is disclosed in respect of the previous period for all amounts reported in the financial statements.

Where necessary, comparatives have been restated to conform to changes in presentation in the current year.

The following reclassifications have been made to the comparatives:

| Item | 30 June 2017 Revised $'000 | 30 June 2017 Original $'000 | Variance $'000 |
|---|---|---|---|
| | | | |
| **Statement of comprehensive income** | | | |
| Investment revenue | 84,721 | 86,989 | (2,268) |
| Other operating expenses | (662) | (2,930) | 2,268 |
| **Net result** | 84,059 | 84,059 | - |
| | | | |
| **Statement of financial position** | | | |
| Cash and cash equivalents | 10,822 | 18,863 | (8,041) |
| Investments | 1,147,541 | 1,139,500 | 8,041 |
| Receivables | 576,705 | 542,435 | 34,270 |
| Outstanding claims | (1,713,443) | (1,679,173) | (34,270) |
| **Net Assets** | 21,625 | 21,625 | - |

# Notes to the financial statements

for the year ended 30 June 2018

### 1.2.7 Changes in accounting policy, including new or revised Australian Accounting Standards.

Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the reporting year ending 30 June 2018. The following new Standards will not have a material impact on the financial performance or position of the Authority;

- AASB 15, AASB 2014-5, AASB 2015-8 and AASB 2016-3 regarding *Revenue from Contracts with Customers*;
- AASB 16 regarding *Leases*;
- AASB 1058 *Income of Not-for-profit Entities*;
- AASB 2016-6 Amendments to Australian Accounting Standards- Applying AASB 9 with AASB 4 *Insurance Contracts*;
- AASB 2016-7 Amendments to Australian Accounting Standards- Deferral of AASB 15 for Not-for-Profit Entities;
- AASB 2016-8 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities;
- AASB 2017-1 Amendments to Australian Accounting Standards – Transfer of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments; and
- AASB 2017-3 Amendments to Australian Accounting Standards- Clarifications to AASB 4.

AASB 9 regarding *Financial Instruments* is being evaluated to assess if there is any impact on the financial performance or position of the Authority.

The Authority has commenced a program to assess the financial impact of AASB 17 *Insurance Contracts* on the financial results. This assessment will be concluded by 30 June 2020.

## 2. Scheme activities

**Overview**

This section provides analysis and commentary on the Authority's scheme activities. Scheme activities involve all activities undertaken in relation to the provision of compensation to the Authority's claimants.

### 2.1 Fees and Levies

**Overview**

The Authority's funds are generated from dust diseases levies collected from NSW Workers Insurance Scheme, Specialised and Self-insurers, under the *Workers' Compensation (Dust Diseases) Act 1942* (the Act). The levy revenue is recognised when it falls due and receivable by the Authority.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| **Levy contributions** | | |
| - Self-insurer – NSW Self Insurance Corporation | 6,233 | 12,254 |
| - Specialised insurer and other self insurers | 4,751 | 12,351 |
| - NSW Workers Insurance Scheme | 50,838 | 91,274 |
| **Total fees and levies** | **61,822** | **115,879** |

Levy income is lower this year as the Board approved the use of investment income to offset the levy requirement for the 2017/18 year and beyond.

### 2.2 Scheme costs

**Overview**

The largest expense for the Authority is Scheme costs or Compensation expense. Scheme costs are:

- the amount incurred by the Authority on claims during the year;
- plus the amount, which the consulting actuary has estimated as at 30 June 2018 as being the movement in the amount required to meet the cost of compensation expenses reported but not yet paid;
- compensation expenses incurred which are yet to be reported; and
- the escalation in reported and reopened compensation expenses.

# Notes to the financial statements

for the year ended 30 June 2018

## 2.2 Scheme costs (continued)

| | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|
| | | |
| **(i) Compensation payments made during the year** | | |
| Compensation to workers | 22,329 | 20,256 |
| Compensation to dependants | 37,678 | 36,697 |
| Lump sum awards to dependants | 24,647 | 21,249 |
| Healthcare services and funeral benefits | 16,406 | 12,392 |
| | **101,060** | **90,594** |
| **(ii) Medical examination of workers** | | |
| Medical fees and other related supplies | 791 | 791 |
| Workers travelling expenses | 17 | 20 |
| | **808** | **811** |
| **(iii) Movement in provision for compensation (Refer note 2.3.1)** | | |
| Finance costs | 26,311 | 27,527 |
| Movement in provision for compensation – known claims | 50,761 | (50,122) |
| Movement in provision for compensation – estimated future claims | 36,414 | (37,232) |
| **Total net movement during the year** | **113,486** | **(59,827)** |
| | | |
| **Total Scheme costs** | **215,354** | **31,578** |
| | | |
| Movement in contributions from insurers yet to be levied (Note 2.3.5) | (58,558) | 147,272 |
| | | |
| **Total Scheme costs including movement in contribution receivable** | **156,796** | **178,850** |

Finance costs relate to movement in the carrying amount of the outstanding liability that reflect the passage of time associated with the use of discount rate determining the value of the outstanding claims liability (Refer Note 2.3.1).

# Notes to the financial statements

for the year ended 30 June 2018

## 2.3 Net Outstanding claims liability

**Overview**

Provisions are recognised when the Authority has a present obligation as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

The net outstanding claims liability comprises the elements described below:

- The net central estimate (note 2.3.1). This is the provision for expected future claims payments and includes claims reported but not yet paid, claims incurred but which have not yet been reported (IBNR), claims incurred but not enough reported (known as IBNER) and estimated claims handling costs. The liability for the outstanding compensation expenses is estimated as the inflated and discounted values of the expected future payments, reflecting the fact that these payments will be spread over future years. The expected future payments are estimated on the basis of the ultimate cost of compensation expenses which is affected by factors arising during the period to settlement.
- Less an amount to reflect the discount to present value using risk-free rates of return. The net central estimate is discounted to present value recognising that the claim and/or recovery may not be settled for some time. The expected future payments are discounted to a present value at the reporting date using a risk-free rate.
- Recoveries receivable on paid claims, reported claims not yet paid and claims incurred but not yet reported are recognised as revenue. Recoveries receivable are estimated at the inflated and discounted values of the expected future receipts, calculated on the same basis as the liability for outstanding claims. Recoveries revenue is recognized as the movement of recoveries receivable.

The actuarial valuation of the outstanding claims liability consists of current and future costs relating to administering the Act as stated under section 6(2), which specifically include:

- compensation payable;
- fees payable to the members of the Authority;
- fees payable to the Medical Authority;
- costs involved in reimbursing workers under section 9A – travel expenses associated with medical examinations;
- costs of operation of the District Court relating to appeals under section 8I;
- costs of administering the Act and any other money that the Authority is required to pay under the Act;
- costs relating to medical or related treatment or hospital treatment or occupational rehabilitation service or ambulance service as under section 8.2(d) and reasonable funeral expenses under section 8(2A); and
- compensation recoveries under section 8E.

The total actual costs incurred on the above payments net of section 8E recoveries during each year is offset against the provision for compensation payable. The resulting movement in provision is taken to the statement of comprehensive income. Refer to Note 2.2 for more details.

### 2.3.1 Outstanding claims

**Overview**

The liabilities for compensation are valued by the Actuaries as at the end of the financial year. They are measured as the present value of the expected future payments for all claims incurred up to the valuation date.

At 30 June 2018, liabilities for compensation payments and estimated compensation for future claims were valued by the actuaries Pricewaterhouse Coopers Consulting (Australia) (PwC).

# Notes to the financial statements

for the year ended 30 June 2018

### 2.3.1 Outstanding claims liability (continued)

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| **Claims liabilities** | | |
| Expected future gross claims payments | 2,401,129 | 2,510,192 |
| Gross claims handling | 431,543 | 299,806 |
| Gross outstanding claims liabilities | 2,832,672 | 2,809,998 |
| Discount on central estimate | (842,328) | (972,619) |
| Discount on claims handling expenses | (163,416) | (123,936) |
| Total discount on claims liabilities | (1,005,744) | (1,096,555) |
| **Claims liabilities** | **1,826,928** | **1,713,443** |
| Gross claims recoveries | 62,288 | 56,201 |
| Discount on claims recoveries | (19,509) | (21,931) |
| **Claims recoveries** | **42,779** | **34,270** |
| **Net claims liabilities at 30 June** | **1,784,149** | **1,679,173** |

Dissection of the net claims liability between known and estimated future claims is shown in the table below:

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| **Claims provisions** | | |
| Provision for compensation – known claims | 866,356 | 792,305 |
| Provision for compensation – estimated future claims | 917,793 | 886,868 |
| **Total claims provisions** | **1,784,149** | **1,679,173** |

# Notes to the financial statements

for the year ended 30 June 2018

### 2.3.1 Outstanding claims liability (continued)

Movements in the provision for compensation during the financial year are set out below:

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| Carrying amount at start of financial year | 1,679,173 | 1,739,000 |
| Addition/(Reduction) in provision | 173,485 | 47,206 |
| Less: Service fees – refer note 5.2 | (13,560) | (10,204) |
| Other operating expenses (excluding depreciation and amortisation)- refer note 5.3) | (544) | (2,744) |
| Compensation payments made during the year – refer note 2.2(i) | (101,060) | (90,594) |
| Medical examination costs of workers – refer note 2.2(ii) | (808) | (811) |
| Add: Compensation recoveries – refer note 5.1 | 2,996 | 2,825 |
| Change in discount rate | 18,156 | (33,032) |
| Finance cost (unwinding of discount – refer note 2.2(iii) | 26,311 | 27,527 |
| **Carrying amount at end of financial year** | **1,784,149** | **1,679,173** |

The financial target for the Authority is to be fully funded for known claims and expenses, i.e. to have sufficient funds to pay the lifetime entitlements in respect of claims with a Certificate of Disablement issued. The *Workers' Compensation (Dust Diseases) Act 1942* gives the Authority power to impose levies on NSW Workers Compensation insurers each year to meet annual cash outflows.

The Authority includes in its provision an estimate for compensation payable for claims yet to be made of $917,793 Thousand (2017: $886,868 Thousand). This figure is shown in the statement of financial position as a liability with the corresponding outstanding contributions receivable asset (net of cumulative surplus or deficit to date) representing the right to levy employers for these outstanding claims.

# Notes to the financial statements

for the year ended 30 June 2018

### 2.3.2 Core claims liability variables

**Overview**

The core variables that drive the Authority's liabilities are the inflation rate for benefits and the discount rate of these liabilities.

The inflation and discount factors used in measuring the liability for outstanding compensation costs are based on the risk-free rate.

| | 2018 % | 2017 % |
|---|---|---|
| | | |
| **Compensation expected to be paid** | | |
| **Not later than one year** | | |
| Wages inflation rate | 2.39 | 2.72 |
| Discount rate | 1.95 | 1.67 |
| **Later than one year** | | |
| Wages inflation rate * | 2.47 | 2.85 |
| Discount rate * | 2.89 | 3.18 |

*weighted average

### 2.3.3 Claims liability maturity

**Overview**

The maturity profile is the Authority's expectation of the period over which the net central estimate will be settled. The Authority uses this information to ensure that it has adequate liquidity to pay claims as they are due to be settled and to inform the Authority's investment strategy. The expected maturity profile of the Authority's net discounted central estimate is analysed below;

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| Not later than one year | 116,508 | 106,012 |
| Later than one year but not later than five years | 410,287 | 381,064 |
| Later than five years | 1,257,354 | 1,192,097 |
| | **1,784,149** | **1,679,173** |

# Notes to the financial statements

for the year ended 30 June 2018

### 2.3.4 Impact of changes in key variables on the net outstanding claims liability

**Overview**

The liability represents the best estimate and is based on standard actuarial assessment methodologies. The table below shows sensitivities to the valuation to changes in a number of key assumptions. If the Authority was required to adopt a risk margin (similar to insurers) to increase the probability of adequacy of the outstanding claims valuation liability to 75% the outstanding claims liability would increase by $389 million to $2,173 million.

The liability brought to account is the amount recommended by the Actuaries being their central estimate. The provision for compensation payable is measured at the present value of the expected future payments to persons who have accepted a claim for compensation or who are estimated by the actuaries to be entitled to compensation in the future.

The actuarial valuation contains numerous assumptions regarding the future numbers of claims and regarding the characteristics of the workers and their dependants particularly in respect to their age at time of report and their life expectancy.

Given the uncertainty of this portfolio a range of assumptions may be plausible which reflect the current environment in which claims are managed and settled. The main assumptions are:

- Future claims numbers;
- Inflation and discount rates;
- Mortality;
- Disease type;
- Age distribution; and
- Dependency status.

The actuaries, PwC, in the valuation of liability report dated 30 August 2018 have used an incidence and severity model to estimate the compensation payable for claims yet to be lodged. Estimated future claims are inflated and discounted, allowing for expected mortality and estimates around characteristics of each claimant.

# Notes to the financial statements

for the year ended 30 June 2018

### 2.3.4 Impact of changes in key variables on the net outstanding claims liability (continued)

| | 30 June 2018 Liability $'000 | Effect On 30 June 2018 Liability $'000 | Percentage Effect % |
|---|---|---|---|
| | | | |
| Central estimate of the Authority's liability | 1,784 | - | - |
| | | | |
| All valuation assumptions used | | | |
| **Economic assumptions** | | | |
| Increase inflation rate by 1% but with long-term gap of 1.5% | 1,882 | 97 | 5 |
| Decrease inflation rate by 1% but with long-term gap of 1.5% | 1,692 | (92) | (5) |
| | | | |
| Decrease discount rate by 1% but with long-term gap of 1.5% | 1,885 | 100 | 6 |
| Increase discount rate by 1% but with long-term gap of 1.5% | 1,691 | (93) | (5) |
| | | | |
| Increase superimposed inflation on medical benefits by 2% | 1,817 | 33 | 2 |
| Reduce superimposed inflation on medical benefits by 2% | 1,761 | (24) | (1) |
| **Disability assumptions** | | | |
| Increase expected average lifetime disability by 5% | 1,802 | 18 | 1 |
| Decrease expected average lifetime disability by 5% | 1,766 | (18) | (1) |
| **Dependant assumptions** | | | |
| Increase the proportion of married workers by 5% | 1,837 | 53 | 3 |
| Decrease the proportion of married workers by 5% | 1,731 | (53) | (3) |
| | | | |
| Increase average age difference between workers and spouses to 6 years | 1,832 | 48 | 3 |
| Decrease average age difference between workers and spouses to 2 years | 1,736 | (48) | (3) |
| **Mortality assumptions** | | | |
| Change expected mortality to be based on rate of improvement over last 125 years | 1,755 | (29) | (2) |
| Change spouse mortality & withdrawal rate to be based on DDA actual experience only | 1,767 | (17) | (1) |

# Notes to the financial statements

for the year ended 30 June 2018

### 2.3.4 Impact of changes in key variables on the net outstanding claims liability (continued)

| | 30 June 2018 Liability $'000 | Effect On 30 June 2018 Liability $'000 | Percentage Effect % |
|---|---|---|---|
| **Claims incidence assumptions** | | | |
| Increase number of future asbestosis claims by 20% | 1,802 | 18 | 1 |
| Increase number of future mesothelioma claims by 20% | 1,938 | 154 | 9 |
| Increase number of future other dust diseases claims by 20% | 1,789 | 5 | - |
| **Lump sum age factors** | | | |
| Apply age factors based on future life expectancies in determining lump sum payments | 1,830 | 46 | 3 |
| No lump sum age reduction factors | 2,130 | 346 | 19 |

Under existing legislation any impact of these sensitivities on liabilities would be offset by a corresponding movement in contributions from insurers yet to be levied.

### 2.3.5 Receivables

**Overview**

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Short-term receivables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial.

Receivables from trade debtors and participants are non-interest bearing and the former are generally on a 30-day term while the latter are more than 12 months, depending on each individual circumstance.

Where receivables are outstanding beyond the normal trading terms, management assesses the likelihood of the recovery of these receivables. An appropriate allowance for impairment is made.

The contributions from insurers asset represents the future contributions receivable to pay total costs relating to outstanding claims. Reimbursements receivable are recognised as a separate asset when it is virtually certain that the reimbursement will be received if the Authority settles the obligation and shall not exceed the amount of the related provision.

The cost of compensation claims and other costs of the Authority are recovered from insurers who pass this cost on to employers through a levy included in their workers' compensation insurance premiums in accordance with sections 6(6) and 6(7D) of the *Workers' Compensation (Dust Diseases) Act 1942*. The levies are assessed each year to ensure that the Authority has sufficient funding for the coming year. This assessment gives the Authority certainty that outstanding contributions receivable will be recovered through future levies.

All financial assets, except those measured at fair value through profit or loss, are subject to an annual review for impairment. An allowance for impairment is established when there is objective evidence that the Authority will not be able to collect all amounts due.

# Notes to the financial statements

for the year ended 30 June 2018

### 2.3.5 Receivables (continued)

Details regarding credit risk, liquidity risk and market risk of the above receivables are disclosed in Note 4.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| Contributions from insurers | 584,440 | 525,882 |
| Recoveries receivable | 42,780 | 34,269 |
| Other receivables | 8,423 | 8,469 |
| less: Allowance for impairment | (1,574) | (996) |
| Dust Diseases levy hindsight | 2,679 | 5,244 |
| GST receivable | 203 | 138 |
| Service fees | 122 | 88 |
| Investment receivables (as per note 3.2) | 1,766 | 3,611 |
| **Total Receivables** | **638,839** | **576,705** |
| | | |
| **Movement in the allowance for impairment** | | |
| Balance at 1 July | 996 | 580 |
| Increase/(decrease) in allowance recognised in profit or loss | 578 | 416 |
| **Balance at 30 June** | **1,574** | **996** |

### 2.3.6 Payables

**Overview**

These amounts represent liabilities for goods and services provided to the Authority and other amounts. Payables are recognised initially at fair value, usually based on the transaction cost or face value. Subsequent measurement is at amortised cost using the effective interest method. Short-term payables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial.

Refer to Note 4 for further information regarding credit risk, liquidity risk, and market risk, including a maturity analysis of the above payables.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| Creditors | 1,833 | 2,053 |
| Service fees | 3,589 | 2,111 |
| Accrued expenses and other creditors – operational | 3,177 | 2,183 |
| | **8,599** | **6,347** |

# Notes to the financial statements

for the year ended 30 June 2018

## 3. Investing activities

**Overview**

The main purpose of the Authority's investments is to meet its claim liabilities.

Investments and other financial assets are held primarily for the purpose of being traded. Accordingly, all of the Authority's financial assets and financial liabilities are held at fair value through profit or loss – classified as held for trading.

The Authority's investments are, in the majority, held in Trusts where TCorp are the Trustee. This excludes investments in Australian fixed income securities. Given this, the tables below reflect the majority of exposures at a Trust level and does not provide a look through to the underlying holdings.

The fair value of financial assets and financial liabilities is estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the statement of financial position date. The quoted market price used for financial assets held by the Authority is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price, without any deduction for transaction costs.

Purchases and sales of investments are recognised on trade date – the date on which the Authority commits to purchase or sell the asset.

Refer to Note 4 for further information regarding credit risk, liquidity risk and market risk arising from financial instruments.

### 3.1 Net investment revenue

**Overview**

Investment revenue is brought to account on an accruals basis. Interest revenue is recognised using the effective interest method as set out in AASB 139 *Financial Instruments: Recognition and Measurement*. Dividends on quoted shares are deemed to accrue when the relevant shareholding becomes ex-dividend. Differences between the net market values of investments at the end of the reporting period and their net market values at the end of the previous reporting period (or cost of acquisition, if acquired during the reporting period) are recognised as revenue in the statement of comprehensive income.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| Interest revenue from bank interest and TCorpIM cash fund | 616 | 288 |
| Other investment facilities | 13,136 | 24,593 |
| Distribution | 32,891 | 8,734 |
| Realised Gains/(Losses) on investments | 13,153 | 54,566 |
| Unrealised Gains/(Losses) on investments | 37,748 | (1,192) |
| **Total investment revenue** | 97,544 | 86,989 |
| Investment management fees | (922) | (2,268) |
| **Net investment revenue** | **96,622** | **84,721** |

# Notes to the financial statements

for the year ended 30 June 2018

## 3.2 Investments

| | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|
| | | |
| TCorp Managed Trusts | 954,143 | 667,264 |
| TCorp Fixed/Variable Interest discrete portfolio | 228,646 | 480,051 |
| Derivatives | 57 | 226 |
| **Total investment assets** | **1,182,846** | **1,147,541** |
| | | |
| **Investment receivables** | | |
| Investment receivables (refer note 2.3.5) | 1,766 | 3,611 |
| **Total investment assets including receivables** | **1,184,612** | **1,151,152** |
| | | |
| **Investments payable** | | |
| Investments payable | 144 | 623 |
| **Net investments** | **1,184,468** | **1,150,529** |

**Derivatives**

Derivatives include interest rate swaps and futures, swaptions, credit default swaps, cross currency swaps and forward foreign currency contracts and options on interest rates, foreign currencies and equities. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Derivative financial instruments are subsequently re-valued at fair value.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently marked to their fair value at each reporting date.

The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Scheme designates certain derivatives as either (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or (2) hedges of the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges).

Hedging is conducted in underlying portfolios, by appointed investment managers who have discretion to implement hedges within mandate boundaries.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the statement of comprehensive income, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised in the statement of comprehensive income within other income or other expense together with the gain or loss relating to the ineffective portion and changes in the fair value of the hedge fixed rate borrowings attributable to interest rate risk.

The fair values of any derivative financial instruments used for hedging purposes, if any, are disclosed in Note 4.

# Notes to the financial statements

for the year ended 30 June 2018

## 3.2 Investments (continued)

The Authority seeks to manage exposure to investment risk so that it can generate sufficient returns to meet the scheme's current and future liabilities and mitigate the risk that the assets will be insufficient to meet their liabilities. Designation of investments at fair value through profit or loss is consistent with this risk management strategy as it allows for these investments to be recorded at fair value and for any gains or losses in the movement in their fair value to be recognised in the net result for the year.

The movement in the fair value of the investments incorporates distributions received as well as unrealised movements in fair value and is reported in the line item 'investment revenue'.

## 3.3 Fair value estimation

**Overview**

The carrying amounts of the Authority's financial assets and liabilities at the end of the reporting period approximated their fair values as all financial assets and liabilities held were either at fair value at the end of the reporting period ('marked to market') or were short term in nature.

The financial assets and liabilities are classified in accordance with the following fair value measurement hierarchy:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
- Level 3 – inputs for the assets or liabilities that are not based on observable market data.

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets of the Authority is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (for example over-the-counter derivatives) is determined using valuation techniques. A variety of methods are used which include assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used to estimate fair value for debt securities for disclosure purposes. Evaluations of such securities are based on market data. Vendors utilise evaluated pricing models that vary by asset class and incorporate available trade, bid and other market information and for structured securities, cash flow and when available loan performance data.

Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the end of the reporting period. These instruments are included in level 2 and comprise debt instruments and derivative financial instruments.

# Notes to the financial statements

for the year ended 30 June 2018

## 3.3 Fair value estimation (continued)

| | 2018 | | | | 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | TOTAL $'000 | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | TOTAL $'000 |
| **Other Financial assets** | | | | | | | | |
| Indexed and interest-bearing securities | - | 228,646 | - | 228,646 | - | 479,496 | - | 479,496 |
| Unit Trusts | - | 756,600 | 197,543 | 954,143 | - | 496,568 | 170,696 | 667,264 |
| Derivatives | 57 | - | - | 57 | 555 | 226 | - | 781 |
| | **57** | **985,246** | **197,543** | **1,182,846** | **555** | **976,290** | **170,696** | **1,147,541** |
| | | | | | | | | |
| | | | | | | | | |
| **Other Financial liabilities** | | | | | | | | |
| Derivatives | 144 | - | - | 144 | - | - | - | - |
| | **144** | **-** | **-** | **144** | **-** | **-** | **-** | **-** |

Fair value estimation classifications for 2017 have been restated to reflect a change in methodology and to align with other NSW Government agencies. The underlying securities that have been reclassified are NSW and Australian Government fixed income from level 1 to level 2.

### 3.3.1 Transfer between levels

The Authority recognises transfers between levels of the fair value hierarchy at the end of the reporting report during which the transfer has occurred.

The following table presents the movement in level 3 instruments for the year ended 30 June.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| Opening balance | 170,696 | 129,330 |
| Purchases of securities | 12,499 | 36,490 |
| Gain / (loss) in Profit & Loss (investment income) | 14,348 | 4,876 |
| **Closing balance** | 197,543 | 170,696 |
| | | |
| Total gains/(losses) for the period included in profit or loss that relate to assets held at the end of the reporting period (shown in investment income) | 14,348 | 4,876 |

The table below sets out information about significant unobservable inputs used at year end in measuring financial instruments categorised as Level 3 in the fair value hierarchy.

# Notes to the financial statements

for the year ended 30 June 2018

| Type | Description | Valuation technique | Significant unobservable inputs |
|---|---|---|---|
| Unit Trusts | Units in unlisted property and infrastructure trusts | Net asset value | Due to entry and exit restrictions, illiquidity, and the lack of an active market unlisted property and unlisted infrastructure assets to be classified as a level 3 asset. |

### 3.3.2 Valuation framework

The Authority has an established control framework with respect to the measurement of fair values. This framework has been outsourced to an external service provider which has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements. Specific controls conducted by the outsourced service provider include:

- Verification of observable pricing;
- Re-performance of model valuations;
- A review and approval process for new models and changes to models;
- Quarterly calibration and back testing of models against observed market transactions;
- Analysis and investigation of significant daily valuation movements; and
- Review of significant unobservable inputs, valuation adjustments and significant changes to the

fair value measurement of Level 3 instruments compared to previous month.

Where third-party information, such as broker quotes or pricing services, are used to measure fair value, the outsourced service provider assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of accounting standards. This includes:

- Verifying that the broker or pricing service is approved by the Master Custodian of the Authority for use in pricing the relevant type of financial instrument;
- Understanding how the fair value has been arrived at and the extent to which it represents actual market transactions;
- When prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement; and
- Where a number of quotes for the same financial instrument have been obtained, how fair value has been determined using those quotes.

Significant valuation issues are reported to the Insurance and Care NSW Board's Audit and Risk Committee.

# Notes to the financial statements

for the year ended 30 June 2018

### 3.3.3 Involvement with unconsolidated structured entities

The Authority has concluded that unlisted investment funds in which it invests, but that it does not consolidate, meet the definition of structured entities because:

- The voting rights in the funds are not dominant rights in deciding who controls them as they relate to administrative tasks only;
- Each fund's activities are restricted by its fund or product offer documents and constitutions; and
- The funds have narrow and well-defined objectives to provide investment opportunities to investors.

The table below describes the types of investments held by the structured entities that the Fund does not consolidate but in which it holds an interest, set out by investment strategy.

| | Net Market Value as at 30 June 2018 $'000 | Net Market Value as at 30 June 2017 $'000 |
|---|---|---|
| | | |
| Property | 135,315 | 122,034 |
| Shares | 438,428 | 484,221 |
| Strategic | - | 4,306 |
| Cash | 142,137 | 8,041 |
| Infrastructure | 62,229 | 48,662 |
| Debt | 83,216 | - |
| Emerging Markets | 58,181 | - |
| Alternatives | 34,638 | - |
| **Total** | **954,144** | **667,264** |

These unconsolidated structured entities are included under TCorpIM Funds in Note 3.2. The maximum exposure or loss is limited to the net market value of the investment strategy as at 30 June 2018. The net market value of the exposure will change on a daily basis throughout the period and in the subsequent periods will cease once the investments are disposed.

The investments of the Authority are managed in accordance with the investment mandates with respective underlying investment managers. The investment decisions of the mandate are based on the analysis conducted by the investment manager. The return of the portfolio is exposed to the variability of the performance of the underlying management of these investments.

## 4. Risk Management

**Overview**

The Authority applies a consistent and integrated approach to enterprise risk management (ERM). The Authority operates within icare's risk management framework which sets out the approach to managing key risks and meeting strategic objectives. The risk management framework is articulated in the Risk Management Strategy (RMS) which is approved annually by the Board.

The icare Board is ultimately responsible for identifying and controlling financial risk. This is done through the establishment of holistic strategies and policies which are cognisant of financial risk management.

The framework consists of complementary elements that are embedded throughout the business management cycle and culture of the organisation. Key aspects include: risk appetite, governance, risk management processes, risk reporting and insights, modelling and stress testing, management, monitoring and culture.

Risk management is a continuous process and an integral part of robust business management. The Authority's approach is to integrate risk management into the broader management processes of the organisation. It is the Authority's philosophy to ensure that risk management remains embedded in the business and that the risk makers or risk takers are themselves the risk managers. Specifically, the management of risk must occur at each point in the business management cycle.

The key risk categories used by the Authority to classify financial risk:

- Market risk (note 4.1);
- Interest rate risk (note 4.2);
- Liquidity risk (note 4.3);
- Foreign exchange risk (note 4.4); and
- Credit risk (note 4.5).

# Notes to the financial statements

for the year ended 30 June 2018

## 4. Risk Management (continued)

The Authority's principal financial instruments are outlined below. These financial instruments arise directly from the Authority's operations or are required to finance the Authority's operations. The Authority does not enter into or trade financial instruments, including derivative instruments, for speculative purposes.

The Authority's main risks arising from financial instruments are outlined below, together with its objectives, policies and processes for measuring and managing risk. Further quantitative and qualitative disclosures are included throughout these financial statements.

The Board has overall responsibility for the establishment and oversight of risk management and reviews and agrees policies for managing each of these risks. Risk management policies are established to identify and analyse the risk faced by the Authority to set risk limits and controls and to monitor risks. Compliance with policies is reviewed by sub-Committees of the Board on a continual basis.

NSW Treasury Corporation (TCorp) has been appointed to provide investment management and administration services to icare managed investment funds. TCorp is engaged through a Master Financial Services Agreement (MFSA) which details, amongst other things, the service and reporting provisions. Service levels and compliance to the MFSA are monitored through icare's Finance & Services team. Ministerial Orders that were introduced in December 2016, outline the key responsibilities of TCorp including, yet not limited to, the appointment of investment managers and service providers such as the custodian.

**Financial assets**

The Authority is ultimately responsible for identifying and controlling financial risks including the establishment of an overall financial risk management strategy and policy.

| | Notes | Category | Carrying Amount 2018 $'000 | Carrying Amount 2017 $'000 |
|---|---|---|---|---|
| **Financial Assets** | | | | |
| **Class:** | | | | |
| Cash and cash equivalents | 5.5 | N/A | 19,193 | 10,822 |
| Receivables [1] | 2.3.5 | Loans and receivables (at amortised cost) | 1,888 | 3,699 |
| | | | | |
| Investments | 3.2 | Fair value through profit or loss | 1,182,846 | 1,147,719 |
| | | | | |
| **Financial Liabilities** | | | | |
| **Class:** | | | | |
| Payables [2] | 2.3.6 | Financial liabilities (at amortised cost) | 8,743 | 6,970 |

Notes:

[1] Excludes statutory receivables, prepayments and outstanding contributions receivable (i.e. not within scope of AASB 7).

[2] Excludes statutory payables, unearned revenue and claims liabilities (i.e. not within scope of AASB 7).

# Notes to the financial statements

for the year ended 30 June 2018

## 4.1 Market risk

**Overview**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Market risk arises as a result of the Authority holding cash and cash equivalents and trading investments as part of its asset allocation.

The Authority seeks to manage exposure to market risk so that it can generate sufficient returns to meet the Authority's current and future liabilities and mitigate the risk that the Authority's investments will be insufficient to meet such liabilities. The Authority's portfolio of investments is invested in accordance with its strategic asset allocation. The purpose of the strategic asset allocation is to construct a portfolio that achieves the Authority's investment objectives, including a return in excess of the target return specificied by icare (above which the investment assets would contribute to long term sufficiency), while limiting the probability of large negative investment returns.

The actual asset allocations can deviate from the benchmark asset allocation due to:

- Authority cash flows;
- Fluctuations in market prices; and
- Dynamic asset allocation decisions.

Dynamic asset allocation refers to medium term shifts away from the strategic asset allocation which are designed to capture market opportunities or to mitigate risks.

The deviations in actual versus benchmark asset allocation at the end of the reporting period were within the agreed tolerance limits for all asset classes.

Based on the asset allocation, TCorp appoints investment managers in each asset class, following consultation with icare. Management of the Authority's assets is allocated to the appointed investment manager. Each investment manager is subject to restrictions in relation to the types of assets in which it may invest, and in relation to the composition of investments within certain asset types. These restrictions are expressed in formalised mandates; typically contained in individually negotiated Investment Management Agreements or as described in Information Memoranda (or similar documents) issued by the relevant investment manager when the investment is via a pooled fund. The investment mandates are monitored on a daily basis to ensure that investment managers are compliant with their mandates and relevant agreements.

Each investment manager is responsible for managing security specific risk using its distinct management style. Each investment manager is also responsible for constructing a portfolio that aims to achieve its own investment objectives while complying with restrictions and guidelines contained in the mandate or Information Memorandum.

A risk budgeting framework is used to help determine an appropriate strategic asset allocation for the Authority. This framework incorporates the risk and return characteristics of the different asset classes in the portfolio and additional factors such as inflation and interest rates. Within this framework, a number of risk measures are employed including the frequency of negative returns, the volatility of the investment portfolio relative to the value of the liability and Value-at-Risk (VaR) analysis.

The risk budgeting analysis is conducted by TCorp (in conjunction with its asset consultant) and icare's independent asset consultant, Mercer Investments (Australia) Limited (Mercer), utilising:

- Assumptions regarding the expected level of return, risk and correlations between price and wage inflation, bond yields and returns from different asset classes (for example equities, bonds, property and alternative assets); and
- Assumptions regarding the duration of inflation-linked and other liabilities consistent with those used by the Authority's Actuary.

The analysis incorporates scenario analysis to determine the risk and return of different investment strategies relative to the change in the liabilities over a period. The analysis is primarily used to compare different investment strategies, and then to determine the investment strategy that has the appropriate level of risk, given the risk and return objectives of the Authority.

# Notes to the financial statements

for the year ended 30 June 2018

## 4.1 Market risk (continued)

The risk budgeting analysis is based on certain simplifying assumptions such as statistical characteristics of investment returns, volatilities and correlations that may not represent actual outcomes. It is also important to note that the analysis only allows for some economic factors such as inflation and bond yields, which affect the value of the Authority's liabilities. It does not allow for other factors such as the claim loss ratio, claims incidence and necessary rates, which also affect the value of the Authority's liabilities. As such, the analysis may not be accurate in its assessment of the liability.

The VaR risk measure seeks to estimate the potential investment loss over a given holding period at a specified confidence level. The VaR methodology is a statistically-defined, probability-based approach to risk assessment that takes into account market volatilities as well as risk diversification by identifying offsetting positions and correlations between financial instruments and markets. The VaR methodology allows risks to be measured consistently across all markets and financial instruments and to be aggregated into a single risk number.

The risk budgeting framework assesses the Authority's VaR at the 95th percentile confidence level over a 12 month period. This represents the minimum expected reduction in the value of the Authority's investment portfolio which has a 5 per cent chance of being exceeded over a one year period.

In addition to a VaR measure, the risk budgeting framework is also used to assess the following risk and return characteristics:

- Expected return on the investment portfolio;
- Probability of meeting return targets that incorporate measures of wage inflation; and
- The performance of the investment portfolio under different economic scenarios.

The most recent VaR analysis performed byTCorp's asset consultant was conducted in July 2018 based on the June 2018 financial instruments and is computed via forward looking simulation using a 95% confidence level and a 1 year holding period.

The Authority uses a Value at Risk (VaR) model to measure the market risk exposures to its invested assets in the statement of financial position. VaR is calculated using simulated forward looking expected returns at the 95th percentile confidence level over a 12 month time period.

Given the Authority's financial instruments at 30 June 2018, the minimum potential loss expected over a one year period is $46.7 million (June 2017: $55.7 million), with a 5 per cent probability that this minimum may be exceeded.

## 4.2 Interest rate risk

**Overview**

Interest rate risk is the risk that the (fair) value of a financial instrument will fluctuate because of changes in market interest rates. The value of the Authority's liabilities is also affected by interest rate fluctuations.

### 4.2.1 Exposure

Interest rate risk arises as a result of the Authority holding financial instruments which are subject, directly or indirectly to changes in value as a result of interest rate fluctuations. Authority liabilities are similarly subject directly or indirectly to changes in value as a result of interest rate fluctuations.

### 4.2.2 Risk management objective, policies and processes

The interest risk of the Authority is managed primarily through its strategic asset allocation and mandate objective setting. At 30 June 2018 the Authority had a 19.3 per cent (2017: 37 per cent) allocation to Australian Commonwealth and state government bonds to mitigate interest rate risk of Authority liabilities.

# Notes to the financial statements

for the year ended 30 June 2018

### 4.2.3 Quantitative analysis of exposure

The table below summarises the Authority's exposure to interest rate risks. It includes the Authority's indexed and interest-bearing financial assets and liabilities at fair values, categorised by the earlier of their contractual re-pricing or maturity dates.

The table does not show all assets and liabilities of the Authority. Assets and liabilities not shown in the table below are not indexed and interest bearing and are therefore not directly exposed to interest rate risk.

| | Floating Interest Rate | Fixed Interest Rate Maturing In | | | | |
|---|---|---|---|---|---|---|
| | $'000 | < 3 months $'000 | 4-12 months $'000 | 1-5 years $'000 | Over 5 years $'000 | Total $'000 |
| **2018** | | | | | | |
| Cash | 18,987 | - | - | - | - | 18,987 |
| Indexed and interest-bearing securities | 125,276 | - | - | 38,477 | 64,893 | 228,646 |
| Derivatives assets | - | 57 | - | - | - | 57 |
| Derivatives liabilities | - | (144) | - | - | - | (144) |
| **Assets** | **144,263** | **(87)** | **-** | **38,477** | **64,893** | **247,546** |
| **2017** | | | | | | |
| Cash | 10,822 | - | - | - | - | 10,822 |
| Indexed and interest-bearing securities | 309,379 | - | - | 13,919 | 156,376 | 479,674 |
| Derivatives assets | - | 557 | 224 | - | - | 781 |
| Derivatives liabilities | - | (178) | - | - | - | (178) |
| **Assets** | **320,201** | **379** | **224** | **13,919** | **156,376** | **491,099** |

The Authority's exposure to interest rate price risk is considered a component of market price risk and is quantified as part of the VaR analysis discussed under Market risk.

The Authority is exposed to interest rate cash flow risk on its floating rate interest-bearing securities as interest income earned varies according to prevailing market interest rates.

# Notes to the financial statements

for the year ended 30 June 2018

## 4.3 Liquidity risk

**Overview**

Liquidity risk is the risk that the Authority will be unable to meet its payment obligations when they fall due. The Authority continuously manages risk through monitoring of future cash flows and maturities planning to ensure adequate holding of high quality liquid assets. The objective is to maintain a balance between continuity of funding and flexibility through the use of overdrafts, loans and other advances, if applicable.

The Authority does not have any loans payable and no assets have been pledged as collateral. The Authority's exposure to liquidity risk is deemed insignificant based on prior periods' data and current assessment of risk.

The liabilities are recognised for amounts due to be paid in the future for goods or services received, whether or not invoiced. Amounts owing to suppliers (which are unsecured) are settled in accordance with the policy set out in NSW Treasury Circular NSWTC 11/12 *Payment of Accounts*.

The Authority is also exposed to liquidity risk from holding financial assets that may not be readily convertible to cash to meet financial liabilities and claims costs.

### 4.3.1 Exposure

The financial assets of the Authority that may not be readily convertible to cash are largely receivables (refer Note 2.3.5) and investments in over-the-counter or thinly traded investments, principally unlisted property trusts.

### 4.3.2 Risk management objective, policies and processes

The Authority maintains adequate liquidity to meet the daily cash requirements for claims payments and other operating costs.

To assist in meeting its liquidity risk management objectives, the Authority maintains a cash balance and invests most of its assets in investments that are traded in active markets that can be readily disposed of.

The Authority invests a proportion of its assets in less liquid listed investments or investments that are not traded on active markets and this is strictly controlled in accordance with the asset allocation together with a policy which limits exposure to illiquid investments.

Each investment manager is responsible for cashflow management of the assets that have been mandated to them. That is, each investment manager is responsible for managing settlement liquidity risk. The custodian supplies daily reporting to each investment manager to assist them in this process.

### 4.3.3 Quantitative analysis of exposure

The financial liabilities of the Authority comprise interest and other payables. The types of financial liabilities of the Authority were similar at 30 June 2017.

Cash due to brokers is payable on demand. Interest and other payables are typically settled within 30 days. If the derivative positions are closed out prior to maturity by entering into offsetting transactions, the Authority settles its derivative obligations in cash rather than physical delivery.

The other Authority liabilities are either claims whose maturity is disclosed in Note 2.3.3 or are related to Authority operations and have a maturity of less than 12 months.

The table below summarises the maturity profile of the Authority's financial liabilities, together with the interest rate exposure.

# Notes to the financial statements

for the year ended 30 June 2018

### 4.3.3 Quantitative analysis of exposure (continued)

**Maturity analysis and interest rate exposure of financial liabilities**

| | Weighted Average Effective Interest Rate | Nominal Amount | Interest Rate Exposure | | | Maturity Dates | | |
|---|---|---|---|---|---|---|---|---|
| | % | $'000 | Fixed Rate $'000 | Variable Rate $'000 | Non-Interest Bearing $'000 | < 1 year $'000 | 1–5 years $'000 | > 5 years $'000 |
| **2018** | | | | | | | | |
| Payables | N/A | 8,743 | - | - | 8,743 | 8,743 | - | - |
| | | | | | | | | |
| **2017** | | | | | | | | |
| Payables | N/A | 6,970 | - | - | 6,970 | 6,970 | - | - |

Notes

The amounts disclosed are the contractual undiscounted cash flows of each class of financial liabilities based on the earliest date on which the Authority can be required to pay. The tables include both interest (if applicable) and principal cash flows and therefore may not reconcile to the statement of financial position.

## 4.4 Foreign exchange risk

**Overview**

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

### 4.4.1 Exposure

The Authority is exposed to foreign exchange risk as a result of the foreign currency denominated investments held as part of its asset allocation.

### 4.4.2 Risk management objective, policies and processes

Credit Guidelines have been determined to ensure the Authority has controlled levels of credit concentration. These guidelines are at a total Authority level, with further asset class specific restrictions in investment managers mandates where applicable. In addition, where possible, collateral arrangements may be implemented to reduce the Authority's exposure.

The exposure is reported against set guidelines both from an individual managers' compliance and at a total Authority level. Reporting is provided by the Authority's custodian and delivered to management for monitoring.

Credit risk arising on financial instruments is mitigated by investing primarily in rated instruments as determined by Standard and Poor's, Moody's or Fitch. The Authority minimises its credit risk by monitoring counterparty creditworthiness.

TCorp manages foreign exchange risk for the Authority's developed market equities portfolio through changing the exposure to unhedged and hedged TCorpIM funds.

# Notes to the financial statements

for the year ended 30 June 2018

### 4.4.2 Risk management objective, policies and processes (continued)

The investment managers in investment grade credit (developed markets), unlisted infrastructure, alternatives, bank loans, and global high yield bonds are required to fully hedge portfolio foreign currency exposures. No hedging of foreign currency exposures to Australian dollars is undertaken on the value of assets invested in emerging markets.

All positions are reported on an ongoing basis by the Authority's custodian, JP Morgan, under a Service Level Agreement and reporting is provided both daily and monthly by the custodian to management for monitoring.

### 4.4.3 Quantitate analysis of exposure

A summary of the Authority's direct exposure to foreign exchange risk, inclusive of foreign currency derivatives is shown in the table below:

| | US Dollars AUD $'000 | Euro AUD $'000 | British Pounds AUD $'000 | Japanese Yen AUD $'000 | Total AUD $'000 |
|---|---|---|---|---|---|
| | | | | | |
| **2018** | | | | | |
| Cash | 59 | 58 | - | - | 117 |
| Indexed and interest-bearing securities | - | - | - | - | - |
| Unit Trusts | - | - | - | - | - |
| Equities | - | - | - | - | - |
| **Foreign Exchange Exposure Position** | **59** | **58** | **-** | **-** | **117** |
| | | | | | |
| **2017** | | | | | |
| Cash | 7 | 9 | 17 | 39 | 72 |
| Indexed and interest-bearing securities | - | - | - | - | - |
| Unit Trusts | - | - | - | - | - |
| Equities | - | - | - | - | - |
| **Foreign Exchange Exposure Position** | **7** | **9** | **17** | **39** | **72** |

The Authority's exposure to foreign market exchange risk is considered a component of market risk and is quantified as part of the VaR analysis discussed under Market risk.

# Notes to the financial statements

for the year ended 30 June 2018

## 4.5 Credit risk

**Overview**

Credit risk arises when there is the possibility that the counterparty will default on their contractual obligations, resulting in a financial loss to the Authority. The maximum exposure to credit risk is generally represented by the carrying amount of the financial assets (net of any allowance for impairment).

Credit risk arises from the financial assets of the Authority, including cash, receivables and Authority deposits. No collateral is held by the Authority. The Authority has not granted any financial guarantees.

Credit risk associated with the Authority's financial assets other than receivables, is managed through the selection of counterparties and establishment of minimum credit rating standards. Authority deposits held with NSW Treasury Corporation (TCorp) are guaranteed by the State.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

### 4.5.1 Exposure

Credit risk arises from the Authority's investments as a result of the investment manager trading with various counterparties and purchasing the debt of corporate and government borrowers. These activities could result in the Authority not being able to receive benefit as a result of a failing counterparty. The Authority's main credit risk concentration is spread between cash, indexed and interest-bearing investments and over-the-counter, in-the-money derivatives.

Credit risk also arises from the Authority's receivables. Disclosures relating to the Authority's receivables are included in Note 2.3.5.

### 4.5.2 Risk management objective, policies and processes

Credit Guidelines have been determined to ensure the Authority has controlled levels of credit concentration. These guidelines are at a total Authority level, with further asset class specific restrictions in investment managers mandates where applicable. In addition, where possible, collateral arrangements may be implemented to reduce the Authority's exposure.

The exposure is reported against set guidelines both from an individual managers' compliance and at a total Authority level. Reporting is provided by the Authority's custodian and delivered to management for monitoring.

Credit risk arising on financial instruments is mitigated by investing primarily in rated instruments as determined by Standard and Poor's, Moody's or Fitch. The Authority minimises its credit risk by monitoring counterparty creditworthiness.

### 4.5.3 Quantitative analysis of exposure

The Authority's maximum credit risk exposure at balance date in relation to each class of recognised financial asset, other than derivative financial instruments, is the carrying amount of those assets as indicated in the statement of financial position.

In relation to over the counter derivative financial instruments, credit risk arises from the potential failure of counterparties to meet their obligations under the contract or arrangement.

### 4.5.4 Derivatives

The use of derivative financial instruments is governed by the Authority's policies. The Authority enters into derivative contracts for the purpose of gaining market and/or duration exposure or offsetting existing risk exposures.

The table below shows the fair value of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of a derivative is measured. The notional amounts are indicative of the exposure of the Authority to movements in the instrument underlying the derivatives. The notional amounts do not represent the credit risk of the derivative positions that is equal to the fair value.

The fair value amounts reported in the statement of financial position, and the amounts reported in the following tables are the net value of individual swap positions where there is the ability to settle the swaps on a net basis and the Authority intends to settle on this basis.

# Notes to the financial statements

for the year ended 30 June 2018

### 4.5.4 Derivatives (continued)

| | Assets $'000 | Liabilities $'000 | Notional Amount $'000 |
|---|---|---|---|
| | | | |
| **2018 Options** | | | |
| Options on Fixed Income | 57 | (144) | 9,889 |
| Foreign forward exchange contracts | - | - | - |
| | **57** | **(144)** | **9,889** |
| **2017 Options** | | | |
| Options on Fixed Income | 226 | - | 163,000 |
| Foreign forward exchange contracts | - | - | (54) |
| | **226** | **-** | **162,946** |

### 4.5.5 Indexed and interest-bearing investments

The majority of the indexed and interest-bearing investments held by the Authority are held with issuers rated investment grade by Standard and Poor's, Moody's or Fitch. The ratings assigned to the Authority's indexed and interest-bearing investments at the end of the reporting period were as follows:

| | 2018 $'000 | 2018 % | 2017 $'000 | 2017 % |
|---|---|---|---|---|
| | | | | |
| **Rating** | | | | |
| AAA/aaa | 213,174 | 93 | 339,635 | 71 |
| AA/Aa | 15,471 | 7 | 133,474 | 28 |
| A/A | - | - | 6,565 | 1 |
| **Total** | **228,645** | **100** | **479,674** | **100** |

### 4.5.6 Cash and cash equivalents

Cash comprises cash on hand, balances held at private financial institutions, term deposits with a maturity of less than three months and bank balances within the NSW Treasury Banking System. Interest is earned on daily bank balances on funds in the NSW Treasury Banking System at the Reserve Bank of Australia's prevailing cash rate.

# Notes to the financial statements

for the year ended 30 June 2018

### 4.5.7 Receivable – trade debtors

All trade debtors are recognised as amounts receivable as at balance date. Collectability of trade debtors is reviewed on an ongoing basis. Procedures as established in the Treasurer's Directions are followed to recover outstanding amounts, including letters of demand. Debts which are known as uncollectible are written off. An allowance for impairment is raised when there is objective evidence that the Authority will not be able to collect all amounts due. This evidence includes past experience, and current and expected changes in economic conditions. There is no independently assessed rating of the clients other than past experience and their compliance with credit terms, these credit terms are monitored by management on a monthly basis. Sales are made on 30-day terms.

The only financial assets that are past due are 'other receivables' in the 'receivables' category of the statement of financial position.

| | Total[1,2] $'000 | Past Due but not impaired[1,2] $'000 | Considered impaired[1,2] $'000 |
|---|---|---|---|
| **2018** | | | |
| < 3 months overdue | 10 | - | - |
| 3 months – 6 months overdue | 14 | 14 | - |
| > 6 months overdue | 190 | 92 | 98 |
| | | | |
| **2017** | | | |
| < 3 months overdue | 44 | 44 | - |
| 3 months – 6 months overdue | 1 | 1 | - |
| > 6 months overdue | 147 | 45 | 102 |

Notes:
[1.] Each column in the table reports 'gross receivables'.
[2.] The ageing analysis excludes statutory receivables, as these are not within scope of AASB 7 and excludes receivables that are not past due and not impaired. Therefore, the 'total' will not reconcile to the receivables total recognised in the statement of financial position.

There are no debtors which are currently not past due or impaired whose terms have been renegotiated.

# Notes to the financial statements

for the year ended 30 June 2018

## 5. Other

**Overview**

This section includes other information that must be disclosed to comply with the Australian Accounting Standards.

### 5.1 Other revenue

| | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|
| | | |
| Compensation recoveries under Section 8E of the Act | 2,996 | 2,825 |
| Scheme recoveries | 8,510 | - |
| Rendering of services – Occupational respiratory health assessments | 441 | 316 |
| Solicitors' production fees | 29 | 51 |
| **Total other revenue** | **11,976** | **3,192** |

### 5.2 Service fees

**Overview**

In accordance with the *State Insurance and Care Governance Act 2015* from 1 September 2015 the Authority receives services from Insurance and Care NSW (icare). Under the arrangement most of the Authority's costs are incurred by icare and recovered at cost from the Authority. These services include the provision of staff, claims handling, facilities, general business expenses and governance services.

The Authority's key management personnel are the Board of Directors of icare, the Chief Executive Officer of icare and their direct reports. All transactions with these key management personnel are included in the service fee paid to icare for those personnel remunerated by icare.

| | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|
| | | |
| **Service fees** | **13,560** | **10,204** |

# Notes to the financial statements

for the year ended 30 June 2018

## 5.3 Other operating expenses

**Overview**

As explained in Note 5.2 the majority of the Authority's costs are incurred by icare and are shown in the Service fee charged by icare for this service.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| Depreciation and amortisation (refer note 5.7 & 5.8) | 84 | 186 |
| Other | 117 | 375 |
| Contractors | 30 | - |
| Travel | 18 | - |
| Printing | 11 | - |
| Legal fees | 28 | - |
| Office accommodation | 44 | - |
| Auditor's remuneration – audit of the financial statements | 180 | 85 |
| Stores | 115 | - |
| Consultants – other | 1 | 16 |
| **Total Other operating expenses** | **628** | **662** |

## 5.4 Grants and subsidies

**Overview**

Grants for research projects and advice are now undertaken by icare and recouped in the service fee.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| Dust Diseases Tribunal funding | 5,526 | 5,313 |
| | **5,526** | **5,313** |

# Notes to the financial statements

for the year ended 30 June 2018

## 5.5 Cash and cash equivalents

**Overview**

Cash and cash equivalents includes cash at bank, cash on hand and short-term deposits of less than 3months duration.

Refer to Note 4 for details regarding credit risk, liquidity risk and market risk arising from financial instruments.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| Cash at bank and on hand | 1 | 4,444 |
| Cash – Other Deposits at TCorp | 234 | 5,492 |
| Cash – Other | 18,987 | 886 |
| **Total cash and cash equivalents** | 19,222 | 10,822 |
| Bank overdraft | (29) | - |
| | **19,193** | **10,822** |

For the purposes of the statement of cash flows, cash and cash equivalents includes cash at bank, cash on hand, term deposits of less than 12 months duration less bank overdraft.

Cash and cash equivalent assets recognised in the statement of financial position are reconciled at the end of the financial year to the statement of cash flows as follows:

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| Cash and cash equivalent assets (per statement of financial position) | 19,193 | 10,822 |
| **Closing cash and cash equivalents (per statement of cash flows)** | **19,193** | **10,822** |

# Notes to the financial statements

for the year ended 30 June 2018

## 5.5 Cash and cash equivalents (continued)

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| **Reconciliation of Net Cash Flows from Operating Activities to Net Result** | | |
| Net cash used in operating activities | 11,235 | (23,678) |
| Depreciation and amortisation | (84) | (186) |
| Net investment purchases | (15,350) | 48,915 |
| Net cashflows from investment operating activities | 48,797 | 63,481 |
| Change in assets and liabilities | | |
| (Decrease) in receivables: | 64,473 | (139,428) |
| (Increase) in payables | (2,252) | (584) |
| Increase/(Decrease) in claims provisions | (113,487) | 59,827 |
| **Net result** | **(6,668)** | **8,347** |

## 5.6 Assets held for sale

**Overview**

The Authority made a decision in March 2017 to sell its building holdings within 12 months. These holdings comprise the entirety of levels 2, 3, 4, 7 and 14, of 82 Elizabeth St Sydney. They are Lots 2, 3, 4 and 14 in Strata Plan 10878, Lot 20 in Strata Plan 17319 and Lot 27 in Strata Plan 60098.

Assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

| | Buildings $'000 |
|---|---|
| | |
| **At 30 June 2018** | |
| Gross carrying amount | 5,500 |
| Accumulated depreciation and impairment | (127) |
| **Net carrying amount** | **5,373** |

# Notes to the financial statements

for the year ended 30 June 2018

## 5.7 Property, plant and equipment

### Overview

Plant and equipment are recorded at cost on acquisition.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire the asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised. Physical non-current assets costing more than $5000 individually are capitalised.

The capitalisation threshold for property, plant and equipment is $5,000 and above individually (or forming part of a network costing more than $5,000).

### 5.7.1 Fair value

Physical assets are valued in accordance with the '*Valuation of Physical Non-Current Assets at Fair Value' Policy and Guidelines Paper* (TPP 14-01). This policy adopts fair value in accordance with AASB 13 *Fair Value Measurement* and AASB 116 *Property, Plant and Equipment*.

Non-specialised assets with short useful lives are measured at depreciated historical cost, as a surrogate for fair value.

### 5.7.2 Revaluation of property, plant and equipment

The Authority revalues each class of property, plant and equipment at least every three years to ensure that the carrying amount of each asset in the class does not differ materially from its fair value at reporting date.

The last revaluation of Scientific and Medical Equipment was completed on 6 February 2015. The valuation was based on an independent assessment.

Non-specialised assets with short useful lives are measured at depreciated historical cost as an approximation of fair value. The Authority has assessed that any difference between fair value and depreciated historical cost is unlikely to be material.

For other assets valued using other valuation techniques, any balances of accumulated depreciation at the revaluation date in respect of those assets are credited to the asset accounts to which they relate. The net asset accounts are then increased or decreased by the revaluation increments or decrements.

### 5.7.3 Depreciation of property plant and equipment

Depreciation is provided for on a straight-line basis for all depreciable assets so as to write off the depreciable amount of each asset as it is consumed over its useful life to the Authority. All material separately identifiable components of assets are depreciated over their useful lives.

The following depreciation rates were used:

| Categories | 2018<br>% | 2017<br>% |
|---|---|---|
| | | |
| Buildings | 3 | 3 |
| Motor vehicles: passenger cars | 20 | 20 |
| Motor vehicles: mobile respiratory unit | 10 | 10 |
| Office equipment | 20 | 20 |
| Scientific and medical equipment | 5-12.5 | 5-12.5 |

# Notes to the financial statements

for the year ended 30 June 2018

## 5.7 Property, plant and equipment (continued)

| | WIP $'000 | Motor Vehicles $'000 | Office Equipment $'000 | Scientific and Medical Equipment $'000 | Total $'000 |
|---|---|---|---|---|---|
| | | | | | |
| **At 1 July 2017 – fair value** | | | | | |
| Gross carrying amount | - | 661 | 20 | 124 | 805 |
| Accumulated depreciation and impairment | - | (496) | (14) | (30) | (540) |
| **Net carrying amount** | **-** | **165** | **6** | **94** | **265** |
| | | | | | |
| **At 30 June 2018 – fair value** | | | | | |
| Gross carrying amount | 2,864 | 661 | 20 | 124 | 3,669 |
| Accumulated depreciation and impairment | - | (562) | (17) | (45) | (624) |
| **Net carrying amount** | **2,864** | **99** | **3** | **79** | **3,045** |
| | | | | | |
| **Reconciliation** | | | | | |
| | | | | | |
| **Year ended 30 June 2018** | | | | | |
| Net carrying amount at start of financial year | - | 165 | 6 | 94 | 265 |
| Additions | 2,864 | - | - | - | 2,864 |
| Depreciation expense | - | (66) | (3) | (15) | (84) |
| **Net carrying amount at end of financial year** | **2,864** | **99** | **3** | **79** | **3,045** |

# Notes to the financial statements

for the year ended 30 June 2018

## 5.7 Property, plant and equipment (continued)

| | Building $'000 | Motor Vehicles $'000 | Office Equipment $'000 | Scientific and Medical Equipment $'000 | Total $'000 |
|---|---|---|---|---|---|
| | | | | | |
| **At 1 July 2016 – fair value** | | | | | |
| Gross carrying amount | 5,500 | 661 | 20 | 124 | 6,305 |
| Accumulated depreciation and impairment | (24) | (430) | (13) | (14) | (481) |
| **Net carrying amount** | **5,476** | **231** | **7** | **110** | **5,824** |
| | | | | | |
| **At 30 June 2017 – fair value** | | | | | |
| Gross carrying amount | - | 661 | 20 | 124 | 805 |
| Accumulated depreciation and impairment | - | (496) | (14) | (30) | (540) |
| **Net carrying amount** | **-** | **165** | **6** | **94** | **265** |
| | | | | | |
| **Reconciliation** | | | | | |
| | | | | | |
| **Year ended 30 June 2017** | | | | | |
| Net carrying amount at start of financial year | 5,476 | 231 | 7 | 110 | 5,824 |
| Reclassification to Held for Sale | (5,373) | - | - | - | (5,373) |
| Depreciation expense | (103) | (66) | (1) | (16) | (186) |
| **Net carrying amount at end of financial year** | **-** | **165** | **6** | **94** | **265** |

## 5.8 Intangibles

### Overview

The capitalisation threshold for intangible assets is $100,000 and above (including direct allocation of personnel service costs).

All research costs are expensed. Development costs are only capitalised when certain criteria are met.

The useful lives of intangible assets are assessed to be finite. The Authority charges amortisation on intangible assets using the straight-line method over a period of four years.

Intangible assets are subsequently measured at fair value only if there is an active market. As there is no active market for the Authority's intangible assets, the assets are carried at cost less any accumulated amortisation and impairment losses.

Intangible assets are tested for impairment where an indicator of impairment exists. If the recoverable amount is less than its carrying amount, the carrying amount is reduced to recoverable amount and the reduction is recognised as an impairment loss.

# Notes to the financial statements

for the year ended 30 June 2018

## 5.9 Fair value measurement of non-financial assets

**Overview**

The Authority recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. Refer Note 4 for further disclosures regarding fair value measurements of financial assets.

**2018 – Property, plant and equipment**

| | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total Fair value $'000 |
|---|---|---|---|---|
| | | | | |
| **Property, plant and equipment (Note 5.8)** | | | | |
| Scientific and medical equipment | - | 79 | - | 79 |
| | **-** | **79** | **-** | **79** |

**2017 – Property, plant and equipment**

| | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total Fair value $'000 |
|---|---|---|---|---|
| | | | | |
| **Property, plant and equipment (Note 5.8)** | | | | |
| Scientific and medical equipment | - | 94 | - | 94 |
| | **-** | **94** | **-** | **94** |

There were no transfers between Level 1 and 2 during the period.

### 5.9.1 Valuation techniques, inputs and processes

Scientific and Medical equipment are measured using the market approach. The valuation model is based on market data of similar assets.

All of the Authority's other assets that are not specialised are also measured using the market approach. NSW Treasury Policy paper 14-01 *Valuation of Physical Non-Current Assets at Fair Value* allows non-specialised assets with short useful lives to be recognised at depreciated historical cost as a surrogate for fair value. Depreciated historical cost is an appropriate surrogate for fair value because any difference between fair value and depreciated historical cost is unlikely to be material and the benefit of ascertaining a more accurate fair value does not justify the additional cost of obtaining it.

# Notes to the financial statements

for the year ended 30 June 2018

## 5.10 Contingent liabilities and contingent assets

**Overview**

Contingent liabilities are disclosed when the possibility of a future settlement of economic benefits is considered to be less than probable but more likely than remote. If the expected settlement of the liability becomes probable, a provision is recognised.

The Authority has no contingent assets or liabilities (2017: nil).

## 5.11 Budget review

### 5.11.1 Statement of comprehensive income

| | Actual 2018 $'000 | Budget 2018 $'000 |
|---|---|---|
| | | |
| **Revenue** | | |
| Levies | 61,822 | 59,800 |
| Investment revenue | 96,622 | 59,006 |
| Other revenue | 11,976 | 2,568 |
| **Total Revenue** | **170,420** | **121,374** |
| | | |
| **Expenses excluding losses** | | |
| Scheme costs | 156,796 | 98,739 |
| Service fees | 13,560 | 12,326 |
| Other operating expenses | 628 | 3,982 |
| Grants and subsidies | 5,526 | 6,077 |
| **Total expenses excluding losses** | **176,510** | **121,124** |
| | | |
| Impairment gains/(losses) on receivables | (578) | (250) |
| | | |
| **Net result** | **(6,668)** | **-** |

# Notes to the financial statements

for the year ended 30 June 2018

## 5.11 Budget review (continued)

**Comment**

The net result is $6.6 million unfavourable to budget mainly due to the following items:

- Scheme costs are $58.0 million unfavourable to budget due to:
  - unfavourable claims experience due to higher reported workers claims as a result of a redesign of the end to end application pathway which has seen an increase in claims reported this year, and fewer deaths than expected;
  - change in actuarial assumptions to allow for increasing medical expenses, a number of benefit changes such as funeral benefits and domestic assistance to workers with less than 15% disability, changes to claims handling expenses to allow for an increase in office and administration expenses, and
  - the updated economic assumptions are offset by the favourable result in the movement in the outstanding contribution receivable from insurers. This is directly related to favourable investment revenue offset by the increase in the outstanding claims provision.
- This is partially offset by:
  - Investment revenue is $37.6 million favourable to budget due to stronger investment markets, and
  - Other revenue is $9.4 million favourable to budget mainly due to a change in economic assumptions in scheme recoveries. The budget for this was included in scheme costs.

# Notes to the financial statements

for the year ended 30 June 2018

### 5.11.2 Statement of financial position as at 30 June 2018

| | Actual 2018 $'000 | Budget 2018 $'000 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | 19,193 | 34,772 |
| Investments | 1,182,846 | 1,096,717 |
| Receivables | 638,839 | 411,973 |
| Assets held for sale | 5,373 | 5,373 |
| Property, plant and equipment | 3,045 | 80 |
| **Total Assets** | **1,849,296** | **1,548,915** |
| | | |
| **LIABILITIES** | | |
| Payables | 8,599 | 11,084 |
| Investment Payable | 144 | - |
| Claims Provision | 1,826,928 | 1,525,885 |
| **Total Liabilities** | **1,835,671** | **1,536,969** |
| | | |
| **Net Assets** | **13,625** | **11,946** |
| | | |
| **EQUITY** | | |
| Reserves | 2,598 | 2,598 |
| Accumulated funds | 11,127 | 9,348 |
| **Total Equity** | **13,625** | **11,946** |

**Comment**

Total assets were $300.4 million favourable to budget mainly due to higher investments due to favourable investment returns and an increase in outstanding contributions from insurers as a result of an increase in the outstanding claims provision offset by favourable investment revenue.

Total liabilities were $298.6 million unfavourable to budget mainly due to the increases in the provision for outstanding claims liabilities attributable to changes to both actuarial valuation assumptions and economic assumptions (see above reasoning in the P&L comment, section 5.11.1).

# Notes to the financial statements

for the year ended 30 June 2018

## 5.11 Budget review (continued)

### 5.11.3 Statement of Cash flows

| | Actual 2018 $'000 | Budget 2018 $'000 |
|---|---|---|
| | | |
| Levies received | 63,925 | 59,800 |
| Compensation payments | (102,295) | (103,741) |
| **NET CASH FLOWS FROM SCHEME ACTIVITIES** | **(38,370)** | **(43,941)** |
| **Receipts** | | |
| Proceeds from sale of investments | 1,282,511 | 49,154 |
| Interest received | 48,880 | 17,914 |
| Other | 3,466 | 2,568 |
| **Total Receipts** | **1,334,857** | **69,636** |
| | | |
| **Payments** | | |
| Purchases of investments | (1,267,248) | - |
| Service fees | (12,118) | (12,326) |
| Other operating | (360) | (5,671) |
| Grants and subsidies | (5,526) | (6,077) |
| **Total Payments** | **(1,285,252)** | **(24,074)** |
| | | |
| **NET CASH FLOWS FROM OTHER OPERATING ACTIVITIES** | **11,235** | **1,621** |
| | | |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchases of plant and equipment | (2,864) | (40) |
| **NET CASH FLOWS FROM INVESTING ACTIVITIES** | **(2,864)** | **(40)** |
| | | |
| **NET INCREASE/(DECREASE) IN CASH** | **8,371** | **1,581** |
| | | |
| Opening cash and cash equivalents | 10,822 | 33,191 |
| | | |
| **CLOSING CASH AND CASH EQUIVALENTS** | **19,193** | **34,772** |

# Notes to the financial statements

for the year ended 30 June 2018

## 5.11 Budget review (continued)

**Comment**

Cash and equivalents held as at 30 June 2018 are $15.6 million lower than budget due to a different opening cash position as at 1 July 2017 by $22.4 million, higher purchases of plant and equipment $2.8m offset by a more favourable cashflow from operating activities in particular higher levies received $4.1m and lower grants and subsidies paid $5.7 million.

## 5.12 Post balance date events

The Board has accepted an offer of $13.5 million from SFT4 Properties Pty Ltd. for its building at 82 Elizabeth St (Refer Note 5.6).

The contract for the sale was executed on 27 August 2018 with settlement occurring on 8th October 2018.

END OF AUDITED FINANCIAL STATEMENTS

# Lifetime Care

# Lifetime Care
# Financial statements

for the year ended 30 June 2018

## Contents



## Notes to the financial statements

**LIFETIME CARE AND SUPPORT SCHEME**

**Actuarial Certificate**
**Outstanding claims liabilities at 30 June 2018**

PricewaterhouseCoopers Consulting (Australia) Pty Ltd (PwC) has been contracted by Insurance & Care NSW (icare) acting for the Lifetime Care and Support Authority (LTCSA) to make estimates of the outstanding claims liabilities as at 30 June 2018 of the Lifetime Care and Support Scheme.

## Data

PwC has relied on historical data and other quantitative and qualitative information supplied by icare acting for the LTCSA without audit or independent verification. We did, however, review this information for reasonableness and internal consistency, where possible. The accuracy of our results is dependent upon the accuracy and completeness of the underlying data.

## Basis of Our Estimates

We have made central estimates of the outstanding claims liabilities, meaning that our assumptions have been selected to yield estimates that are not knowingly above or below the ultimate liabilities. Our estimates include allowances for:

- Future inflation and discounting for the time value of money;
- Future mortality and injury severity improvements of participants; and
- Includes a loading for future expenses to meet the cost of managing the outstanding compensation needs of incurred participants (including claims incurred but yet to be reported) as at 30 June 2018.

The estimates do not include any allowance for a risk margin as instructed by icare.

## Valuation Results

The PwC estimated liability for the Lifetime Care and Support Scheme as at 30 June 2018 is $4,710 million.

It is a decision for the Lifetime Care and Support Authority as to the amount adopted in the accounts.

## Uncertainty

There is a limitation upon the accuracy of the estimates in this certificate in that there is an inherent uncertainty in any estimate of outstanding claims liabilities. This is due to the fact that the ultimate liability for claims is subject to the outcome of events yet to occur. These include, but are not limited to, the mortality rate and participants' injury severity improvements within the scheme, the number of participants accepted into the scheme, price adjustments by service providers and future levels of care and support provided to participants.

In our judgement, we have employed techniques and assumptions that are appropriate, and we believe the conclusions presented herein are reasonable, given the information currently available.

***PricewaterhouseCoopers Consulting (Australia) Pty Ltd, ABN 20 607 773 295***
*One International Towers Sydney, Watermans Quay, Barangaroo NSW 2000,*
*GPO BOX 2650 Sydney NSW 2001*
*T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au*

pwc

**Valuation Report**

Full details of data, methodology, assumptions and results are set out in our valuation report dated 30 August 2018.

**Relevant Standards**

Our estimates and reports were prepared in compliance with the Actuaries Institute's Professional Standard 300, which relates to estimation of outstanding claims liabilities.

icare have informed us that the financial statements for the LTCSA are intended to comply with Accounting Standard AASB 137 which requires the determination of a best estimate. We have been instructed by icare to prepare a central estimate and our report includes the determination of a risk margin intended to achieve higher probabilities of adequacy.

Andrew Smith
FIAA
30 August 2018

Gavin Moore
FIAA
30 August 2018

pwc

**MOTOR ACCIDENTS INJURIES TREATMENT AND CARE BENEFITS FUND**

**Actuarial Certificate**
**Outstanding claims liabilities at 30 June 2018**

PricewaterhouseCoopers Consulting (Australia) Pty Ltd (PwC) has been contracted by Insurance & Care NSW (icare) to make estimates of the outstanding claims liabilities as at 30 June 2018 of the Motor Accident Injuries Treatment and Care Benefits Fund which is administered by the Lifetime Care and Support Authority (LTCSA).

**Data**

PwC has relied on historical data and other quantitative and qualitative information supplied by icare without audit or independent verification. We did, however, review this information for reasonableness and internal consistency, where possible. The accuracy of our results is dependent upon the accuracy and completeness of the underlying data.

**Basis of Our Estimates**

We have made central estimates of the outstanding claims liabilities, meaning that our assumptions have been selected to yield estimates that are not knowingly above or below the ultimate liabilities. Our estimates include allowances for:

- Future inflation and discounting for the time value of money; and
- Includes a loading for future expenses to meet the cost of management of claims outstanding (including claims incurred but yet to be reported) as at 30 June 2018.

The estimates do not include any allowance for a risk margin as instructed by icare.

**Valuation Results**

The PwC estimated liability for the Motor Accident Injuries Treatment and Care Benefits Fund as at 30 June 2018 is $37.5 million.

It is a decision for the Lifetime Care and Support Authority as to the amount adopted in the accounts.

**Uncertainty**

There is a limitation upon the accuracy of the estimates in this certificate in that there is an inherent uncertainty in any estimate of outstanding claims liabilities. This is due to the fact that the ultimate liability for claims is subject to the outcome of events yet to occur. These include, but are not limited to, the number of participants accepted into the scheme, the mortality rate and participants' injury severity improvements within the scheme, price adjustments by service providers and future levels of care and support provided to participants.

In our judgement, we have employed techniques and assumptions that are appropriate, and we believe the conclusions presented herein are reasonable, given the information currently available.

***PricewaterhouseCoopers Consulting (Australia) Pty Ltd, ABN 20 607 773 295***
*One International Towers Sydney, Watermans Quay, Barangaroo NSW 2000,*
*GPO BOX 2650 Sydney NSW 2001*
*T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au*

**Valuation Report**

Full details of data, methodology, assumptions and results are set out in our valuation report dated 30 August 2018.

**Relevant Standards**

Our estimates and reports were prepared in compliance with the Actuaries Institute's Professional Standard 300, which relates to estimation of outstanding claims liabilities.

icare have informed us that the financial statements for the MAITCBF are intended to comply with Accounting Standard AASB 137 which requires the determination of a best estimate. We have been instructed by icare to prepare a central estimate and our report includes the determination of a risk margin intended to achieve higher probabilities of adequacy.

Andrew Smith
FIAA
30 August 2018

Gavin Moore
FIAA
30 August 2018

# Statement by the chairman and chief executive officer

for the year ended 30 June 2018

**Lifetime Care and Support Authority of NSW**

**Certificate under Section 41C(1B) and 41C(1C) of the *Public Finance and Audit Act 1983* and Clause 7 of the *Public Finance and Audit Regulation 2015*.**

In the opinion of the Board of Directors:

1. the financial statements of Lifetime Care and Support Authority of NSW have been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2015* and the Treasurer's Directions. They have also been prepared in accordance with Australian Accounting Standards (which include Australian Interpretations) and other authoritative pronouncements of the Australian Accounting Standards Board.
2. the financial statements for the year ended 30 June 2018 exhibit a true and fair view of the position and transactions of the Lifetime Care and Support Authority and;
3. the directors are not aware of any circumstances as at the date of this certificate which would render any particulars included in the financial statements misleading or inaccurate.

Signed on behalf of the Board of Directors of Insurance and Care NSW.

**Michael Carapiet**
**Chairman/Director**
**Insurance and Care NSW**
**24 September 2018**

**John Nagle**
**Chief Executive Officer and**
**Managing Director**
**Lifetime Care and Support Authority of NSW and**
**Insurance and Care NSW**
**24 September 2018**

AUDITOR-GENERAL
NEW SOUTH WALES

## INDEPENDENT AUDITOR'S REPORT

**Lifetime Care and Support Authority of NSW**

To Members of the New South Wales Parliament

### Opinion

I have audited the accompanying financial statements of the Lifetime Care and Support Authority of NSW (the Authority), which comprise the Statement of Comprehensive Income for the year ended 30 June 2018, the Statement of Financial Position as at 30 June 2018, the Statement of Changes in Equity and the Statement of Cash Flows for the year then ended, notes comprising accounting policies and other explanatory information.

In my opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 30 June 2018, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards
- are in accordance with section 41B of the *Public Finance and Audit Act 1983* (PF&A Act) and the Public Finance and Audit Regulation 2015.

My opinion should be read in conjunction with the rest of this report.

### Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under the standards are described in the 'Auditor's Responsibilities for the Audit of the Financial Statements' section of my report.

I am independent of the Authority in accordance with the requirements of the:

- Australian Auditing Standards
- Accounting Professional and Ethical Standards Board's APES 110 'Code of Ethics for Professional Accountants' (APES 110).

I have fulfilled my other ethical responsibilities in accordance with APES 110.

Parliament promotes independence by ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of public sector agencies
- precluding the Auditor-General from providing non-audit services.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

**Level 15, 1 Margaret Street, Sydney NSW 2000** | GPO Box 12, Sydney NSW 2001 | **t** 02 9275 7101 | **f** 02 9275 7179 | **e** mail@audit.nsw.gov.au | **audit.nsw.gov.au**

## Other Information

Other information comprises the information included in the Authority's annual report for the year ended 30 June 2018, other than the financial statements and my Independent Auditor's Report thereon. The Chief Executive Officer of the Authority is responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprise the Statement by the Chairman and Chief Executive Officer.

My opinion on the financial statements does not cover the other information. Accordingly, I do not express any form of assurance conclusion on the other information.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude there is a material misstatement of the other information, I must report that fact.

I have nothing to report in this regard.

## The Chief Executive Officer's Responsibilities for the Financial Statements

The Chief Executive Officer is responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards and the PF&A Act, and for such internal control as the Chief Executive Officer determines is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Executive Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting except where the Authority will be dissolved by an Act of Parliament or otherwise cease operations.

## Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to:

- obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions users take based on the financial statements.

A description of my responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_responsibilities/ar4.pdf. The description forms part of my auditor's report.

My opinion does *not* provide assurance:

- that the Authority carried out its activities effectively, efficiently and economically
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.

D Daniels

*2*

David Daniels
Director, Financial Audit Services

2 October 2018
SYDNEY

# Statement of comprehensive income

for the year ended 30 June 2018

| | Notes | 2018 $'000 | 2017 $'000 |
|---|---|---|---|
| | | | |
| **Revenue** | | | |
| Fees and Levies | 2.1 | 488,549 | 460,802 |
| Investment revenue | 3.1 | 457,259 | 418,100 |
| Share of profit or (loss) of associates | 5.6 | (450) | 442 |
| Other revenue | 5.1 | 1,566 | 180 |
| **Total Revenue** | | **946,924** | **879,524** |
| | | | |
| **Expenses** | | | |
| Scheme costs | 2.2 | 792,366 | 514,991 |
| Service fee | 5.2 | 43,032 | 28,578 |
| Other operating expenses | 5.3 | 6,151 | 2,465 |
| **Total Expenses** | | **841,549** | **546,034** |
| | | | |
| **Gain on disposal of assets** | | - | 76 |
| | | | |
| **Net result** | | **105,375** | **333,566** |
| | | | |
| **Other comprehensive income** | | | |
| Items that will not be reclassified to the net result | | | |
| Net increase/(decrease) in property, plant and equipment revaluation surplus | | 800 | (966) |
| **Total other comprehensive income** | | **800** | **(966)** |
| | | | |
| **TOTAL COMPREHENSIVE INCOME / (LOSS)** | | **106,175** | **332,600** |

The accompanying notes form part of these financial statements.

# Statement of financial position

as at 30 June 2018

| | Notes | 2018 $'000 | Restated 2017 $'000 | 1 July 2016 $'000 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and cash equivalents | 5.5 | 48,684 | 39,992 | 281,019 |
| Investments | 3.2 | 5,788,362 | 5,057,059 | 4,088,628 |
| Receivables | 2.3.5 | 68,772 | 61,916 | 101,241 |
| Property, plant and equipment | 5.7 | 10,055 | 9,597 | 10.910 |
| Intangibles | 5.8 | 4,168 | 280 | 653 |
| Investments accounted for using the equity method | 5.6.1 | 1,798 | 2,248 | 1,807 |
| **Total Assets** | | **5,921,839** | **5,171,092** | **4,484,258** |
| | | | | |
| **LIABILITIES** | | | | |
| Payables | 2.3.6 | 17,621 | 12,884 | 10,795 |
| Investments | 3.2 | 285 | 2,819 | 38,341 |
| Outstanding claims | 2.3.1 | 4,747,333 | 4,104,863 | 3,717,227 |
| Restoration provision | 5.11 | 31 | 132 | 101 |
| **Total Liabilities** | | **4,765,270** | **4,120,698** | **3,766,464** |
| | | | | |
| **Net Assets** | | **1,156,569** | **1,050,394** | **717,794** |
| | | | | |
| EQUITY | | | | |
| Reserves | | 800 | - | 966 |
| Accumulated funds | | 1,155,769 | 1,050,394 | 716,828 |
| **Total Equity** | | **1,156,569** | **1,050,394** | **717,794** |

Refer Note 1.2.6 Restatement/corrections to Prior Year Comparatives, for details of corrections to prior periods.

The accompanying notes form part of these financial statements

# Statement of changes in equity

for the year ended 30 June 2018

| | Accumulated Funds $'000 | Asset Revaluation Surplus $'000 | Total $'000 |
|---|---|---|---|
| **Balance at 1 July 2017** | **1,050,394** | **-** | **1,050,394** |
| | | | |
| **Net result for the year** | **105,375** | **-** | **105,375** |
| | | | |
| **Other comprehensive income** | | | |
| Net increase in property, plant and equipment revaluation surplus | **-** | **800** | **800** |
| | | | |
| **Total other comprehensive income** | **-** | **800** | **800** |
| | | | |
| **Total comprehensive income for the year** | **105,375** | **800** | **106,175** |
| | | | |
| **Balance at 30 June 2018** | **1,155,769** | **800** | **1,156,569** |
| | | | |
| | | | |
| **Balance at 1 July 2016** | 1,495,049 | 966 | 1,496,015 |
| | | | |
| **Corrections to prior period** | (778,221) | - | (778,221) |
| **Equity at 1 July 2016 restated** | 716,828 | 966 | 717,794 |
| **Net result for the year** | 333,566 | - | 333,566 |
| | | | |
| **Other comprehensive income** | | | |
| Net decrease in property, plant and equipment revaluation surplus | - | (966) | (966) |
| | | | |
| **Total other comprehensive income** | - | (966) | (966) |
| | | | |
| **Total comprehensive income for the year** | 333,566 | (966) | 332,600 |
| | | | |
| **Balance at 30 June 2017** | 1,050,394 | - | 1,050,394 |

Refer Note 1.2.6 Restatement/corrections to Prior Year Comparatives, for details of corrections to prior periods.

The accompanying notes form part of these financial statements

# Statement of cash flows

for the year ended 30 June 2018

| | Notes | 2018 $'000 | 2017 $'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Fees and levies received | | 480,819 | 456,002 |
| Compensation payments | | (150,335) | (124,006) |
| **Net Cash Flows from Scheme Activities** | | **330,484** | **331,996** |
| | | | |
| **Receipts** | | | |
| Proceeds from sale of investments | | 2,520,187 | 2,901,714 |
| Interest received | | 205,878 | 57,512 |
| Other | | 1,566 | 180 |
| **Total Receipts Excluding Scheme Activities** | | **2,727,631** | **2,959,406** |
| | | | |
| **Payments** | | | |
| Purchases of investments | | (2,994,547) | (3,497,509) |
| Service Fees | | (43,553) | (22,829) |
| Employee related | | (912) | - |
| Other | | (6,243) | (11,621) |
| **Total Payments Excluding Scheme Activities** | | **(3,045,255)** | **(3,531,959)** |
| | | | |
| **NET CASH FLOWS FROM OPERATING ACTIVITIES** | 5.5 | **12,860** | **(240,557)** |
| | | | |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Proceeds from sale of property, plant and equipment | | - | 98 |
| Purchases of property, plant and equipment | | - | (568) |
| Purchases of intangible assets | | (4,168) | - |
| **NET CASH FLOWS FROM INVESTING ACTIVITIES** | | **(4,168)** | **(470)** |
| | | | |
| **NET INCREASE/(DECREASE) IN CASH** | | **8,692** | **(241,027)** |
| | | | |
| **Opening cash and cash equivalents** | | **39,992** | **281,019** |
| | | | |
| **CLOSING CASH AND CASH EQUIVALENTS** | 5.5 | **48,684** | **39,992** |

The accompanying notes form part of these financial statements

# Notes to the financial statements

for the year ended 30 June 2018

## 1. Overview

### 1.1 About the Authority

The Lifetime Care and Support Authority of NSW (the Authority) is a NSW government entity. The Authority is a not-for-profit entity (as profit is not its principal objective) and it has no cash generating units. The reporting entity is consolidated as part of the NSW Total State Sector Accounts.

The Authority's financial statements include the Lifetime Care and Support Authority Fund (LTCS) and the Motor Accident Injuries Treatment and Care Benefits Fund (MAITC). Details of these funds are provided in Note 1.3.

icare was established on 1 September 2015 in accordance with the *State Insurance and Care Governance Act 2015*. Its functions include the monitoring of performance of the insurance or compensation schemes in respect of which it provides services. The Authority is one such scheme.

These financial statements for the year ended 30 June 2018 have been authorised for issue by the Chairman of the Board of icare and the Chief Executive Officer and Managing Director of the Authority on behalf of the Board of Directors of icare on 24 September 2018.

### 1.2 About this report

This Financial Report includes the financial statements of the Authority.

The Financial Report includes the four primary statements, namely the statement of comprehensive income (which comprises profit or loss and other comprehensive income), statement of financial position, statement of changes in equity and statement of cash flows as well as associated notes as required by Australian Accounting Standards. Disclosures have been grouped into the following categories in order to assist users in their understanding of the financial statements:

1. **Overview** contains information that impacts the Financial Report as a whole.
2. **Scheme activities** brings together results and statement of financial position disclosures relevant to the Authority's scheme activities.
3. **Investment activities** includes results and statement of financial position disclosures relevant to the Authority's investments.
4. **Risk management** provides commentary on the Authority's exposure to various financial and capital risks, explaining the potential impact on the results and statement of financial position and how the Authority manages these risks.
5. **Other** includes additional disclosures required in order to comply with Australian Accounting Standards.

Where applicable within each note, disclosures are further analysed as follows:

- **Overview** provides some context to assist users in understanding the disclosures and the accounting policies relevant to an understanding of the numbers;
- **Disclosures** (both numbers and commentary) provides analysis of balances as required by Australian Accounting Standards; and
- **Critical accounting judgements and estimates** explains the key estimates and judgements applied by the Authority in determining the numbers.

The notes include information which the directors believe is required to understand the financial statements and is material and relevant to the operations, statement of financial position and results of the Authority.

Information is considered material and relevant if:

- the amount in question is significant because of its size or nature;
- it is important to assist in understanding the results of the Authority;
- it helps to explain the impact of significant changes in the Authority's business; or
- it relates to an aspect of the Authority's operations that is important to its future performance.

# Notes to the financial statements

for the year ended 30 June 2018

### 1.2.1 Basis of preparation

The Authority's financial statements are general purpose financial statements which have been prepared on an accruals basis and in accordance with:

- applicable Australian Accounting Standards (which include Australian Accounting Interpretations); and
- the requirements of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2015* and the Treasurer's Directions.

Investment assets backing claim liabilities are measured at fair value. All other assets and liabilities are initially measured at historical cost and then at fair value.

These financial statements have been presented on a liquidity basis following receipt of an exemption from TC18-01 by NSW Treasury that statements are presented on a current and non-current basis.

All amounts are rounded to the nearest one thousand dollars and are expressed in Australian currency.

### 1.2.2 Statement of compliance

The financial statements and notes comply with Australian Accounting Standards, which include Australian Accounting Interpretations.

### 1.2.3 Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

Judgements, key assumptions and estimations management has made are disclosed in the relevant notes to the financial statements.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised. Actual results may differ from these estimates.

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following notes:

- Note 3 & 4 – Financial instruments; and
- Note 2.3 – Outstanding Claims liability

### 1.2.4 Taxation

The Authority is exempt from income tax under Division 50 of the *Income Tax Assessment Act 1997*.

Income, expenses, and assets are recognised net of the amount of GST, except that:

- the amount of GST incurred by the Authority as a purchaser that is not recoverable from the Australian Taxation Office is recognised as part of an item of expense or as part of the cost of acquisition of an asset; and
- receivables and payables are stated with the amount of GST included.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are receivable from, or payable to, the Australian Taxation Office are classified as operating cash flows.

### 1.2.5 Equity and reserves

#### Asset Revaluation surplus

The revaluation surplus is used to record increments and decrements on the revaluation of property, plant and equipment. This accords with the Authority's policy on the revaluation of property, plant and equipment as discussed in Note 5.7.

#### Accumulated funds

The category 'Accumulated Funds' includes all current and prior period retained funds.

# Notes to the financial statements

for the year ended 30 June 2018

### 1.2.6 Restatement/Corrections to Prior Year Comparative information

AASB 108 "*Accounting Policies, Changes in Accounting Estimates and Errors*" requires corrections to comparative information be disclosed in the financial statements.

As LTCS and MAITC do not issue insurance contracts, the Authority's claims liabilities are accounted for in accordance with AASB 137 "*Provisions, Contingent Liabilites and Contingent Assets*".

In 2017-18 it has been determined that the discount rate applied to the Authority's provision for participant care and support which is measured in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* should be based on the yields on Commonwealth Government Bonds consistent with generally accepted industry practice.

Under AASB 137, these liabilities are valued as the inflated and discounted value of the expected future payments for all claims incurred up to valuation date. Paragraph 47 of AASB 137 states the discount rate (or rates) shall be a pre-tax rate (or rates) that reflect(s) current market assessments of the time value of money (interpreted as risk-free rate) and the risks specific to the liability. The discount rate(s) shall not reflect risks for which future cash flow estimates have been adjusted. The Authority had previously and since its inception consistently applied a 6% discount rate together with a 4% inflation rate when valuing this liability based on their informed assessment. Management has reassessed these discount rates, based on recent practice and advice, and has determined the market yield on Commonwealth Bonds best meet the requirements of AASB 137.

The valuation of liabilities for inclusion in the accounts incorporates a full review of the assumptions behind the estimates. As part of this review, the economic assumptions used to inflate future payments and discount them back to the balance date have been updated to reflect market expectations of the short term inflation rate and risk free yield curve, with a fixed gap assumption in the longer term (i.e. greater than 10 years). This change provides consistency in approach and improves comparability across the icare schemes and the public sector.

Other reclassification/restatements have also been made to conform to changes in presentation in the current year, including the reclassification of interest bearing securities from cash to investments. This reclassification was brought about as a result of a change in custodian where it was identified that certain investments with a duration of 3 months or more had previously been accounted for as cash,. These have been reclassified in the current and prior period to investments.

Investment management fees have also been reclassified from other operating expenses to net investment revenue to conform to presentation in the current year. This was due to Management considering that better information would be given to users by combining investment revenue and investment management fees to give a view of overall investment performance.

# Notes to the financial statements

for the year ended 30 June 2018

### 1.2.6 Restatement/Corrections to Prior Year Comparative information (continued)

The following restatements/reclassifications have been made to the comparatives:

| Item | 30 June 2017 Previously reported $'000 | Adjustment $'000 | 30 June 2017 Restated $'000 |
|---|---|---|---|
| **Statement of comprehensive income** | | | |
| Investment revenue | 420,642 | (2,542) | 418,100 |
| Total revenue | 882,066 | (2,542) | 879,524 |
| Other operating expenses | 5,007 | (2,542) | 2,465 |
| Scheme costs | 531,414 | (16,423) | 514,991 |
| Total expenses | 564,999 | (18,965) | 546,034 |
| **Net result** | 317,143 | (16,423) | 333,566 |

| Item | 30 June 2016 Previously reported $'000 | Adjustment $'000 | 30 June 2016 Restated $'000 |
|---|---|---|---|
| **Statement of financial position** | | | |
| Outstanding claims | 2,939,006 | 778,221 | 3,717,227 |
| Total liabilities | 2,988,243 | 778,221 | 3,766,464 |
| **Net Assets** | 1,496,015 | (778,221) | 717,794 |
| **Accumulated funds** | 1,496,015 | (778,221) | 717,794 |

| Item | 30 June 2017 Previously reported $'000 | Adjustment $'000 | 30 June 2017 Restated $'000 |
|---|---|---|---|
| **Statement of financial position** | | | |
| Cash and cash equivalents | 307,702 | (267,710) | 39,992 |
| Investments | 4,789,349 | 267,710 | 5,057,059 |
| Total Assets` | 5,171,092 | - | 5,171,092 |
| Outstanding claimsProvisions | 3,343,065 | 761,798 | 4,104,863 |
| Total liabilities | 3,358,900 | 761,798 | 4,120,698 |
| **Net Assets** | 1,812,192 | (761,798) | 1,050,394 |
| **Accumulated funds** | 1,812,192 | (761,798) | 1,050,394 |

# Notes to the financial statements

for the year ended 30 June 2018

### 1.2.7 Changes in accounting policy, including new or revised Australian Accounting Standards

Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the reporting year ending 30 June 2018. The following new Standards will not have a material impact on the financial performance or position of the Authority;

- AASB 15, AASB 2014-5, AASB 2015-8 and AASB 2016-3 regarding *Revenue from Contracts with Customers*;
- AASB 16 regarding *Leases*;
- AASB 1058 *Income of Not-for-profit Entities;*
- AASB 2016-6 Amendments to Australian Accounting Standards- Applying AASB 9 with AASB 4 *Insurance Contracts*;
- AASB 2016-7 Amendments to Australian Accounting Standards-Deferral of AASB 15 for Not-for-Profit Entities;
- AASB 2016-8 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities;
- AASB 2017-1 Amendments to Australian Accounting Standards – Transfer of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments; and
- AASB 2017-3 Amendments to Australian Accounting Standards - Clarifications to AASB 4.

AASB 9 regarding *Financial Instruments* is being evaluated to assess if there is any impact on the financial performance or position of the Authority.

The Authority has commenced a program to assess the financial impact of AASB 17 *Insurance Contracts* on the financial results. This assessment will be concluded by 30 June 2020.

## 1.3 Fund information

**Overview**

The fund note provides information by Scheme's to assist the understanding of the Authority's performance.

The Authority has responsibility for the direction, control and management of a range of funds as outlined below.

- Lifetime Care and Support Authority Fund (LTCS); and
- Motor Accident Injuries Treatment and Care Benefits Fund (MAITC).

**Lifetime Care and Support Authority Fund (LTCS)**

The Lifetime Care and Support Authority is a statutory authority established by the *"Motor Accidents (Lifetime Care and Support) Act 2006"* ("the Act").

The LTCS scheme was established to provide assistance and services to people catastrophically injured in a motor vehicle accident, regardless of who was at fault.

It therefore includes coverage of eligible injured motorists who were previously insured under the NSW compulsory third party ("CTP") scheme, in respect of their entitlement for future care, which was previously paid as part of the lump sum paid to claimants who could establish the fault of a third party.

This entitlement is no longer available under the CTP scheme. In addition, the LTCS scheme extends coverage to eligible injured motorists who are unable to establish the fault of a third party, and consequently would not be eligible to compensation under the CTP scheme.

The scheme became operational in respect of children aged less than 16 years at date of injury as at 1 October 2006, and in respect of adults as at 1 October 2007.

# Notes to the financial statements

for the year ended 30 June 2018

## 1.3 Fund information (continued)

**Motor Accident Injuries Treatment and Care Benefits Fund (MAITC)**

The MAITC was established under the *Motor Accident Injuries Act 2017* effective from 1 December 2017.

For injured persons who are not mostly at fault and do not have soft tissue or minor psychological injuries, reasonable medical and commercial attendant care costs will be payable for life, if needed. Insurers will be responsible for claimant medical and care costs for up to 5 years and the Authority will be responsible for these costs after 5 years.

The Authority can make agreements with insurers for treatment and care during the first 5 years after an incident. Where an insurer enters into such agreements they must pay the Authority the amount the Authority determines as the amount required to fund statutory benefits.

The costs after 5 years payable by the Authority will be met from the MAITC.

**Disaggregated Financial Statements**

**Statement of Comprehensive Income - June 2018**

| | LTCS $'000 | MAITC $'000 | 2018 $'000 |
|---|---|---|---|
| **Revenue** | | | |
| Fees and Levies | 452,845 | 35,704 | 488,549 |
| Investment revenue | 457,003 | 256 | 457,259 |
| Share of (loss) of associates | (450) | - | (450) |
| Other revenue | 1,566 | - | 1,566 |
| **Total Revenue** | **910,964** | **35,960** | **946,924** |
| | | | |
| **Expenses excluding losses** | | | |
| Scheme costs | 754,897 | 37,469 | 792,366 |
| Service fee | 43,032 | - | 43,032 |
| Other operating expenses | 6,151 | - | 6,151 |
| **Total Expenses excluding losses** | **804,080** | **37,469** | **841,549** |
| | | | |
| **Net result** | **106,884** | **(1,509)** | **105,375** |
| **Other comprehensive income** | | | |
| *Items that will not be reclassified to the net result* | | | |
| Net increase in property, plant and equipment revaluation surplus | 800 | - | 800 |
| **Total other comprehensive income** | **800** | **-** | **800** |
| | | | |
| **TOTAL COMPREHENSIVE INCOME** | **107,684** | **(1,509)** | **106,175** |

# Notes to the financial statements

for the year ended 30 June 2018

## 1.3 Fund information (continued)

**Disaggregated Financial Statements (continued)**

**Statement of Financial Position - June 2018**

| | LTCS $'000 | MAITC $'000 | 2018 $'000 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 19,154 | 29,530 | 48,684 |
| Investments | 5,788,362 | - | 5,788,362 |
| Receivables | 62,343 | 6,429 | 68,772 |
| Property, plant and equipment | 10,055 | - | 10,055 |
| Intangible assets | 4,168 | - | 4,168 |
| Investments accounted for using the equity method | 1,798 | - | 1,798 |
| **Total Assets** | **5,885,880** | **35,959** | **5,921,839** |
| | | | |
| **LIABILITIES** | | | |
| Payables | 17,621 | - | 17,621 |
| Investments | 285 | - | 285 |
| Outstanding claims | 4,709,864 | 37,469 | 4,747,333 |
| Restoration provision | 31 | - | 31 |
| **Total Liabilities** | **4,727,801** | **37,469** | **4,765,270** |
| | | | |
| **Net Assets** | **1,158,079** | **(1,510)** | **1,156,569** |
| | | | |
| **EQUITY** | | | |
| Reserves | 800 | - | 800 |
| Accumulated funds | 1,157,279 | (1,510) | 1,155,769 |
| **Total Equity** | **1,158,079** | **(1,510)** | **1,156,569** |

# Notes to the financial statements

for the year ended 30 June 2018

## 2. Scheme activities

**Overview**

This section provides analysis and commentary on the Authority's scheme activities. Scheme activities involve all activities undertaken in relation to the provision of care and support to the Authority's participants.

### 2.1 Fees and Levies

**Overview**

The Authority's funds are generated from levies on Compulsory Third Party (CTP) insurance premiums collected by licensed insurers. The levy rates are set according to vehicle class and region. CTP levy revenue is recognised when it falls due and receivable by the Authority.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| Fees and levies | | |
| CTP premium levy | 488,549 | 460,802 |
| | **488,549** | **460,802** |

### 2.2 Scheme costs

**Overview**

The largest expense for the Authority is Scheme costs or Participants care and support expense. Scheme costs are:

- the amount incurred by the Authority on claims during the year;
- plus the amount, which the consulting actuary has estimated as at 30 June 2018 as being the movement in the amount required to meet the cost of participants care and support expenses reported but not yet paid;
- participant care and support expenses incurred which are yet to be reported; and
- the escalation in reported and reopened participants care and support expenses.

# Notes to the financial statements

for the year ended 30 June 2018

## 2.2 Scheme costs (continued)

| | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|
| | | |
| **Participants' care and support expenses** | | |
| - Attendant care | 74,186 | 59,449 |
| - Equipment | 10,696 | 10,484 |
| - Home modifications | 5,317 | 5,420 |
| - Hospital | 15,596 | 16,330 |
| - Medical | 6,763 | 5,443 |
| - Rehabilitation | 23,730 | 20,468 |
| - Other | 9,204 | 7,137 |
| | **145,492** | **124,731** |
| | | |
| Movement in provision for future participant care and support services | 572,379 | 327,193 |
| Finance costs – unwinding of discount rate (refer Note 2.3.1) | 70,091 | 60,443 |
| | | |
| Bulk billing fees – Ambulance Service of NSW | 59 | 58 |
| Bulk billing fees – NSW Ministry of Health | 4,345 | 2,566 |
| | **792,366** | **514,991** |

# Notes to the financial statements

for the year ended 30 June 2018

## 2.3 Net Outstanding claims

**Overview**

Provisions are recognised when the Authority has a present obligation as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

As LTCS and MAITC do not issue insurance contracts, the Authority's claims liabilities are accounted for in accordance with AASB 137 "*Provisions, Contingent Liabilites and Contingent Assets*".

The net outstanding claims liability comprises the elements described below:

- The net central estimate (Note 2.3.1). This is the provision for expected future claims payments and includes claims reported but not yet paid, claims incurred but which have not yet been reported (IBNR), claims incurred but not enough reported (known as IBNER) and estimated claims handling costs. The liability for the outstanding participant's care and support expenses is estimated as the inflated and discounted values of the expected future payments, reflecting the fact that these payments will be spread over future years. The expected future payments are estimated on the basis of the ultimate cost of participants care and support expenses which is affected by factors arising during the period to settlement.
- Less an amount to reflect the discount to present value using risk-free rates of return. The net central estimate is discounted to present value recognising that the claim and/or recovery may not be settled for some time. The expected future payments are discounted to a present value at the reporting date using discount rates based on the market yields on Commonwealth Government securities;

### 2.3.1 Outstanding claims

**Overview**

The liabilities for participants' care and support services are valued by the Actuaries as at the end of the financial year. They are measured as the present value of the expected future payments for all claims incurred up to the valuation date with no addition of an explicit risk margin.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| **Claims liabilities** | | |
| Expected future gross claims payments | 13,293,925 | 7,731,992 |
| Gross claims handling | 1,241,648 | 721,804 |
| Gross outstanding claims liabilities | 14,535,573 | 8,453,796 |
| Discount on central estimate | (8,952,115) | (3,977,611) |
| Discount on claims handling expenses | (836,125) | (371,322) |
| Total discount on claims liabilities | (9,788,240) | (4,348,933) |
| **Claims liabilities 30 June** | **4,747,333** | **4,104,863** |

# Notes to the financial statements

for the year ended 30 June 2018

### 2.3.1 Outstanding claims (continued)

The table below analyses the movement in the net outstanding claims liability

| | 2018 $'000 | 2017 $'000 |
|---|---:|---:|
| | | |
| Carrying amount at the beginning of financial year | 4,104,863 | 3,717,227 |
| Actuarial losses | 126,448 | 732,860 |
| New claims incurred since 30 June | 449,673 | 386,215 |
| Participants expenses (refer Note 2.2) | (126,659) | (125,658) |
| Finance cost and change in the discount rate | 193,008 | 172,420 |
| **Carrying amount at end of financial year** | **4,747,333** | **4,104,863** |

The finance costs above represent the increase in the liability for outstanding claims from the end of the previous financial year to the end of the current financial year which is due to discounted claims not settled being one period closer to settlement.

### 2.3.2 Core claims liability variables

**Overview**

The core variables that drive the Authority's liabilities are the inflation rate for benefits and the discount rate of these liabilities.

| | MAITC 2018 | MAITC 2017 | LTCS 2018 | LTCS 2017 |
|---|---:|---:|---:|---:|
| Discount rate 12 months or less | 1.81-1.95% | - | 1.81-1.95% | 1.62-1.63% |
| Discount rate greater than 12 months | 1.97-4.15% | - | 1.97-4.15% | 1.66-5.02% |
| Inflation rate 12 months or less | 2.2-2.87% | - | 2.2-2.87% | 1.9-3.0% |
| Inflation rate greater than 12 months | 3.03-3.8% | - | 3.03-3.8% | 3.1-3.7% |
| **Weighted mean term (years)** | | | | |
| Uninflated, undiscounted | 25.6 | - | 24.5 | 24.7 |
| Inflated, discounted | 23.9 | - | 20.8 | 20.4 |

# Notes to the financial statements

for the year ended 30 June 2018

### 2.3.3 Claims liability maturity

**Overview**

The maturity profile is the Authority's expectation of the period over which the net central estimate will be settled. The Authority uses this information to ensure that it has adequate liquidity to pay claims as they are due to be settled and to inform the Authority's investment strategy. The expected maturity profile of the Authority's net discounted central estimate is analysed below.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| Not later than one year | 159,119 | 141,624 |
| Later than one year but not later than five years | 585,535 | 518,867 |
| Later than five years | 4,002,679 | 3,444,373 |
| **Total** | **4,747,333** | **4,104,863** |

### 2.3.4 Impact of changes in key variables on the net outstanding claims liability

**Overview**

The liability represents the central estimate and is based on standard actuarial assessment. The table below shows the sensitivity of the valuation to changes in some of the key assumptions. Uncertainty exists due to the long-term nature of liabilities and volatility around the number of Scheme participants and their injury severity. Based on the minimum level required by APRA, a risk margin of a 75 per cent probability of Sufficiency/Adequacy if applied this would result in the Authority's liabilities increasing by $1,043.3 million (2017: $615.8 million) and reducing its accumulated surplus to $112.5 million (2017: $434.6 million).

# Notes to the financial statements

for the year ended 30 June 2018

### 2.3.4 Impact of changes in key variables on the net outstanding claims liability (continued)

| | 30 June Liability $M | Effect on 30 June Liability $M | Percentage Effect % |
|---|---|---|---|
| **Central estimate of LTCSA Scheme** | 4,710 | | |
| All valuation assumptions used | | | |
| Change in number of participants eligible: | | | |
| (a) Assuming current interim participants are deemed not lifetime | 4,627 | -83 | -1.77% |
| Different long term gap assumptions: | | | |
| (a) One per cent per annum lower for all future years | 5,005 | 296 | 6.28% |
| (b) One per cent per annum higher for all future years | 4,431 | -279 | -5.93% |
| (c ) One percent increase in the discount rate | 4,440 | -270 | -5.73% |
| (d) One percent decrease in the discount rate | 5,001 | 291 | 6.17% |
| Change in standard mortality ratio (SMR) assumptions: | | | |
| (a) Fifteen per cent decrease in SMR for all severities | 4,977 | 268 | 5.68% |
| (b) Fifteen per cent increase in SMR for all severities | 4,479 | -231 | -4.90% |
| Change in participant age distributions: | | | |
| (a) Assume the actual age distribution for the past 12 months for TBI and SCI | 4,703 | -7 | -0.15% |
| | | | |
| No future increases in Attendant Care award rate beyond inflation | 4,629 | -81 | -1.72% |
| Future increases in Attendant Care award rate beyond inflation increases by 1% to 2020 | 4,792 | 82 | 1.74% |
| | | | |
| No average payment cost changes beyond 5 years post injury for: | | | |
| (a) Attendant Care | 3,618 | -1,092 | -23.19% |
| (b) Rehabilitation | 4,768 | 58 | 1.22% |
| | | | |
| Different levels of improvement in brain injury severity: | | | |
| (a) Expected level of Care and Needs Scale (CANS) improvement from previous analysis | 4,701 | -9 | -0.19% |
| (b) Half the amount of CANS improvements assumed | 4,710 | 177 | 3.76% |
| Discount rate held at flat 6% and inflation rate held at flat 4% | 3,800 | -910 | -19.32% |

# Notes to the financial statements

for the year ended 30 June 2018

### 2.3.4 Impact of changes in key variables on the net outstanding claims liability (continued)

| | 30 June Liability $'000 | Effect on 30 June Liability $'000 | Percentage Effect % |
|---|---|---|---|
| **Central estimate of MAITC Scheme** | 37,469 | | |
| Continuance rates*: | | | |
| (a) Increase by 0.5% | 47,121 | 9,652 | 26% |
| (b) Decrease by 0.5% | 29,560 | -7,909 | -21% |
| Average payment sizes: | | | |
| (a) Increase by 5% | 39,343 | 1,873 | 5% |
| (b) Decrease by 5% | 35,596 | -1,873 | -5% |
| Economics: | | | |
| (a) Increase inflation by 1% | 40,096 | 2,627 | 7% |
| (b) Decrease inflation by 1% | 34,994 | -2,475 | -7% |
| (c) Decrease discount rate by 1% | 39,962 | 2,493 | 7% |
| (d) Increase discount rate by 1% | 35,156 | -2,314 | -6% |
| *After five years and capped at 100% | | | |

# Notes to the financial statements

for the year ended 30 June 2018

### 2.3.5 Receivables

**Overview**

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Short-term receivables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial.

Receivables from trade debtors and participants are non-interest bearing and the former are generally on a 30-day term while the latter are more than 12 months, depending on each individual circumstance.

Where receivables are outstanding beyond the normal trading terms, management assesses the likelihood of the recovery of these receivables. An appropriate allowance for impairment is made.

No receivables are considered impaired (2017 $nil).

Details regarding credit risk, liquidity risk and market risk of the above receivables are disclosed in Note 4.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| Fees and levies | 56,497 | 48,624 |
| Service Fee Receivable | 4,405 | 664 |
| GST receivable | 428 | 833 |
| Receivables from participants | 450 | 1,145 |
| Other | 2,705 | 1,885 |
| Investment receivables (refer Note 3.2) | 4,287 | 8,765 |
| | **68,772** | **61,916** |

#### 2.3.5.1 Receivables from participants

The Authority maintains assets in the form of real property, mortgages over Participant's assets, and accommodation bonds in favour of Scheme participants who require continual care.

Loans to Participants represent amounts provided to Scheme participants for purchasing suitable properties and bond payment to nursing homes. These loans are to be repaid upon the earlier of the sale of the property, when the participant ceases to live continuously for six months in the property, ceases to be a participant in the Scheme, dies, or when the participant receives damages for additional accommodation costs from the compulsory third party insurer. These loans are measured at cost without discounts and recognised as assets in the statement of financial position. The loans are not revalued from year-to-year and there is no impairment provided to these loans because the default risk of these loans is close to nil. When the participant sells the property, the Authority will be refunded the loan amount plus a pro-rata share of profit on sale of the property. The gain or loss is to be recognised in the statement of comprehensive income.

### 2.3.6 Payables

# Notes to the financial statements

for the year ended 30 June 2018

**Overview**

These amounts represent liabilities for goods and services provided to the Authority and other amounts. Payables are recognised initially at fair value, usually based on the transaction cost or face value. Short-term payables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial.

| | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|
| | | |
| Service fee | 9,634 | 6,413 |
| Accrued expenses | 7,987 | 5,687 |
| Creditors | - | 784 |
| | **17,621** | **12,884** |

Details regarding credit risk, liquidity risk, and market risk, including a maturity analysis of the above payables are disclosed in Note 4.

## 3. Investing activities

**Overview**

The main purpose of the Authority's investments is to meet its claim liabilities.

Investments and other financial assets are held primarily for the purpose of being traded. Accordingly, all of the Authority's financial assets and financial liabilities are held at fair value through profit or loss – classified as held for trading.

The fair value of financial assets and financial liabilities is estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the statement of financial position date. The quoted market price used for financial assets held by the Scheme is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price without any deduction for transaction costs.

Purchases and sales of investments are recognised on trade date – the date on which the Authority commits to purchase or sell the asset.

Refer to Note 4 for further information regarding credit risk, liquidity risk and market risk arising from financial instruments.

### 3.1 Investment revenue

**Overview**

Investment revenue is brought to account on an accruals basis. Interest revenue is recognised using the effective interest method as set out in AASB 139 *Financial Instruments: Recognition and Measurement*. Dividends on quoted shares are deemed to accrue when the relevant shareholding becomes ex-dividend. Differences between the net market values of investments at the end of the reporting period and their net market values at the end of the previous reporting period (or cost of acquisition, if acquired during the reporting period) are recognised as revenue in the statement of comprehensive income.

# Notes to the financial statements

for the year ended 30 June 2018

## 3.1 Investment revenue (continued)

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| Interest revenue from bank interest and TCorpIM Cash Fund | 7,657 | 117,673 |
| Other investment facilities | 33,321 | 5,378 |
| Realised Gains on investments | 28,362 | 253,388 |
| Unrealised Gains on investments | 230,240 | 44,203 |
| Distributions | 161,288 | - |
| **Total Investment revenue** | **460,868** | **420,642** |
| | | |
| Investment management expense | (3,609) | (2,542) |
| **Net Investment revenue** | **457,259** | **418,100** |

## 3.2 Investments

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| **Investment assets** | | |
| TCorp Managed Trusts | 4,579,542 | 3,354,237 |
| TCorp Fixed/Variable Interest discrete portfolio | 1,208,784 | 1,702,128 |
| Derivatives | 36 | 694 |
| **Total Investment assets** | **5,788,362** | **5,057,059** |
| | | |
| **Investment receivables** | | |
| Investments receivable (refer Note 2.3.5.1) | 4,287 | 8,765 |
| **Total Investment assets including receivables** | **5,792,649** | **5,065,824** |
| | | |
| **Investment liabilities** | | |
| Investments liabilities | 285 | 2,819 |
| **Net Investments** | **5,792,364** | **5,063,005** |

# Notes to the financial statements

for the year ended 30 June 2018

## 3.2 Investments (continued)

**Derivatives**

Derivatives include interest rate swaps and futures, swaptions, credit default swaps, cross currency swaps and forward foreign currency contracts and options on interest rates, foreign currencies and equities. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Derivative financial instruments are subsequently re-valued at fair value.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently marked to their fair value at each reporting date.

The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Authority designates certain derivatives as either; (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or (2) hedges of the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges).

Hedging is conducted in underlying portfolios, by appointed investment managers who have discretion to implement hedges within mandate boundaries.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the statement of comprehensive income, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised in the statement of comprehensive income within other income or other expense together with the gain or loss relating to the ineffective portion and changes in the fair value of the hedge fixed rate borrowings attributable to interest rate risk.The fair values of any derivative financial instruments used for hedging purposes, if any, are disclosed in Note 4.

The Authority seeks to manage exposure to investment risk so that it can generate sufficient returns to meet the scheme's current and future liabilities and mitigate the risk that the assets will be insufficient to meet their liabilities. Designation of investments at fair value through profit or loss is consistent with this risk management strategy as it allows for these investments to be recorded at fair value and for any gains or losses in the movement in their fair value to be recognised in the net result for the year.

The movement in the fair value of the investments incorporates distributions received as well as unrealised movements in fair value and is reported in the line item 'investment revenue'.

## 3.3 Fair value estimation

**Overview**

The carrying amounts of the Authority's financial assets and liabilities at the end of the reporting period approximated their fair values as all financial assets and liabilities held were either at fair value at the end of the reporting period ('marked to market') or were short term in nature.

The financial assets and liabilities are classified in accordance with the following fair value measurement hierarchy:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
- Level 3 – inputs for the assets or liabilities that are not based on observable market data.

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets of the Authority is the current bid price. These instruments are included in level 1.

# Notes to the financial statements

for the year ended 30 June 2018

## 3.3 Fair value estimation (continued)

The fair value of financial instruments that are not traded in an active market (for example over-the-counter derivatives) is determined using valuation techniques. A variety of methods are used which include assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used to estimate fair value for debt securities for disclosure purposes. Evaluations of such securities are based on market data. Vendors utilise evaluated pricing models that vary by asset class and incorporate available trade, bid and other market information and for structured securities, cash flow and when available loan performance data.

Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the end of the reporting period. These instruments are included in level 2 and comprise debt instruments and derivative financial instruments.

| | 2018 | | | | 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | TOTAL $'000 | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | TOTAL $'000 |
| **Other Financial assets** | | | | | | | | |
| Indexed and interest bearing securities | 210,553 | 998,231 | - | 1,208,784 | 205,199 | 1,493,614 | - | 1,698,813 |
| Unit Trusts | - | 3,656,200 | 923,342 | 4,579,542 | - | 2,621,059 | 733,178 | 3,354,237 |
| Derivatives | 36 | - | - | 36 | 3,410 | 694 | - | 4,104 |
| | **210,589** | **4,654,431** | **923,342** | **5,788,362** | **208,609** | **4,115,367** | **733,178** | **5,057,154** |
| | | | | | | | | |
| | | | | | | | | |
| **Other Financial liabilities** | | | | | | | | |
| Derivatives | 285 | - | - | 285 | 95 | - | - | 95 |
| | **285** | **-** | **-** | **285** | **95** | **-** | **-** | **95** |

Fair value estimation classifications for 2017 have been restated to reflect a change in methodology and to align with other NSW Government agencies. The underlying securities that have been reclassified are NSW and Australian Government fixed income from level 1 to level 2.

# Notes to the financial statements

for the year ended 30 June 2018

## 3.3 Fair value estimation (continued)

**Transfer between levels**

The Authority recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the transfer has occurred.

The following table presents the movement in level 3 instruments for the year ended 30 June:

| | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|
| Opening balance | 733,178 | 525,460 |
| Purchases of securities | 122,879 | 186,049 |
| Gain in Profit & Loss (investment income) | 67,285 | 21,669 |
| **Closing balance** | **923,342** | **733,178** |
| Total gains for the period included in profit or loss that relate to assets held at the end of the reporting period (shown in investment income) | 67,285 | 21,669 |

| Type | Description | Valuation technique | Significant unobservable inputs |
|---|---|---|---|
| Unit Trusts | Units in unlisted property and infrastructure trusts | Net asset value | Due to entry and exit restrictions, illiquidity, and the lack of an active market unlisted property and unlisted infrastructure to be classified as a level 3 asset. |

# Notes to the financial statements

for the year ended 30 June 2018

### 3.3.1 Valuation framework

The Authority has an established control framework with respect to the measurement of fair values. This framework has been outsourced to an external service provider which has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements. Specific controls conducted by the outsourced service provider include:

- Verification of observable pricing;
- Re-performance of model valuations;
- A review and approval process for new models and changes to models;
- Quarterly calibration and back testing of models against observed market transactions;
- Analysis and investigation of significant daily valuation movements; and
- Review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3 instruments compared to previous month.

Where third-party information, such as broker quotes or pricing services, are used to measure fair value, the outsourced service provider assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of accounting standards. This includes:

- Verifying that the broker or pricing service is approved by the Master Custodian of the Authority for use in pricing the relevant type of financial instrument;
- Understanding how the fair value has been arrived at and the extent to which it represents actual market transactions;
- When prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement; and
- Where a number of quotes for the same financial instrument have been obtained, how fair value has been determined using those quotes.

Significant valuation issues are reported to the icare Board's Audit and Risk Committee.

### 3.3.2 Involvement with unconsolidated structured entities

The Authority has concluded that unlisted investment funds in which it invests, but that it does not consolidate, meet the definition of structured entities because:

- The voting rights in the funds are not dominant rights in deciding who controls them as they relate to administrative tasks only;
- Each fund's activities are restricted by its prospectus; and
- The funds have narrow and well-defined objectives to provide investment opportunities to investors.

The table below describes the types of structured entities that the Fund does not consolidate but in which it holds an interest, set out by investment strategy.

| | Net Market Value as at 30 June 2018 $'000 | Net Market Value as at 30 June 2017 $'000 |
|---|---|---|
| Property | 531,216 | 469,417 |
| Shares | 2,215,112 | 2,322,336 |
| Strategic | - | 83,089 |
| Cash | 396,956 | 62,511 |
| Multi asset | - | 153,123 |
| Infrastructure | 392,125 | 263,761 |
| Debt | 503,790 | - |
| Emerging Market | 296,133 | - |
| Alternatives | 244,210 | - |
| **Total** | **4,579,542** | **3,354,237** |

These unconsolidated structured entities are included under TCorp Managed Funds in Note 3.2 The maximum exposure or loss is limited to the net market value of the investment strategy as at 30 June 2018. The net market value of the exposure will change on a daily basis throughout the period and in the subsequent periods will cease once the investments are disposed.

# Notes to the financial statements

for the year ended 30 June 2018

### 3.3.2 Involvement with unconsolidated structured entities (continued)

The investments of the Authority are managed in accordance with the investment mandates with respective underlying investment managers. The investment decisions of the mandate are based on the analysis conducted by the investment manager. The return of the portfolio is exposed to the variability of the performance of the underlying management of these investments.

## 4. Risk Management

**Overview**

The Authority applies a consistent and integrated approach to enterprise risk management (ERM). The Authority operates within icare's risk management framework which sets out the approach to managing key risks and meeting strategic objectives. The risk management framework is articulated in the Risk Management Strategy (RMS) which is approved annually by the Board.

The icare Board is ultimately responsible for identifying and controlling financial risks. This is done through the establishment of holistic strategies and policies which are cognisant of financial risk management.

The framework consists of complementary elements that are embedded throughout the business management cycle and culture of the organisation. Key aspects include: risk appetite, governance, risk management processes, risk reporting and insights, modelling and stress testing, management, monitoring and culture.

Risk management is a continuous process and an integral part of robust business management. The Authority's approach is to integrate risk management into the broader management processes of the organisation. It is the Authority's philosophy to ensure that risk management remains embedded in the business and that the risk makers or risk takers are themselves the risk managers. Specifically, the management of risk must occur at each point in the business management cycle.

The key risk categories used by the Authority to classify financial risk:

- Claims risk (Note 2.3);
- Market risk (Note 4.1);
- Interest rate risk (Note 4.2);
- Liquidity risk (Note 4.3); and
- Credit risk (Note 4.4).

The Authority's principal financial instruments are outlined below. These financial instruments arise directly from the Authority's operations or are required to finance the Authority's operations. The Authority does not enter into or trade financial instruments, including derivative instruments, for speculative purposes.

The Authority's main risks arising from financial instruments are outlined below, together with its objectives, policies and processes for measuring and managing risk. Further quantitative and qualitative disclosures are included throughout these financial statements.

The Board has overall responsibility for the establishment and oversight of risk management and reviews and agrees policies for managing each of these risks. Risk management policies are established to identify and analyse the risk faced by the Authority to set risk limits and controls and to monitor risks. Compliance with policies is reviewed by sub-Committees of the Board on a continual basis.

NSW Treasury Corporation (TCorp) has been appointed to provide investment management, advisory and administration services to icare managed investment funds. TCorp is engaged through a Master Financial Services Agreement (MFSA) which details, amongst other things, the service and reporting provisions. Service levels and compliance to the MFSA are monitored through icare's Finance & Services team. Ministerial Orders that were introduced in December 2016, outline the key responsibilities of TCorp including, yet not limited to, the appointment of investment managers and service providers such as the custodian

# Notes to the financial statements

for the year ended 30 June 2018

## 4. Risk Management (continued)

**Financial Assets**

The Authority is ultimately responsible for identifying and controlling financial risks including the establishment of an overall financial risk management strategy and policy.

**Financial instrument categories**

| | Category | Carrying Amount 2018 $'000 | Carrying Amount 2017 $'000 |
|---|---|---|---|
| | | | |
| **Financial Assets** | | | |
| **Class:** | | | |
| Cash and cash equivalents | N/A | 48,684 | 39,992 |
| Receivables[1] | Loans and receivables (at amortised cost) | 11,846 | 12,459 |
| Investments | At fair value through profit or loss – designated as such upon initial recognition | 5,788,362 | 5,057,059 |
| | | | |
| **Financial Liabilities** | | | |
| **Class:** | | | |
| Payables[2] | Financial liabilities (at amortised cost) | 17,906 | 15,703 |

[1] Excludes statutory receivables and prepayments (i.e. not within scope of AASB 7).

[2] Excludes statutory payables and unearned revenue (i.e. not within scope of AASB 7).

# Notes to the financial statements

for the year ended 30 June 2018

## 4.1 Market risk

**Overview**

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Market risk arises as a result of the Authority holding cash and cash equivalents and trading investments as part of its asset allocation.

The Authority seeks to manage exposure to market risk so that it can generate sufficient returns to meet the Authority's current and future liabilities and mitigate the risk that the Authority's investments will be insufficient to meet such liabilities. The Authority's portfolio of investments is invested in accordance with its strategic asset allocation. The goal of the strategic asset allocation is to construct a portfolio that achieves the Authority's investment objectives including a return in excess of the liability discount rate, while limiting the probability of large declines in the Authority's funding ratio.

The actual asset allocations can deviate from the benchmark asset allocation due to:

- Authority cash flows;
- Fluctuations in market prices; and
- Dynamic asset allocation decisions.

Dynamic asset allocation refers to medium term shifts away from the strategic asset allocation which are designed to capture market opportunities or to mitigate risks.

The deviations in actual versus benchmark asset allocation at the end of the reporting period were within the agreed tolerance limits for all asset classes.

Based on the asset allocation TCorp appoints investment managers in each asset class, following consultation with icare. Management of the Authority's assets is allocated to the appointed investment managers. Each investment manager is subject to restrictions in relation to the types of assets in which it may invest, and in relation to the composition of investments within certain asset types.

These restrictions are expressed in formalised mandates; typically contained in individually negotiated Investment Management Agreements or as described in Information Memoranda (or similar documents) issued by the relevant investment manager where the investment is via a pooled fund. The investment mandates are monitored by the custodian and reported to T-Corp on a daily basis to ensure that investment managers are compliant with their mandates and relevant agreements.

Each investment manager is responsible for managing security-specific risk using its distinct management style. Each investment manager is also responsible for constructing a portfolio that aims to achieve its own investment objectives while complying with the restrictions and guidelines contained in the mandate or Information Memorandum.

A risk budgeting framework is used to help determine an appropriate strategic asset allocation for the Authority. This framework incorporates the risk and return characteristics of the different asset classes in the portfolio and additional factors such as inflation and interest rates. Within this framework, a number of risk measures are employed including the frequency of negative returns, the volatility of the investment portfolio relative to the value of the liability and Value-at-Risk (VaR) analysis.

The risk budgeting analysis is conducted by TCorp (in conjunction with its asset consultant) and icare's independent asset consultant, Mercer Investments (Australia) Limited (Mercer) utilising:

- Assumptions regarding the expected level of return, risk and correlations between price and wage inflation, bond yields and returns from different asset classes (for example equities, bonds, property and alternative assets); and
- Assumptions regarding the duration of inflation-linked and other liabilities consistent with those used by the Authority's Actuary.

The analysis incorporates scenario analysis to determine the risk and return of different investment strategies relative to the change in the liabilities over a period. The analysis is primarily used to compare different investment strategies, and then to determine the investment strategy that has the appropriate level of risk, given the risk and return objectives of the Authority.

# Notes to the financial statements

for the year ended 30 June 2018

The risk budgeting analysis is based on certain simplifying assumptions such as statistical characteristics of investment returns, volatilities and correlations that may not represent actual outcomes. It is also important to note that the analysis only allows for some economic factors such as inflation and bond yields, which affect the value of the Authority liabilities. It does not allow for other factors such as the claims loss ratio, claims incidence and recovery rates, which also affect the value of the Authority liabilities. As such, the analysis may not be accurate in its assessment of the liability.

The VaR risk measure seeks to estimate the potential investment loss over a given holding period at a specified confidence level. The VaR methodology is a statistically-defined, probability-based approach to risk assessment that takes into account market volatilities as well as risk diversification by identifying offsetting positions and correlations between financial instruments and markets. The VaR methodology allows risks to be measured consistently across all markets and financial instruments and to be aggregated into a single risk number.

The risk budgeting framework assesses the Authority's VaR at the 95th percentile confidence level over a 12 month time period. This represents the minimum expected reduction in the value of the Authority's investment portfolio which has a 5 per cent chance of exceeding over a one year period.

In addition to a VaR measure, the risk budgeting framework is also used to assess the following risk and return characteristics:

- Expected return on the investment portfolio;
- Probability of meeting return targets that incorporate measures of wage inflation; and
- The performance of the investment portfolio under different economic scenarios.

The most recent VaR analysis performed by asset consultant Mercer Investments (Australia) Limited was conducted in July 2018 based on the June 2018 financial instruments and is computed via forward looking simulation using a 95 per cent confidence interval and a 1-year holding period.

The Authority uses a Value at Risk (VaR) model to measure the market risk exposures to its invested assets in the statement of financial position. VaR is calculated using simulated forward looking expected returns at the 95th percentile confidence level over a 12 month time period.

Given the Authority's financial instruments at 30 June 2018, the minimum potential loss expected over a one year period is $259.1 million (June 2017: $265.3 million), with a 5 per cent probability that this minimum may be exceeded.

## 4.2 Interest rate risk

**Overview**

Interest rate risk is the risk that the (fair) value of a financial instrument will fluctuate because of changes in market interest rates. The value of the Authority's liabilities is also affected by interest rate fluctuations.

### 4.2.1 Exposure

Interest rate risk arises as a result of the Authority holding financial instruments which are subject, directly or indirectly to changes in value as a result of interest rate fluctuations. Authority liabilities are similarly subject directly or indirectly to changes in value as a result of interest rate fluctuations.

### 4.2.2 Risk management objective, policies and processes

The interest rate risk of the Authority is managed primarily through its strategic asset allocation and mandate objective setting. At 30 June 2018 the Authority had a 20.9 per cent (2017: 27 per cent) allocation to Australian Commonwealth and state government bonds to mitigate interest rate risk of Authority liabilities. Of that allocation, 15.3 per cent (2017: 18 per cent) are an allocation to Australian Commonwealth and state government inflation linked bonds to mitigate inflation risk of Authority liabilities.

Interest rate risk arises as a result of the Authority holding financial instruments which are subject directly or indirectly to changes in value as a result of interest rate fluctuations. Authority liabilities are similarly subject directly or indirectly to changes in value as a result of interest rate fluctuations.

# Notes to the financial statements

for the year ended 30 June 2018

### 4.2.3 Quantitative analysis of exposure

The table below summarises the Authority's exposure to interest rate risks. It includes the Authority's indexed and interest-bearing financial assets and liabilities at fair values, categorised by the earlier of their contractual re-pricing or maturity dates.

The table does not show all assets and liabilities of the Authority. Assets and liabilities not shown in the table below are not indexed and interest bearing and are therefore not directly exposed to interest rate risk.

| | | Fixed interest rate maturing in: | | | | |
|---|---|---|---|---|---|---|
| | **Floating interest rate $'000** | **3 months or less $'000** | **4 to 12 months $'000** | **1 to 5 years $'000** | **Over 5 years $'000** | **Total $'000** |
| **2018** | | | | | | |
| Cash | 7,453 | - | - | - | - | 7,453 |
| Indexed and interest-bearing securities | 1,097,277 | - | - | 34,177 | 77,330 | 1,208,784 |
| Interest rate futures | - | (248) | - | - | - | (248) |
| Options | - | - | - | - | - | - |
| **Assets** | **1,104,730** | **(248)** | **-** | **34,177** | **77,330** | **1,215,989** |
| | | | | | | |
| **2017** | | | | | | |
| Cash | 39,992 | - | - | - | - | 39,992 |
| Indexed and interest-bearing securities | 1,001,922 | 49,524 | 155,675 | 153,368 | 338,324 | 1,698,813 |
| Interest rate futures | - | 3,315 | - | - | - | 3,315 |
| Options | 678 | 16 | - | - | - | 694 |
| **Assets** | **1,042,592** | **52,855** | **155,675** | **153,368** | **338,324** | **1,742,814** |

The Authority's exposure to interest rate risk is considered a component of market price risk and is quantified as part of the VaR analysis discussed under Market risk.

The Authority is exposed to interest rate cash flow risk on its floating rate interest bearing securities as interest income earned varies according to prevailing market interest rates.

# Notes to the financial statements

for the year ended 30 June 2018

## 4.3 Liquidity risk

**Overview**

Liquidity risk is the risk that the Authority will be unable to meet its payment obligations when they fall due. The Authority continuously manages risk through monitoring future cash flows and maturities planning to ensure adequate holding of high quality liquid assets. The objective is to maintain a balance between continuity of funding and flexibility through the use of overdrafts, loans and other advances, if applicable.

The Authority does not have any loans payable and no assets have been pledged as collateral. The Authority's exposure to liquidity risk is deemed insignificant based on prior periods' data and current assessment of risk.

The liabilities are recognised for amounts due to be paid in the future for goods or services received, whether or not invoiced. Amounts owing to suppliers (which are unsecured) are settled in accordance with the policy set out in NSW Treasury Circular NSWTC 11/12. There were no late penalty payments in 2017/18.

The Authority is exposed to liquidity risk from holding financial assets that may not be readily convertible to cash to meet financial liabilities and claims costs.

### 4.3.1 Exposure

The financial assets of the Authority that may not be readily convertible to cash are largely receivables (refer Note 3.2) and investments in over-the-counter or thinly traded investments and principally unlisted property trusts.

### 4.3.2 Risk management objective, policies and processes

The Authority maintains adequate liquidity to meet the daily cash requirements for claims payments and other operating costs.

To assist in meeting its liquidity risk management objectives, the Authority maintains a cash balance and invests most of its assets in investments that are traded in active markets that can be readily disposed of.

The Authority invests a proportion of its assets in less liquid listed investments or investments that are not traded on active markets and this is strictly controlled in accordance with the asset allocation together with a policy which limits exposure to illiquid investments.

Each investment manager is responsible for cashflow management of the assets that have been mandated to them. That is, each investment manager is responsible for managing settlement liquidity risk. The custodian supplies daily reporting to each investment manager to assist them in this process.

# Notes to the financial statements

for the year ended 30 June 2018

### 4.3.3 Quantitative analysis of exposure

The financial liabilities of the Authority comprise interest and other payables. The types of financial liabilities of the Authority were similar at 30 June 2017.

Cash due to brokers is payable on demand. Interest and other payables are typically settled within 30 days. If the derivative positions are closed out prior to maturity by entering into offsetting transactions, the Authority settles its derivative obligations in cash rather than physical delivery.

The other Authority liabilities are either participant care and support related whose maturity is disclosed in Note 2.3.6 or related to Authority operations and have a maturity of less than 12 months.

**Maturity analysis and interest rate exposure of financial liabilities**

| | Weighted Average Effective Interest Rate | Nominal Amount (1) | Interest Rate Exposure | | | Maturity Dates | | |
|---|---|---|---|---|---|---|---|---|
| | % | $'000 | Fixed Interest Rate $'000 | Variable Interest Rate $'000 | Non-interest bearing $'000 | < 1 year $'000 | 1–5 years $'000 | > 5 years $'000 |
| **2018** | | | | | | | | |
| Payables | N/A | 17,906 | - | - | 17,906 | 17,906 | - | - |
| | | | | | | | | |
| **2017** | | | | | | | | |
| Payables | N/A | 15,703 | - | - | 15,703 | 15,703 | - | - |

Notes:
[1] The amounts disclosed are the contractual undiscounted cash flows of each class of financial liabilities based on the earliest date on which the Authority can be required to pay. The tables include both interest (if applicable) and principal cash flows and therefore may not reconcile to the statement of financial position.

# Notes to the financial statements

for the year ended 30 June 2018

## 4.4 Credit risk

**Overview**

Credit risk arises when there is the possibility that the counterparty will default on their contractual obligations, resulting in a financial loss to the Authority. The maximum exposure to credit risk is generally represented by the carrying amount of the financial assets (net of any allowance for impairment).

Credit risk arises from the financial assets of the Authority, including cash, receivables and Authority deposits. No collateral is held by the Authority. The Authority has not granted any financial guarantees.

Credit risk associated with the Authority's financial assets other than receivables, is managed through the selection of counterparties and establishment of minimum credit rating standards. Authority deposits held with NSW Treasury Corporation (TCorp) are guaranteed by the State.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

### 4.4.1 Exposure

Credit risk arises from the Authority's investments as a result of the investment managers trading with various counterparties and purchasing the debt of corporate and government borrowers. These activities could result in the Authority not being able to receive benefits as a result of a failing counterparty. The Authority's main credit risk concentration is spread between cash, indexed and interest bearing investments and over-the-counter, in-the-money derivatives.

Credit risk also arises from the Authority's receivables. Disclosures relating to the Authority's receivables are included in Note 2.3.5.

### 4.4.2 Risk management objective, policies and processes

Credit Guidelines have been determined to ensure the Authority has controlled levels of credit concentration. These guidelines are at a total Authority level, with further asset class specific restrictions in investment managers mandates where applicable. In addition, where possible, collateral arrangements may be implemented to reduce the Authority's exposure.

The exposure is reported against set guidelines both from an individual managers' compliance and at a total Authority level. Reporting is provided by the Authority's custodian and delivered to management for monitoring.

Credit risk arising on financial instruments is mitigated by investing primarily in rated instruments as determined by Standard and Poor's, Moody's or Fitch. The Authority minimises its credit risk by monitoring counterparty creditworthiness.

TCorp manages foreign exchange risk for the Authority's developed market equities portfolio through changing the exposure to unhedged and hedged TCorpIM funds.

The investment managers in investment grade credit (developed markets), unlisted infrastructure, alternatives, bank loans, and global high yield bonds are required to fully hedge portfolio foreign currency exposures. No hedging of foreign currency exposures to Australian dollars is undertaken on the value of assets invested in emerging markets.

All positions are reported on an ongoing basis by the Authority's custodian, JP Morgan, under a Service Level Agreement and reporting is provided both daily and monthly by the custodian to management for monitoring

### 4.4.3 Quantitative analysis of exposure

The Authority's maximum credit risk exposure at balance date in relation to each class of recognised financial asset, other than derivative financial instruments, is the carrying amount of those assets as indicated in the statement of financial position.

In relation to over the counter derivative financial instruments, credit risk arises from the potential failure of counterparties to meet their obligations under the contract or arrangement.

# Notes to the financial statements

for the year ended 30 June 2018

### 4.4.4 Derivatives

The use of derivative financial instruments is governed by the Authority's policies. The Authority enters into derivative contracts for the purpose of gaining market and/or duration exposure or offsetting existing risk exposures.

The table below shows the fair value of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of a derivative is measured. The notional amounts are indicative of the exposure of the Authority to movements in the instrument underlying the derivatives. The notional amounts do not represent the credit risk of the derivative positions that is equal to the fair value.

The fair value amounts reported in the statement of financial position, and the amounts reported in the following tables are the net value of individual swap positions where there is the ability to settle the swaps on a net basis and the Authority intends to settle on this basis.

| | Assets $'000 | Liabilities $'000 | Notional amount $'000 |
|---|---|---|---|
| | | | |
| **2018** | | | |
| **Futures:** | | | |
| Interest rate futures | 36 | (285) | 2,674 |
| Option | - | - | - |
| | **36** | **(285)** | **2,674** |
| **2017** | | | |
| **Futures:** | | | |
| Interest rate futures | 3,410 | 95 | 53,900 |
| Option | 694 | - | 850,000 |
| | **4,104** | **95** | **903,900** |

# Notes to the financial statements

for the year ended 30 June 2018

### 4.4.5 Indexed and interest-bearing investments

The majority of the indexed and interest-bearing investments held by the Authority are held with issuers rated investment grade by Standard and Poor's, Moody's or Fitch. The ratings assigned to the Authority's indexed and interest-bearing investments at the end of the reporting period were as follows:

| | 2018 $'000 | 2018 % | 2017 $'000 | 2017 % |
|---|---|---|---|---|
| | | | | |
| **Rating** | | | | |
| AAA/aaa | 966,989 | 80 | 1,559,132 | 92 |
| AA/Aa | 7,296 | 1 | 139,681 | 8 |
| Other | 234,499 | 19 | - | - |
| **Total** | **1,208,784** | **100** | **1,698,813** | **100** |

### 4.4.6 Cash and cash equivalents

Cash comprises cash on hand, balances held at private financial institutions, term deposits with a maturity of less than 3 months and bank balances within the NSW Treasury Banking System. Interest is earned on daily bank balances on funds in the NSW Treasury Banking System at the Reserve Bank of Australia's prevailing cash rate.

### 4.4.7 Receivable – trade debtors

All trade debtors are recognised as amounts receivable as at balance date. Collectability of trade debtors is reviewed on an ongoing basis. Procedures as established in the Treasurer's Directions are followed to recover outstanding amounts, including letters of demand. Debts which are known as uncollectible are written off. An allowance for impairment is raised when there is objective evidence that the Authority will not be able to collect all amounts due. This evidence includes past experience, and current and expected changes in economic conditions. There is no independently assessed rating of the clients other than past experience and their compliance with credit terms, these credit terms are monitored by management on a monthly basis. No interest is earned on trade debtors. Sales are made on 30 day terms.

The Authority is not materially exposed to concentrations of credit risk to a single trade debtor or group of debtors. At balance date, no debtors are past due nor are they determined as impaired (2017: nil).

# Notes to the financial statements

for the year ended 30 June 2018

## 5. Other

**Overview**

This section includes other information that must be disclosed to comply with the Australian Accounting Standards.

### 5.1 Other revenue

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| Scheme recoveries | 100 | 97 |
| Services provided to other schemes | 1,233 | - |
| Other | 233 | 83 |
| | **1,566** | **180** |

Scheme recoveries represents costs of providing services to the ACT.

### 5.2 Service fees

**Overview**

In accordance with the *State Insurance and Care Governance Act 2015* from 1 September 2015 the Authority receives services from Insurance and Care NSW (icare). Under the arrangement some of the Authority's costs are incurred by icare. These services include the provision of staff, claims handling, facilities, general business expenses and governance services.

The Authority's key management personnel are the Board of Directors of icare, the Chief Executive Officer of icare and their direct reports. All transactions with these key management personnel are included in the service fee paid to icare for those personnel remunerated by icare.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| Service fees | **43,032** | **28,578** |

# Notes to the financial statements

for the year ended 30 June 2018

## 5.3 Other operating expenses

**Overview**

As explained in Note 5.2 the majority of the Authority's costs are incurred by icare and are shown in the Service fee charged by icare for this service.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| Agency short-term staff | 912 | - |
| Depreciation and amortisation | 622 | 813 |
| Revaluation decrement on land and building (refer Note 5.7) | - | 453 |
| Information, communication and technology | 770 | 594 |
| Other miscellaneous | 179 | 141 |
| Contractors | 3,277 | 312 |
| Consultants | 209 | 69 |
| Legal | 23 | - |
| Auditor's remuneration – audit of the financial statements | 159 | 83 |
| **Total Other operating expenses** | **6,151** | **2,465** |

Contractor costs have increased as a result of transformation project costs. The aim of these projects is to provide better outcomes for LTC participants. The projects undertaken include LTC Service Delivery Model, Payments Capability, Claims Management platform upgrade and Attendant Care Industry Development 2017-18.

## 5.4 Grants

**Overview**

icare through the icare Foundation invests in programs, research and partnerships focused on prevention and post injury care that will make a difference to the mental and wellbeing of our community and Lifetime Care supports the Foundation via its service fee.

# Notes to the financial statements

for the year ended 30 June 2018

## 5.5 Cash and cash equivalents

**Overview**

Cash and cash equivalents includes cash at bank, cash on hand and short-term deposits of less than 3 months duration.

| | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|
| | | |
| **Cash at bank and on hand** | 39,375 | 8,639 |
| **Short-term deposits:** | | |
| - Cash – Other Deposits at TCorp | 1,855 | 30,272 |
| - Cash – Other | 7,454 | 1,081 |
| | **48,684** | **39,992** |

Refer to Note 4 for details regarding credit risk, liquidity risk and market risk arising from financial instruments.

Cash at bank of $14.2m relating to MAITC is included within the cash balance. This Fund was established in December 2017 (refer Note 1.3).

Cash and cash equivalent assets recognised in the statement of financial position are reconciled at the end of the financial year to the statement of cash flows as follows:

| | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|
| | | |
| Cash and cash equivalent assets (per statement of financial position) | 48,684 | 39,992 |
| Closing cash and cash equivalents (per statement of cash flows) | **48,684** | **39,992** |

# Notes to the financial statements

for the year ended 30 June 2018

## 5.5 Cash and cash equivalents (continued)

| | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|
| | | |
| **Reconciliation of Net Cash Flows from Operating Activities to Net Result** | | |
| Net cash provided by/(used on) operating activities | 12,860 | (240,557) |
| Depreciation and amortisation | (622) | (813) |
| Decrement on asset revaluation | - | (453) |
| Gain/(loss) on disposal of assets | - | 76 |
| Increase/(Decrease) in investments in Sargood | (450) | 442 |
| Net investment purchases | 474,371 | 595,795 |
| Net cashflows from investment operating activities | 255,134 | 363,158 |
| Change in assets and liabilities | | |
| Increase/(decrease) in receivables | 11,423 | 5,683 |
| (Increase)/decrease in payables | (4,972) | (2,098) |
| (Increase) in provisions | (642,369) | (387,667) |
| **Net result** | **105,375** | **333,566** |

## 5.6 Share of profit or (loss) of associates

**Overview**

An associate is an entity over which the Authority has significant influence but not control or joint control, generally accompanying voting rights between 20% and 50%. Investment in associate is accounted for using the equity method of accounting, after initially being recognised at cost. The investment is adjusted to recognise the Authority's share of the profit or loss and other comprehensive income of the associate. The Authority's share of its associates' post acquisition profits or losses is recognised in profit or loss, and its share of post acquisition other comprehensive income is recognised in other comprehensive income.

When the Authority transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Authority's financial statements only to the extent of interests in the associate that are not related to the Authority. The Sargood Centre commenced operations in March 2017.

The Authority has one-third member interests in the Sargood Centre (the Centre), a not-for-profit company limited by guarantee. The Authority is not entitled to any distribution of funds from the Centre. The Authority's member interests is recognised in these accounts in accordance with AASB 128 *Investments in Associates* using the equity method of accounting as mandated by NSW Treasury Circular TC 18/01.

The primary focus of the Centre is to facilitate the operation of a life learning facility for people with traumatic spinal cord injury and to provide medical and health related services for people in Australia with spinal cord injuries and similar conditions.

# Notes to the financial statements

for the year ended 30 June 2018

## 5.6 Share of profit or (loss) of associates (continued)

As part of the funding agreement with the Centre, the Authority has entered into an agreement to lease land acquired by the Authority at minimal fee for 30 years to facilitate the construction of the facility. The Centre holds an option to extend the lease for a similar term.

The Authority has also provided a grant of $9.96M for the construction and fit out of the facility including equipment in 2012. ERF Industries Proprietary Limited which also holds one-third member interests in the Centre, has also provided a grant of $5M for these purposes. The other equal member in the Centre is the Ability Australia Foundation.

| | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|
| | | |
| Share of profit or (loss) of associates | **(450)** | **442** |

### 5.6.1 Investments accounted for using the equity method

| | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|
| | | |
| Share of equity in Sargood Centre | **1,798** | **2,248** |

# Notes to the financial statements

for the year ended 30 June 2018

### 5.6.1 Investments accounted for using the equity method (continued)

Summarised financial information of Sargood Centre based on unaudited financials

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Total revenue | 16 | 1,535 |
| Total expenses excluding losses | (1,366) | (210) |
| **Net result** | **(1,350)** | **1,325** |
| | | |
| Other comprehensive income | - | - |
| **Total comprehensive income** | **(1,350)** | **1,325** |
| | | |
| Total assets | 15,388 | 16,709 |
| Total liabilities | (33) | (4) |
| **Net assets** | **15,355** | **16,705** |
| | | |
| **Total equity** | **15,355** | **16,705** |

Should there be any unexpended funds (including accumulated interest revenue) at the time the current funding agreement ends or is terminated, the Centre is not required to pay back the amount to the Authority but rather it must ensure that funding is then applied towards further development or improvement or operation of the Centre.

The Centre has granted to the Authority the second fixed and floating charge after ERF Industries Proprietary Limited over its assets..

# Notes to the financial statements

for the year ended 30 June 2018

## 5.7 Property, plant and equipment

**Overview**

Plant and equipment are recorded at cost on acquisition.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire the asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised. Physical non-current assets costing more than $5,000 individually are capitalised.

The capitalisation threshold for property, plant and equipment is $5,000 and above individually (or forming part of a network costing more than $5,000).

Physical non-current assets are valued in accordance with the '*Valuation of Physical Non-Current Assets at Fair Value*' Policy and Guidelines Paper (TPP 14-01). This policy adopts fair value in accordance with AASB 13 *Fair Value Measurement* and AASB 116 *Property, Plant and Equipment*.

Non-specialised assets with short useful lives are measured at depreciated historical cost, as an approximation of fair value. The Authority has assessed that any difference between fair value and depreciated historical cost is unlikely to be material.

The Authority revalues each class of property, plant and equipment at least every three years to ensure that the carrying amount of each asset in the class does not differ materially from its fair value at reporting date. The last revaluation for the land and building class was completed as at April 2018 and was based on an independent assessment.

When assets are revalued, any balances of accumulated depreciation at the revaluation date in respect of those assets are credited to the asset accounts to which they relate. The net asset accounts are then increased or decreased by the revaluation increments or decrements.

| | Land and Buildings $'000 | Leasehold Improvements $'000 | Motor Vehicles $'000 | Total $'000 |
|---|---|---|---|---|
| | | | | |
| **At 1 July 2017 – fair value** | | | | |
| Gross carrying amount | 9,292 | 1,127 | 209 | 10,628 |
| Accumulated depreciation and impairment | (31) | (956) | (44) | (1,031) |
| **Net carrying amount** | **9,261** | **171** | **165** | **9,597** |
| | | | | |
| **At 30 June 2018 – fair value** | | | | |
| Gross carrying amount | 9,885 | 357 | 209 | 10,451 |
| Accumulated depreciation and impairment | (36) | (268) | (92) | (396) |
| **Net carrying amount** | **9,849** | **89** | **117** | **10,055** |

# Notes to the financial statements

for the year ended 30 June 2018

## 5.7 Property, plant and equipment (continued)

**Reconciliation**

A reconciliation of the carrying amount of each class of property, plant and equipment at the beginning and end of the current reporting period is set out below:

| | Capital Works in Progress $'000 | Land and Buildings $'000 | Leasehold Improvements $'000 | Motor Vehicles $'000 | Total $'000 |
|---|---|---|---|---|---|
| | | | | | |
| **Year ended 30 June 2018** | | | | | |
| Net carrying amount at start of financial year | - | 9,261 | 171 | 165 | 9,597 |
| Additions- | - | - | - | - | - |
| Disposals | - | - | (669) | - | (669) |
| Net revaluation increment less revaluation decrements | - | 800 | - | - | 800 |
| Depreciation expense | - | (212) | (82) | (48) | (342) |
| Write-back of depreciation on disposal | - | - | 669 | - | 669 |
| **Net carrying amount at end of financial year** | **-** | **9,849** | **89** | **117** | **10,055** |
| | | | | | |
| **At 1 July 2016 - fair value** | | | | | |
| Gross carrying amount | 4,655 | 6,210 | 771 | 155 | 11,791 |
| Accumulated depreciation and impairment | - | (23) | (751) | (107) | (881) |
| **Net carrying amount** | **4,655** | **6,187** | **20** | **48** | **10,910** |
| | | | | | |
| **At 30 June 2017 - fair value** | | | | | |
| Gross carrying amount | - | 9,292 | 1,127 | 209 | 10,628 |
| Accumulated depreciation and impairment | - | (31) | (956) | (44) | (1,031) |
| **Net carrying amount** | **-** | **9,261** | **171** | **165** | **9,597** |

# Notes to the financial statements

for the year ended 30 June 2018

## 5.7 Property, plant and equipment (continued)

**Reconciliation**

A reconciliation of the carrying amount of each class of property, plant and equipment at the beginning and end of the prior reporting period is set out below:

| | Capital Works in Progress $'000 | Land and Buildings $'000 | Leasehold Improvements $'000 | Motor Vehicles $'000 | Total $'000 |
|---|---|---|---|---|---|
| | | | | | |
| **Year ended 30 June 2017** | | | | | |
| Net carrying amount at start of financial year | 4,655 | 6,187 | 20 | 48 | 10,910 |
| Additions | 24 | - | 357 | 188 | 569 |
| Disposals | - | - | - | (134) | (134) |
| Net revaluation increment less revaluation decrements | - | (1,419) | - | - | (1,419) |
| Transfers | (4,679) | 4,679 | - | - | - |
| Depreciation expense | - | (186) | (206) | (48) | (440) |
| Write-back of depreciation on disposal | - | - | - | 111 | 111 |
| **Net carrying amount at end of financial year** | **-** | **9,261** | **171** | **165** | **9,597** |

### 5.7.1 Depreciation of property, plant and equipment

Depreciation is provided for on a straight-line basis for all depreciable assets purchased so as to write-off the depreciable amount of each asset as it is consumed over its useful life to the Authority.

All material separately identifiable components of assets are depreciated over their useful lives. The following depreciation rates were used:

| Categories | % |
|---|---|
| | |
| Building premises | 4 |
| Leasehold improvements | Over lease term |
| Motor vehicles | 25 |

# Notes to the financial statements

for the year ended 30 June 2018

## 5.8 Intangibles

**Overview**

The Authority recognises intangible assets only if it is probable that future economic benefits will flow to the Authority and the cost of the asset can be measured reliably. Intangible assets are measured initially at cost. Where an asset is acquired at no or nominal cost, the cost is its fair value at the date of acquisition.

The capitalisation threshold for intangible assets is $100,000 and above (including direct allocation of personnel service costs).

All research costs are expensed. Development costs are only capitalised when certain criteria are met.

The useful lives of intangible assets are assessed to be finite. The Authority charges amortisation on intangible assets using the straight-line method over a period of three years.

The Authority reviews its amortisation rate and method on an annual basis.

Intangible assets are subsequently measured at fair value only if there is an active market. As there is no active market for the Authority's intangible assets, the assets are carried at cost less any accumulated amortisation and impairment losses.

Intangible assets are tested for impairment where an indicator of impairment exists. If the recoverable amount is less than its carrying amount, the carrying amount is reduced to recoverable amount and the reduction is recognised as an impairment loss.

| | Capital Works in Progress $'000 | Computer Software $'000 | Total $'000 |
|---|---|---|---|
| | | | |
| **At 1 July 2017** | | | |
| Cost (gross carrying amount) | - | 4,861 | 4,861 |
| Accumulated amortisation and impairment | - | (4,581) | (4,581) |
| **Net carrying amount** | **-** | **280** | **280** |
| | | | |
| **At 30 June 2018** | | | |
| Cost (gross carrying amount) | 4168 | 4,861 | 9,029 |
| Accumulated amortisation and impairment | - | (4,861) | (4,861) |
| **Net carrying amount** | **4,168** | **-** | **4,168** |

# Notes to the financial statements

for the year ended 30 June 2018

## 5.8 Intangibles (continued)

**Reconciliation**

A reconciliation of the carrying amount of each class of intangible assets at the beginning and end of the current reporting period is set out below:

| | Capital Works in Progress $'000 | Computer Software $'000 | Total $'000 |
|---|---|---|---|
| | | | |
| **Year ended 30 June 2018** | | | |
| Net carrying amount at start of financial year | - | 280 | 280 |
| Additions | 4,168 | - | 4,168 |
| Amortisation expense | - | (280) | (280) |
| **Net carrying amount at end of financial year** | **4,168** | **-** | **4,168** |
| | | | |
| | | | |
| **At 1 July 2016** | | | |
| Cost (gross carrying amount) | - | 4,861 | 4,861 |
| Accumulated amortisation and impairment | - | (4,208) | (4,208) |
| **Net carrying amount** | **-** | **653** | **653** |
| | | | |
| **At 30 June 2017** | | | |
| Cost (gross carrying amount) | - | 4,861 | 4,861 |
| Accumulated amortisation and impairment | - | (4,581) | (4,581) |
| **Net carrying amount** | **-** | **280** | **280** |

**Reconciliation**

A reconciliation of the carrying amount of each class of intangible assets at the beginning and end of the prior reporting period is set out below:

| | Computer Software $'000 | Total $'000 |
|---|---|---|
| | | |
| **Year ended 30 June 2017** | | |
| Net carrying amount at start of financial year | 653 | 653 |
| Amortisation expense | (373) | (373) |
| **Net carrying amount at end of financial year** | **280** | **280** |

# Notes to the financial statements

for the year ended 30 June 2018

## 5.9 Fair value measurement of non-financial assets

**Overview**

The Authority recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. Refer Note 4 for further disclosures regarding fair value measurements of financial assets.

**Fair value hierarchy**

| | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total Fair value $'000 |
|---|---|---|---|---|
| | | | | |
| **2018** | | | | |
| **Property, plant and equipment (Note 5.7)** | | | | |
| Land and buildings (including WIP) | - | 5,754 | 4,095 | 9,849 |
| | **-** | **5,754** | **4,095** | **9,849** |
| **2017** | | | | |
| **Property, plant and equipment (Note 5.7)** | | | | |
| Land and buildings (including WIP) | - | 5,372 | 3,889 | 9,261 |
| | **-** | **5,372** | **3,889** | **9,261** |

There were no transfers between Level 1 and Level 2 during the period.

### 5.9.1 Valuation techniques, inputs and processes

Land at Collaroy (the Sargood Foundation building) is measured using the income approach as it is subject to a longterm lease. This lease is for a period of 30 years with an option for a further 30 year term at the discretion of the lessee, with a rental return of $10 per year. The estimated fair value of this land will increase significantly if the restrictions on the use of the site were removed. The remainder of the Authority's buildings have been valued using a market approach.

The remainder of the Authority's assets are non-specialised and are measured using the market approach. NSW Treasury Policy paper 14-01 *Valuation of Physical Non-Current Assets at Fair Value* allows non-specialised assets with short useful lives to be recognised at depreciated historical cost as a surrogate for fair value. Depreciated historical cost is an appropriate surrogate for fair value because any difference between fair value and depreciated historical cost is unlikely to be material and the benefit of ascertaining a more accurate fair value does not justify the additional cost of obtaining it.

# Notes to the financial statements

for the year ended 30 June 2018

### 5.9.2 Reconciliation of recurring Level 3 fair value measurements

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Land and buildings including WIP $'000 | Total Recurring Level 3 Fair value $'000 | Land and buildings including WIP $'000 | Total Recurring Level 3 Fair value $'000 |
| | | | | |
| Fair value at 1 July | 3,889 | 3,889 | 5,005 | 5,005 |
| Additions | - | - | 24 | 24 |
| Transfers | - | - | 560 | 560 |
| Depreciation | (121) | (121) | (101) | (101) |
| Revaluation | 327 | 327 | (1,599) | (1,599) |
| **Fair value at 30 June** | **4,095** | **4,095** | **3,889** | **3,889** |

## 5.10 Restricted assets

**Overview**

**NSW Workers Insurance Scheme – Workers Care**

The Authority is holding funds that have been advanced by the NSW Workers Insurance Scheme to meet the costs of severely injured workers who have services provided by the Authority. These funds are viewed as being "restricted" as the funds cannot be utilised by the Authority for any other purpose that meeting the costs of severely injured workers on behalf of the NSW Workers Insurance Scheme.

Once costs have been incurred by the Authority, an invoice is raised to the NSW Workers Insurance Scheme to restore the amount advanced back to the original amount advanced.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| **Assets** | | |
| Cash and cash equivalents – Advance held by Authority | 323 | 784 |
| Receivable | 162 | 216 |
| | **485** | **1,000** |
| **Liabilities** | | |
| Creditor | 485 | 1,000 |
| | **485** | **1,000** |
| **Net Assets** | - | - |

# Notes to the financial statements

for the year ended 30 June 2018

## 5.11 Restoration provision

### Overview

Provisions are recognised when the Authority has a present obligation as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

A restoration provision is recognised for the estimate of future payments for restoration upon the termination of the leases of the current office premises. The effect of discounting is immaterial.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| Restoration | **31** | **132** |

### Movements in the provisions

Movements in each class of provision during the financial year, are set out below:

| | Restoration costs $'000 | Total $'000 |
|---|---|---|
| | | |
| Carrying amount at the beginning of financial year | 132 | 132 |
| Additional provisions | - | - |
| Amount used | - | - |
| Write back | (101) | (101) |
| **Carrying amount at end of financial year** | **31** | **31** |

## 5.12 Commitments for expenditure

The Authority leases offices under non-cancellable operating leases expiring within three years. The leases have varying terms, escalation clauses and renewal rights.

Expenditure commitments for the Authority include input tax credits of $20,000 (2017: $0.4M) which are expected to be recoverable from the Australian Taxation Office.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Operating lease commitments | | |
| Future non-cancellable operating lease rentals not provided for and payable: | | |
| Not later than one year | 201 | 581 |
| Later than one year but not later than five years | - | 1,743 |
| Later than five years | - | 1,292 |
| **Total (including GST)** | **201** | **3,616** |

## 5.13 Contingent liabilities and contingent assets

### Overview

Contingent liabilities are disclosed when the possibility of a future settlement of economic benefits is considered to be less than probable but more likely than remote. If the expected settlement of the liability becomes probable, a provision is recognised.

The Authority does not have any contingent asset or liability at reporting date (2017: nil)

# Notes to the financial statements

for the year ended 30 June 2018

## 5.14 Administered assets and liabilities

**Overview**

The Authority has direction and management responsibility for a fund managed on behalf of the ACT government. The Authority is acting in capacity as agent and as such Assets and Liabilities of the fund are not recognised in the Authorities statement of financial position, but are shown separately as "Administered Assets and Liabilities".

Section 43A of the *Motor Accidents (Lifetime Care and Support) Act 2006 (NSW)* (NSW Act) enables the Authority to enter into care and support arrangements by agreement with relevant authorities to provide services to injured persons who are eligible under similar lifetime care schemes that have been prescribed by regulation under the NSW Act, which agreements may confer functions on the Authority to be exercised for and on behalf of the relevant authority.

Section 12 of the *Lifetime Care and Support (Catastrophic Injuries) Act 2014 (ACT)* (ACT Act) permits the Lifetime Care and Support Commissioner of the Australian Capital Territory, appointed in accordance with s.10 of the ACT Act (ACT Commissioner) to delegate the ACT Commissioner's functions to an authorised person, and the Authority is an authorised person in accordance with the ACT Act.

The ACT has sought agreement from the Authority to administer the ACT Scheme on behalf of the ACT Commissioner and NSW and the ACT have entered into an Inter-Governmental Agreement in 2015 to establish an agreed framework of commitments for this Agreement.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| **Revenue** | | |
| Funding provided by ACT government to meet participant scheme costs | 763 | 487 |
| | **763** | **487** |
| **Expenses excluding losses** | | |
| Participant scheme costs | 763 | 487 |
| | **763** | **487** |
| **Net result** | **-** | **-** |
| | | |
| **Assets** | | |
| Cash and cash equivalents | 233 | 215 |
| Receivable – from ACT government | 5 | 14 |
| | **238** | **229** |
| **Liabilities** | | |
| Creditors | 8 | 7 |
| Income received in Advance | 230 | 222 |
| | **238** | **229** |
| **Net Assets** | **-** | **-** |

# Notes to the financial statements

for the year ended 30 June 2018

## 5.15 Related Party Disclosure

The Authority has an agreement with its equity partner Sargood under which it provides land at Collaroy at which the facility was built. The land has been leased to the Centre, for nominal consideration. (Refer Note 5.6 for further details).

## 5.16 Capital management

Capital management is an integral part of icare's risk management framework. One of the key objectives of the Authority is to have sufficient capital to meet its obligations to its participants, even under adverse conditions.

The Board of icare set a Capital Management Policy which defines a Target Capital Ratio and Target Operating Zone for the Authority.

To determine the Authority's Target Capital Ratio and Target operating Zone, consideration was given to the following:

- The unique nature of the business from both various perspectives- internal (financial and operational) and external (economic and political);
- The Authority's strategic objectives and the risks of not achieving them; and
- The regulatory requirements of the Australian Prudential Regulation Authority (APRA), consistency with the insurance industry and best practice

Under this policy the Authority will be managed towards holding excess capital above the Minimum Capital Requirement within a defined range as set out in the Target Capital Ratio Policy.

The Board has determined that the target operating zone for the Authority is between 130-150%. This means that the Authority's Policy Capital Ratio defined as the value of the Authority's assets to liabilities (that does not include a risk margin) should be between 130-150%. The actual capital ratio at 30 June 2018 was 124%. (2017- 125%)

The Capital Management policy details actions required where the Policy Capital Ratio falls outside of the target operating zone. These actions will now be followed.

The Capital Management Framework is reviewed annually by Management or as directed by the Board or ARC. Any recommendations for change are endorsed by the ARC and approved by the Board.

END OF AUDITITED FINANCIAL STATEMENTS

# Insurance for NSW (Self Insurance Corporation)

# Insurance for NSW (Self Insurance Corporation) Financial statements

for the year ended 30 June 2018

## Contents



## Notes to the financial statements

**ICARE INSURANCE FOR NSW**

**Actuarial Certificate**
**Outstanding claims liabilities at 30 June 2018**

PricewaterhouseCoopers Consulting (Australia) Pty Ltd (PwC) has been contracted by Insurance & Care NSW (icare) to make estimates of the workers' compensation outstanding claims liabilities as at 30 June 2018 of the following funds that icare operates:

- The State Rail Authority and Rail Infrastructure Corporation, (collectively "Rail" Schemes) for claims incurred prior to 1 October 2009
- The Governmental Workers' Compensation Account ("GWC") of NSW Treasury
- The Electricity Assets Ministerial Holding Corporation ("EAMHC")
- The Electricity Transmission Ministerial Holding Corporation ("ETMHC")
- The Bush Fire Fighters Compensation Fund ("BFFCF")
- The Emergency and Rescue Workers Compensation Fund ("ERWCF")

collectively referred to as the "Funds".

**Data**

PwC has relied on historical data and other quantitative and qualitative information supplied by icare without audit or independent verification. We did, however, review this information for reasonableness and internal consistency, where possible. The accuracy of our results is dependent upon the accuracy and completeness of the underlying data.

**Basis of Our Estimates**

We have made central estimates of the outstanding claims liabilities, this means that our assumptions have been selected to yield estimates that are not knowingly above or below the ultimate liabilities. Our estimates include allowances for:

- Future inflation and discounting for the time value of money;
- Includes a loading for future expenses to meet the cost of management of claims outstanding (including claims incurred but yet to be reported) as at 30 June 2018; and
- Future expected recoveries.

The estimates do not include any allowance for a risk margin as instructed by icare.

***PricewaterhouseCoopers Consulting (Australia) Pty Ltd, ABN 20 607 773 295***
*One International Towers Sydney, Watermans Quay, Barangaroo NSW 2000,*
*GPO BOX 2650 Sydney NSW 2001*
*T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au*

pwc

## Valuation Results

The PwC estimated liabilities as at 30 June 2018, net of recoveries, including claims handing expenses are summarised in the following table:

| Table 1 - icare Insurance for NSW<br>Outstanding Claims Liability at 30 June 2018 ($M) | Rail | GWC | EAMHC | ETMHC | BFFCF | ERWCF |
|---|---|---|---|---|---|---|
| Gross Outstanding Claims | 79 | 89 | 25 | 10 | 15 | 26 |
| Less Anticipated Recoveries | 18 | 3 | 0 | 3 | 1 | 1 |
| Net Outstanding Claims | 61 | 86 | 25 | 7 | 14 | 26 |

The gross outstanding claims liabilities include allowances for expenses to meet the cost of managing the outstanding compensation needs of incurred participants (including claims incurred but yet to be reported) as at 30 June 2018. The allowances are summarised in the following table:

| Table 2 - icare Insurance for NSW<br>Claims Handling Expense at 30 June 2018 | Rail | GWC | EAMHC | ETMHC | BFFCF | ERWCF |
|---|---|---|---|---|---|---|
| Claims Handling Expense Allowance ($M) | 0 | 0 | 3 | 2 | 2 | 4 |
| Claims Handling Expense Allowance (%)* | 0.0% | 0.0% | 11.5% | 27.7% | 17.1% | 16.9% |

* Claims handling expense allowance expressed as a percentage of gross outstanding claims liabilities

It is a decision for icare, acting as operator for the Funds, as to the amount adopted in the accounts.

## Uncertainty

There is a limitation upon the accuracy of the estimates in this certificate in that there is an inherent uncertainty in any estimate of outstanding claim liabilities. This is due to the fact that the ultimate liability for claims is subject to the outcome of events yet to occur. These include, but are not limited to, the likelihood of injured workers lodging claims, the amount of compensation paid and the attitudes of claimants towards settlement of their claims and uncertainty surrounding the impact of the various reforms to the workers' compensation scheme design and operation which have occurred.

In our judgement, we have employed techniques and assumptions that are appropriate, and we believe the conclusions presented herein are reasonable, given the information currently available. However, it should be recognised that future claim development is likely to deviate, perhaps materially, from our estimates.

pwc

**Valuation Report**

Full details of data, methodology, assumptions and results are set out in our valuation reports.

| Fund | Date of Report |
|---|---|
| Rail | 30 August 2018 |
| GWC | 30 August 2018 |
| EAMHC | 30 August 2018 |
| ETMHC | 30 August 2018 |
| BFFCF | 30 August 2018 |
| ERWCF | 30 August 2018 |

**Relevant Standards**

Our estimates and reports were prepared in compliance with the Actuaries Institute's Professional Standard 300, which relates to estimation of outstanding claims liabilities.

icare have informed us that the financial statements for the Funds are intended to comply with Accounting Standard AASB 137 which requires the determination of a best estimate. We have been instructed by icare to prepare a central estimate and our report includes the determination of a risk margin intended to achieve higher probabilities of adequacy.

Andrew Smith
FIAA
30 August 2018

Actuarial and Insurance Consultants

# Actuarial Certificate
# Outstanding Claims Liabilities at 30 June 2018

Finity Consulting Pty Ltd (Finity) has been contracted by Insurance & Care NSW (icare) to estimate the workers compensation outstanding claims liabilities of the NSW Self Insurance Corporation (Insurance for NSW, or IfNSW) TMF portfolio as at 30 June 2018.

## Data

Finity has relied on the completeness and accuracy of the data provided by icare for this valuation. We have not independently audited the data however we did review material aspects of the data for reasonableness and internal consistency. The accuracy of our results is dependent on the accuracy and completeness of the underlying data.

## Basis of our Estimates

The outstanding claims estimates we provided were prepared on a central estimate basis; the assumptions have been selected such that our estimates of the liabilities contain no deliberate overstatement or understatement. The central estimate is intended to be a mean of the distribution of possible outcomes. The central estimate is net of expected recoveries and contains an allowance for claims handling expenses.

At icare's direction our estimates have been prepared in accordance with accounting standard AASB 137, utilising risk free discount rates and a nil risk margin. While the accounting standard is unchanged from previous liability assessments, the use of risk-free discount rates is a change, and this has materially increased the assessed outstanding claims liability at this balance date.

## Valuation Results

The components of the Outstanding Claims Liability are shown in Table 1.

**Table 1 – Outstanding Claims Liability at 30 June 2018**

| **Central Estimate** | **$m** |
|---|---|
| Gross | 4,501 |
| Recoveries | (53) |
| Net Central Estimate | 4,447 |
| **Risk Margin** | - |
| **Provision** | **4,447** |

It is a decision for icare to determine the amount adopted in the accounts.

## Uncertainty

There is considerable uncertainty in the projected outcomes of future claims costs, particularly for long tail claims, where payments are expected to occur many decades into the future; it is not possible to value or project long tail claims with certainty. IfNSW is a complex portfolio, and there

finity
Actuarial and Insurance Consultants

are a number of cost drivers that have the potential to move the liabilities higher or lower than our estimates.

We have prepared our estimates on the basis that they represent our current assessment of the likely future experience of IfNSW. Sources of uncertainty include the fact that outcomes remain dependent on future events, including legislative, social and economic forces. Key sources of uncertainty in the valuation include:

- The number of claims that will ultimately become eligible for long duration benefits, since it can be many years before a claimant's Whole Person Impairment can be assessed; as well as uncertainty around the average level of payment each claim will receive.
- Medical discharges – Emergency Services agencies have control of the decision to medically discharge claimants and we can see considerable variability in how this discretion has been exercised historically. Claimants who are medically discharged have historically tended to have a very high average claim size.

In our judgement, we have employed techniques and assumptions that are appropriate and the conclusions presented herein are reasonable given the information currently available. However, it should be recognised that future claim outcomes and costs will likely deviate, perhaps materially, from the estimates shown.

## Reports

Full details of data, analysis and results for the outstanding claims valuation are documented in our valuation report titled "Workers Compensation Insurance Liabilities at 30 June 2018 – Insurance for NSW TMF", dated 30 August 2018.

Our estimates and report were prepared in accordance with the Actuaries Institute's Professional Standard 300, other than the exclusion of risk margins.

Yours sincerely

A McInerney

Andrew McInerney

Scott Collings

**Fellows of the Institute of Actuaries of Australia**

8 October 2018

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# Insurance & Care NSW
# Actuarial Certificate

## General Lines outstanding claims and premium liabilities at 30 June 2018

Ernst & Young ('EY', 'we') has been contracted by Insurance & Care NSW ('icare') to estimate the outstanding claims and premium liabilities for the following General Lines portfolios:

- ► NSW Treasury Managed Fund ('TMF')
- ► Transport Accident Compensation Fund ('TAC Fund')
- ► Construction Risk Insurance Fund ('CRIF')
- ► Generators Fund – Public Liability ('Generators Fund')
- ► Solvency Fund (liability excludes incurred but not reported claims).

## Data

EY has relied on historical data and other quantitative and qualitative information supplied by icare. We have reviewed this information for reasonableness and internal consistency, but have not audited or independently verified the accuracy of the data. The accuracy of our results is dependent upon the accuracy and completeness of the underlying data.

## Basis of our estimates for each portfolio

For TMF, TAC Fund, Generators Fund and CRIF we have selected the central estimate of the liability which, in our opinion, is equally likely to be above or below the ultimate claims outcome. As requested, the Solvency Fund estimation basis does not include an allowance for incurred but not reported ('IBNR') claims. Our estimates include allowances for inflation and investment return, claims handling expenses and expected recoveries. The basis of our estimates for each fund are described below:

► All funds

We have used discount rates provided by icare. These are based on estimates of future annual risk free rates of return which have been derived from the yield curve of Australian government bonds as at the valuation date.

► TMF, TAC Fund and Generators Fund

For these funds, our contract specifies that icare reports under AASB 137 and the discount rate used is risk free rates as described previously. We have not made an explicit assessment as to whether or not these discount rates are appropriate for use under AASB 137. The adoption of AASB 137 also results in no application of a risk margin. Lastly, it is noted that the premium liabilities are nil at the valuation date given the common renewal date of 1 July 2018 for TMF policies and that the TAC Fund and Generators Fund have been closed.

► CRIF

The CRIF is assessed under AASB 1023 and therefore includes an assessment of the risk margin and premium liabilities. The discount rate used for CRIF is based on risk free rates as described previously. In addition, icare targets a probability of adequacy of 75% which results in a risk margin loading on the liability.

Building a better working world

Page 2

- Solvency Fund

The Solvency Fund liability comprises the case estimates for reported claims and an allowance for further increase in those case estimates to their final settlement amount. As requested, we have excluded allowances for both IBNR claims and risk margins. Further, we have adopted the discount rates based on risk free rates as described previously.

## Valuation results

The EY estimate of liabilities for the General Lines portfolios are shown in the table below:

| Fund | Net outstanding claims ($m) | Premium liabilities ($m)[3] |
|---|---|---|
| TMF | 2,979.0 | 0.0 |
| CRIF[1] | 6.5 | 14.7 |
| TAC | 327.5 | 0.0 |
| Generator | 28.5 | 0.0 |
| Solvency Fund[2] | 155.6 | 0.0 |
| **Total** | **3,497.0** | **14.7** |

[1] CRIF is based on AASB1023
[2] Solvency Fund does not contain any IBNR claims
[3] Premium liabilities are zero for TMF because there is a common renewal date of 1 July 2018 and the premium liabilities are zero for the TAC Fund, Generators Fund and Solvency Fund because these funds are closed and no longer providing cover for new periods of exposure.

## Uncertainty

There is inherent uncertainty in any estimate of outstanding claims liabilities that limits its accuracy. The cost of total claims which are ultimately paid is affected by events which are yet to occur and their impact cannot be predicted with certainty. The actual claims outcomes are likely to differ from our estimates of the liabilities in this Actuarial Certificate.

Based upon the information available and the models and assumptions we have adopted, we believe that the conclusions shown in this Actuarial Certificate are reasonable.

## Reports

Full details of the data, methodology, assumptions and results adopted and derived for the General Lines portfolios and the Solvency Fund are documented in the following reports, all dated 18th September 2018, apart from the TMF report which is dated 28th September 2018:

- Outstanding claims liabilities of the NSW TMF General Lines as at 30 June 2018
- Outstanding claims liabilities of the Transport Accidents Compensation Fund as at 30 June 2018
- Outstanding claims liabilities of the Construction Risks Insurance Fund as at 30 June 2018
- Outstanding claims liabilities of the Generators Fund – Public Liability as at 30 June 2018
- Outstanding claims liability for the Solvency Fund as at 30 June 2018.

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## Relevant standards

Subject to the caveats discussed above, our estimates and reports are prepared in accordance with the Australian Accounting Standards AASB137, AASB1023 and the Actuaries Institute's Professional Standard 300.

Yours sincerely,

Melissa Yan
FIAA FNZSA
Director
28 September 2018

# Statement by the chairman and chief executive officer

for the year ended 30 June 2018

**New South Wales Self Insurance Corporation**

**Certificate under Section 41C(1B) and 41C(1C) of the *Public Finance and Audit Act 1983* and Clause 7 of the *Public Finance and Audit Regulation 2015*.**

In the opinion of the Board of Directors

1. the financial statements of New South Wales Self Insurance Corporation have been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2015* and the Treasurer's Directions. They have also been prepared in accordance with Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board;
2. the financial report for the year ended 30 June 2018 exhibit a true and fair view of the position and transactions of New South Wales Self Insurance Corporation; and
3. the directors are not aware of any circumstances as at the date of this certificate which would render any particulars included in the financial report misleading or inaccurate.

Signed on behalf of the Board of Directors of Insurance and Care NSW.

**Michael Carapiet**
**Chairman**
**Insurance and Care NSW**
**24 September 2018**

**John Nagle**
**Chief Executive Officer and Managing Director**
**NSW Self Insurance Corporation and Insurance and Care NSW**
**24 September 2018**

**INDEPENDENT AUDITOR'S REPORT**

**New South Wales Self Insurance Corporation**

To Members of the New South Wales Parliament

## Opinion

I have audited the accompanying financial statements of the New South Wales Self Insurance Corporation (the Corporation), which comprise the Statement of Comprehensive Income for the year ended 30 June 2018, the Statement of Financial Position as at 30 June 2018, the Statement of Changes in Equity and the Statement of Cash Flows for the year then ended, notes comprising accounting policies and other explanatory information.

In my opinion, the financial statements:

- give a true and fair view of the financial position of the Corporation as at 30 June 2018, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards
- are in accordance with section 41B of the *Public Finance and Audit Act 1983* (PF&A Act) and the Public Finance and Audit Regulation 2015.

My opinion should be read in conjunction with the rest of this report.

## Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under the standards are described in the 'Auditor's Responsibilities for the Audit of the Financial Statements' section of my report.

I am independent of the Corporation in accordance with the requirements of the:

- Australian Auditing Standards
- Accounting Professional and Ethical Standards Board's APES 110 'Code of Ethics for Professional Accountants' (APES 110).

I have fulfilled my other ethical responsibilities in accordance with APES 110.

Parliament promotes independence by ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of public sector agencies
- precluding the Auditor-General from providing non-audit services.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.


Level 15, 1 Margaret Street, Sydney NSW 2000 | GPO Box 12, Sydney NSW 2001 | t 02 9275 7101 | f 02 9275 7179 | e mail@audit.nsw.gov.au | audit.nsw.gov.au

## Other Information

Other information comprises the information included in the Corporation's annual report for the year ended 30 June 2018, other than the financial statements and my Independent Auditor's Report thereon. The Chief Executive Officer of the Corporation is responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprise the Statement by the Chairman and Chief Executive Officer.

My opinion on the financial statements does not cover the other information. Accordingly, I do not express any form of assurance conclusion on the other information.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude there is a material misstatement of the other information, I must report that fact. I have nothing to report in this regard.

## The Chief Executive Officer's Responsibilities for the Financial Statements

The Chief Executive Officer is responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards and the PF&A Act, and for such internal control as the Chief Executive Officer determines is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Executive Officer is responsible for assessing the Corporation's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting except where the Corporation will be dissolved by an Act of Parliament or otherwise cease operations.

## Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to:

- obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions users take based on the financial statements.

A description of my responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_responsibilities/ar4.pdf. The description forms part of my auditor's report.

My opinion does *not* provide assurance:

- that the Corporation carried out its activities effectively, efficiently and economically
- about the assumptions used in formulating the budget figures disclosed in the financial statements
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.

D Daniels

David Daniels
Director, Financial Audit Services

2 October 2018
SYDNEY

# Statement of comprehensive income

for the year ended 30 June 2018

| | Notes | 2018 $'000 | 2017 $'000 |
|---|---|---|---|
| Gross written premium and contributions | 2.1 | 1,256,881 | 1,191,883 |
| Unearned premium movement | 2.1 | (46,590) | (39,917) |
| Net earned premium | 2.1 | 1,210,291 | 1,151,966 |
| Outwards reinsurance expense | 2.1 | (41,064) | (45,272) |
| **Net Earned premiums and contributions (a)** | | **1,169,227** | **1,106,694** |
| Gross Claims expenses | 2.2 | (1,641,145) | (1,411,110) |
| Recoveries received | 2.2 | 30,543 | 49,103 |
| Acquisition costs | 2.2 | (25,467) | (34,285) |
| Unexpired risk liability expense | 2.3.7.2 | (122,371) | (63,218) |
| **Net Claims expense (b)** | | **(1,758,440)** | **(1,459,510)** |
| Underwriting and other expenses (c) | 2.3.9 | (218,005) | (199,938) |
| **Underwriting result (a+b+c)** | | **(807,218)** | **(552,754)** |
| Hindsight adjustments | 2.1 | (192,716) | (307,870) |
| Investment revenue | 3.1 | 909,032 | 951,333 |
| Other revenue | | 706 | 3 |
| **Insurance profit** | | **(90,196)** | **90,712** |
| Grants (to)/ from the Crown | 5.4 | 221,372 | (85,000) |
| **Net Result** | | **131,176** | **5,712** |
| | | | |
| Other comprehensive income | | - | - |
| | | | |
| **Total comprehensive income** | | **131,176** | **5,712** |

The accompanying notes form part of these financial statements.

# Statement of financial position

as at 30 June 2018

| | Notes | 2018 $'000 | Restated 2017 $'000 | 1 July 2016 $'000 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and cash equivalents | 5.1 | 505,579 | 268,003 | 274,443 |
| Investments | 3.2 | 8,565,074 | 8,066,641 | 7,734,331 |
| Trade and other receivables | 2.3.10 | 318,737 | 303,799 | 308,718 |
| Plant and equipment | 5.2 | 5 | 6 | 7 |
| Intangible assets | 5.3 | 1,656 | 2,453 | 3,253 |
| **Total Assets** | | **9,391,051** | **8,640,902** | **8,320,752** |
| | | | | |
| **LIABILITIES** | | | | |
| Trade and other payables | 2.3.11 | 41,306 | 92,507 | 205,918 |
| Unearned premiums | 2.3.7.1 | 347,224 | 289,447 | 246,180 |
| Outstanding claims liabilities | 2.3.1 | 8,471,407 | 7,981,381 | 7,660,017 |
| Unexpired risk liability | 2.3.7.2 | 288,554 | 166,183 | 102,965 |
| **Total Liabilities** | | **9,148,491** | **8,529,518** | **8,215,080** |
| | | | | |
| **Net Assets** | | **242,560** | **111,384** | **105,672** |
| | | | | |
| **EQUITY** | | | | |
| Accumulated funds | | 242,560 | 111,384 | 105,672 |
| **Total Equity** | | **242,560** | **111,384** | **105,672** |

Refer Note 1.2.6 Restatement/corrections to Prior Year Comparatives, for details of corrections to prior periods.

The accompanying notes form part of these financial statements.

# Statement of changes in equity

for the year ended 30 June 2018

| | 2018 Accumulated Funds $'000 | 2017 Accumulated Funds $'000 |
|---|---|---|
| | | |
| **Balance at beginning of year** | **111,384** | **804,754** |
| Corrections to prior period | - | (699,082) |
| Equity at beginning of year restated | | 105,672 |
| Net Result for the year | 131,176 | 5,712 |
| | | |
| Other comprehensive income | - | - |
| | | |
| **Total comprehensive income for the year** | **131,176** | **5,712** |
| | | |
| **Transfers with owners in their capacity as owners** | **-** | **-** |
| | | |
| **Balance at 30 June** | **242,560** | **111,384** |

Refer Note 1.2.6 Restatement/corrections to Prior Year Comparatives, for details of corrections to prior periods.

The accompanying notes form part of these financial statements.

# Statement of cash flows

for the year ended 30 June 2018

| | Notes | 2018 $'000 | 2017 $'000 |
|---|---|---|---|
| | | | |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Premiums received | | 1,053,545 | 765,189 |
| Claims paid | | (1,151,119) | (1,089,748) |
| Recoveries received | | 33,603 | 52,145 |
| **Total Premiums/contributions less claims** | | **(63,971)** | **(272,414)** |
| | | | |
| **Receipts** | | | |
| Net proceeds from sale of investment | | 400,000 | 666,896 |
| Investment income | | 641,598 | 603,831 |
| Interest received | | 13,832 | 11,096 |
| Grants from the Crown | 5.4 | 231,372 | 110,000 |
| Other income | | 706 | 4 |
| **Total Receipts** | | **1,287,508** | **1,391,827** |
| | | | |
| **Payments** | | | |
| Net purchases of investments | | (641,598) | (661,527) |
| Grants to the Crown | 5.4 | (10,000) | (195,000) |
| Service fees paid | 2.3.9.1 | (228,096) | (178,049) |
| Other payments | | (106,267) | (91,277) |
| **Total Payments** | | **(985,961)** | **(1,125,853)** |
| | | | |
| **Total cash flows from operating activities** | | **237,576** | **(6,440)** |
| | | | |
| **NET INCREASE / (DECREASE) IN CASH** | | **237,576** | **(6,440)** |
| | | | |
| **Opening cash and cash equivalents** | | **268,003** | **274,443** |
| | | | |
| **CLOSING CASH AND CASH EQUIVALENTS** | | **505,579** | **268,003** |

The accompanying notes form part of these financial statements.

# Notes to the financial statements

for the year ended 30 June 2018

## 1. Overview

### 1.1 About the Corporation

The NSW Self Insurance Corporation (SI) operates under the *NSW Self Insurance Corporation Act 2004*, the *Public Finance and Audit Act 1983*, the Public Finance and Audit Regulation 2015 and the Treasurer's Directions. The reporting entity is consolidated as part of the NSW Total State Sector Accounts.

SI is a statutory entity that provides self-insurance coverage for most of the general government sector and a number of state owned corporations that have elected to join the scheme. SI also provides home warranty insurance outside the NSW public sector and principal arranged insurance for major capital projects undertaken by or on behalf of the State.

icare was established on 1 September 2015 in accordance with the *State Insurance and Care Governance Act 2015*. Its functions include the monitoring of performance of the insurance or compensation schemes in respect of which it provides services. SI is one such scheme

The financial statements for the year ended 30 June 2018 have been authorised for issue by the Chairman of the Board of icare and the Chief Executive Officer and Managing Director of SI on behalf of the Board of Directors of icare on 24 September 2018.

SI is a not-for-profit entity.

### 1.2 About this report

This Financial Report includes the consolidated financial statements of SI.

The Financial Report includes the four primary statements, namely the statement of comprehensive income (which comprises profit or loss and other comprehensive income), statement of financial position, statement of changes in equity and statement of cash flows as well as associated notes as required by Australian Accounting Standards. Disclosures have been grouped into the following categories in order to assist users in their understanding of the financial statements:

1. **Overview** contains information that impacts the Financial Report as a whole.
2. **Underwriting activities** brings together results and statement of financial position disclosures relevant to SI's operations.
3. **Investment activities** includes results and statement of financial position disclosures relevant to SI's investments.
4. **Risk management** provides commentary on SI's exposure to various financial and capital risks, explaining the potential impact on the results and statement of financial position and how SI manages these risks.
5. **Other** includes additional disclosures required in order to comply with Australian Accounting Standards.

Where applicable within each note, disclosures are further analysed as follows:

- **Overview** provides some context to assist users in understanding the disclosures and the accounting policies relevant to an understanding of the numbers;
- **Disclosures** (both numbers and commentary) provides analysis of balances as required by Australian Accounting Standards; and
- **Critical accounting judgements and estimates** explains the key estimates and judgements applied by SI in determining the numbers.

The notes include information which the directors believe is required to understand the financial statements and is material and relevant to the operations, statement of financial position and results of SI.

Information is considered material and relevant if:

- the amount in question is significant because of its size or nature;
- it is important to assist in understanding the results of SI;
- it helps to explain the impact of significant changes in SI's business; or
- it relates to an aspect of SI's operations that is important to its future performance

# Notes to the financial statements

for the year ended 30 June 2018

### 1.2.1 Management of claims and insurance underwriting business

SI uses an outsourced model for the management of claims and underwriting business. The claims and underwriting management contracts were awarded to the service providers following a public tender.

The claims and underwriting management arrangement of SI is shared between:

- GIO General Limited
- Allianz Insurance Australia
- Employers Mutual Limited
- Gallagher Bassett
- QBE Insurance (Australia) Limited
- Equifax Australia
- Residential Builders Underwriting Agency (disengaged in March 2018)

The claims managers and insurance agents receive a management fee from icare which includes an incentive structure for their services.

### 1.2.2 Basis of preparation

SI's financial statements are general purpose financial statements which have been prepared on an accrual basis in accordance with:

- Applicable Australian Accounting Standards (which include Australian Accounting Interpretations); and
- the requirements of the *Public Finance and Audit Act 1983* (PFAA) and Public Finance and Audit Regulation 2015.

Financial assets are measured at 'fair value through profit or loss'. Other financial statement items are prepared in accordance with the historical cost convention except where specified otherwise.

These financial statements have been presented on a liquidity basis following receipt of an exemption from TC18-01 by NSW Treasury that statements are presented on a current and non-current basis.

All amounts are rounded to the nearest one thousand dollars and are expressed in Australian currency.

### 1.2.3 Statement of compliance

SI's financial statements and notes comply with Australian Accounting Standards, which include Australian Accounting Interpretations.

### 1.2.4 Use of estimates and judgments

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

Judgements, key assumptions and estimations management has made are disclosed in the relevant notes to the financial statements.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised. Actual results may differ from these estimates.

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following notes:

- Note 3 & 4 – Financial instruments;
- Note 2.3 – Outstanding Claims liability; and
- Note 2.3.7- Unearned premiums and unexpired risk reserve.

### 1.2.5 Taxation

SI is exempt from income tax under Division 50 of the *Income Tax Assessment Act 1997*.

Income, expenses, and assets are recognised net of the amount of GST, except that:

- the amount of GST incurred by SI as a purchaser that is not recoverable from the Australian Taxation Office is recognised as part of an item of expense or as part of the cost of acquisition of an asset; and
- receivables and payables are stated with the amount of GST included.

Cash flows are included in the statement of Cash Flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are receivable from, or payable to, the Australian Taxation Office are classified as operating cash flows.

# Notes to the financial statements

for the year ended 30 June 2018

### 1.2.6 Restatement/correction to Prior Year Comparative information

AASB 108 “Accounting Policies, Changes in Accounting Estimates and Errors” requires corrections to comparative information be disclosed in the financial statements.

In 2017-18 it has been determined that the discount rate applied to SI’s provision for outstanding claims which are measured in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* should be based on the yields on Commonwealth Government Bonds consistent with generally accepted industry practice.

Under AASB 137 these liabilities are valued as the inflated and discounted value of the expected future payments for all claims incurred up to valuation date. Paragraph 47 of AASB 137 states the discount rate (or rates) shall be a pre-tax rate (or rates) that reflect(s) current market assessments of the time value of money (interpreted as risk-free rate) and the risks specific to the liability. The discount rate(s) shall not reflect risks for which future cash flow estimates have been adjusted. SI (excluding HBCF and CRIF) had previously been using discount rates based on the estimated long term fair value of the ten year NSW Government bond yields based on their informed assessment. Management has reassessed these discount rates, based on recent practice and advice, and has determined the market yield on Commonwealth Bonds best meet the requirements of AASB 137.

The valuation of liabilities for inclusion in the accounts incorporates a full review of the assumptions behind the estimates. As part of this review, the economic assumptions used to inflate future payments and discount them back to the balance date have been updated to reflect market expectations of the short term inflation rate and risk free yield curve. This change provides consistency in approach and improves comparability across the icare schemes and the public sector.Other reclassifications/restatements have also been made to conform to changes in presentation in the current year, including the reclassification of interest bearing securities from cash to investments. This reclassification was brought about as a result of a change in custodian where it was identified that certain investments with a duration of 3 months or more had previously been accounted for as cash,. These have been reclassified in the current and prior period to investments.

The reclassifications involved combining service fees, statutory levies and other operating expenses to be under one item called underwriting and other expenses. Additionally the movement in unearned premium was seperated from gross written premium/contributions. The following restatements/reclassifications have been made to the comparatives:

# Notes to the financial statements

for the year ended 30 June 2018

### 1.2.6 Restatement/correction to Prior Year Comparative information (continued)

| Item | 30 June 2017 Previously reported $'000 | Adjustment $'000 | 30 June 2017 Restated $'000 |
|---|---|---|---|
| | | | |
| **Statement of comprehensive income** | | | |
| Premium and contributions (excl. hindsights) | 1,153,172 | 38,711 | 1,191,883 |
| Unearned premium movement | - | (39,917) | (39,917) |
| Outwards reinsurance expense | - | (45,272) | (45,272) |
| Net earned premium and contributions | 1,153,172 | (46,478) | 1,106,694 |
| | | | |
| Recoveries received | 34,070 | 15,033 | 49,103 |
| Gross claims expense | (1,551,753) | 140,643 | (1,411,110) |
| Outwards reinsurance expense | (45,272) | 45,272 | - |
| Net claims expense | (1,660,458) | 200,948 | (1,459,510) |
| Underwriting and other expenses | - | (199,938) | (199,938) |
| Service fees | (156,571) | 156,571 | - |
| Statutory levies | (32,964) | 32,964 | - |
| Other operating expenses | (10,406) | 10,406 | - |
| Net result | (148,761) | 154,473 | 5,712 |

| Item | 30 June 2016 Previously reported $'000 | Adjustment $'000 | 30 June 2016 Restated $'000 |
|---|---|---|---|
| | | | |
| **Statement of financial position** | | | |
| Trade and other receivables | 308,407 | 311 | 308,718 |
| Total assets | 8,320,441 | 311 | 8,320,752 |
| Outstanding claims | 6,960,624 | 699,393 | 7,660,017 |
| **Total Liabilities** | 7,515,687 | 699,393 | 8,215,080 |
| **Net Assets** | 804,754 | 699,082 | 105,672 |
| **Accumulated funds** | 804,754 | 699,082 | 105,672 |

# Notes to the financial statements

for the year ended 30 June 2018

### 1.2.6 Restatement/correction to Prior Year Comparative information (continued)

| Item | 30 June 2017 Previously reported $'000 | Adjustment $'000 | 30 June 2017 Restated $'000 |
|---|---|---|---|
| | | | |
| **Statement of financial position** | | | |
| Trade and other receivables | 289,656 | 14,143 | 303,799 |
| **Total Assets** | 8,626,759 | 14,143 | 8,640,902 |
| Outstanding claims | 7,422,629 | 558,752 | 7,981,381 |
| **Total Liabilities** | 7,970,766 | 558,752 | 8,529,518 |
| **Net Assets** | 655,993 | (544,609) | 111,384 |
| **Accumulated funds** | 655,993 | (544,609) | 111,384 |

### 1.2.7 Accounting Standards issued but not yet effective

Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the reporting year ending 30 June 2018. The following new Standards will not have a material impact on the financial performance or position of SI.

- AASB 15, AASB 2014-5, AASB 2015-8 and AASB 2016-3 regarding *Revenue from Contracts with Customers*;
- AASB 16 regarding *Leases*;
- AASB *1058 Income of Not-for-profit Entities*;
- AASB 2016-6 Amendments to Australian Accounting Standards- Applying AASB 9 with AASB 4 Insurance Contracts;
- AASB 2016-7 Amendments to Australian Accounting Standards-Deferral of AASB 15 for Not-for-Profit Entities;
- AASB 2016-8 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities;
- AASB 2017-1 Amendments to Australian Accounting Standards – Transfer of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments; and
- AASB 2017-3 Amendments to Australian Accounting Standards- Clarifications to AASB 4

AASB 9 regarding *Financial Instruments* is being evaluated to assess if there is any impact on the financial performance or position of SI.

SI has commenced a program to assess the financial impact of AASB 17 *Insurance Contracts* on the financial results. This assessment will be concluded by 30 June 2020.

# Notes to the financial statements

for the year ended 30 June 2018

## 1.3 Fund information

**Overview**

The fund note provides information by Scheme's to assist the understanding of SI's performance.

SI has responsibility for the direction, control and management of a range of funds as outlined below.

- NSW Treasury Managed Fund
- Home Building Compensation Fund (formerly the Home Warranty Insurance Fund)
- Construction Risk Insurance Fund
- Transport Accidents Compensation Fund
- Pre-Managed Fund Reserve
- Governmental Workers Compensation Account
- Residual Workers Compensation Liabilities of the Crown
- Bush Fire Fighters Compensation Fund
- Emergency and Rescue Workers Compensation Fund
- Supplementary Sporting Injuries Fund

**NSW Treasury Managed Fund (TMF)**

The TMF is the Government's main self-insurance scheme that safeguards the insurable assets and exposures of:

- most general government sector agencies; and
- various statutory authorities and state owned corporations.

As TMF does not issue insurance contracts its claims liabilities are accounted for in accordance with AASB 137 "*Provisions, Contingent Liabilities and Contingent Assets*".

**Home Building Compensation Fund (HBCF)**

SI became the manager and underwriter of the HBCF from 1 July 2010 following the withdrawal of the commercial insurers in NSW. HBCF is the sole provider of insurance for home owners of residential building projects where a builder defaults on their contract. From 15 January 2015, the Home Warranty Insurance Fund was renamed as the Home Building Compensation Fund (HBCF).

HBCF's claims liabilities are accounted for in accordance with AASB 1023 "*General Insurance Contracts*".

**Construction Risk Insurance Fund (CRIF)**

Treasury Circular 16/11 '*Mandatory principal arranged insurance (PAI) for all major capital works projects*' requires all government agencies, other than State Owned Corporations (SOC) to undertake Principal Arranged Insurance through SI for all major capital works projects with a contract value greater than $10 million. This is to provide cost savings for the government capital works projects as well as to ensure that adequate insurance is in place with a reputable insurer and that the contractor's insurance arrangement remain current. The *NSW Self Insurance Corporation Act 2004* was amended to extend cover to non-government entities for the purpose of principal arranged insurance for major infrastructure projects where a NSW government entity is the Principal. The *NSW Self Insurance Corporation Amendment Bill* 2013 was assented by the Parliament on 25 June 2013. The CRIF scheme was setup for operation in 2013-14.

CRIF's claims liabilities are accounted for in accordance with AASB 1023 "*General Insurance Contracts*".

**Transport Accidents Compensation Fund (TAC)**

The TAC pays for motor transport accident claims under the common law system which applied until 30 June 1987 and TransCover system claims costs from then until 30 June 1989. The Motor Accidents Scheme replaced TransCover from 1 July 1989.

As TAC does not issue insurance contracts its claims liabilities are accounted for in accordance with AASB 137 "*Provisions, Contingent Liabilities and Contingent Assets*".

**Pre-Managed Fund Reserve (PMF)**

The PMF holds reserves previously held in the Fire Risks Account, the Fidelity Fund and the Public Liability Fund. It has been used to fund claims incurred by the NSW Government before 1 July 1989.

As PMF does not issue insurance contracts its claim liabilities are accounted for in accordance with AASB 137 "*Provisions, Contingent Liabilities and Contingent Assets*".

# Notes to the financial statements

for the year ended 30 June 2018

## 1.3 Fund information (continued)

**Governmental Workers Compensation Account (GWC)**

The GWC pays the outstanding workers compensation claims liabilities as at 30 June 1989 of the:

- Consolidated Revenue Fund
- Public Hospitals
- Road and Traffic Authority Managed Fund.

From 1 July 1989, the TMF has managed workers compensation insurance for these agencies.

As GWC does not issue insurance contracts its claims liabilities are accounted for in accordance with AASB 137 "*Provisions, Contingent Liabilities and Contingent Assets*".

**Residual Workers Compensation Liabilities of the Crown (SRA/RIC)**

Residual workers compensation liabilities include those from the former State Rail Authority of NSW (SRA) and Rail Infrastructure Corporation (RIC).

The liabilities of the SRA were initially vested to the Crown Finance Entity pursuant to amendments to the *Transport Administration Act 1988* (TAA) that provided for the restructuring of the Rail Industry. The liabilities of RIC were transferred to the Crown Finance Entity following section 94 and Order No. 2008-01 of the TAA which took effect from 1 October 2008. SI was appointed the claims manager for these liabilities upon Treasurer's direction.

As SRA/RIC does not issue insurance contracts its claims liabilities are accounted for in accordance with AASB 137 "*Provisions, Contingent Liabilities and Contingent Assets*".

**Bush Fire Fighters Compensation Fund (BFFF)**

The BFFF compensates voluntary fire fighters for personal injury and damage to fire fighters' personal property and equipment.

As BFFF does not issue insurance contracts its claims liabilities are accounted for in accordance with AASB 137 "*Provisions, Contingent Liabilities and Contingent Assets*".

**Emergency and Rescue Workers Compensation Fund (ERWF)**

The ERWF compensates emergency service workers, rescue association workers and surf life savers for personal injury and damage to their personal equipment and vehicles.

As ERWF does not issue insurance contracts its claims liabilities are accounted for in accordance with AASB 137 "*Provisions, Contingent Liabilities and Contingent Assets*".

**Supplementary Sporting Injuries Fund (SSIF)**

The SSIF has been established to facilitate administration of the Supplementary Sporting Injuries Scheme.

The scheme provides capital lump sum benefits for injuries that lead to a prescribed percentage of permanent loss of use or fatality to (a) children who are seriously injured while participating in organised school sport or athletic activities and (b) persons likewise injured while participating in certain programs or activity conducted or sanctioned by the Office of Sport.

As SSIF does not issue insurance contracts its claims liabilities are accounted for in accordance with AASB 137 "*Provisions, Contingent Liabilities and Contingent Assets*".

# Notes to the financial statements

for the year ended 30 June 2018

## 1.3 Fund information (continued)

### Disaggregated Financial Statements

### Statement of Comprehensive income

| | TMF $'000 | HBCF $'000 | CRIF $'000 | PMF $'000 | GWC $'000 | TAC $'000 | SRA/ RIC $'000 | BFFF $'000 | ERWF $'000 | SSIF $'000 | 2018 Total $'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Gross written premium and contributions | 1,103,626 | 130,785 | 16,970 | - | - | - | - | 2,500 | 3,000 | - | 1,256,881 |
| Unearned premium movement | - | (46,797) | (10,980) | - | - | - | - | 1,001 | 10,233 | (47) | (46,590) |
| Net earned premiums | 1,103,626 | 83,988 | 5,990 | - | - | - | - | 3,501 | 13,233 | (47) | 1,210,291 |
| Outwards reinsurance expense | (41,682) | - | 618 | - | - | - | - | - | - | - | (41,064) |
| **Net Earned premiums and contributions (a)** | **1,061,944** | **83,988** | **6,608** | **-** | **-** | **-** | **-** | **3,501** | **13,233** | **(47)** | **1,169,227** |
| Gross Claims expenses | (1,479,244) | (57,620) | (3,692) | (69,510) | (9,352) | (5,636) | (638) | (2,909) | (12,591) | 47 | (1,641,145) |
| Recoveries received | 27,765 | 875 | 1,296 | 179 | 80 | 84 | 109 | (29) | 184 | - | 30,543 |
| Acquisition costs | - | (25,467) | - | - | - | - | - | - | - | - | (25,467) |
| Unexpired risk liability expense | - | (122,371) | - | - | - | - | - | - | - | - | (122,371) |
| **Net Claims expense (b)** | **(1,451,479)** | **(204,583)** | **(2,396)** | **(69,331)** | **(9,272)** | **(5,552)** | **(529)** | **(2,938)** | **(12,407)** | **47** | **(1,758,440)** |
| Underwriting and other expenses (c) | (195,891) | (19,113) | (1,185) | (53) | (137) | (126) | (95) | (567) | (838) | - | (218,005) |
| **Underwriting result (a+b+c)** | **(585,426)** | **(139,708)** | **3,027** | **(69,384)** | **(9,409)** | **(5,678)** | **(624)** | **(4)** | **(12)** | **-** | **(807,218)** |
| Hindsight adjustments | (192,716) | - | - | - | - | - | - | - | - | - | (192,716) |
| Investment revenue | 848,484 | 3,291 | 627 | 2 | 8,354 | 36,284 | 11,974 | 4 | 12 | - | 909,032 |
| Other revenue | 104 | 542 | 60 | - | - | - | - | - | - | - | 706 |
| **Insurance profit/(loss)** | **70,446** | **(135,875)** | **3,714** | **(69,382)** | **(1,055)** | **30,606** | **11,350** | **-** | **-** | **-** | **(90,196)** |
| Grants (to) and from the Crown | (10,000) | 181,372 | - | 50,000 | - | - | - | - | - | - | 221,372 |
| **Net Result** | **60,446** | **45,497** | **3,714** | **(19,382)** | **(1,055)** | **30,606** | **11,350** | **-** | **-** | **-** | **131,176** |
| Other comprehensive income | - | - | - | - | - | - | - | - | - | - | - |
| **Total comprehensive income** | **60,446** | **45,497** | **3,714** | **(19,382)** | **(1,055)** | **30,606** | **11,350** | **-** | **-** | **-** | **131,176** |

# Notes to the financial statements

for the year ended 30 June 2018

## 1.3 Fund information (continued)

### Statement of Comprehensive income

| | TMF $'000 | HBCF $'000 | CRIF $'000 | PMF $'000 | GWC $'000 | TAC $'000 | SRA/ RIC $'000 | BFFF $'000 | ERWF $'000 | SSIF $'000 | 2017 Total $'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Gross written premium and contributions | 1,076,020 | 102,017 | 7,846 | - | - | - | - | 3000 | 3000 | - | 1,191,883 |
| Unearned premium movement | - | (41,371) | (1,897) | - | - | - | - | 152 | 3,228 | (29) | (39,917) |
| Net earned premiums | 1,076,020 | 60,646 | 5,949 | - | - | - | - | 3,152 | 6,228 | (29) | 1,151,966 |
| Outwards reinsurance expense | (42,055) | - | (3,217) | - | - | - | - | - | - | - | (45,272) |
| **Net Earned premiums and contributions (a)** | **1,033,965** | **60,646** | **2,732** | **-** | **-** | **-** | **-** | **3,152** | **6,228** | **(29)** | **1,106,694** |
| Gross Claims expenses | (1,239,161) | (56,135) | (3,888) | (81,586) | (1,198) | (22.211) | 1,194 | (2,615) | (5,549) | 29 | (1,411,110) |
| Recoveries received | 45,487 | 2,601 | 1,072 | 1,854 | 118 | 462 | (2,446) | (56) | 11 | - | 49,103 |
| Acquisition costs | - | (34,285) | - | - | - | - | - | - | - | - | (34,285) |
| Unexpired risk liability expense | - | (63,218) | - | - | - | - | - | - | - | - | (63,218) |
| **Net Claims expense (b)** | **(1,193,664)** | **(151,037)** | **(2,816)** | **(79,732)** | **(1,080)** | **(21,749)** | **(1,252)** | **(2,671)** | **(5,538)** | **29** | **(1,459,510)** |
| Underwriting and other expenses (c) | (181,108) | (15,986) | (933) | (151) | (190) | (221) | (149) | (495) | (705) | - | (199,938) |
| **Underwriting result (a+b+c)** | **(340,807)** | **(106,377)** | **(1,017)** | **(79,883)** | **(1,270)** | **(21,970)** | **(1,401)** | **(14)** | **(15)** | **-** | **(552,754)** |
| Hindsight adjustments | (307,870) | - | - | - | - | - | - | - | - | - | (307,870) |
| Investment revenue | 890,349 | 1,374 | 579 | 38 | 9,876 | 34,478 | 14,610 | 14 | 15 | - | 951,333 |
| Other revenue | 3 | - | - | - | - | - | - | - | - | - | 3 |
| **Insurance profit/(loss)** | **241,675** | **(105,003)** | **(438)** | **(79,845)** | **8,606** | **12,508** | **13,209** | **-** | **-** | **-** | **90,712** |
| Grants (to) and from the Crown | (195,000) | - | - | 90,000 | - | 20,000 | - | - | - | - | (85,000) |
| **Net Result** | **46,675** | **(105,003)** | **(438)** | **10,155** | **8,606** | **32,508** | **13,209** | **-** | **-** | **-** | **5,712** |
| Other comprehensive income | - | - | - | - | - | - | - | - | - | - | - |
| **Total comprehensive income** | **46,675** | **(105,003)** | **(438)** | **10,155** | **8,606** | **32,508** | **13,209** | **-** | **-** | **-** | **5,712** |

# Notes to the financial statements

for the year ended 30 June 2018

## 1.3 Fund information (continued)

### Statement of financial position

| | TMF $'000 | HBCF $'000 | CRIF $'000 | PMF $'000 | GWC $'000 | TAC $'000 | SRA/ RIC $'000 | BFFF $'000 | ERWF $'000 | SSIF $'000 | 2018 Total $'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | | |
| **ASSETS** | | | | | | | | | | | |
| Cash and cash equivalents | 143,796 | 299,233 | 62,603 | - | (4) | (19) | (30) | - | - | - | 505,579 |
| Investments | 7,937,175 | - | - | - | 90,337 | 407,760 | 129,802 | - | - | - | 8,565,074 |
| Trade and other receivables | 199,323 | 31,671 | 13,389 | - | 2,834 | 977 | 17,707 | 18,449 | 34,161 | 226 | 318,737 |
| Plant and Equipment | 5 | - | - | - | - | - | - | - | - | - | 5 |
| Intangible assets | 3 | 1,653 | - | - | - | - | - | - | - | - | 1,656 |
| **Total Assets** | **8,280,302** | **332,557** | **75,992** | **-** | **93,167** | **408,718** | **147,479** | **18,449** | **34,161** | **226** | **9,391,051** |
| | | | | | | | | | | | |
| **LIABILITIES** | | | | | | | | | | | |
| Trade and other payables | 148,156 | 6,105 | 409 | (125,392) | (811) | 1,089 | 99 | 3,802 | 7,856 | (8) | 41,306 |
| Unearned premiums | - | 324,158 | 23,066 | - | - | - | - | - | - | - | 347,244 |
| Outstanding claims liabilities | 7,619,680 | 149,064 | 9,816 | 155,557 | 88,588 | 328,428 | 79,089 | 14,647 | 26,305 | 234 | 8,471,407 |
| Unexpired risk liability | - | 288,554 | - | - | - | - | - | - | - | - | 288,554 |
| **Total Liabilities** | **7,767,836** | **767,881** | **33,291** | **30,165** | **87,777** | **329,517** | **79,188** | **18,449** | **34,161** | **226** | **9,148,491** |
| | | | | | | | | | | | |
| **Net Assets** | **512,466** | **(435,324)** | **42,701** | **(30,165)** | **5,390** | **79,201** | **68,291** | **-** | **-** | **-** | **242,560** |
| | | | | | | | | | | | |
| **EQUITY** | | | | | | | | | | | |
| Balance as at 1 July 2017 | 452,020 | (480,821) | 38,987 | (10,783) | 6,445 | 48,595 | 56,941 | - | - | - | 111,384 |
| Net Result for the year | 60,446 | 45,497 | 3,714 | (19,382) | (1,055) | 30,606 | 11,350 | - | - | - | 131,176 |
| **Total Equity** | **512,466** | **(435,324)** | **42,701** | **(30,165)** | **5,390** | **79,201** | **68,291** | **-** | **-** | **-** | **242,560** |

# Notes to the financial statements

for the year ended 30 June 2018

## 1.3 Fund information (continued)

### Statement of financial position

| | TMF $'000 | HBCF $'000 | CRIF $'000 | PMF $'000 | GWC $'000 | TAC $'000 | SRA/RIC $'000 | BFFF $'000 | ERWF $'000 | SSIF $'000 | 2017 Total $'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | | |
| **ASSETS** | | | | | | | | | | | |
| Cash and cash equivalents | 109,819 | 94,086 | 50,364 | 2,543 | 2,834 | 2,785 | 2,815 | 1,818 | 931 | 8 | 268,003 |
| Investments | 7,481,841 | - | - | - | 86,252 | 374,857 | 123,691 | - | - | - | 8,066,641 |
| Trade and other receivables | 208,959 | 23,649 | 7,571 | 16 | 2,778 | 1,008 | 17,911 | 17,574 | 24,060 | 273 | 303,799 |
| Plant and Equipment | 6 | - | - | - | - | - | - | - | - | - | 6 |
| Intangible assets | 6 | 2,447 | - | - | - | - | - | - | - | - | 2,453 |
| **Total Assets** | **7,800,631** | **120,182** | **57,935** | **2,559** | **91,864** | **378,650** | **144,417** | **19,392** | **24,991** | **281** | **8,640,902** |
| | | | | | | | | | | | |
| **LIABILITIES** | | | | | | | | | | | |
| Trade and other payables | 190,838 | 9,688 | 427 | (118,752) | 72 | 108 | 93 | 4,372 | 5,661 | - | 92,507 |
| Unearned premiums | - | 277,361 | 12,086 | - | - | - | - | - | - | - | 289,447 |
| Outstanding claims liabilities | 7,157,773 | 147,771 | 6,435 | 132,094 | 85,347 | 329,947 | 87,383 | 15,020 | 19,330 | 281 | 7,981,381 |
| Unexpired risk liability | - | 166,183 | - | - | - | - | - | - | - | - | 166,183 |
| **Total Liabilities** | **7,348,611** | **601,003** | **18,948** | **13,342** | **85,419** | **330,055** | **87,476** | **19,392** | **24,991** | **281** | **8,529,518** |
| | | | | | | | | | | | |
| **Net Assets** | **452,020** | **(480,821)** | **38,987** | **(10,783)** | **6,445** | **48,595** | **56,941** | **-** | **-** | **-** | **111,384** |
| | | | | | | | | | | | |
| **EQUITY** | | | | | | | | | | | |
| Balance as at 1 July 2016 | 405,345 | (375,818) | 39,425 | (20,938) | (2,161) | 16,087 | 43,732 | - | - | - | 105,672 |
| Net Result for the year | 46,675 | (105,003) | (438) | 10,155 | 8,606 | 32,508 | 13,209 | - | - | - | 5,712 |
| **Total Equity** | **452,020** | **(480,821)** | **38,987** | **(10,783)** | **6,445** | **48,595** | **56,941** | **-** | **-** | **-** | **111,384** |

# Notes to the financial statements

for the year ended 30 June 2018

## 2. Underwriting activities

**Overview**

This section provides analysis and commentary on the SI's underwriting activities. Underwriting, in simple terms, is the agreement by the insurer to assume insurance risk in return for a premium paid by the insured. The underwriter assesses the quality of the risk and prices it accordingly.

### 2.1 Revenue

**Overview**

Revenue mainly comprises premiums and contributions charged for providing insurance coverage. They are classified as either:

**Premium and contributions**

Premiums are recognised as income on a straight line basis over the period of the insured risk. Premiums are exclusive of taxes and duties levied.

TMF revenue is received from member agencies and recognised as levied.

HBCF Premium provides insurance cover for periods up to 7 years commencing from the date of the insurance contract. Premiums are recognised in line with the expected loss pattern of the contract. The proportion of premium received not earned at reporting date is recognised as an unearned premium liability on the statement of financial position.

CRIF Premium is received from agencies for principal arranged insurance cover for government capital projects estimated to cost $10 million or more and is recognised from the date of the insurance contract over the period in line with the expected loss pattern of the contract.

**Hindsight adjustments**

TMF uses a discretionary scheme to encourage agencies to improve their claims performance. Claims costs and premium for agencies are established at the start of a fund year. After sufficient time has passed for claims development, the scheme applies a hindsight adjustment, judgementally determined by SI, at 3 years (Interim) and 5 years (Final). Agencies receive or pay the difference between the annual premium and hindsight adjustment.

As the hindsight adjustments are completely judgemental and not contractually required they are recognised as revenue or expense when they are declared and/or paid.

Hindsight adjustments recognised in 2017-18 include workers compensation final hindsight adjustments for 2012-13 and interim hindsight adjustments for 2014-15. Hindsight adjustments recognised in 2016-17 include workers compensation final hindsight adjustments for 2011-12 and interim hindsight adjustments for 2013-14.

**Outwards reinsurance expense**

Premiums ceded to reinsurers are recognised as an expense at the earlier of when they are paid or become payable.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| Gross written premium | 147,755 | 109,863 |
| Unearned premium movement | (57,777) | (43,268) |
| Reinsurance expense | 618 | (3,217) |
| Net earned premium (a) | 90,596 | 63,378 |
| Contributions | 1,109,126 | 1,082,020 |
| Unearned contribution movement | 11,187 | 3,351 |
| Reinsurance expense | (41,682) | (42,055) |
| Net earned contributions (b) | 1,078,631 | 1,043,316 |
| Net earned premium and contributions (a+b) | **1,169,227** | **1,106,694** |

# Notes to the financial statements

for the year ended 30 June 2018

## 2.2 Net Claims expense

### Overview

The largest expense for SI is net claims, which is the difference between the net outstanding claims liability (Note 2.3) at the beginning and the end of the financial year plus any claims incurred and settled in the financial year and the movement in the unexpired risk liability.

Claims incurred is:

- the amount incurred on claims by SI during the year;
- plus the amount, which the consulting actuary has estimated as at 30 June 2018 as being the movement in the amount required to meet the cost of claims reported but not yet paid;
- claims incurred which are yet to be reported; and
- the escalation in reported and reopened claims.

Insurance recoveries are recognised as revenue when it is virtually certain the recovery will be made. Other recoveries include recoveries of claims paid under:

- sharing agreements;
- third party recoveries; and
- salvage and subrogation.

Movement in outstanding recoveries represents the increase/(decrease) in the actuarially assessed level of insurance and other recoveries receivable at reporting date. (Note 2.3.10).

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| Claims and related expenses | 1,151,119 | 1,089,746 |
| Finance costs | 120,439 | 198,339 |
| Other movements in outstanding claims liabilities | 369,587 | 123,025 |
| Gross claims expenses | 1,641,145 | 1,411,110 |
| Recoveries revenue | (30,543) | (49,103) |
| Acquisition costs | 25,467 | 34,285 |
| Movement in unexpired risk liability | 122,371 | 63,218 |
| **Net claims expense** | **1,758,440** | **1,459,510** |

Finance costs relate to the unwinding of the discount rate due to the passage of time and are dissected by scheme in the table below:

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| **Unwinding of discounts on provision for outstanding claims see below:** | | |
| NSW Treasury Managed Fund (TMF) | 108,139 | 175,355 |
| Pre Managed Fund (PMF) | 1,764 | 3,201 |
| Governmental Workers Compensation Account (GWC) | 1,349 | 1,365 |
| Home Building Compensation Fund (HBCF) | 1,972 | 1,944 |
| Construction Risk Insurance Fund (CRIF) | 68 | 51 |
| Transport Accidents Compensation Fund (TAC) | 5,274 | 14,701 |
| Residual Workers Compensation Liabilities of the Crown (SRA/RIC) | 1,353 | 1,229 |
| Bush Fire Fighters Compensation Fund (BFFF) | 227 | 223 |
| Emergency and Rescue Workers Compensation Fund (ERWF) | 289 | 266 |
| Supplementary Sporting Injuries Fund (SSIF) | 4 | 4 |
| Finance costs | 120,439 | 198,339 |

An analysis of the net claims incurred for the TMF (SI's main scheme) showing separately the amount relating to risks borne in the current period and the amount relating to a reassessment of risks borne in all previous periods is presented below.

# Notes to the financial statements

for the year ended 30 June 2018

## 2.2 Net Claims expenses (continued)

### (i) TMF Workers Compensation

| | 12 Months to 30 June 2018 | | | 12 Months to 30 June 2017 | | |
|---|---|---|---|---|---|---|
| | Current year $'000 | Prior Years $'000 | Total $'000 | Current year $'000 | Prior Years $'000 | Total $'000 |
| **Gross Claims Expense[3]** | | | | | | |
| Gross claims incurred – Undiscounted | 882,730 | (12,876) | 869,854 | 61,096 | 443,351 | 504,447 |
| Discount movement | (174,273) | 155,908 | (18,365) | 549,696 | (347,232) | 202,464 |
| | **708,456** | **143,032** | **851,489** | **610,792** | **96.119** | **706,911** |
| **Reinsurance and other recoveries revenue** | | | | | | |
| Reinsurance and other recoveries revenue – undiscounted[1] | (9,553) | 10,290 | 737 | (97) | (8,903) | (9,000) |
| Discount movement | 1.115 | (3,146) | (2,031) | (8,158) | 10,250 | 2,092 |
| | (8,438) | 7,145 | (1,293) | (8,255) | 1,347 | (6,908) |
| **Total Net Claims Incurred** | **700,018** | **150,177** | **850,195** | **602,537** | **97,466** | **700,003** |

### (ii) TMF General Lines

| | 12 Months to 30 June 2018 | | | 12 Months to 30 June 2017 | | |
|---|---|---|---|---|---|---|
| | Current year $'000 | Prior Years $'000 | Total $'000 | Current year $'000 | Prior Years $'000 | Total $'000 |
| **Gross Claims Expense[3]** | | | | | | |
| Gross claims incurred – Undiscounted | 784,013 | (115,022) | 668,991 | 58,493 | 125,187 | 183,680 |
| Discount movement | (103,848) | 62,613 | (41,236) | 543,685 | (195,126) | 348,559 |
| | **680,165** | **(52,109)** | **627,746** | **602,178** | **(69,939)** | **532,239** |
| **Reinsurance and other recoveries revenue** | | | | | | |
| Reinsurance and other recoveries revenue – undiscounted | (50,497) | 25,694 | (24,803) | (2,450) | (26,061) | (28,511) |
| Discount movement | 4,144 | (5,812) | (1,668) | (28,070) | 18,003 | (10,067) |
| | **(46,353)** | **(19,881)** | **(26,472)** | **(30,520)** | **(8,058)** | **(38,578)** |
| **Total Net Claims Incurred** | **633,812** | **(32,528)** | **601,284** | **571,658** | **(77,997)** | **493,661** |

# Notes to the financial statements

for the year ended 30 June 2018

## 2.2 Net Claims expense (continued)

### (iii) Other

| | 12 Months to 30 June 2018 | | | 12 Months to 30 June 2017 | | |
|---|---|---|---|---|---|---|
| | Current year $'000 | Prior Years $'000 | Total $'000 | Current year $'000 | Prior Years $'000 | Total $'000 |
| **Gross Claims Expense[3]** | | | | | | |
| Gross claims incurred – Undiscounted | 6,931 | 119,397 | 126,328 | 3,034 | 77,779 | 80,813 |
| Discount movement | 57,658 | (22,085) | 35,573 | 74,974 | 16,173 | 91,147 |
| | **64,589** | **97,312** | **161,901** | **78,008** | **93,952** | **171,960** |
| **Reinsurance and other recoveries revenue** | | | | | | |
| Reinsurance and other recoveries revenue – undiscounted | (3) | (1,743) | (1,746) | 2 | (2,936) | (2,934) |
| Discount movement | (1,982) | 950 | (1,032) | (1,964) | 1,281 | (683) |
| | **(1,985)** | **(793)** | **(2,778)** | **(1,962)** | **(1,655)** | **(3,617)** |
| **Total Net Claims Incurred** | **62,604** | **96,518** | **159,123** | **76,046** | **92,297** | **168,343** |

[1] Movement in the undiscounted and discounted gross claims represents the increase/(decrease) in the outstanding claims provision at the reporting date.

[2] Movement in the undiscounted and discounted reinsurance and other recoveries represents the increase/(decrease) in the insurance and other recoveries receivable at the reporting date.

[3] Gross outstanding claims movements include an estimate for claims handling expenses.

# Notes to the financial statements

for the year ended 30 June 2018

## 2.3 Outstanding claims liabilities

**Overview**

Provisions are recognised when SI has a present obligation as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

The net outstanding claims liability comprises the elements described below.

- The net central estimate (Note 2.3.1). This is the provision for expected future claims payments and includes claims reported but not yet paid, claims incurred but which have not yet been reported (IBNR), claims incurred but not enough reported (known as IBNER) and estimated claims handling costs;
- Less an amount to reflect the discount to present value using risk-free rates of return. The net central estimate is discounted to present value recognising that the claim and/or recovery may not be settled for some time. The expected future payments (excluding CRIF and HBCF) are discounted to a present value at the reporting date using a risk free discount rate. In 2016/17 these future payments were discounted to present value using discount rates based on the estimated long term fair value of the ten year NSW Government bond yield as recommended by TCorp (refer 2.3.3 for details of discount rates applied to each scheme). Prior period balances have been restated (refer Note 1.2.6); and
- Plus a risk margin (Note 2.3.2). While Management have considered risks and uncertainties in the estimation of the central estimate, consistent with the requirements of AASB 1023, a risk margin is included in the net discounted central estimate of outstanding claims for HBCF and CRIF.

For HBCF, the provision for outstanding claims is actuarially determined in conjunction with information supplied by the Insurance Agents for the NSW Home Building Compensation Fund and includes a factor for superimposed inflation and an additional risk margin in accordance with the requirements of AASB 1023.

The outstanding claims liability for the Pre-Managed Fund Reserve (part of the TMF) is determined from estimates provided by the member agencies based on claims incurred and reported as at the reporting date. The list of claims estimates provided by the agencies is vetted by the TMF's manager and approved by SI.

For CRIF, the provision for outstanding claims is actuarially determined in conjunction with various sources of industry benchmark data and assumptions given the very limited claims experience to date and includes an additional risk margin in accordance with the requirements of AASB 1023.

Where there is a material effect due to the time value of money, the provisions are discounted. The increase in the provision resulting from the passage of time is recognised in the finance costs.

# Notes to the financial statements

for the year ended 30 June 2018

### 2.3.1 Discounted net outstanding claims

**Overview**

The liability for outstanding claims is actuarially determined in consultation with the claims managers for TMF, TAC, GWC, SRA/RIC, CRIF, BFFF, ERWF and SSIF. It is measured as the estimate of the expected future payments required to settle the present obligation at the reporting date, including the expenses associated with the settlement.

The expected future payments are estimated on the basis of the ultimate cost of the settling of claims, which is affected by factors arising during the period to settlement such as normal inflation and "superimposed inflation". Superimposed inflation refers to growth/inflation above normal inflation, including factors such as trends in court awards, such as increases in the level and period of compensation for injury or above inflation increases in the cost of obtaining medical services.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| **Outstanding claims liabilities** | | |
| Expected future gross claims payments | 10,487,336 | 9,179,347 |
| Gross claims handling | 704,015 | 532,108 |
| Gross risk margin | 26,801 | 25,819 |
| Gross outstanding claims liabilities | 11,218,152 | 9,737,274 |
| Discount on central estimate | (2,579,881) | (1,660,621) |
| Discount on claims handling expenses | (161,469) | (90,191) |
| Discount on risk margin | (5,395) | (5,081) |
| Total discount on claims liabilities | (2,746,745) | (1,755,893) |
| **Claims liabilities 30 June** | **8,471,407** | **7,981,381** |
| **Recoveries** | | |
| Expected future actuarial assessment of reinsurance recoveries | 3,614 | 2,133 |
| Expected future actuarial assessment of other recoveries | 256,743 | 251,388 |
| Gross outstanding recoveries | 260,357 | 253,521 |
| Discount to present value reinsurance recoveries | (329) | (94) |
| Discount to present value other recoveries | (38,186) | (28,525) |
| Total discounted on recoveries | (38,515) | (28,619) |
| **Recoveries 30 June** | 221,842 | 224,902 |
| **Net outstanding claims liabilities** | **8,249,565** | **7,756,479** |

The valuation of liabilities for inclusion in the accounts incorporates a full review of the assumptions behind the estimates. Included in this review are the economic assumptions used to inflate future payments and discount them back to the balance date. icare has aligned the economic assumptions adopted across the icare schemes for the 30 June 2018 valuations. This consistency in approach improves the comparability of the results and aligns them with standard practice in the general insurance industry. The discount rates adopted for TMF are now based on the yields of Commonwealth Government bonds. The future inflation rates are based on market expectations in the short term and a fixed gap relative to the discount rates in the longer term.

# Notes to the financial statements

for the year ended 30 June 2018

### 2.3.1 Discounted net outstanding claims (continued)

The table below analyses the movement in the outstanding claims liability (excluding recoveries)

| | TMF $'000 | CRIF $'000 | PMF $'000 | GWC $'000 | TAC $'000 | SRA/ RIC $'000 | HBCF $'000 | BFFF $'000 | ERWF $'000 | SSIF $'000 | 2018 Total $'000 | 2017 Total $'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | | | |
| Net carrying amount at start of year | 7,157,773 | 6,436 | 132,094 | 85,348 | 329,947 | 87,383 | 147,771 | 15,020 | 19,330 | 281 | **7,981,383** | 7,660,017 |
| Payments (All Ays, excl CHE) | (1,017,323) | (312) | (46,047) | (6,072) | (7,155) | (8,883) | (53,808) | (3,282) | (5,617) | - | **(1,148,499)** | (1,088,480) |
| Unwinding of discounts | 108,139 | 68 | 1.764 | 1.349 | 5.274 | 1.353 | 1,972 | 227 | 289 | 4 | **120,439** | 198,339 |
| Actuarial (gain)/loss | 61,098 | (1,603) | 70,047 | 7,963 | 362 | (764) | 1,623 | 559 | 7,606 | (100) | **146,791** | (23,713) |
| Additions (liability incl. CHE) | 1,251,777 | 5,199 | - | - | - | - | 46,829 | 2,023 | 3,671 | 49 | **1,309,548** | 1,150,836 |
| Additions (payments incl. CHE) | 131,486 | 45 | - | - | - | - | 4,677 | 723 | 2,234 | - | **139,165** | 148,714 |
| Expected CHE (All Ay's) | (73,270) | (16) | (2,302) | - | - | - | - | (624) | (1,208) | - | **(77,420)** | (64,332) |
| Portfolio transfer in | - | - | - | - | - | - | - | - | - | - | **-** | - |
| **Closing balance** | **7,619,681** | **9,816** | **155,557** | **88,588** | **328,427** | **79,088** | **149,064** | **14,647** | **26,305** | **234** | **8,471,407** | **7,981,381** |

AY = Accident year

CHE= Claims handling expenses

### 2.3.2 Risk Margin

**Overview**

A risk margin is determined by the Board to reflect the inherent uncertainty in the net discounted central estimate.

The risk margin and the net discounted central estimate are key inputs in the determination of the probability of adequacy, which is a statistical measure of the relative adequacy of the outstanding claims liability to ultimately be able to pay claims. For example, a 75 percent probability of adequacy indicates that the net discounted central estimate is expected to be adequate seven and a half years out of 10.

For HBCF and CRIF, the outstanding claims liability estimate includes a risk margin of 15 and 25 per cent respectively (2017: 15 and 25 per cent) to cover the inherent uncertainty in the net central estimate. The risk margins have been set at a level that results in an overall probability of sufficiency in the outstanding claims liability of 75 per cent (2017: 75 per cent).

The risk margin for the HBCF was $19.4 million (2017: $19.0 million) and for the CRIF $2.0 million (2017: $0.9 million).

No risk margin is included in the outstanding claims liability for the TMF (2017 nil). The overall probability of sufficiency of the liability was 53 per cent at 30 June 2018 (2017: 53 per cent).

# Notes to the financial statements

for the year ended 30 June 2018

### 2.3.3 Core claims liability variables

**Overview**

The core variables that drive SI's liabilities are the inflation rate for benefits and the discount rate of these liabilities.

The average inflation and discount rates below were used in measuring the outstanding claims liability:

| | 2018 % | | | 2017 % | | |
|---|---|---|---|---|---|---|
| **Next 12 months** | Inflation rate | Discount rate | Superimposed inflation | Inflation rate | Discount rate | Superimposed inflation |
| TMF Workers | 1.60-2.20 | 1.80-1.90 | 0.80-1.80 | 2.10-2.90 | 1.60-1.70 | - |
| TMF General | 2.17-2.70 | 1.81-2.03 | 1.50-3.50 | 2.50 | 1.62-1.66 | 2.00-4.00 |
| CRIF | 2.17–2.39 | 1.81–2.03 | - | 1.90-2.00 | 1.60 | - |
| PMF | 2.20-2.70 | 1.81-2.03 | - | 2.50 | 1.62-1.66 | - |
| GWC | 2.59 | 1.95 | 0-1.50 | 2.94 | 1.63 | 0-1.50 |
| TAC | 2.20 – 2.70 | 1.81–2.03 | 3.50 | 3.00 | 1.62-1.66 | 3.50 |
| SRA/RIC | 2.39-2.64 | 1.95 | 0-1.70 | 2.72-3.00 | 1.63 | 0-1.70 |
| HBCF | 1.95-3.37 | 1.95 | 1.63-3.05 | 2.50 | 1.60 | 2.50 |
| ERWF | 2.39 | 1.95 | - | 2.72 | 1.63 | - |
| BFF | 2.39 | 1.95 | - | 2.72 | 1.63 | - |
| SSIF | - | 2.10 | - | - | 2.20 | - |
| **Greater than 12 months** | | | | | | |
| TMF Workers | 2.20-2.70 | 2.00-4.10 | 0-0.60 | 2.5-3.40 | 1.80-5.50 | - |
| TMF General | 2.00-3.50 | 1.81-2.03 | 1.50-3.50 | 2.50 – 3.80 | 1.77-5.50 | 2.00 – 4.00 |
| CRIF | 2.00 – 2.38 | 1.81–2.03 | - | 2.10-2.40 | 1.90-4.60 | - |
| PMF | 2.87-3.50 | 1.81-2.03 | - | 2.75 – 3.80 | 1.77-5.50 | - |
| GWC | 2.20-3.60 | 2.10-4.50 | 0-1.50 | 2.13-4.10 | 1.93-5.50 | 0-1.50 |
| TAC | 2.87 – 3.50 | 1.81 – 2.03 | 3.50 | 3.25 – 4.00 | 1.77-5.50 | 3.50 |
| SRA/RIC | 1.80-3.70 | 2.10-4.50 | 0-1.70 | 1.73-4.20 | 1.93-5.50 | 0-1.70 |
| HBCF | 1.95-3.37 | 2.07-4.50 | 1.63-3.05 | 2.90-3.60 | 1.80-4.30 | 1.40-2.10 |
| ERWF | 1.83-3.21 | 2.07-4.50 | - | 1.73-3.70 | 1.93-5.50 | - |
| BFF | 1.83-3.21 | 2.07-4.50 | - | 1.73-3.70 | 1.93-5.50 | - |
| SSIF | - | 2.10 | - | - | 2.20 | - |

The weighted average expected term to settlement from the balance date of the outstanding claims is estimated to be 5.1 years for TMF General Lines, 7.9 years for TMF Workers Compensation, 2.06 years for the CRIF (2017: 2.06 years), 12.2 years for GWC (2017: 12.1 years), 23 years for TAC (2017: 23 years), 9.7 years for SRA/RIC (2017: 9.4 years), 6.9 years for BFF (2017: 7.1 years), 8.1 years for ERWF (2017: 9.4 years) and 2.3 years for HBCF (2017: 2.1 years).

# Notes to the financial statements

for the year ended 30 June 2018

### 2.3.4 Net Claims liability maturity

**Overview**

The maturity profile is SI's expectation of the period over which the net central estimate will be settled. SI uses this information to ensure that it has adequate liquidity to pay claims as they are due to be settled and to inform SI's investment strategy. The expected maturity profile of SI's net discounted central estimate is analysed below:

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| **Outstanding claims net of recoveries maturing:** | | |
| Within 1 year | 1,182,813 | 1,096,216 |
| 2 to 5 years | 3,154,827 | 2,921,505 |
| More than 5 years | 3,911,925 | 3,738,758 |
| | **8,249,565** | **7,756,479** |

### 2.3.5 Impact of changes in key variables on the net outstanding claims liability

**Overview**

The outstanding claims liabilities are central estimates derived from actuarial assumptions regarding future experience. Sensitivity analysis can be used to measure the change in the outstanding claims liability estimate that would result from a change in the assumptions. TMF is SI's main scheme which represents 90% (2017: 91%) of the outstanding claims. A sensitivity analysis of the key assumption changes for the TMF and their impact on the net central estimate is shown in the following tables.

**(i) TMF Workers Compensation**

| Variable | Movement in variable % | Net Central Estimate $'000 | Impact of Change $'000 | Impact % |
|---|---|---|---|---|
| Net Central Estimate[1] | | 4,447,331 | | |
| Discount rate[2] | Discount rate -4.5% | 4,085,151 | (362,180) | (8.1%) |
| Discount rate[2] | +1 | 4,254,936 | (192,394) | (4.3%) |
| | -1 | 4,653,410 | 206,079 | 4.6% |
| Inflation rate[2] | +1 | 4,659,101 | 211,770 | 4.8% |
| | -1 | 4,246,142 | (201,188) | (4.5%) |

[1] The net central estimate is inflated and discounted, net of insurance and other recoveries and includes an allowance for claims handling expenses.

[2] returns to fixed inflation gap (1.5%) after 10 years, blended impact 5-10 years.

# Notes to the financial statements

for the year ended 30 June 2018

### 2.3.5 Impact of changes in key variables on the net outstanding claims liability (continued)

#### (ii) TMF General Lines

| Variable | Movement in variable % | Net Central Estimate $'000 | Impact of Change $'000 | Impact % |
|---|---|---|---|---|
| Net Central Estimate[1] | | 2,978,961 | | |
| Discount rate | Discount rate -4.5% | 2,713,268 | (265,117) | (8.9%) |
| Discount Rate | +1 | 2,837,382 | (141,578) | (4.8%) |
| | -1 | 3,135,790 | 156,830 | 5.3% |
| | +1 | 3,095,236 | 116,275 | 3.9% |
| Inflation rate | -1 | 2,867,761 | (111,199) | (3.7%) |
| Superimposed Inflation rate | +1 | 2,925,568 | 132,348 | 4.4% |
| | -1 | 2,671,787 | (121,433) | (4.1%) |

[1] The net central estimate is inflated and discounted, net of insurance and other recoveries and includes an allowance for claims handling expenses.

# Notes to the financial statements

for the year ended 30 June 2018

### 2.3.5 Impact of changes in key variables on the net outstanding claims liability (continued)

**Additional Scenarios:**

**(iii) TMF Workers Compensation**

| Variable | Movement in Variable % | Net Central Estimate $'000 | Impact of Change $'000 | Impact % |
|---|---|---|---|---|
| Net Central Estimate – Outstanding Workers Compensation Claims | | 4,447,331 | | |
| Tail continuance rates[2] | 1% | 4,975,846 | 528,515 | 12% |
| Tail continuance rates[2] | (1%) | 3,711,747 | (735,584) | (17%) |
| Medical Payments – Superimposed Inflation | Add 2% p.a. | 4,677,832 | 230,502 | 5% |
| Workplace Injury Damage Payments | +10% to utilisation by eligible post-2002 claims | 4,560,785 | 113,454 | 3% |
| Workplace Injury Damage Payments | -10% to utilisation by eligible post-2002 claims | 4,330,399 | (116,932) | (3%) |
| NSW Police – Ultimate Number of Medically Discharged Claims[3] | Increase ultimate MDs in recent accident periods | 4,503,407 | 56,076 | 1% |
| NSW Police – Ultimate Number of Medically Discharged Claims[4] | NMD actives convert to MDs | 4,545,022 | 97,691 | 2% |
| Average Payments Weekly and Medical (non-medically discharged) | Increase by 10% | 4,740,854 | 293,523 | 6% |
| Average Payments Weekly and Medical (non-medically discharged) | Decrease by 10% | 4,153,808 | (293,523) | (6%) |
| WAP high scenario (s39 exemptions)[5] | Disputes outcomes worsen | 4,531,912 | 84,582 | 2% |
| WAP high scenario (s39 exemptions)[6] | Disputes outcomes improve | 4,413,231 | (34,100) | (1%) |
| Baldacchino[7] | Broad definition increases cost by 40% | 4,457,540 | 10,209 | 0% |

[2] Continuance rates from 5 years after accident increased/decreased respectively - capped at 100%

[3] Ultimate number for June 2015 to June 2018 accident years increased by 50 per accident quarter.

[4] Non-medical discharge (NMD) actives net of medical discharge (MD) IBNR claims for accidents to June 2015 convert to become MD claims.

[5] Dispute probability doubles, and the success rate increases to 100%

[6] Dispute probability halves, and the success rate decreases to 50%

[7] Decision by the Workers Compensation Commission (WCC) concerning the scope of medical expenses claimable under S59A of the *WorkersCompensation Act 1987*.

# Notes to the financial statements

for the year ended 30 June 2018

### 2.3.5 Impact of changes in key variables on the net outstanding claims liability (continued)

A sensitivity analysis of the key assumption changes for the TMF and their impact on the central estimate excluding recoveries is shown in the following tables.

**(iv) TMF General Lines**

| Variable | Movement in variable % | Gross Central Estimate $'000 | Impact of Change $'000 | Impact % |
|---|---|---|---|---|
| Gross Central Estimate[1] | | 3,118,992 | | |
| Discount rate | Discount rate-4.5% | 2,842,865 | (276,127) | (8.9%) |
| Discount rate | +1 | 2,972,182 | (146,810) | (4.7%) |
| | -1 | 3,281,507 | 162,516 | 5.2% |
| Inflation rate | +1 | 3,239,964 | 120,973 | 3.9% |
| | -1 | 3,003,277 | (115,715) | (3.7%) |
| Superimposed inflation rate | +1 | 3,070,458 | 143,783 | 4.6% |
| | -1 | 2,794,644 | (132,032) | (3.9%) |

[1] The gross central estimate is inflated and discounted, gross of insurance and other recoveries and includes an allowance for claims handling expenses.

**(v)TMF Workers Compensation**

| Variable | Movement in variable % | Gross Central Estimate $'000 | Impact of Change $'000 | Impact % |
|---|---|---|---|---|
| Gross Central Estimate[1] | | 4,500,688 | | |
| Discount rate[2] | Discount rate-4.5% | 4,139,311 | (361,378) | (8.0%) |
| Discount rate[2] | +1 | 4,308,294 | (192,394) | (4.3%) |
| | -1 | 4,706,767 | 206,079 | 4.6% |
| Inflation rate[2] | +1 | 4,712,458 | 211,770 | 4.7% |
| | -1 | 4,299.500 | (201,188) | (4.5%) |

[1] The gross central estimate is inflated and discounted, gross of insurance and other recoveries and includes an allowance for claims handling expenses.

[2] returns to fixed inflation gap (1.5%) after 10 years, blended impact 5-10 years.

# Notes to the financial statements

for the year ended 30 June 2018

### 2.3.5 Impact of changes in key variables on the net outstanding claims liability (continued)

**Additional Scenarios:**

**(vi) TMF Workers Compensation**

| Variable | Movement in Variable % | Gross Central Estimate $'000 | Impact of Change $'000 | Impact % |
|---|---|---|---|---|
| Gross Central Estimate – Outstanding Workers Compensation Claims | | 4,500,688 | | |
| Tail continuance rates[2] | 1% | 5,029,204 | 528,515 | 12% |
| Tail continuance rates[2] | (1%) | 3,765,104 | (735,584) | (16%) |
| Medical Payments – Superimposed Inflation | Medical SII = 2% p.a | 4,731,190 | 230,502 | 5% |
| Workplace Injury Damage Payments | +10% to utilisation by eligible post-2002 claims | 4.614.143 | 113.454 | 3% |
| Workplace Injury Damage Payments | -10% to utilisation by eligible post-2002 claims | 4,383,756 | (116,932) | (3%) |
| NSW Police – Ultimate Number of Medically Discharged Claims[3] | Increase ultimate MDs in recent accident periods | 4,556,764 | 56,076 | 1% |
| NSW Police – Ultimate Number of Medically Discharged Claims[4] | NMD actives convert to MDs | 4,598,380 | 97,691 | 2% |
| Average Payments Weekly and Medical (non-medically discharged) | Increase by 10% | 4,789,019 | 288,331 | 6% |
| Average Payments Weekly and Medical (non-medically discharged) | Decrease by 10% | 4,212,357 | (288,331) | (6%) |
| WAP high scenario (s39 exemptions)[5] | Disputes outcomes worsen | 4,585,270 | 84,582 | 2% |
| WAP high scenario (s39 exemptions)[6] | Disputes outcomes improve | 4,466,588 | (34,100) | (1%) |
| Baldacchino[7] | Broad definition increases cost by 40% | 4,510,898 | 10,209 | 0% |

2 Continuance rates from 5 years after accident increased/decreased respectively - capped at 100%

3 Ultimate number for June 2015 to June 2018 accident years increased by 50 per accident quarter.

4 NMD actives net of MD IBNR claims for accidents to June 2015 convert to become MD claims.

5 Dispute probability doubles, and the success rate increases to 100%

6 Dispute probability halves, and the success rate decreases to 50%

7 Decision by the Workers Compensation Commission (WCC) concerning the scope of medical expenses claimable under S59A of the *WorkersCompensation Act 1987*.

# Notes to the financial statements

for the year ended 30 June 2018

### 2.3.6 Claims development

**Overview**

A significant portion of SI's liabilities relate to claim liabilities of past years that will be settled in future years.

The following table shows the development of undiscounted outstanding claims relative to the ultimate expected claims for the most recent accident years for SI.

(i) TMF Workers Compensation

| Accident Year | 2009 & prior | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| | | | | | | | | | | | |
| **Estimate of ultimate claims cost** | | | | | | | | | | | |
| At the end of accident year | | 730,915 | 870,009 | 806,693 | 766,805 | 742,282 | 675,108 | 674,813 | 762,098 | 793.708 | |
| One year later | | 766,477 | 848,001 | 792,706 | 679,304 | 638,548 | 653,422 | 703,381 | 801.942 | | |
| Two years later | | 787,762 | 887,271 | 837,704 | 612,288 | 611,692 | 676,302 | 715,097 | | | |
| Three years later | | 829,677 | 1,003,611 | 760,115 | 591,531 | 594,766 | 652,035 | | | | |
| Four years later | | 924,591 | 992,280 | 717,572 | 579,361 | 552,638 | | | | | |
| Five years later | | 905,802 | 979,591 | 721,020 | 493,879 | | | | | | |
| Six years later | | 897,546 | 978,424 | 683,511 | | | | | | | |
| Seven years later | | 949,961 | 911,893 | | | | | | | | |
| Eight years later | | 854,955 | | | | | | | | | |
| Accumulated nine years and greater | 8,035,097 | | | | | | | | | | |
| Current estimate of cumulative claim costs | 8,035,097 | 854,955 | 911,893 | 683,511 | 493,879 | 552,638 | 652,035 | 715,097 | 801.942 | 793.708 | 14,494,756 |
| Cumulative net claim payments | 6,497,700 | 537,760 | 551,666 | 412,715 | 258,649 | 238,738 | 236,139 | 215,820 | 194,528 | 72,901 | 9,216,646 |
| Undiscounted central estimate | 1,537,397 | 317,195 | 360,228 | 270,796 | 235,229 | 313,900 | 415,896 | 499,246 | 607,413 | 720,807 | 5,278,110 |
| Effect of discounting | | | | | | | | | | | (1,197,990) |
| Claims handling expense | | | | | | | | | | | 367,211 |
| Risk margin | | | | | | | | | | | - |
| **Net Outstanding claims liability at 30 June 2018** | | | | | | | | | | | **4,447,331** |

# Notes to the financial statements

for the year ended 30 June 2018

### 2.3.6 Claims development (continued)

#### (ii) TMF General Lines

| Accident Year | 2009 & prior | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| | | | | | | | | | | | |
| **Estimate of ultimate claims cost** | | | | | | | | | | | |
| At the end of accident year | | 506,018 | 509,966 | 505,657 | 520,902 | 536,890 | 644,473 | 604,770 | 645,521 | 696,438 | |
| One year later | | 487,891 | 478,286 | 483,945 | 493,576 | 528,947 | 588,976 | 638,931 | 635,203 | | |
| Two years later | | 471,566 | 441,402 | 463,759 | 536,375 | 543,300 | 624,003 | 654,920 | | | |
| Three years later | | 410,711 | 427,210 | 525,668 | 527,084 | 551,632 | 559,785 | | | | |
| Four years later | | 443,536 | 512,873 | 493,300 | 516,985 | 553,665 | | | | | |
| Five years later | | 535,280 | 442,380 | 449,825 | 481,169 | | | | | | |
| Six years later | | 475,703 | 399,466 | 423,722 | | | | | | | |
| Seven years later | | 470,334 | 366,142 | | | | | | | | |
| Eight years later | | 467,096 | | | | | | | | | |
| Accumulated nine years and greater | 5,024,963 | | | | | | | | | | |
| | | | | | | | | | | | |
| Current estimate of cumulative claim costs | 5,024,963 | 467,,096 | 366,142 | 423,722 | 481,169 | 553,665 | 559,785 | 654,920 | 635,203 | 696,438 | 9,863,103 |
| Cumulative net claim payments | 4,727,300 | 334,353 | 262,081 | 253,475 | 246,590 | 274,908 | 201,959 | 148,154 | 109,979 | 46,054 | 6,604,854 |
| Undiscounted central estimate | 297,663 | 132,743 | 104,061 | 170,247 | 234,579 | 278,757 | 357,827 | 506,766 | 525,225 | 650,384 | 3,258,249 |
| Effect of discounting | | | | | | | | | | | (449,961) |
| Claims handling expense | | | | | | | | | | | 170,672 |
| Risk margin | | | | | | | | | | | - |
| **Net Outstanding claims liability at 30 June 2018** | | | | | | | | | | | **2,978,961** |

Uncertainty about the amount and timing of claims in the TMF property and motor vehicle portfolios is typically resolved within one year.

The claims presented in the development tables are undiscounted, gross of insurance recoveries and net of non-reinsurance recoveries. Insurance recoveries are nil in the TMF Workers Compensation portfolio and negligible in the TMF Public Liability portfolio.

# Notes to the financial statements

for the year ended 30 June 2018

### 2.3.7 Unearned premium and unexpired risk liability

**Overview**

**Unearned premium**

Gross written premium is earned in profit or loss in accordance with the pattern of incidence of risk of the related business. The unearned premium liability is that portion of gross written premium that SI has not yet earned in profit or loss as it represents insurance coverage to be provided by SI after the balance date.

**Unexpired risk liability**

At the reporting date, a liability adequacy test (LAT) is performed by the Fund Actuaries for the HBCF and CRIF.

At the balance date, SI recognises a liability in respect of outstanding claims and assesses the adequacy of its unearned premium liability. As required under AASB *1023 General Insurance Contracts*, a LAT is undertaken to determine the adequacy of the unearned premium liability against current estimates of the present value of the expected future cash flows relating to future claims arising from the rights and obligations under current insurance contracts.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| Unearned premiums | 347,224 | 289,447 |
| Unexpired risk liability | 288,554 | 166,183 |
| | **635,778** | **455,630** |

#### 2.3.7.1 Reconciliation of unearned premiums

A reconciliation of the carrying amount of unearned premiums at the beginning and end of the reporting periods is set out below.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| **Year ended 30 June** | | |
| Net carrying amount at start of year | 289,447 | 246,179 |
| Deferral of premiums written in current year | 147,755 | 109,528 |
| Premiums earned during the year | (89,978) | (66,260) |
| **Net carrying amount at end of year** | **347,224** | **289,447** |

#### 2.3.7.2 Reconciliation of unexpired risk liability

At the reporting date, a LAT is performed by the Fund Actuaries for the HBCF and CRIF.

Any deficiency is first written down against the deferred acquisition costs (DAC). The remaining deficiency is recognised as an unexpired risk liability. It represents the extent that the unearned premium liability is insufficient to cover expected future claims.

Reconciliation of unexpired risk liability:

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| At beginning of year | 166,183 | 102,965 |
| Recognition of additional unexpired risk liability in the year | 122,371 | 63,218 |
| **At year ended 30 June** | **288,554** | **166,183** |

# Notes to the financial statements

for the year ended 30 June 2018

### 2.3.7.2 Reconciliation of unexpired risk liability (continued)

As at the reporting date, the LAT identified a deficit of $314 million (2017: $200.5 million) in the HBCF. The movement in the unexpired risk liability is recognised in the statement of comprehensive Income.

The net deficiency calculation is shown below:

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| Unearned premium liability | 324,159 | 277,362 |
| Deferred acquisition costs[1] | (25,467) | (34,285) |
| | **298,692** | **243,077** |
| | | |
| Central estimate of present value of expected | | |
| future cash flows arising from future claims | 514,885 | 385,691 |
| Risk Margin | 97,828 | 57,854 |
| **Premium liability provision** | **612,713** | **443,545** |
| | | |
| **Net Deficiency** | **314,021** | **200,468** |

[1] Refer to Note 2.3.8 Other Assets – Deferred Acquisition Costs.

The premium liability provision represents the actuarial assessment of future claims payments and the expenses associated with settling them. The mean term to settlement of the undiscounted premium liability is 7.4 years (2017: 7.3 years).

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| Gross movement in unexpired risk liability | (122,371) | (63,218) |
| Write down of deferred acquisition costs[1] | (25,467) | (34,285) |
| **Total deficiency recognised in the Statement of Comprehensive Income** | **(147,838)** | **(97,503)** |

[1]Refer to Note 2.3.8 Other Assets – Deferred Acquisition Costs.

# Notes to the financial statements

for the year ended 30 June 2018

The probability of adequacy for HBCF was 75 per cent (2017: 75 per cent).

### 2.3.7.2 Reconciliation of unexpired risk liability (continued)

The actuarial assessment of the expected future cash flows relating to future claims arising from current general insurance contracts in the CRIF indicates that this estimate is lower than the current value of the unearned premium liability (net of deferred acquisition costs) and that there is therefore no deficiency in the unearned premium liability as at 30 June 2018 (30 June 2017: nil). The probability of adequacy for the CRIF was 75 per cent (2017: 75 per cent).

The risk margins have been determined by the Fund Actuaries based on the uncertainty of the outstanding claims estimates of each scheme. The uncertainty is determined on the basis that reflects the business of each fund. Regard is had to the robustness of the valuation models, reliability and volume of the available data, past experience and emerging trends, the characteristics of each scheme and the effect of reinsurance.

The TMF premiums cover the risk arising between 1 July and 30 June each year, therefore there is no unexpired risk and no unearned premium at 30 June. The LAT is only relevant to the pre-paid premiums for the 2018-19 insurance year. The outcome of the LAT for the TMF would be immaterial as the amount of pre-paid premiums at 30 June 2018 is negligible compared to the target for the 2018-19 insurance year. The probability of adequacy for the TMF was 53 percent (2017: 53 per cent).

### 2.3.8 Other Assets – Deferred acquisition cost

Costs directly attributable to the acquisition of the HBCF premium revenue are deferred by recognising them as an asset in the statement of financial position when they can be reliably measured. Deferred acquisition costs are amortised systematically over the life of the insurance policy in line with the expected pattern of the incidence of risk. This corresponds to the earning pattern of premium revenue.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| Deferred acquisition costs [1] | - | - |
| Deferred restoration costs | - | - |
| Other | - | - |
| | **-** | **-** |

[1] Movements of deferred acquisition cost of the HBCF

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| Acquisition costs incurred during the year | 25,467 | 34,285 |
| Acquisition costs amortised during the year | - | - |
| Net deficiency write down[1] | (25,467) | (34,285) |
| **At year ended 30 June** | **-** | **-** |

[1]Refer to Note 2.3.7.2 for details

# Notes to the financial statements

for the year ended 30 June 2018

### 2.3.9 Underwriting and other expenses

**Overview**

SI incurs a range of expenses in providing its underwriting services. Details of these expenses are:

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Statutory levies: | | |
| State Insurance Regulatory Authority | 24,801 | 20,710 |
| Dust Diseases Authority | 4,751 | 12,254 |
| Total Statutory levies | **29,552** | **32,964** |
| Service fees to icare (2.3.9.1) | 159,395 | 156,571 |
| Software licensing | 1,540 | 4,663 |
| Service transition fees | 10,654 | - |
| Depreciation and amortisation | 798 | 798 |
| Audit fees- other | 689 | 482 |
| Audit fees - audit of financial statements | 368 | 253 |
| Consultants | 1,894 | 622 |
| Contractors | 12,073 | 2,419 |
| Legal fees | 51 | 35 |
| Other expenses | 991 | 1,131 |
| **Total underwriting and other expenses** | **218,005** | **199,938** |

### 2.3.9.1 Service fees

In accordance with the *State Insurance and Care Governance Act 2015* from 1 September 2015, SI receives services from icare. Under the arrangement some of SI's costs are incurred by icare and recovered at cost from SI. These services include the provision of staff, claims handling facilities, general business expenses and governance services.

Agent's remuneration of $17.6m paid by icare has been treated as an acquisition cost rather than as a Service fee expense.

SI's key management personnel are the Board of Directors of icare, the Chief Executive Officer of icare and their direct reports. All transactions with these key management personnel are included in the service fee paid to icare for those personnel remunerated by icare.

SI have the following commitments for levies in 2018/19:

- State Insurance Regulatory Authority and NSW Workers Compensation (Dust Diseases) Authority is $26.9m

# Notes to the financial statements

for the year ended 30 June 2018

### 2.3.10 Trade and other receivables

**Overview**

Trade and other receivables are principally amounts owed to SI by policyholders or on investments. Investment receivables are amounts due from investment counterparties in settlement of transactions.

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Short-term receivables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial.

The collection of receivables is reviewed on an ongoing basis. An allowance for impairment is established when there is objective evidence that not all amounts due will be collectable. Bad debts are written off when there is objective evidence that the chance of collecting an amount is unlikely.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| Premium and contribution receivable | 85,342 | 63,536 |
| Insurance and other recoveries receivable | 221,842 | 224,902 |
| Receivable from the Crown | - | 3,233 |
| GST receivable | 2,917 | 8,163 |
| Prepayments | 8,348 | 3,965 |
| Other | 288 | - |
| | **318,737** | **303,799** |

Other receivables are non-interest bearing and are generally on 30 day terms.

Insurance and other recoveries receivables are discounted to present value.

SI receives recoveries from both reinsurance and non reinsurance areas (ths includes recoveries from CTP). The majority of recoveries come from the non reinsurance area.

SI purchases reinsurance for losses above their predetermined retention levels of financial losses associated with large claims or incidents. The retention level is set by management and reviewed annually as part of the renewal process. The current retentions are determined based on price, availability of cover, and risk tolerances. When the claims cost exceeds the excess level, the cost is recoverable from SI's reinsurers and recognised as insurance and other recoveries receivable.

The amount of insurance and other recoveries receivable is equal to the estimated gross incurred cost less the retention limit and insurance recoveries received to date. The receivable is recognised when recovery is virtually certain to take place when the corresponding obligation is settled. The measurement of these receivables is affected by factors such as normal inflation and the discount rate used for discounting of future expected receipts. The rates applied are consistent with those used in the valuation of provisions for outstanding claims (see Note 2.3.3).

# Notes to the financial statements

for the year ended 30 June 2018

### 2.3.10 Trade and other receivables (continued)

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| **Present value of insurance and other recoveries** | | |
| Expected future recoveries (undiscounted) | 260,357 | 253,521 |
| Discount to present value | (38,515) | (28,619) |
| | **221,842** | **224,902** |

Refer to Note 4.for details of credit risk.

### 2.3.11 Trade and other payables

**Overview**

Trade and other payables represent liabilities for services provided to SI prior to the end of financial year, which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

Payables are recognised initially at fair value, usually based on the transaction cost or face value. Short-term payables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial.

These amounts represent liabilities for goods and services provided to SI and other amounts. Payables are recognised initially at fair value, usually based on the transaction cost or face value. Subsequent measurement is at amortised cost using the effective interest method. Short-term payables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial.

The payables are recognised for amounts due to be paid in the future for goods or services received, whether or not invoiced. Amounts owing to suppliers (which are unsecured) are settled in accordance with the policy set out in Treasury Circular 11/12.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| Accrued expenses & other creditors | 12,551 | 13,800 |
| Service fee | 18,070 | 68,801 |
| Statutory fees | 1,507 | 1,564 |
| Other | 9,178 | 8,342 |
| | **41,306** | **92,507** |

## 3 Investment activities

**Overview**

Investments in New South Wales Treasury Corporation's Funds (TCorpIM Funds or the Funds) and the managed asset portfolio are designated as fair value through profit or loss. The investments within the Funds are unit holdings. The value of the Funds is based on SI's share of the value of the underlying assets of the Fund, based on the market value. All of the Funds are valued at redemption price.

The fair value quoted market price for similar instruments and the underlying value are provided by Portfolio manager, TCorp.

The movement in the fair value of the Funds incorporates distributions received as well as realised and unrealised movements in fair value and is reported as investment revenue in the statement of comprehensive income.

Purchases or sales of investments are recognised on the trade date i.e. the date the entity commits itself to purchase or sell the asset.

Refer to Note 4 for further information regarding fair value measurement, credit risk, liquidity risk and market risk arising from financial assets at fair value.

All investments are held to back insurance liabilities. As part of its investment strategy SI actively manages its investment portfolio to ensure that investment liquidity is in accordance with the expected pattern of future cash flows arising from insurance liabilities.

# Notes to the financial statements

for the year ended 30 June 2018

## 3.1 Investment income

**Overview**

Interest revenue is recognised on an accrual basis. Investment revenue includes interest income.

Realised and unrealised gains or losses are recognised on a change in fair value basis.

Differences between the fair values of investments at the end of the reporting period and their fair values at the end of the previous reporting period (or cost of acquisition, if acquired during the reporting period) are recognised as revenue in the statement of comprehensive income.

| | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|
| | | |
| Return on investment | | |
| Revenue from financial assets held at fair value | 641,598 | 603,831 |
| Gains/(losses) from financial assets held at fair value | 256,835 | 337,679 |
| Interest | 10,599 | 9,823 |
| | **909,032** | **951,333** |

## 3.2 Investment assets and liabilities

| | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|
| | | |
| TCorpIM Funds | 8,,565,074 | 8,066,641 |
| | **8,565,074** | **8,066,641** |

## 3.3 Fair value estimation

**Overview**

The carrying amounts of SI's financial assets and liabilities at the end of the reporting period approximated their fair values as all financial assets and liabilities held were either at fair value at the end of the reporting period ('marked to market') or were short term in nature.

SI uses the following hierarchy for disclosing the fair value of financial instruments by valuation technique:

- Level 1 – derived from quoted prices in active markets for identical assets / liabilities that the entity can access at measurement date;
- Level 2 – derived from inputs other than quoted prices that are observable directly or indirectly; and
- Level 3 – derived from valuation techniques that include inputs for the asset / liability not based on observable market data (unobservable inputs).

# Notes to the financial statements

for the year ended 30 June 2018

### 3.3 Fair value estimation (continued)

| | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'000 |
|---|---|---|---|---|
| | | | | |
| **2018** | | | | |
| **Financial assets at fair value** | | | | |
| TCorpIM Funds | - | 8,565,074 | - | 8,565,074 |
| | **-** | **8,565,074** | **-** | **8,565,074** |
| | | | | |
| **2017** | | | | |
| **Financial assets at fair value** | | | | |
| TCorpIM Funds | - | 8,066,641 | - | 8,066,641 |
| | **-** | **8,066,641** | **-** | **8,066,641** |

There were no transfers between the levels during the period ended 30 June 2018 (2017: Nil). The value of the Funds is based on SI's share of the value of the underlying assets of the fund, based on the market value. All of the facilities are valued using redemption pricing.

## 4. Risk Management

**Overview**

SI apply a consistent and integrated approach to enterprise risk management (ERM). SI operates within icare's risk management framework which sets out the approach to managing key risks and meeting strategic objectives. The risk management framework is articulated in the Risk Management Strategy (RMS) which is approved annually by the Board.

The icare Board is ultimately responsible for identifying and controlling financial risk. This is done through the establishment of holistic strategies and policies which are cognisant of financial and operational risk management.

Following the enactment of the *State Insurance and Care Governance Act 2015*, overall responsibility for the establishment and oversight of risk management, risk reviews, policy setting and for managing each of these risks moved to NSW Treasury. The risk management policies in place prior to the Act remain in place, with the purposes of:

- Establishing frameworks and processes that identify and analyse the risks faced by SI investment funds;
- Setting risk limits and controls; and
- Monitoring risks.

SICorp's Strategic Asset Allocation into the TCorp's managed funds is recommended by Treasury to the Treasurer and approved by Treasurer. icare also receives regular investment performance reports.

The framework consists of complementary elements that are embedded throughout the business management cycle and culture of the organisation. Key aspects include: risk appetite, governance, risk management and processes, risk reporting and insights, modelling and stress testing, management, monitoring and culture.

# Notes to the financial statements

for the year ended 30 June 2018

## 4. Risk Management (continued)

Risk management is a continuous process and an integral part of robust business management. SI's approach is to integrate risk management into the broader management processes of the organisation. It is SI's philosophy to ensure that risk management remains embedded in the business and that the risk makers or risk takers are themselves the risk managers. Specifically, the management of risk must occur at each point in the business management cycle.

The key risk categories used by SI to classify financial risk:

- Claims and underwriting risk (Note 4.1);
- Market risk (Note 4.2);
- Interest rate risk (Note 4.3);
- Foreign exchange risk (Note 4.4);
- Other price risk (Note 4.5);
- Liquidity risk (Note 4.6); and
- Credit risk (Note 4.7).

SICorp manages claims and underwriting risks with all investment- and financial-related risks managed by NSW Treasury Corporation (TCorp) and NSW Treasury (Treasury). A Memorandum of Understanding (MoU) exists between Treasury and TCorp to effectively monitor, manage and report on these risks between the two parties.

SI's principal financial instruments are outlined below. These financial instruments arise directly from SI's operations or are required to finance those operations. SI does not enter into financial instruments, including derivative financial instruments, for speculative purposes.

The main purpose of these financial instruments is to derive income and investment gains which are used to fund insurance liabilities.

**Financial instrument categories**

| | Note | Category | 2018 $'000 | 2017 $'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash and cash equivalents | 5.1 | N/A | 505,579 | 268,003 |
| Investments | 3.2 | At fair value through profit and loss (designated as such upon initial recognition) | 8,565,074 | 8,066,641 |
| Receivables (i) | 2.3.10 | Receivables measured at amortised cost | 85,630 | 63,536 |
| | | | | |
| **Financial liabilities** | | | | |
| Payables (ii) | 2.3.11 | Payables measured at amortised cost | 39,799 | 90,943 |
| | | | | |

(i) Excludes insurance and recoveries receivable, statutory receivables and prepayments (i.e. not within scope of AASB 7)

(ii) Excludes outstanding claims provision, unexpired risk liability, statutory payables and unearned revenue (i.e. not within scope of AASB 7)

# Notes to the financial statements

for the year ended 30 June 2018

## 4.1 Claims and Underwriting Risk

**Overview**

Claims and underwriting risk is the risk of fluctuations in the timing, frequency and severity of insured events and claims settlements, relative to expectations. Key drivers of claims and underwriting risk include natural or man-made catastrophic events, pricing of insurance contracts, reserving and claims.

SI is affected by claims and underwriting risk, market risk, credit risk, and liquidity risks. Overall risk management within icare forms a part of operations and line responsibilities. The Audit and Risk Committee (ARC) has oversight of risk management and reports to the icare Board. Internal Audit helps identify, monitor and evaluate risks and gives assurance to the ARC on higher-risk activities.

The risk and compliance management framework to identify and mitigate risks is outlined below:

- Use and maintenance of information systems to provide up-to-date and reliable data on the risks to which the entity is exposed;
- Independent actuarial assessment, using data from the information systems and robust actuarial modelling, are used to assess the adequacy of pricing and premiums and to monitor claims patterns based on past experience and emerging trends;
- Detailed risk and compliance registers that identify key risks and controls, residual risk exposures, and risk treatment and owner. Compliance attestations are performed on a quarterly basis and material exceptions are reported to the icare Board;
- Detailed underwriting procedures are in place and strictly followed for accepting risks and regular reviews and audits are performed on the underwriting function of brokers and insurance agents;
- Premiums received by the largest fund (TMF) are paid by member agencies through funding from the NSW Treasury;
- Most premiums are paid within payment terms. The outstanding debtors are managed by outsourced service providers who actively monitor and review the portfolios; and
- Under the Net Asset Handling Lending Policy (NAHLP, refer Note 5.4) SI maintains the required level of net assets for each scheme (except HBCF, CRIF, BFFF, ERWF and SSIF) through fund transfers to/from the Consolidated Fund.

## 4.2 Market risk

**Overview**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. SI's exposures to market risk are primarily through price risks associated with the movement in the unit price of the Funds.

The effects on SI's operating result due to reasonably possible changes in risk variables are outlined in the information below, for interest rate risk and other price risk. A reasonably possible change in each risk variable has been determined after taking into account the economic environment in which SI operates and the time frame for the assessment (i.e. until the end of the next annual reporting period). The sensitivity analysis is based on risk exposures in existence at the reporting date. The analysis was performed on the same basis as 2017. The analysis assumes that all other variables remain constant.

# Notes to the financial statements

for the year ended 30 June 2018

## 4.3 Interest rate risk

**Overview**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Exposure to interest rate risk arises primarily through SI's cash deposits held at other financial institutions. TCorp manages the portfolio to agreed benchmarks to minimise the fair value interest rate risk.

The following table provides the sensitivity analysis of interest rate risk affecting applicable financial assets on the operating result and equity of SI. A reasonably possible change of +/- 0.5% is used, consistent with current trends in interest rates. The basis will be reviewed annually and amended where there is a structural change in the level of interest rate volatility.

| | Carrying amount $'000 | Decrease in Profit -0.5% $'000 | Decrease in Equity -0.5% $'000 | Increase in Profit 0.5% $'000 | Increase in Equity 0.5% $'000 |
|---|---|---|---|---|---|
| **2018** | | | | | |
| Cash and cash equivalents | 505,579 | (2,528) | (2,528) | 2,528 | 2,528 |
| **2017** | | | | | |
| Cash and cash equivalents | 268,003 | (1,340) | (1,340) | 1,340 | 1,340 |

## 4.4 Foreign Currency risk

**Overview**

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

SI has some foreign currency risk exposure from its investments in the TCorp Funds. The investments in the emerging market, indexed and actively managed international share funds are denominated in currencies other than Australian Dollars. SI also has an exposure to Global Listed Real Estate Securities, Multi-Asset Class, Bank Loans, Global High Yield and Global Investment Grade Credit strategies which are typically hedged with a 100 per cent target level asset. The agreement between SI and TCorp requires the manager to effectively review the currency exposure when it arises.

TCorp considers currency risk within the context of its overall investment strategy.

As at 30 June 2018 SI has no transactional or structural currency exposures (2017: Nil).

# Notes to the financial statements

for the year ended 30 June 2018

## 4.5 Other price risk

**Overview**

Exposure to "other price risk" primarily arises through the investment in the TCorpIM Funds which are held for strategic rather than trading purposes. SI has no direct equity investments. SI holds units in the following Funds.

| Fund | Investment sectors | Investment horizon | 2018 $'000 | 2017 $'000 |
|---|---|---|---|---|
| Treasury Managed Fund Investment Portfolio | Cash, money market instruments, Australian Bonds, Listed and Unlisted Property, Australian, International and Emerging Markets shares, and Unlisted Infrastructure | Long term | 7,937,175 | 7,481,841 |
| Long Term Growth Fund | Cash, money market instruments, Australian Bonds, Listed Property, Australian, International and Emerging Markets shares, Multi-assets | 7 years and4.5 at top of Page over | 627,899 | 584,800 |
| | | | 8,565,074 | 8,066,641 |

The unit price of each Fund is equal to the total fair value of the net assets held by the Fund divided by the total number of units on issue for the Fund. Unit prices are calculated and published daily. The unit prices used to value the balances on the monthly statements are redemption prices.

TCorp acts as trustee for each of the above Funds and is required to act in the best interest of the unit holders and to administer the Funds in accordance with the trust deeds. TCorp has appointed specialist investment managers to manage the performance and risks of each Fund in accordance with a mandate agreed by the parties. A significant portion of the administration of the facilities is outsourced to an external custodian. TCorp's Cash and Fixed Income Investment team also manages certain cash and fixed income assets for the Funds.

Investments in the Funds limit SI's exposure to risk as this allows diversification across a pool of funds with different investment horizons.

The Funds are designated at fair value through profit or loss and therefore any change in unit price impacts directly on profit (rather than equity). TCorp provides sensitivity analysis information for each of the Funds using historically based volatility information collected over a ten year period, quoted at two standard deviations (i.e. 95% probability). A reasonably possible change is based on the percentage change in unit price multiplied by the redemption price as at 30 June each year for each Fund.

| Investment fund | Change in unit price | | Impact on surplus/(deficit) | |
|---|---|---|---|---|
| | 2018 % | 2017 % | 2018 $'000 | 2017 $'000 |
| Treasury Managed Fund Investment Portfolio | +/- 18.0 | +/- 18.0 | +/-$1,428,691 | +/-$1,346,731 |
| Long Term Growth Fund | +/- 15.0 | +/- 16.0 | +/-$94,185 | +/-$93,568 |

# Notes to the financial statements

for the year ended 30 June 2018

## 4.6 Liquidity risk

### Overview

Liquidity risk is the risk of insufficient liquid assets to meet liabilities as they fall due. SI's liquidity risk arises due to the nature of insurance activities where the timing and amount of cash outflows are uncertain.

The liquidity of SI's investments is assured by the liquid nature of the fixed interest investments within the TCorpIM Funds. All Fund share and property investments are required to be listed on a recognised stock exchange with the exception of the unlisted property and unlisted infrastructure investments which account for 10.7 per cent and 6.33 per cent of the Treasury Managed Fund Investment Portfolio as at the reporting date.

In accordance with the MoU, TCorp is required to take market turnover and liquidity risk into account at the time of constructing SI's investment asset allocation.

During the current and prior years, there were no defaults on payables. No assets have been pledged as collateral. SI's exposure to liquidity risk is deemed insignificant based on prior periods' data and the current assessment of risk.

The payables are recognised for amounts due to be paid in the future for goods or services received, whether or not invoiced. Amounts owing to suppliers (which are unsecured) are settled in accordance with the policy set out in Treasury Circular 11/12. If trade terms are not specified, payment is made no later than the end of the month following the month in which an invoice or a statement is received.

The table below summarises the maturity profile of SI's financial liabilities.

| | Weighted average effective interest rate % | Nominal amount $'000 | Interest rate exposure | | | Maturity dates | | |
|---|---|---|---|---|---|---|---|---|
| | | | Fixed Interest rate $'000 | Variable interest rate $'000 | Non-interest bearing $'000 | < 1 Year $'000 | 1–5 Years $'000 | > 5 Years $'000 |
| **2018** | | | | | | | | |
| Payables | - | 39,799 | - | - | 39,799 | 39,799 | - | - |
| **2017** | | | | | | | | |
| Payables | - | 90,943 | - | - | 90,943 | 90,943 | - | - |

## 4.7 Credit risk

### Overview

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation

Credit risk arises from the financial assets of SI, which comprise cash and cash equivalents, receivables and financial assets at fair value. SI's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments at balance date.

### Cash and cash equivalents

Cash comprises bank balances with financial institutions. Interest is earned on daily bank balances.

# Notes to the financial statements

for the year ended 30 June 2018

## 4.7 Credit risk (continued)

**Receivables – premium and contributions**

All premium and contributions receivable are recognised as amounts receivable at the reporting date. The collection of premium and contributions receivable is reviewed on an ongoing basis. Procedures as established in the Treasurer's Directions are followed to recover outstanding amounts, including letters of demand. Debts which are known to be uncollectible are written off. An allowance for impairment is raised when there is objective evidence that the entity will not be able to collect all amounts due. No interest is earned on premium and contributions receivable. The average credit period on sales, unless otherwise agreed, is 30 days from invoice date.

SI does not receive any collateral for receivables.

The receivables that are past due or considered impaired are included in the table below.

| | Total $'000 | Past due but not impaired $'000 | | | Considered impaired $'000 |
|---|---|---|---|---|---|
| | | < 3 months | 3 – 6 months | > 6 months | |
| **2018** | | | | | |
| Receivables | 5,773 | 2,175 | 1,436 | 2,162 | - |
| **2017** | | | | | |
| Receivables | 94 | - | 2 | 92 | - |

The ageing analysis excludes insurance and other recoveries receivables, statutory receivables and prepayments, as these are not within the scope of AASB 7.

**Financial assets at fair value**

Financial assets at fair value include investments in TCorpIM Funds and the managed assets portfolio. The investments within the Funds are unit holdings, and as such, do not give rise to credit risk. Credit risk within the Funds is managed by ensuring there is a wide spread of risks. TCorp, as trustee, contracts with specialist investment managers and requires the mandates to include a series of controls over the concentration and credit quality of assets.

# Notes to the financial statements

for the year ended 30 June 2018

## 5. Other

**Overview**

This section includes other information that must be disclosed to comply with the Australian Accounting Standards

### 5.1 Cash and cash equivalents

**Overview**

Cash and cash equivalents include cash at bank and short term money market investments held at TCorp.

Refer to Note 4 for details regarding credit risk, liquidity risk and market risk arising from financial instruments

| | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|
| Cash at bank | 505,579 | 268,003 |

Cash and cash equivalent assets recognised in the statement of financial position is reconciled at the end of the financial year to the statement of cash flows as follows:

| | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|
| Cash and cash equivalents (per statement of financial position) | 505,579 | 268,003 |
| Closing cash and cash equivalents (per statement of cash flows) | 505,579 | 268,003 |

**Reconciliation of net cash flows from operating activities to the Net Result**

| | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|
| **Net cash flows from operating activities** | **237,576** | **(6,440)** |
| | | |
| Adjustments for: | | |
| Depreciation and amortisation | (798) | (798) |
| (Decrease)/Increase in investments | 498,433 | 332,310 |
| (Increase) in outstanding claims | (490,026) | (321,364) |
| Increase in unearned premiums | (57,777) | (43,268) |
| Decrease/(Increase) in payables | 51,201 | 113,409 |
| (Increase) in unexpired risk | (122,371) | (63,218) |
| Increase / (Decrease) in receivables | 14,938 | (4,919) |
| **Net Result** | **131,176** | **5,712** |

# Notes to the financial statements

for the year ended 30 June 2018

## 5.2 Plant and equipment

**Overview**

Plant and equipment are recorded at cost on acquisition.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire the asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised. Physical non-current assets costing more than $5000 individually are capitalised.

Physical non-current assets are valued in accordance with the "*Valuation of Physical Non-Current Assets at Fair Value" Policy and Guidelines Paper* (TPP 14-01). This policy adopts fair value in accordance with AASB 116 *Property, Plant and Equipment* and AASB 13 *Fair Value Measurement*.

No revaluation is undertaken on these assets as the difference between fair value in continued use and carrying value is immaterial.

Depreciation is provided for on a straight line basis for all depreciable assets so as to write off the depreciable amount of each asset as it is consumed over its useful life. The depreciation rates used for the financial year 2017-18 for each class of assets are based on the following useful lives:

- office equipment: 7 years
- furniture and fittings: 5 to 10 years.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| Gross carrying amount | 13 | 13 |
| Accumulated depreciation and impairment | (8) | (7) |
| **Net carrying amount at end of year** | **5** | **6** |
| | | |
| **Reconciliation** | | |
| A reconciliation of the carrying amount of plant and equipment at the beginning and end of the reporting periods is set out below. | | |
| **Year ended 30 June** | | |
| Net carrying amount at start of year | 6 | 7 |
| Additions | - | - |
| Disposals | - | - |
| Depreciation expense | (1) | (1) |
| **Net carrying amount at end of year** | **5** | **6** |

# Notes to the financial statements

for the year ended 30 June 2018

## 5.3 Intangible assets

**Overview**

SI recognises intangible assets only if it is probable that future economic benefits will flow to the entity and the cost of the asset can be measured reliably. Intangible assets are measured initially at cost. Where an asset is acquired at no or nominal cost, the cost is its fair value as at the date of acquisition.

The capitalisation threshold for intangible assets is $100,000 and above (including direct allocation of personnel service costs).

All research costs are expensed. Development costs are only capitalised when certain criteria are met.

The useful lives of intangible assets are assessed to be finite. SI charges amortisation on intangible assets using straight–line method over a period of three years.

Intangible assets are subsequently measured at fair value only if there is an active market. As there is no active market for SI's intangible assets, the assets are carried at cost less any accumulated amortisation and impairment losses.

Intangible assets are tested for impairment where an indicator of impairment exists. If the recoverable amount is less than its carrying amount, the carrying amount is reduced to recoverable amount and the reduction is recognised as an impairment loss.

| | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|
| | | |
| Gross carrying amount | 8,881 | 8,881 |
| Accumulated amortisation and impairment | (7,225) | (6,428) |
| **Net carrying amount at end of year** | **1,656** | **2,453** |
| | | |
| **Reconciliation** | | |
| A reconciliation of the carrying amount of intangible assets at the beginning and end of the reporting periods is set out below. | | |
| **Year ended 30 June** | | |
| Net carrying amount at start of year | 2,453 | 3,253 |
| Additions | - | - |
| Disposals | - | (3) |
| Amortisation expense | (797) | (797) |
| **Net carrying amount at end of year** | **1,656** | **2,453** |

# Notes to the financial statements

for the year ended 30 June 2018

## 5.4 Grant from/(to) the Crown

**Overview**

Pursuant to the Net Assets Holding Level Policy (NAHLP), SI makes payments to or receives funding from the Crown Entity to maintain the required level of net assets.

The policy, introduced in March 2006 and revised in May 2013, requires SI to maintain financial assets for each insurance scheme (except the HBCF, CRIF, BFFF, ERWF and SSIF) at between 105% and 115% of liabilities. The adequacy of the net assets level is reviewed at least annually based on the financial results as at 31 December with an option of more frequent reviews to consider any emerging issues and trends in outstanding claims liabilities and investments. The assessment takes into consideration:

- the probability of adequacy of the net central estimate;
- probability of poor investment returns and/or deterioration in claims experience;
- impact of a major claim, either not covered by the TMF reinsurance protection or exhausting the TMF reinsured retention level; and
- absence of premium income and reinsurance cover for residual schemes.

The annual funding adequacy assessment as at 31 December 2017 based on assets at 112.5% of liabilities (31 December 2016: 112.5%) has been approved and the funds transferred to the Consolidated Fund.

Net assets in surplus of the required holding level are paid to the Crown Entity and net assets in deficit are covered through payments from the Crown Entity.

The payments are recognised as expenses at the earlier of when they are paid or payable. Grants are recognised as revenues at the earlier of when they are received or due to be received.

| | 2018 $'000 | 2017 $'000 |
|---|---:|---:|
| | | |
| Grant to the Crown Entity [expense] | (10,000) | (195,000) |
| Grant from the Crown Entity [revenue] | 231,372 | 110,000 |
| **Net grant revenue** | **221,372** | **(85,000)** |

# Notes to the financial statements

for the year ended 30 June 2018

## 5.5 Budget review

**Statement of comprehensive income**

| | 2018 actuals $'000 | 2018 budget $'000 |
|---|---|---|
| Premium and contributions (excl. hindsights) | 1,256,881 | 1,237,008 |
| Unearned premium movement | (46,590) | (50,486) |
| **Net Earned premiums** | **1,210,291** | **1,186,522** |
| Outwards reinsurance expense | (41,064) | (46,700) |
| **Net Earned premiums and contributions (a)** | **1,169,227** | **915,603** |
| Gross Claims expenses | (1,661,145) | (1,549,186) |
| Recoveries received | 30,543 | 66,156 |
| Acquisition costs | (25,467) | (6,166) |
| Unexpired risk liability expense | (122,371) | 5,469 |
| **Net Claims expense (b)** | **(1,758,440)** | **(1,483,727)** |
| Underwriting and other expenses (c) | (218,005) | (265,821) |
| **Underwriting result (a+b+c)** | **(807,218)** | **(833,945)** |
| Hindsight adjustments | (192,716) | (224,219) |
| Investment revenue | 909,032 | 500,807 |
| Other revenue | 706 | 10 |
| **Insurance profit** | **(90,196)** | **(333,128)** |
| Grants to and from the Crown | 221,372 | 108,952 |
| **Net Result** | **131,176** | **(224,176)** |
| Other comprehensive income | - | - |
| **Total comprehensive income** | **131,176** | **(224,176)** |

**Commentary**

Net result for the year is $355 million favourable to budget mainly due to higher investement revenue due to stronger investment markets

# Notes to the financial statements

for the year ended 30 June 2018

## 5.5 Budget review (continued)

**Statement of financial position**

| | 2018 actuals $'000 | 2018 budget $'000 |
|---|---|---|
| | | |
| **ASSETS** | | |
| Cash and cash equivalents | 505,579 | 581,309 |
| Investments | 8,565,074 | 8,024,809 |
| Trade and other receivables | 318,737 | 380,352 |
| Plant and equipment | 5 | 198 |
| Intangible assets | 1,656 | 1,763 |
| **Total Assets** | **9,391,051** | **8,988,431** |
| | | |
| **LIABILITIES** | | |
| Trade and other payables | 41,306 | 143,499 |
| Unearned premiums | 347,224 | 345,275 |
| Outstanding claims liabilities | 8,471,407 | 7,683,686 |
| Unexpired risk liability | 288,554 | 104,725 |
| **Total Liabilities** | **9,148,491** | **8,277,185** |
| | | |
| **Net Assets** | **242,560** | **711,246** |
| | | |
| **EQUITY** | | |
| Accumulated funds | 242,560 | 711,246 |
| **Total Equity** | **242,560** | **711,246** |

**Commentary**

Total assets were $403 million favourable to budget mainly due to higher than budgeted investment returns.

Total liabilities were $871 million unfavourable to budget mainly due to the increase in the provision for outstanding claims liabilities attributable to the change to risk-free discount rate of $685m and other changes in actuarial assumptions.

# Notes to the financial statements

for the year ended 30 June 2018

## 5.5 Budget review (continued)

**Statement of cash flows**

| | 2018 actuals $'000 | 2018 budget $'000 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Premium and contributions received | 1,053,545 | 1,134,500 |
| Claims paid | (1,151,119) | (1,224,464) |
| Recoveries | 33,603 | 54,448 |
| **Total Underwriting** | **(63,971)** | **(35,516)** |
| **Receipts** | | |
| Proceeds from sale of investment | 400,000 | 422,892 |
| Investment income | 641,598 | 274,838 |
| Interest received | 13,832 | 12,363 |
| Grants from the Crown | 231,372 | 108,952 |
| Other income | 706 | 10 |
| **Total Receipts** | **1,287,508** | **819,055** |
| **Payments** | | |
| Purchases of investments | (641,598) | (274,828) |
| Grants to the Crown | (10,000) | - |
| Service fees | (228,096) | (213,842) |
| Other | (106,267) | (102,671) |
| **Total Payments** | **(985,961)** | **(591,341)** |
| **Total cash flows from operating activities** | **237,576** | **192,198** |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of plant and equipment | - | (110) |
| Sale of plant and equipment | - | 6,050 |
| Purchases of intangibles/software | - | (170) |
| **Total cash flows from investing activities** | **-** | **5,880** |
| **NET INCREASE / (DECREASE) IN CASH** | **237,576** | **198,078** |
| **Opening cash and cash equivalents** | **268,003** | **383,231** |
| **CLOSING CASH AND CASH EQUIVALENTS** | **505,579** | **581,309** |

**Commentary**

Cash equivalents held as at 30 June 2018 are $75 million lower than budget mainly due to lower opening cash balance for this year offset by higher net grants from the Crown and investment income from stronger investment markets.

# Notes to the financial statements

for the year ended 30 June 2018

## 5.6 Contingent liabilities

**Overview**

Contingent liabilities are disclosed when the possibility of a future settlement of economic benefits is considered to be less than probable but more likely than remote. If the expected settlement of the liability becomes probable, a provision is recognised.

At 30 June 2018 liabilities relating to future reported claims from past exposure periods exist in the TMF and the PMF portfolios. There is significant uncertainty around the extent of the exposure, the incidence of events, the potential to claim and the costs associated with these latent claims. Based on the information available at the balance date it has been determined that no reliable estimate of the liabilities for these latent claims can be made. As such the liabilities presented in these accounts do not include an allowance for incurred but not yet reported latent claims, other than those relating to asbestos risks.

As more information becomes available it may be possible to put an estimate on these latent claim liabilities. At this point the liabilities will be included in the accounts.

There were no contingent liabilities as at the year ended 30 June 2017.

## 5.7 Funding Accumulated deficit in HBCF

**Overview**

The accounts are prepared on a going concern basis specific to HBCF on the following grounds.

During the 2016/17 year the NSW Government approved a set of administrative reforms in respect of home warranty insurance in NSW under which:

- HBCF is able to apply for reimbursement of realised losses arising from underpricing of premiums on underwritten policies where the policy was written on or before 30 June 2018
- Reimbursement of losses will be made in arrears to the extent the losses cannot be funded by the HBCF
- HBCF can apply to the State Insurance Regulatory Authority to approve future risk-based premium rates which achieve full cost recovery

In the immediate term, HBCF is economically dependent on the reimbursements provided by NSW Government under the above provisions. During 2017/18 HBCF received $138.4m in funding relating to reimbursements of prior year losses up to 30 June 2016 and an additional $43m in respect of policies written post 1 July 2018.

HBCF will adjust the premiums it charges on residential construction types excluding multi-unit dwellings effective 2 October 2018 with the intention of covering the losses and expenses associated with these policies. The $43m in funding is to cover the expected underwriting losses from multi-unit policies written in the 2018/19 year.

In September 2018 HBCF received payment of $28.5m (2017 $138.4m) from the Crown in respect of realised losses in the 2016/17 year arising from pre 1 July 2018 policies..

**END OF AUDITED FINANCIAL STATEMENTS**

# HBCF

# HBCF
# Financial statements
for the year ended 30 June 2018

## Contents



## Notes to the financial statements

**HOME BUILDING COMPENSATION FUND**

**Actuarial Certificate**
**Outstanding claims liabilities at 30 June 2018**

PricewaterhouseCoopers Actuarial Pty Ltd (PwC) has been contracted by the NSW Self Insurance Corporation (now part of Insurance & Care NSW or icare) to make estimates of the outstanding claims liabilities as at 30 June 2018 of the Home Building Compensation Fund.

## Data

PwC has relied on historical data and other quantitative and qualitative information supplied by NSW Fair Trading and the Home Building Compensation Fund without audit or independent verification. We did, however, review this information for reasonableness and internal consistency, where possible. The accuracy of our results is dependent upon the accuracy and completeness of the underlying data.

## Basis of Our Estimates

We have made central estimates of the outstanding claims liabilities, meaning that our assumptions have been selected to yield estimates that are the mean of the distribution of future outcomes. In addition to our central estimates, we have estimated the risk margin required in order to provide a probability of adequacy of 75%. Our estimates include allowances for:

- Future inflation and discounting for the time value of money;
- Future expected recoveries; and
- A risk margin of 15% of the net outstanding claims liability. This is intended to provide a probability of adequacy of 75%.

## Valuation Results

The PwC estimated liability for the Home Building Compensation Fund as at 30 June 2018, net of recoveries, including claims handing expenses and a risk margin of 15%, is $146.7 million. This amount is made up as follows:

| Home Building Compensation Fund<br>Outstanding Claims Liability at 30 June 2018 | $M |
|---|---|
| Gross Outstanding Claims | 148.76 |
| Less Anticipated Recoveries | 2.02 |
| Net Outstanding Claims | 146.74 |

The net outstanding claims liability for the Home Building Compensation Fund includes an allowance for claims handling expenses of $9.45 million. This allowance equates to 8% of the net outstanding claims liability.

It is a decision for icare, acting as operator for the Home Building Compensation Fund, as to the amount adopted in the accounts.

***PricewaterhouseCoopers Consulting (Australia) Pty Limited ABN 20 607 773 295***
One International Towers Sydney, Watermans Quay, Barangaroo NSW 2000
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pwc

**Qualifications and Uncertainty**

There is a limitation upon the accuracy of the estimates in this certificate in that there is an inherent uncertainty in any estimate of outstanding claims liabilities. These uncertainties include, but are not limited to, the future direction of the building cycle, tail development of multi-unit claims, and future changes to claim management practices.

In our judgement, we have employed techniques and assumptions that are appropriate, and we believe the conclusions presented herein are reasonable, given the information currently available. However, it should be recognised that future claim development is likely to deviate, perhaps materially, from our estimates.

**Reports**

Full details of data, methodology, assumptions and results are set out in our valuation report dated 11 September 2018.

**Relevant Standards**

Our estimates and reports were prepared in compliance with the Actuaries Institute's Professional Standard 300, which relates to estimation of outstanding claims liabilities.

icare have informed us that the financial statements for the Home Building Compensation Fund are intended to comply with Accounting Standard AASB 1023. We have been instructed by icare to prepare a central estimate and our report includes the determination of a risk margin intended to achieve a probability of adequacy of 75%.

Andrew Smith
FIAA
11 September 2018

Ben Knight
FIAA
11 September 2018

# Statement by the chairman and chief executive officer

for the year ended 30 June 2018

**Home Building Compensation Fund**

**Certificate under Section 41C(1B) and 41C(1C) of the *Public Finance and Audit Act 1983* and Clause 7 of the *Public Finance and Audit Regulation 2015*.**

In the opinion of the Board of Directors:

1. The financial statements of the Home Building Compensation Fund have been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2015* and the Treasurer's Directions. They have also been prepared in accordance with Australian Accounting Standards (which include Australian Accounting interpretations) and other authoritative pronouncements of the Australian Accounting Standards Board;

2. The financial report for the year ended 30 June 2018 exhibit a true and fair view of the position and transactions of the Home Building Compensation Fund; and

3. The directors are not aware of any circumstances as at the date of this certificate which would render any particulars included in the financial statements misleading or inaccurate.

Signed on behalf of the Board of Directors of Insurance and Care NSW.

**Michael Carapiet**
**Chairman**
**Insurance and Care NSW**
24 September 2018

**John Nagle**
**Chief Executive Officer and Managing Director**
**NSW Self Insurance Corporation and Insurance and Care NSW**
24 September 2018

AUDITOR-GENERAL
NEW SOUTH WALES

# INDEPENDENT AUDITOR'S REPORT

**Home Building Compensation Fund**

To Members of the New South Wales Parliament

## Opinion

I have audited the accompanying financial statements of the Home Building Compensation Fund (the Fund), which comprise the Statement of Comprehensive Income for the year ended 30 June 2018, the Statement of Financial Position as at 30 June 2018, the Statement of Changes in Equity and the Statement of Cash Flows for the year then ended, notes comprising accounting policies and other explanatory information.

In my opinion, the financial statements:

- give a true and fair view of the financial position of the Fund as at 30 June 2018, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards
- are in accordance with section 41B of the *Public Finance and Audit Act 1983* (PF&A Act) and the Public Finance and Audit Regulation 2015.

My opinion should be read in conjunction with the rest of this report.

## Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under the standards are described in the 'Auditor's Responsibilities for the Audit of the Financial Statements' section of my report.

I am independent of the Fund in accordance with the requirements of the:

- Australian Auditing Standards
- Accounting Professional and Ethical Standards Board's APES 110 'Code of Ethics for Professional Accountants' (APES 110).

I have fulfilled my other ethical responsibilities in accordance with APES 110.

Parliament promotes independence by ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of public sector agencies
- precluding the Auditor-General from providing non-audit services.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

**Level 15, 1 Margaret Street, Sydney NSW 2000** | GPO Box 12, Sydney NSW 2001 | **t** 02 9275 7101 | **f** 02 9275 7179 | **e** mail@audit.nsw.gov.au | **audit.nsw.gov.au**

## Other Information

Other information comprises the information included in the Fund's annual report for the year ended 30 June 2018, other than the financial statements and my Independent Auditor's Report thereon. The Chief Executive Officer of the Fund is responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprise the Statement by the Chairman and Chief Executive Officer.

My opinion on the financial statements does not cover the other information. Accordingly, I do not express any form of assurance conclusion on the other information.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude there is a material misstatement of the other information, I must report that fact.

I have nothing to report in this regard.

## The Chief Executive Officer's Responsibilities for the Financial Statements

The Chief Executive Officer is responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards and the PF&A Act, and for such internal control as the Chief Executive Officer determines is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Executive Officer is responsible for assessing the Fund's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting except where the Fund will be dissolved by an Act of Parliament or otherwise cease operations.

## Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to:

- obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions users take based on the financial statements.

A description of my responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_responsibilities/ar4.pdf. The description forms part of my auditor's report.

My opinion does *not* provide assurance:

- that the Fund carried out its activities effectively, efficiently and economically
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.

D Daniels

David Daniels
Director, Financial Audit Services

2 October 2018
SYDNEY

# Statement of comprehensive income

for the year ended 30 June 2018

| | Notes | 2018 $'000 | 2017 $'000 |
|---|---|---|---|
| | | | |
| Premium | | 130,785 | 102,017 |
| Unearned premium movement | | (46,797) | (41,371) |
| **Net Earned premium (a)** | | **83,988** | **60,646** |
| Gross Claims expenses | 2.2 | (57,620) | (56,135) |
| Recoveries received | | 875 | 2,601 |
| Acquisition costs | | (25,467) | (34,285) |
| Unexpired risk liability expense | 2.3.7 | (122,371) | (63,218) |
| **Net Claims expense (b)** | | **(204,583)** | **(151,037)** |
| **Underwriting and other expenses (c)** | 2.3.9 | (19,113) | (15,985) |
| **Underwriting result (a+b+c)** | | **(139,708)** | **(106,376)** |
| Investment income | 3 | 3,291 | 1,374 |
| Other Revenue | | 542 | - |
| **Insurance profit** | | **(135,875)** | **(105,002)** |
| Grants (to) and from the Crown | 5.3 | 181,372 | - |
| Other comprehensive income | | - | - |
| **Net Result** | | **45,497** | **(105,002)** |

The accompanying notes form part of these financial statements.

# Statement of financial position

as at 30 June 2018

| | Notes | 2018 $'000 | 2017 $'000 |
|---|---|---|---|
| | | | |
| **Assets** | | | |
| Cash and cash equivalents | 5.1 | 299,233 | 94,086 |
| Trade and other receivables | 2.3.10 | 33,830 | 24,298 |
| Intangible assets | 5.2 | 1,653 | 2,447 |
| **Total Assets** | | **334,716** | **120,831** |
| | | | |
| **Liabilities** | | | |
| Trade and other payables | 2.3.11 | 8,263 | 10,336 |
| Unearned premiums | 2.3.7 | 324,158 | 277,361 |
| Outstanding claims liabilities | 2.3.1 | 149,064 | 147,771 |
| Unexpired risk liability | 2.3.7 | 288,554 | 166,183 |
| **Total Liabilities** | | **770,039** | **601,651** |
| | | | |
| **Net Assets** | | **(435,323)** | **(480,820)** |
| | | | |
| **Equity** | | | |
| Accumulated Deficit | | (435,323) | (480,820) |
| **Total Equity** | | **(435,323)** | **(480,820)** |

The accompanying notes form part of these financial statements.

# Statement of changes in equity

for the year ended 30 June 2018

| | Accumulated Funds $'000 | Total Equity $'000 |
|---|---|---|
| | | |
| **Balance at 1 July 2017** | **(480,820)** | **(480,820)** |
| | | |
| Surplus for the year | 45,497 | 45,497 |
| Other comprehensive income | - | - |
| **Total comprehensive result for the year** | **45,497** | **45,497** |
| | | |
| **Balance at 30 June 2018** | **(435,323)** | **(435,323)** |
| | | |
| | | |
| **Balance at 1 July 2016** | (375,818) | (375,818) |
| | | |
| Deficit for the year | (105,002) | (105,002) |
| Other comprehensive income | - | - |
| **Total comprehensive result for the year** | (105,002) | (105,002) |
| | | |
| **Balance at 30 June 2017** | **(480,820)** | **(480,820)** |

The accompanying notes form part of these financial statements.

# Statement of cash flows

for the year ended 30 June 2018

| | Notes | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|---|
| | | | |
| **CASH FLOW FROM OPERATING ACTIVITIES** | | | |
| Premiums received | | 120,768 | 92,321 |
| Recoveries | | 776 | 379 |
| Claims and expenses paid | | (81,840) | (64,379) |
| **Total cash flow from premiums less claims** | | **39,704** | **28,321** |
| **Receipts** | | | |
| Interest received | | 4,013 | 1,520 |
| Grants received from Crown | | 181,372 | - |
| Other Income | | 542 | - |
| **Total Receipts excluding Scheme Activities** | | **185,927** | **1,520** |
| **Payments** | | | |
| Service fees paid | | (6,642) | (11,975) |
| Other payments | | (13,842) | (23,364) |
| **Total Payments excluding Scheme Activities** | | **(20,484)** | **(35,339)** |
| | | | |
| **Net cash from Operating Activities** | 5.1 | **205,147** | **(5,498)** |
| | | | |
| Net increase/(decrease) in cash and cash equivalents | | 205,147 | (5,498) |
| Cash and cash equivalents at the beginning of the year | | 94,086 | 99,584 |
| | | | |
| **Cash and cash equivalents at the end of the period** | 5.1 | **299,233** | **94,086** |

The accompanying notes form part of these financial statements.

# Notes to the financial statements

for the year ended 30 June 2018

## 1. Overview

### 1.1 About the Scheme

On 1 July 2010, the NSW Self Insurance Corporation (SICorp) became the sole home warranty insurer in New South Wales. SICorp is a statutory corporation constituted by the *NSW Self Insurance Corporation Act, 2004* (the SICorp Act).

The Home Building Compensation Fund (HBCF) was created under s12A of the SICorp Act to provide consumer protection for home owners undertaking residential building projects in NSW where the contracted builder, due to certain circumstances, defaults under the contract.

HBCF issues certificates of insurance as required under the *Home Building Act, 1989* through its appointed insurance agents.

In accordance with s12A of the SICorp Act, HBCF may receive financial support by way of money advanced by the Minister or appropriated by the Parliament for the purposes of the HBCF.

HBCF operates in one geographical segment and is a single portfolio with general insurance conducted in New South Wales only.

icare was established on 1 September 2015 in accordance with the *State Insurance and Care Governance Act 2015*. Its functions include the monitoring of performance of the insurance or compensation schemes in respect of which it provides services. SI is one such scheme.

The financial statements for the year ended 30 June 2018 have been authorised for issue by the Chairman of the Board of icare and the Chief Executive Officer and Managing Director of SI on behalf of the Board of Directors of icare on 24 September 2018.

### 1.2 About this report

This Financial Report includes the consolidated financial statements of HBCF.

The Financial Report includes the four primary statements, namely the statement of comprehensive income (which comprises profit or loss and other comprehensive income), statement of financial position, statement of changes in equity and statement of cash flows as well as associated notes as required by Australian Accounting Standards. Disclosures have been grouped into the following categories in order to assist users in their understanding of the financial statements:

1. **Overview** contains information that impacts the Financial Report as a whole.
2. **Underwriting activities** brings together results and statement of financial position disclosures relevant to the Scheme's insurance activities.
3. **Investment activities** includes results and statement of financial position disclosures relevant to the Scheme's investments.
4. **Risk management** provides commentary on the Scheme's exposure to various financial and capital risks, explaining the potential impact on the results and statement of financial position and how the Scheme manages these risks.
5. **Other** includes additional disclosures required in order to comply with Australian Accounting Standards.

Where applicable within each note, disclosures are further analysed as follows:

- **Overview** provides some context to assist users in understanding the disclosures and the accounting policies relevant to an understanding of the numbers;
- **Disclosures** (both numbers and commentary) provides analysis of balances as required by Australian Accounting Standards; and
- **Critical accounting judgements and estimates** explains the key estimates and judgements applied by the scheme in determining the numbers.

# Notes to the financial statements

for the year ended 30 June 2018

## 1.2 About this report (continued)

The notes include information which the directors believe is required to understand the financial statements and is material and relevant to the operations, statement of financial position and results of the Scheme.

Information is considered material and relevant if:

- the amount in question is significant because of its size or nature;
- it is important to assist in understanding the results of the Scheme;
- it helps to explain the impact of significant changes in the Scheme's business; or
- it relates to an aspect of the Scheme's operations that is important to its future performance.

### 1.2.1 Basis of preparation

These general purpose financial statements have been prepared in accordance with the requirements of the:

- Applicable Australian Accounting Standards (which include Australian Accounting Interpretations); and
- the requirements of the *Public Finance and Audit Act 1983* (PFAA) and *Public Finance and Audit Regulation 2015*.

These financial statements have been presented on a liquidity basis following receipt of an exemption from TC18-01 by NSW Treasury that statements are presented on a current and non-current basis.

All amounts are rounded to the nearest one thousand dollars and are expressed in Australian currency.

As HBCF is a fund established within SICorp under s8A of the SICorp Act, the financial statements are aggregated into SICorp's financial statements.

### 1.2.2 Going concern basis

These financial statements have been prepared on a going concern basis, despite the accumulated deficit. The HBCF is able to pay its current known debts as and when they fall due. Refer to Note 5.3 for more information on funding arrangements for HBCF.

### 1.2.3 Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

Judgements, key assumptions and estimations management has made are disclosed in the relevant notes to the financial statements.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Actual results may differ from these estimates.

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following notes:

- Note 2.3 – Outstanding claims liability;
- Note 2.3.7- Unearned premiums and unexpired risk; and
- Notes 3 & 4 – Financial instruments.

### 1.2.4 Statement of compliance

HBCF's financial statements and notes comply with Australian Accounting Standards, which include Australian Accounting Interpretations.

# Notes to the financial statements

for the year ended 30 June 2018

### 1.2.5 Goods and Service Tax (GST)

HBCF is exempt from income tax under Division 50 of the *Income Tax Assessment Act 1997*.

Income, expenses, and assets are recognised net of the amount of GST, except that:

- the amount of GST incurred by HBCF as a purchaser that is not recoverable from the Australian Taxation Office is recognised as part of an item of expense or as part of the cost of acquisition of an asset; and
- receivables and payables are stated with the amount of GST included.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are receivable from, or payable to, the Australian Taxation Office are classified as operating cash flows.

### 1.2.6 Comparative figures

Except where an Australian Accounting Standard permits or requires otherwise, comparative information is disclosed in respect of the previous reporting period for all amounts reported in the financial statements.

Where necessary, comparatives have been restated to conform to changes in presentation in the current year.

### 1.2.7 New standards and interpretations not yet effective

Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the reporting year ending 30 June 2018. The following new Standards will not have a material impact on the financial performance or position of HBCF;

- AASB 15, AASB 2014-5, AASB 2015-8 and AASB 2016-3 regarding *Revenue from Contracts with Customers*;
- AASB 16 regarding *Leases*;
- AASB 1058 *Income of Not-for-profit Entities*;
- AASB 2016-6 Amendments to Australian Accounting Standards- Applying AASB 9 with AASB 4 *Insurance Contracts*;
- AASB 2016-7 Amendments to Australian Accounting Standards- Deferral of AASB 15 for Not-for-Profit Entities;
- AASB 2016-8 Amendments to Australian Accounting Standards– Australian Implementation Guidance for Not-for-Profit Entities;
- AASB 2017-1 Amendments to Australian Accounting Standards– Transfer of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments; and
- AASB 2017-3 Amendments to Australian Accounting Standards- Clarifications to AASB 4

AASB 9 regarding *Financial Instruments* is being evaluated to assess if there is any impact on the financial performance or position of HBCF.

HBCF has commenced a program to assess the financial impact of AASB 17 *Insurance Contracts* on the financial results. This assessment will be concluded by 30 June 2020.

## 2. Underwriting activities

**Overview**

This section provides analysis and commentary on HBCF's underwriting activities. Underwriting, in simple terms, is the agreement by the insurer to assume insurance risk in return for a premium paid by the insured. The underwriter assesses the quality of the risk and prices it accordingly.

### 2.1 Revenue

Revenue mainly comprises premiums charged for providing insurance coverage.

Premiums are recognised as income earned in accordance with the pattern of risk associated with the insured risk over the insured period (7 years). They are exclusive of taxes and duties levied.

This is a change from previous years where premium income was recognised on a straight-line basis over the insured period.

The proportion of the premium revenue that is not earned in the statement of comprehensive income at the reporting date is recognised in the statement of financial position as unearned premium.

# Notes to the financial statements

for the year ended 30 June 2018

## 2.2 Net Claims expense

**Overview**

The largest expense for an insurance entity is net claims, which is the difference between the net outstanding claims liability (Note 2.3) at the beginning and the end of the financial year plus any claims incurred and settled in the financial year and the movement in the unexpired risk liability.

HBCF's claims liability is accounted for in accordance with AASB 1023 "*General Insurance Contracts*".

Claims incurred is:

- the amount incurred on claims by HBCF during the year;
- plus the amount, which the consulting actuary has estimated as at 30 June 2018 as being the movement in the amount required to meet the cost of claims reported but not yet paid;
- claims incurred which are yet to be reported; and
- the escalation in reported and reopened claims.

Insurance recoveries are recognised as revenue when it is virtually certain the recovery will be made. Other recoveries include recoveries of claims paid under:

- sharing agreements;
- third party recoveries; and
- salvage and subrogation.

Movement in outstanding recoveries represents the increase(decrease) in the actuarially assessed level of insurance and other recoveries receivable at reporting date. (Note 2.3.10).

| | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|
| | | |
| Claims and related expenses | 56,327 | 42,846 |
| Finance costs (net) | 1,972 | 1,944 |
| Other movements in claims liabilities | (679) | 11,345 |
| Gross claims expenses | 57,620 | 56,135 |
| Recoveries revenue | (875) | (2,601) |
| Acquisition costs | 25,467 | 34,285 |
| Movement in unexpired risk liability | 122,371 | 63,218 |
| **Net claims expense** | **204,583** | **151,037** |

# Notes to the financial statements

for the year ended 30 June 2018

## 2.2 Net Claims expense (continued)

An analysis of the claims expense for HBCF showing separately the amount relating to risks borne in the current period and the amount relating to a reassessment of risks borne in all previous periods is presented below:

| | Current year $000 | Prior year $000 | 2018 Total $000 | 2017 Total $000 |
|---|---|---|---|---|
| Gross claims incurred & related expenses – undiscounted | 54,355 | 4,590 | 58,945 | 57,497 |
| Reinsurance & other recoveries – undiscounted | (582) | (315) | (897) | (2,351) |
| **Net claims incurred – undiscounted** | **53,773** | **4,275** | **58,048** | **55,146** |
| Discount & discount movement – gross claims incurred | (3,096) | 1,771 | (1,325) | (1,361) |
| Discount & discount movement – reinsurance & other recoveries | 43 | (21) | 22 | 128 |
| **Net discount movement** | (3,053) | 1,750 | (1,303) | **(1,233)** |
| | | | | |
| **Net claims incurred** | **50,720** | **6,025** | **56,745** | **53,913** |

## 2.3 Net Outstanding claims liability

**Overview**

Provisions are recognised when HBCF has a present obligation as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

The net outstanding claims liability comprises the elements described below:

- The net central estimate (Note 2.3.1). This is the provision for expected future claims payments and includes claims reported but not yet paid, claims incurred but which have not yet been reported (IBNR), claims incurred but not enough reported (known as IBNER) and estimated claims handling costs;
- Less an amount to reflect the discount to present value using risk-free rates of return. The net central estimate is discounted to present value recognising that the claim and/or recovery may not be settled for some time. The expected future payments are discounted to a present value at the reporting date using a risk-free discount rate; and
- Plus a risk margin (Note 2.3.2). A risk margin is added to reflect the inherent uncertainty in the net discounted central estimate of outstanding claims.

The provision for outstanding claims is determined by the Fund Actuary in conjunction with information supplied by the HBCF Insurance Agents. It is measured as the central estimate of the present value of the expected future payments required to settle the present obligation at the report date. It includes an additional risk margin to allow for the inherent uncertainty in the central estimate.

# Notes to the financial statements

for the year ended 30 June 2018

### 2.3.1 Discounted outstanding claims

**Overview**

The provision for outstanding claims is actuarially determined in consultation with the claims managers. It is measured as the estimate of the expected future payments required to settle the present obligation at the reporting date, including the expenses associated with the settlement.

The expected future payments are estimated on the basis of the ultimate cost of the settling of claims, which is affected by factors arising during the period to settlement such as normal inflation and "superimposed inflation". Superimposed inflation refers to factors such as trends in court awards, for example increases in the level and period of compensation for injury or above inflation increases in the cost of obtaining medical services.

The expected future payments are then discounted to a present value at the reporting date using discount rates based on long term Commonwealth government securities that have similar duration to the liability cash flows.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| Expected future gross claims payments | 126,499 | 122,011 |
| Gross claims handling | 9,950 | 12,015 |
| Gross risk margin | 24,657 | 24,481 |
| Gross outstanding claims liabilities | **161,106** | **158,507** |
| Discount on central estimate | (6,330) | (5,196) |
| Discount on claims handling | (498) | (509) |
| Discount on risk margin | (5,214) | (5,031) |
| Total discount on claims liabilities | **(12,042)** | **(10,736)** |
| **Claims liabilities at 30 June** | **149,064** | **147,771** |
| Expected future actuarial assessment of other recoveries | (2,444) | (2,323) |
| Discount to present value other recoveries | 123 | 100 |
| **Recoveries 30 June (Note 2.3.10)** | **(2,321)** | **(2,223)** |
| **Net outstanding claim liabilities** | **146,743** | **145,548** |

# Notes to the financial statements

for the year ended 30 June 2018

### 2.3.1 Discounted outstanding claims (continued)

The movement in the claims liabilities at 30 June is shown in the below table:

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| Gross carrying amount at start of year | 147,771 | 134,481 |
| Payments (All Accident years, excl CHE) | (53,808) | (42,846) |
| Unwinding of discounts | 1,997 | 1,944 |
| Actuarial (gain)/loss | 1,598 | (11,465) |
| Additions (liability incl. CHE) | 46,830 | 55,476 |
| Additions (payments incl. CHE) | 4,676 | 10,181 |
| **Closing balance** | 149,064 | **147,771** |

AY = Accident year

CHE= Claims handling expenses

HBCF has no non-insurance contracts, as such all assets held are used to back general insurance liabilities.

### 2.3.2 Risk Margin

**Overview**

A risk margin is determined by the Board to reflect the inherent uncertainty in the net discounted central estimate.

The uncertainty has been determined on a basis that reflects the Home Building Compensation Fund's business. Regard is had to the robustness of the valuation models, the reliability and volume of the available data, past experience of the NSW home warranty insurance market and the characteristics of the business written.

The risk margin and the net discounted central estimate are key inputs in the determination of the probability of adequacy, which is a statistical measure of the relative adequacy of the outstanding claims liability to ultimately be able to pay claims. For example, a 75 per cent probability of adequacy indicates that the net discounted central estimate is expected to be adequate seven and a half years in 10.

For HBCF the outstanding claims liability estimate includes a risk margin of 15 per cent respectively (2017: 15 per cent) to cover the inherent uncertainty in the net central estimate. The risk margin has been set at a level that results in an overall probability of sufficiency in the outstanding claims liability of 75 per cent (2017: 75 per cent).

The risk margin for HBCF was $19 million (2017: $19.0 million).

# Notes to the financial statements

for the year ended 30 June 2018

### 2.3.3 Core claims liability variables

**Overview**

The core variables that drive HBCF's liabilities are the inflation rate and the discount rate of those liabilities.

The average inflation and discount rates below were used in measuring the outstanding claims liability:

| | 2018 | 2017 |
|---|---|---|
| **Discount rates and term to settlement** | | |
| Discount rates | | |
| Not later than one year | 1.95% | 1.6% |
| Later than one year | 2.07-4.5% | 1.92-4.29% |
| Inflation rates | 1.95-3.37% | 2.09-3.60% |
| Superimposed inflation rates | 1.63-3.05% | 1.40-2.91% |
| Weighted average term to settlement | 2.3 years | 2.1 years |

### 2.3.4 Claims liability maturity

**Overview**

The maturity profile is HBCF's expectation of the period over which the net central estimate will be settled. HBCF uses this information to ensure that it has adequate liquidity to pay claims as they are due to be settled and to inform HBCF's investment strategy. The expected maturity profile of HBCF's net discounted central estimate is analysed below:

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| **Outstanding claims net of recoveries maturing:** | | |
| Less than one year | 43,084 | 51,520 |
| 1 to 2 years | 34,280 | 33,531 |
| 2 to 5 years | 54,062 | 47,015 |
| Over 5 years | 15,317 | 13,482 |
| **Total net outstanding claims liability** | **146,743** | **145,548** |

# Notes to the financial statements

for the year ended 30 June 2018

### 2.3.5 Impact of changes in key variables on the net outstanding claims liability

**Overview**

The outstanding claims liabilities are central estimates derived from actuarial assumptions regarding future experience. Sensitivity analysis can be used to measure the change in the outstanding claims liability estimate that would result from a change in the assumptions.

The outstanding claims liability represents the best estimate and is based on standard actuarial assessment.

Significant uncertainty exists as to the long-term nature of the liabilities.

The main uncertainty around the estimates of future claims costs include:

- The amount of post reform (i.e. following 30 June 2002) claims experience is yet to fully mature and the modelling is based in part on benchmarking against pre-reform experience;
- The future building cycle is uncertain, especially the length and the severity of future economic downturns, and this will impact the emergence of future builder insolvencies and hence future claims costs;
- The new publicly underwritten arrangement will inevitably lead to a change in underwriting, claims management and builder eligibility guidelines compared to the private insurer arrangements, and this will likely have flow-on impacts or unintended consequences on future claims experience;
- There is particular uncertainty around how defect claims are likely to emerge and develop, especially in respect to multi-unit covers; and
- The calculation of premiums requires the estimation of future expenses, which are a high proportion of the projected premium, and it is unclear the level of future expenses to be allowed for.

The impact that possible changes in key actuarial assumptions have on the financial results is shown in the following tables:

# Notes to the financial statements

for the year ended 30 June 2018

### 2.3.5 Impact of changes in key variables on the net outstanding claims liability (continued)

| Movement in Variable | | Financial Impact | | | | | |
|---|---|---|---|---|---|---|---|
| Variable | | 2018 Change in outstanding claims liability | | 2018 Change in insurance liability | | Net Result* | LAT Deficiency |
| | | $'000 | % | $'000 | % | $'000 | $'000 |
| **Base** | | **146,743** | | **759,455** | | | **314,021** |
| Weighted average term to settlement (years) | +0.5 years | 2,213 | 1.5 | 10,619 | 1.4 | (10,619) | 322,427 |
| | -0.5 years | (2,180) | (1.5) | (10,472) | (1.4) | 10,472 | 305,729 |
| | | | | | | | |
| Inflation rate | +1 | 3,306 | 2.3 | 37,480 | 4.9 | (37,480) | 348,195 |
| | -1 | (3,222) | (2.2) | (35,709) | (4.7) | 35,709 | 281,534 |
| | | | | | | | |
| Discount rate | +1 | (3,213) | (2.2) | (35,508) | (4.7) | 35,508 | 281,726 |
| | -1 | 3,363 | 2.3 | 38,007 | 5.0 | (38,007) | 348,666 |
| | | | | | | | |
| Claims handling expense ratio | +1 | 1,359 | 0.9 | 6,929 | 0.9 | (6,929) | 319,591 |
| | -1 | (1,359) | (0.9) | (6,929) | (0.9) | 6,929 | 308,451 |
| | | | | | | | |
| Risk margin | +1 | 1,276 | 0.9 | 6,425 | 0.8 | (6,425) | 319,170 |
| | -1 | (1,276) | (0.9) | (6,425) | (0.8) | 6,425 | 308,873 |
| | | | | | | | |
| Loss ratio | +25% | 26,543 | 18.1 | 179,970 | 23.7 | (179,970) | 467,449 |
| | -25% | (26,543) | (18.1) | (179,970) | (23.7) | 179,970 | 160,594 |
| | | | | | | | |
| Event frequency | +100% (1 in 2 yrs) | - | - | 31,939 | 4.2 | (31,939) | 345,960 |
| | | | | | | | |
| Largest builder goes insolvent on 1 July 2018 | | - | - | 303,492 | 40 | (303,492) | 617,513 |
| Downturn in building cycle | | - | - | 419,543 | 55.2 | (419,543) | 733,564 |

*Note: Net Result includes the estimated impact of a revised Liability Adequacy Test result.

# Notes to the financial statements

for the year ended 30 June 2018

### 2.3.5 Impact of changes in key variables on the net outstanding claims liability (continued)

| Movement in Variable | | Financial Impact | | | | | |
|---|---|---|---|---|---|---|---|
| Variable | | 2017 Change in outstanding claims liability | | 2017 Change in insurance liability | | Net Result* | LAT Deficiency |
| | | $'000 | % | $'000 | % | $'000 | $'000 |
| **Base** | | **145,548** | | **589,093** | | | **200,468** |
| Weighted average term to settlement (years) | +0.5 years | 2,324 | 1.6 | 8,430 | 1.4 | (8,430) | 206,575 |
| | -0.5 years | (2,287) | (1.6) | (8,311) | (1.4) | 8,311 | 194,445 |
| | | | | | | | |
| Inflation rate | +1 | 2,825 | 1.9 | 31,149 | 5.3 | (31,149) | 228,793 |
| | -1 | (2,797) | (1.9) | (29,860) | (5.1) | 29,860 | 173,406 |
| | | | | | | | |
| Discount rate | +1 | (3,094) | (2.1) | (34,307) | (5.8) | 34,307 | 169,256 |
| | -1 | 3,193 | 2.2 | 36,797 | 6.2 | (36,797) | 234,073 |
| | | | | | | | |
| Claims handling expense ratio | +1 | 1,323 | 0.9 | 5,355 | 0.9 | (5,355) | 204,501 |
| | -1 | (1,323) | (0.9) | (5,355) | (0.9) | 5,355 | 196,437 |
| | | | | | | | |
| Risk margin | +1 | 1,266 | 0.9 | 5,123 | 0.9 | (5,123) | 204,326 |
| | -1 | (1,266) | (0.9) | (5,123) | (0.9) | 5,123 | 196,612 |
| | | | | | | | |
| Loss ratio | +25% | 22,323 | 15.3 | 133,437 | 22.7 | (133,437) | 311,583 |
| | -25% | (22,323) | (15.3) | (133,437) | (22.7) | 133,437 | 89,355 |
| | | | | | | | |
| Event frequency | +100% (1 in 2.5 yrs) | - | - | 30,194 | 5.1 | (30,194) | 230,663 |
| | | | | | | | |
| Largest builder goes insolvent on 1 July 2017 | | - | - | 251,921 | 42.8 | (251,921) | 452,390 |
| Downturn in building cycle | | - | - | 265,144 | 45.0 | (265,144) | 465,613 |

*Note: Net Result includes the estimated impact of a revised Liability Adequacy Test result.

# Notes to the financial statements

for the year ended 30 June 2018

### 2.3.6 Claims development

**Overview**

A significant portion of HBCF's liabilities relate to claim liabilities of past years that will be settled in future years.

The following table shows the development of undiscounted outstanding claims relative to the ultimate expected claims for the most recent accident years for HBCF.

| Underwriting Year | 2011 $'000 | 2012 $'000 | 2013 $'000 | 2014 $'000 | 2015 $'000 | 2016 $'000 | 2017 $'000 | 2018 $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|---|---|
| **Estimate of ultimate claim cost** | | | | | | | | | |
| At the end of underwriting year | 38,386 | 66,963 | 78,338 | 89,186 | 98,858 | 118,917 | 150,915 | 178,556 | |
| One year later | 85,728 | 77,575 | 67,677 | 82,364 | 88,800 | 125,694 | 158,718 | | |
| Two years later | 87,257 | 70,492 | 72,070 | 80,577 | 100,558 | 130,989 | | | |
| Three years later | 79,862 | 77,698 | 70,668 | 79,353 | 100,906 | | | | |
| Four years later | 83,291 | 74,818 | 67,071 | 82,538 | | | | | |
| Five years later | 81,403 | 78,899 | 65,279 | | | | | | |
| Six years later | 86,724 | 73,224 | | | | | | | |
| Seven year later | 85,268 | | | | | | | | |
| Current estimate of cumulative claim costs | 85,268 | 73,224 | 65,279 | 82,358 | 100,906 | 130,989 | 158,718 | 178,856 | 875,778 |
| Cumulative net claim payments | 59,935 | 43,276 | 24,805 | 22,436 | 18,660 | 12,628 | 6,014 | 824 | 188,578 |
| Net undiscounted central estimate | 25,333 | 29,948 | 40,474 | 60,102 | 82,246 | 118,361 | 152,704 | 178,032 | 687,200 |
| Effect of discounting | (1,538) | (2,342) | (3,954) | (6,942) | (10,814) | (18,008) | (25,591) | (31,782) | (100,971) |
| Claims handling expense | 1,991 | 2,391 | 3,292 | 4,952 | 6,805 | 9,746 | 12,518 | 14,566 | 56,261 |
| Risk margin | 4,057 | 4,901 | 6,786 | 10,255 | 14,134 | 20,294 | 26,112 | 30,427 | 116,966 |
| **Total insurance liability at 30 June 2018** | **29,843** | **34,898** | **46,598** | **68,367** | **92,371** | **130,393** | **165,743** | **191,243** | **759,456** |
| Premium liability | | | | | | | | | 612,713 |
| **Outstanding claims liability at 30 June 2018** | | | | | | | | | **146,743** |

# Notes to the financial statements

for the year ended 30 June 2018

### 2.3.7 Unearned premium and unexpired risk liability

**Overview**

**Unearned premium**

Gross written premium is earned in profit or loss in accordance with the pattern of incidence of risk of the related business. The unearned premium liability is that portion of gross written premium that HBCF has not yet earned in profit or loss as it represents insurance coverage to be provided by HBCF after the balance date.

**Unexpired risk liability**

At the reporting date, a liability adequacy test (LAT) is performed by the Fund Actuaries for HBCF.

At the balance date, HBCF recognises a liability in respect of outstanding claims and assesses the adequacy of its unearned premium liability. As required under AASB 1023 *General Insurance Contracts*, a LAT is undertaken to determine the adequacy of the unearned premium liability against current estimates of the present value of the expected future cash flows relating to future claims arising from the rights and obligations under current insurance contracts. An additional risk margin is included to take into account the inherent uncertainty in the central estimate.

It represents the extent that the unearned premium liability is insufficient to cover expected future claims.

If the assessment shows the carrying amount of the liabilities is inadequate, any deficiency is recognised as an expense in the statement of comprehensive income by firstly writing down the deferred acquisition cost. If an additional liability is required, this is recognised in the statement of financial position as an unexpired risk liability.

As at the reporting date, the LAT identified a deficit of $314 million (2017: $200.5 million). The deficit, after deducting the opening balance of the unexpired risk liability, is recognised as an expense in the statement of comprehensive income.

| | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|
| | | |
| Unearned premiums | 324,158 | 277,361 |
| Unexpired risk liability | 288,554 | 166,183 |
| | **612,712** | **443,544** |

#### 2.3.7.1 Reconciliation of unearned premiums

A reconciliation of the carrying amount of unearned premiums at the beginning and end of the reporting periods is set out below.

| | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|
| | | |
| **As at 1 July** | 277,361 | 235,991 |
| Deferral of premiums written in current year | 130,785 | 102,017 |
| Premiums earned during the year | (83,988) | (60,647) |
| **As at 30 June** | **324,158** | **277,361** |

# Notes to the financial statements

for the year ended 30 June 2018

### 2.3.7.2 Reconciliation of unexpired risk liability

A reconciliation of the carrying amount of the unexpired risk liability at the beginning and end of the reporting periods is set out below.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| **Unexpired risk liability** | | |
| Unexpired risk liability as at 1 July | 166,183 | 102,965 |
| Recognition of additional unexpired risk liability in the year | 122,371 | 63,218 |
| **Unexpired risk liability as at 30 June** | **288,554** | **166,183** |
| | | |
| **Deficiency recognised in the Statement of Comprehensive Income** | | |
| Gross movement in unexpired risk liability | (122,371) | (63,218) |
| Write down of deferred acquisition costs* | (25,467) | (34,285) |
| **Total deficiency recognised in the Statement of Comprehensive Income** | **(147,838)** | **(97,503)** |
| | | |
| **Calculation of deficiency** | | |
| Unearned premium liability | 324,159 | 277,362 |
| Acquisition costs* | (25,467) | (34,285) |
| | **298,692** | **243,077** |
| | | |
| Central estimate of present value of expected | | |
| future cash flows arising from future claims | 514,885 | 385,691 |
| Risk Margin (Note 2.3.2) | 97,828 | 57,854 |
| **Premium liability provision** | **612,713** | **443,545** |
| | | |
| **Net Deficiency** | **314,021** | **200,468** |

*Refer Note 2.3.8 Other Assets- Deferred Acquisition Costs

The premium liability provision represents the actuarial assessment of future claims expenses.

The mean term to settlement of the undiscounted premium liability is 7.4 years (2017: 7.3 years).

# Notes to the financial statements

for the year ended 30 June 2018

### 2.3.8 Other Assets – Deferred acquisition cost

Costs directly attributable to the acquisition of premium revenue are deferred by recognising them as an asset in the statement of financial position when they can be reliably measured. Deferred acquisition costs (net of any deficiency) are amortised systematically over the life of the insurance policy in line with the expected pattern of the incidence of risk. This corresponds to the earning pattern of premium revenue.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| **As at 1 July** | - | - |
| Acquisition costs incurred during the year | 25,467 | 34,285 |
| Acquisition costs amortised during the year | - | - |
| Net deficiency write-down [(1)] | (25,467) | (34,285) |
| **As at 30 June** | **-** | **-** |
| | | |
| **Acquisition costs recognised in the Statement of Comprehensive Income comprise:** | | |
| Acquisition costs amortised during the year | - | - |
| Net deficiency write-down [1] | 25,467 | 34,285 |
| | **25,467** | **34,285** |

1. Refer to Note 2.3.7 Unearned Premium and Unexpired Risk Liability. Due to the unearned premium liability deficiency as identified by the LAT, deferred acquisition costs are written down.

### 2.3.9 Underwriting and other expenses

**Overview**

HBCF incurs a range of expenses in providing its underwriting services. Details of these expenses are:

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Statutory levies paid to State Insurance Regulatory Authority (SIRA) (2.3.9.1) | 5,358 | 2,084 |
| Service fees to icare (2.3.9.2) | 9,201 | 6,919 |
| Software support | 1,511 | 4,662 |
| Advertising | 24 | - |
| Consultancy & contractors | 2,226 | 1,311 |
| Audit fees - audit of financial statements | 102 | 63 |
| Amortisation | 794 | 794 |
| Other | (103) | 152 |
| | **19,113** | **15,985** |

# Notes to the financial statements

for the year ended 30 June 2018

### 2.3.9.1 Statutory levies

Pursuant to Section 12A(3)(d)(2) of the *NSW Self Insurance Corporation Act 2004* HBCF is required to pay SIRA costs incurred in exercising its functions in relation to the regulation of home building.

### 2.3.9.2 Service fees

In accordance with the *State Insurance and Care Governance Act 2015* from 1 September 2015, HBCF receives services from Insurance & Care NSW (icare). Under the arrangement some of HBCF's costs are incurred by icare and recovered at cost from HBCF.

These services include claims handling facilities, general business expenses and governance services.

Agent's remuneration of $25 million (2017 $21 million) paid by icare has been treated as an acquisition cost rather than as a Service fee expense.

HBCF's key management personnel are the Board of Directors of icare, the Chief Executive Officer of icare and their direct reports. All transactions with these key management personnel are included in the service fee paid to icare for those personnel remunerated by icare.

## 2.3.10 Trade and other receivables

**Overview**

Trade and other receivables are principally amounts owed to HBCF by policyholders.  Unclosed premium receivables are estimated amounts due to the Scheme in relation to business for which the Scheme is on risk but where the policy is not billed to the counterparty at the balance date.

Investment receivables are amounts due from investment counterparties in settlement of transactions.

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Short-term receivables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial.

The collection of receivables is reviewed on an ongoing basis. An allowance for impairment is established when there is objective evidence that not all amounts due will be collectable. Bad debts are written off when there is objective evidence that the chance of collecting an amount is unlikely.

Refer to Note 4 for further information regarding credit risk, liquidity risk and market risk arising from financial instruments.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| Premiums receivable | 31,370 | 21,353 |
| Insurance and other recoveries | 2,321 | 2,223 |
| Service fees | 139 | - |
| Accrued interest | - | 722 |
| | **33,830** | **24,298** |

## 2.3.11 Trade and other payables

**Overview**

Trade and other payables represent liabilities for services provided to HBCF prior to the end of financial year, which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

Payables are recognised initially at fair value, usually based on the transaction cost or face value. Short-term payables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial.

These amounts represent liabilities for goods and services provided to HBCF and other amounts. Payables are recognised initially at fair value, usually based on the transaction cost or face value. Subsequent measurement is at amortised cost using the effective interest method.

The payables are recognised for amounts due to be paid in the future for goods or services received, whether or not invoiced. Amounts owing to suppliers (which are unsecured) are settled in accordance with the policy set out in Treasury Circular 11/12.

# Notes to the financial statements

for the year ended 30 June 2018

### 2.3.11 Trade and other payables (continued)

Refer to Note 4 for further information regarding credit risk, liquidity risk and market risk arising from financial instruments.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| Insurance duty payable | 1,507 | 1,565 |
| Service fees | 4,291 | 1,592 |
| Accrued expenses | 306 | 6,530 |
| Goods and Services Tax | 2,159 | 649 |
| | **8,263** | **10,336** |

## 3. Investment income

**Overview**

Investment income includes bank interest income.

Bank interest revenue is recognised as interest accrues.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| Bank interest | 3,291 | 1,374 |
| | **3,291** | **1,374** |

## 4. Risk management

**Overview**

HBCF applies a consistent and integrated approach to enterprise risk management (ERM). HBCF operates within icare's risk management framework which sets out the approach to managing key risks and meeting strategic objectives. The risk management framework is articulated in the Risk Management Strategy (RMS) which is approved annually by the Board.

The icare Board is ultimately responsible for identifying and controlling financial risk. This is done through the establishment of holistic strategies and policies which are cognisant of financial risk management.

Overall risk management within HBCF forms a part of operations and line responsibilities. The Audit and Risk Committee (ARC) has oversight of risk management and reports to the icare Board. Internal Audit helps identify, monitor and evaluate risks and gives assurance to the ARC on higher risk activities.

Risk management is a continuous process and an integral part of robust business management. HBCF's approach is to integrate risk management into the broader management processes of the organisation. It is HBCF's philosophy to ensure that risk management remains embedded in the business and that the risk makers or risk takers are themselves the risk managers. Specifically, the management of risk must occur at each point in the business management cycle.

The framework consists of complementary elements that are embedded throughout the business management cycle and culture of the organisation. Key aspects include: risk appetite, governance, risk management processes, risk reporting and insights, modelling and stress testing, management, monitoring and culture.

The risk and compliance management framework to identify and mitigate risks is outlined below:

- The maintenance and use of management information systems that provide up-to-date, reliable data on the risks to which the fund is exposed;
- Actuarial modelling to assess the adequacy of pricing and to monitor claims patterns based on past experience of the private insurers and emerging HBCF claims;
- Detailed underwriting procedures exist and are strictly followed for accepting risks;
- Regular reviews and audits are performed on the underwriting function of brokers and insurance agents; and
- The majority of premiums are paid within payment terms. Outstanding debtors are managed by the Insurance Agents actively monitoring and reviewing the portfolio.

# Notes to the financial statements

for the year ended 30 June 2018

## 4. Risk Management (continued)

The key risk categories used by HBCF to classify financial risk:

- Insurance risk (Note 4.1);
- Market risk (Note 4.2);
- Interest rate risk (Note 4.3);
- Liquidity risk (Note 4.4); and
- Credit risk (Note 4.5).

HBCF's principal financial instruments are outlined below. These financial instruments arise directly from HBCF's operations or are required to finance those operations. HBCF does not enter into financial instruments, including derivative financial instruments, for speculative purposes.

HBCF's main risks arising from financial instruments are outlined below, together with HBCF's objectives, policies and processes for measuring and managing risk. Further quantitative and qualitative disclosures are included through these financial statements.

Financial instrument categories

| | Notes | Category | 2018 Carrying Amount $'000 | 2017 Carrying Amount $'000 |
|---|---|---|---|---|
| | | | | |
| **Financial Assets** | | | | |
| Cash and cash equivalents | 4.5 | N/A | 299,233 | 94,086 |
| Receivables[1] | 2.3.10 | Receivables (measured at amortised cost) | 31,509 | 22,075 |
| | | | | |
| **Financial Liabilities** | | | | |
| Payables[2] | 2.3.11 | Payables (measured at amortised cost) | 4,597 | 8,122 |

[1] Excludes statutory receivables

[2] Excludes statutory payables

# Notes to the financial statements

for the year ended 30 June 2018

## 4.1 Insurance Risk

**Overview**

Insurance risk is the risk of fluctuations in the timing, frequency and severity of insured events and claims settlements, relative to expectations Key drivers of insurance risk include quality of underwriting; the NSW macro-economic environment and its impact on demand and pricing of residential property, and natural or man-made catastrophic events.

## 4.2 Market risk

**Overview**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

The effects on HBCF's operating result due to reasonably possible changes in risk variables are outlined in the information below, for interest rate risk. A reasonably possible change in the risk variable has been determined after taking into account the economic environment in which HBCF operates and the time frame for the assessment (i.e. until the end of the next annual reporting period). The sensitivity analysis is based on risk exposures in existence at the reporting date. The analysis assumes that all other variables remain constant.

## 4.3 Interest rate risk

**Overview**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The following table provides the sensitivity analysis of interest rate risk affecting applicable financial assets on the operating result and equity of HBCF. A reasonably possible change of +/- 1 per cent is used, consistent with current trends in interest rates. The basis will be reviewed annually and amended where there is a structural change in the level of interest rate volatility.

| | Carrying Amount $'000 | -1% | | +1% | |
|---|---|---|---|---|---|
| | | **Profit $'000** | **Equity $'000** | **Profit $'000** | **Equity $'000** |
| **2018** | | | | | |
| Cash and cash equivalents | 299,233 | (2,992) | (2,992) | 2,992 | 2,992 |
| **2017** | | | | | |
| Cash and cash equivalents | 94,086 | (941) | (941) | 941 | 941 |

# Notes to the financial statements

for the year ended 30 June 2018

## 4.4 Liquidity risk

### Overview

Liquidity risk is the risk of insufficient liquid assets to meet liabilities as they fall due. HBCF's liquidity risk arises due to the nature of insurance activities where the timing and amount of cash outflows are uncertain.

The payables are recognised for amounts due to be paid in the future for goods or services received, whether or not invoiced. Amounts owing to suppliers (which are unsecured) are settled in accordance with the policy set out in Treasury Circular NSW TC11/12. If trade terms are not specified, payment is made no later than the end of the month following the month in which an invoice or a statement is received.

The maturity profile of HBCF's financial liabilities is summarized in the table below:

| | Weighted average effective interest rate | Nominal amount $'000 | Interest rate exposure $'000 | | | Maturity dates $'000 | | |
|---|---|---|---|---|---|---|---|---|
| | % | | Fixed interest rate | Variable interest rate | Non-interest bearing | < 1 year | 1–5 years | >5 years |
| **2018** | | | | | | | | |
| Payables | - | 4,597 | - | - | 4,597 | 4,597 | - | - |
| **2017** | | | | | | | | |
| Payables | - | 8,122 | - | - | 8,122 | 8,122 | - | - |

## 4.5 Credit risk

### Overview

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Credit risk arises from the financial assets of HBCF, which comprise cash and cash equivalents and receivables. HBCF's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments at reporting date.

### Cash and cash equivalents

Cash comprises cash investment in banks. Interest is earned on daily bank balances at the prevailing Reserve Bank of Australia's cash rate.

### Receivables

Receivables include premium receivables and other general receivables.

### Trade debtors

All trade debtors are recognised as amounts receivable at the reporting date. The collection of trade debtors is reviewed on an ongoing basis. Procedures as established in the Treasurer's Directions are followed to recover outstanding amounts, including letters of demand. Debts which are known to be uncollectible are written off. An allowance for impairment is raised when there is objective evidence that HBCF will not be able to collect all amounts due. No interest is earned on trade debtors. The average credit period on sales, unless otherwise agreed, is 30 days.

# Notes to the financial statements

for the year ended 30 June 2018

## 4.5 Credit risk (continued)

HBCF does not receive any collateral for receivables.

The financial assets that are past due or considered impaired are included in the table below:

| | Total $'000 | Past due but not impaired $'000 | | | Considered Impaired $'000 |
|---|---|---|---|---|---|
| | | < 3 months overdue | 3-6 months overdue | > 6 months overdue | |
| **2018** | | | | | |
| Receivables | 5,303 | 1,999 | 1,142 | 2,162 | - |
| **2017** | | | | | |
| Receivables | 5,394 | 3,945 | 706 | 743 | - |

**Concentration of credit risk**

| By Credit Rating | AAA $'000 | AA+ $'000 | AA $'000 | AA- $'00 | A+ $'000 | A $'000 | A- $'000 | Other Ratings* $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | |
| **2018** | | | | | | | | | |
| Receivables | - | - | - | - | - | - | - | 31,509 | 31,509 |
| **2017** | | | | | | | | | |
| Receivables | 722 | - | - | - | - | - | - | 21.353 | 22.075 |

*Short term ratings of A-2 or better, when counter party has no long-term rating or the long-term rating is A or lower.

| By classification of counterparty | Governments $'000 | Commercial insurer $'000 | Other $'000 | Total $'000 |
|---|---|---|---|---|
| | | | | |
| **2018** | | | | |
| Receivables | - | - | 31,509 | 31,509 |
| **2017** | | | | |
| Receivables | 722 | - | 21,353 | 22,075 |

During the year there were no defaults on receivables. HBCF's exposure to credit risk is deemed insignificant due to there being no requirement, to date, to write off bad debts.

# Notes to the financial statements

for the year ended 30 June 2018

## 5. Other

**Overview**

This section includes other information that must be disclosed to comply with the Australian Accounting Standards.

### 5.1 Cash and cash equivalents

**Overview**

Cash and cash equivalents include cash at bank and short-term money market investments held at TCorp.

Refer to Note 4 for details regarding credit risk, liquidity risk and market risk arising from financial instruments

Cash and cash equivalents in the statement of financial position comprise deposits held at call with banks.

Cash and cash equivalent assets recognised in the statement of financial position is reconciled at the end of the financial year to the statement of cash flows as follows:

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| Cash and cash equivalents (per statement of financial position) | 299,233 | 94,086 |
| Closing cash and cash equivalents (per statement of cash flows) | 299,233 | 94,086 |
| | | |
| **Reconciliation of net cash flows from operating activities to net surplus/(deficit) for the period** | | |
| **Net cash flows from operating activities** | **205,147** | **(5,498)** |
| Adjustments for: | | |
| Adjustment for amortisation | (794) | (794) |
| (Decrease)/Increase in receivables | 9,532 | 11,990 |
| Decrease/(Increase) in unearned premiums | (46,797) | (41,370) |
| Decrease/(Increase) in payables | 2,073 | 7,177 |
| Decrease/(Increase) in outstanding claims | (1,293) | (13,289) |
| Decrease/(Increase) in unexpired risk liability | (122,371) | (63,218) |
| **Net result for the year** | **45,497** | **(105,002)** |

# Notes to the financial statements

for the year ended 30 June 2018

## 5.2 Intangible assets

**Overview**

HBCF recognises intangible assets only if it is probable that future economic benefits will flow to the entity and the cost of the asset can be measured reliably. Intangible assets are measured initially at cost. Where an asset is acquired at no or nominal cost, the cost is its fair value as at the date of acquisition. The nature of the intangible asset recognised by HBCF is capitalised computer software

The capitalisation threshold for intangible assets is $100,000 and above (including direct allocation of personnel service costs).

All research costs are expensed. Development costs are only capitalised when certain criteria are met.

The useful lives of intangible assets are assessed to be finite HBCF charges amortisation on intangible assets using straight–line method over a period of five years.

Intangible assets are subsequently measured at fair value only if there is an active market. As there is no active market for HBCF's intangible assets, the assets are carried at cost less any accumulated amortisation and impairment losses.

Intangible assets are tested for impairment where an indicator of impairment exists. If the recoverable amount is less than its carrying amount, the carrying amount is reduced to recoverable amount and the reduction is recognised as an impairment loss.

| | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|
| Gross carrying amount | 3,968 | 3,968 |
| Accumulated amortisation and impairment | (2,315) | (1,521) |
| **Net carrying amount at end of year** | **1,653** | **2,447** |
| | | |
| **Reconciliation** | | |
| A reconciliation of the carrying amount of intangible assets at the beginning and end of the reporting periods is set out below. | | |
| **Year ended 30 June** | | |
| Net carrying amount at start of year | 2,447 | 3,241 |
| Amortisation expense | (794) | (794) |
| **Net carrying amount at end of year** | **1,653** | **2,447** |

# Notes to the financial statements

for the year ended 30 June 2018

## 5.3 Funding Accumulated deficit

**Overview**

The accounts are prepared on a going concern basis on the following grounds.

During the 2016/17 year the NSW Government approved a set of administrative reforms in respect of home warranty insurance in NSW under which:

- HBCF is able to apply for reimbursement of realised losses arising from underpricing of premiums on underwritten policies where the policy was written on or before 30 June 2018
- Reimbursement of losses will be made in arrears to the extent the losses cannot be funded by HBCF
- HBCF can apply to the State Insurance Regulatory Authority to approve future risk-based premium rates which achieve full cost recovery

In the immediate term HBCF is economically dependent on the reimbursements provided by NSW Government under the above provisions. During 2017/18 HBCF received $138.4 million in funding relating to reimbursements of prior year losses up to 30 June 2016 and an additional $43 million  In respect of policies written post 1 July 2018.

HBCF will adjust the premiums it charges on residential construction types excluding multi-unit dwellings effective 2 October 2018 with the intention of covering the losses and expenses associated with these policies. The $43 million funding is to cover the expected underwriting losses from multi-unit policies written in the 2018/19 year.

In September 2018 HBCF received payment of $28.5 million (2017 $138.4 million) from the Crown in respect of realised losses in the 2016/17 year arising from  pre 1 July 2018 policies.

**END OF AUDITED FINANCIAL STATEMENTS**

# Workers Insurance

# Workers Insurance
# Financial statements
for the year ended 30 June 2018

## Contents



## Notes to the financial statements

finity

Actuarial and Insurance Consultants

# Actuarial Certificate
# Outstanding Claims Liabilities at 30 June 2018

Finity Consulting Pty Ltd (Finity) has been requested by Insurance & Care NSW (icare) to estimate the outstanding claims liabilities of the NSW Workers Compensation Nominal Insurer (the Nominal Insurer) as at 30 June 2018.

## Data

Finity has relied on the completeness and accuracy of the data provided by icare for this valuation. We have not independently audited the data however we did review material aspects of the data for reasonableness and internal consistency. The accuracy of our results is dependent on the accuracy and completeness of the underlying data.

## Basis of our Estimates

The outstanding claims estimates we provided were prepared on a central estimate basis; the assumptions have been selected such that our estimates of these liabilities contain no deliberate overstatement or understatement. The central estimate is intended to be a mean of the distribution of possible outcomes. The central estimate is net of expected recoveries and contains an allowance for claims handling expenses.

The estimates have been discounted using a risk free discount rate, to allow for the time value of money.

The total provision includes a risk margin of 15.1%. This has been added to the net outstanding claims central estimate in order to provide a probability of adequacy of 80%.

The estimates were prepared in accordance with accounting standard AASB 1023,

## Valuation Results

The components of the Outstanding Claims Liability (including risk margin) are shown in Table 1.

**Table 1 – Outstanding Claims Liability at 30 June 2018**

| | $m |
|---|---|
| **Central Estimate** | |
| Gross | 12,717 |
| Recoveries | (272) |
| Net Central Estimate | 12,445 |
| **Risk Margin** | 1,879 |
| **Provision** | **14,324** |

It is a decision for icare to determine the amount adopted in the accounts.

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## Uncertainty

There is considerable uncertainty in the projected outcomes of future claims costs, particularly for long tail claims, where payments are expected to occur many decades into the future; it is not possible to value or project long tail claims with certainty.

We have prepared our estimates on the basis that they represent our current assessment of the likely future experience of the Nominal Insurer. Sources of uncertainty include the fact that outcomes remain dependent on future events, including legislative, social and economic forces.

Key sources of uncertainty in the valuation include uncertainty regarding the number of claims that will ultimately become eligible for long duration benefits, since it can be many years before a claimant's Whole Person Impairment can be assessed; as well as uncertainty around the average level of payment each claim will receive.

In our judgement, we have employed techniques and assumptions that are appropriate and the conclusions presented herein are reasonable given the information currently available. However, it should be recognised that future claim outcomes and costs will likely deviate, perhaps materially, from the estimates shown.

## Reports

Full details of data, analysis and results for the outstanding claims valuation are documented in our valuation report titled "Insurance Liabilities at 30 June 2018 – NSW Nominal Insurer", dated 29 August 2018.

Our estimates and report were prepared in accordance with the Actuaries Institute's Professional Standard 300.

Yours sincerely

F. Beens

Scott Collings

Francis Beens

**Fellows of the Institute of Actuaries of Australia**
8 October 2018

# Statement by the chairman and chief executive officer

for the year ended 30 June 2018

**NSW Workers Insurance Scheme**
**Financial Statements for the year ended 30 June 2018**

In the opinion of the Board of Directors:

(a)The financial statements of the NSW Workers Insurance Scheme have been prepared in accordance and comply with Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board;
(b)The financial statements for the year ended 30 June 2018 exhibit a true and fair view of the position and transactions of the NSW Workers Insurance Scheme; and
(c)The directors are not aware of any circumstances as at the date of this certificate which would render any particulars included in the financial statements misleading or inaccurate.

Signed on behalf of the Board of Directors of Insurance and Care NSW.

**Michael Carapiet**
**Chairman/Director**
**Insurance and Care NSW**
**24 September 2018**

**John Nagle**
**Chief Executive Officer and**
**Managing Director**
**NSW Workers Insurance Scheme and Insurance and Care NSW**
**24 September 2018**

# INDEPENDENT AUDITOR'S REPORT

**Workers Compensation Nominal Insurer (trading as the NSW Workers Insurance Scheme)**

To Members of the New South Wales Parliament

## Opinion

I have audited the accompanying financial statements of the Workers Compensation Nominal Insurer (the Scheme), which comprise the Statement of Comprehensive Income for the year ended 30 June 2018, the Statement of Financial Position as at 30 June 2018, the Statement of Changes in Equity and the Statement of Cash Flows for the year then ended, notes comprising accounting policies and other explanatory information.

In my opinion, the financial statements:

- give a true and fair view of the financial position of the Scheme as at 30 June 2018, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards
- are in accordance with section 41B of the *Public Finance and Audit Act 1983* (PF&A Act) and the Public Finance and Audit Regulation 2015.

My opinion should be read in conjunction with the rest of this report.

## Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under the standards are described in the 'Auditor's Responsibilities for the Audit of the Financial Statements' section of my report.

I am independent of the Scheme in accordance with the requirements of the:

- Australian Auditing Standards
- Accounting Professional and Ethical Standards Board's APES 110 'Code of Ethics for Professional Accountants' (APES 110).

I have fulfilled my other ethical responsibilities in accordance with APES 110.

Parliament promotes independence by ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of public sector agencies
- precluding the Auditor-General from providing non-audit services.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Level 15, 1 Margaret Street, Sydney NSW 2000 | GPO Box 12, Sydney NSW 2001 | t 02 9275 7101 | f 02 9275 7179 | e mail@audit.nsw.gov.au | audit.nsw.gov.au

## Other Information

Other information comprises the information included in the Scheme's annual report for the year ended 30 June 2018, other than the financial statements and my Independent Auditor's Report thereon. The Board of Directors of Insurance and Care NSW, acting for the Scheme, are responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprise the Statement by the Chairman and Chief Executive Officer.

My opinion on the financial statements does not cover the other information. Accordingly, I do not express any form of assurance conclusion on the other information.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude there is a material misstatement of the other information, I must report that fact.

I have nothing to report in this regard.

## The Board's Responsibilities for the Financial Statements

The Board of Directors of Insurance and Care NSW, acting for the Scheme, are responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards and the PF&A Act, and for such internal control as the Board of Directors determine is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors are responsible for assessing the Scheme's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting except where the Scheme will be dissolved by an Act of Parliament or otherwise cease operations.

## Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to:

- obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions users take based on the financial statements.

A description of my responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_responsibilities/ar4.pdf. The description forms part of my auditor's report.

My opinion does *not* provide assurance:

- that the Scheme carried out its activities effectively, efficiently and economically
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.

D Daniels

David Daniels
Director, Financial Audit Services

2 October 2018
SYDNEY

# Statement of comprehensive income

for the year ended 30 June 2018

| | Notes | 2018 $'000 | 2017 $'000 |
|---|---|---|---|
| | | | |
| Gross written premium | | 2,332,713 | 2,161,842 |
| Unearned premium movement | | (6,989) | (89,018) |
| Gross earned premium | | 2,325,724 | 2,072,824 |
| Hindsight adjustments | | 10,766 | 135,513 |
| Net Earned premiums (a) | 2.1 | 2,336,490 | 2,208,337 |
| Gross Claims expense | | (2,271,399) | (2,834,680) |
| Recoveries | | 74,514 | 10,929 |
| Unexpired risk liability | 2.4 | (43,867) | 56,637 |
| Net claims expense (b) | 2.2 | (2,240,752) | (2,767,114) |
| Underwriting and other expenses (c) | 2.5 | (856,017) | (826,813) |
| **Underwriting result (a+b+c)** | | **(760,279)** | **(1,385,590)** |
| Investment income | | 966,250 | 438,862 |
| Investment management expense | | (17,492) | (30,684) |
| Net investment revenue | 3.1 | 948,758 | 408,178 |
| Transformation expenses | 2.5 | (129,835) | (49,246) |
| Other income | | 30,299 | 38,424 |
| **Net Result** | | **88,943** | **(988,234)** |
| **Other Comprehensive Income** | | | |
| Items that will not be reclassified to net result | | - | - |
| Items that may be reclassified to net result | | - | - |
| **Total Comprehensive Income** | | **88,943** | **(988,234)** |

The accompanying notes form part of these financial statements.

# Statement of financial position

as at 30 June 2018

| | Notes | 2018 $'000 | 2017 $'000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 5.1 | 181,304 | 338,725 |
| Investments | 3.2 | 16,979,609 | 16,388,192 |
| Trade and other receivables | 2.6 | 865,755 | 566,293 |
| Recoveries receivable | 2.3.1 | 312,758 | 305,837 |
| Prepayments and other assets | | 58,348 | 52,411 |
| Intangible assets | 5.2 | 82,704 | 43,815 |
| **Total assets** | | **18,480,478** | **17,695,273** |
| **Liabilities** | | | |
| Bank overdraft | 5.1 | 5,540 | 4,413 |
| Investment liabilities | 3.2 | 552,707 | 217,172 |
| Trade and other payables | 2.7 | 153,611 | 157,265 |
| Unearned premiums | 2.4 | 490,699 | 483,711 |
| Outstanding claims | 2.3.1 | 14,636,869 | 14,326,664 |
| Unexpired risk liability | 2.4 | 117,937 | 74,070 |
| Security deposits | 5.5 | 69,178 | 66,866 |
| Restoration provisions | 5.3 | - | 118 |
| **Total liabilities** | | **16,026,541** | **15,330,279** |
| **Net assets** | | **2,453,937** | **2,364,994** |
| **Equity** | | | |
| **Accumulated funds** | | **2,453,937** | **2,364,994** |

The accompanying notes form part of these financial statements

# Statement of changes in equity

for the year ended 30 June 2018

| | 2018<br>$'000 | 2017<br>$'000 |
|---|---:|---:|
| | | |
| **Accumulated funds** | | |
| Balance at the beginning of financial year | 2,364,994 | 3,353,228 |
| Net Result for the year | 88,943 | (988,234) |
| Other Comprehensive Income | - | - |
| **Total Comprehensive Income** | **88,943** | **(988,234)** |
| Transactions with owners in their capacity as owners | - | - |
| **Balance at the end of the financial year** | **2,453,937** | **2,364,994** |

The accompanying notes form part of these financial statements.

# Statement of cash flows

for the year ended 30 June 2018

| | Notes | 2018 $'000 | 2017 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Premiums received | | 2,146,826 | 2,226,270 |
| Recoveries received | | 66,270 | 70,194 |
| Claims paid | | (1,961,562) | (1,881,619) |
| **Total cash flows from claims related activities** | | **251,534** | **414,845** |
| **Receipts** | | | |
| Proceeds from sale of investments | | 27,741,235 | 33,279,238 |
| Investment returns received | | 542,915 | 561,362 |
| Security deposits received | | 13,005 | 13,684 |
| Other receipts | | 29,039 | 28,930 |
| **Total Receipts** | | **28,326,194** | **33,883,214** |
| **Payments** | | | |
| Payments for investments | | (27,691,603) | (33,830,431) |
| Security deposits paid | | (23,776) | (23,356) |
| Service fees | | (474,549) | (350,549) |
| Statutory levies paid | | (279,249) | (313,160) |
| Other payments | | (216,655) | (131,818) |
| **Total Payments** | | **(28,685,832)** | **(34,649,314)** |
| **Net cash provided by/ (used in) operating activities** | 5.1 | **(108,104)** | **(351,255)** |
| **Cash flows from Investing activities** | | | |
| Purchases of intangible assets | | (50,444) | (26,295) |
| **Net cash flows from investing activities** | | **(50,444)** | **(26,295)** |
| **Net increase/(decrease) in cash and cash equivalents** | | **(158,548)** | **(377,550)** |
| Cash and cash equivalents at the beginning of the financial year | | 334,312 | 711,862 |
| **Cash and cash equivalents at the end of the financial year** | 5.1 | **175,764** | **334,312** |

The accompanying notes form part of these financial statements.

# Notes to the financial statements

for the year ended 30 June 2018

## 1. Overview

### 1.1 About the Scheme

The NSW Workers Insurance Scheme is a not-for-profit entity that operates as a licensed workers compensation insurer and trades under the registered business name of "NSW Workers Insurance Scheme" (the Scheme). The Nominal Insurer is established under the *Workers Compensation Act 1987* and was created on 18 February 2005 by the *Workers Compensation Amendment (Insurance Reform) Act 2003*. It commenced operations on 1 July 2005. Under the *State Insurance & Care Governance Act 2015*, Insurance & Care NSW (icare) acts for the Nominal Insurer in accordance with section 154C of the *Workers Compensation Act 1987*.

The Scheme's financial statements include the Workers Compensation Insurance Fund (Insurance Fund) that holds premiums and all other funds received and is used to meet the Scheme's liabilities.

They also include icare support solutions which is an Australian proprietary limited company established in November 2017. icare support solutions pty ltd. has been appointed as a Scheme Agent of the Nominal Insurer to facilitate the enhanced delivery of claims management services to injured workers and employers. These services are delivered through contractual arrangements it has with providers, who are remunerated direct via icare and make claims payments direct from the Workers Compensation Insurance Fund. Accordingly, no financial transactions are made via icare Support Solutions.

The Act states that the Nominal Insurer is not and does not represent NSW (the state) or any authority of the state. The insurance claim liabilities of the Nominal Insurer can only be satisfied from the Insurance Fund and are not liabilities of the State, icare or any other authority of the State.

The Scheme is not consolidated as part of the NSW Total State Sector Accounts or icare accounts. icare provides services to the Scheme.

icare was established on 1 September 2015 in accordance with the *State Insurance and Care Governance Act 2015*. Its functions include the monitoring of performance of the insurance or compensation schemes in respect of which it provides services. The Scheme is one such scheme.

The financial statements for the year ended 30 June 2018 have been authorised for issue by the Chairman of the Board of icare and the Chief Executive Officer and Managing Director of the Scheme on behalf of the Board of Directors of icare on 24 September 2018.

### 1.2 About this report

This Financial Report includes the consolidated financial statements of the Scheme and controlled subsidiaries.

The Financial Report includes the four primary statements, namely the statement of comprehensive income (which comprises profit or loss and other comprehensive income), statement of financial position, statement of changes in equity and statement of cash flows as well as associated notes as required by Australian Accounting Standards. Disclosures have been grouped into the following categories in order to assist users in their understanding of the financial statements:

1. **Overview** contains information that impacts the Financial Report as a whole.
2. **Underwriting activities** brings together results and Statement of financial position disclosures relevant to the Scheme's insurance activities.
3. **Investment activities** includes results and Statement of financial position disclosures relevant to the Scheme's investments.
4. **Risk management** provides commentary on the Scheme's exposure to various financial and capital risks, explaining the potential impact on the results and Statement of financial position and how the Scheme manages these risks.
5. **Other** includes additional disclosures required in order to comply with Australian Accounting Standards.

# Notes to the financial statements

for the year ended 30 June 2018

## 1.2 About this report (continued)

Where applicable within each note, disclosures are further analysed as follows:

- **Overview** provides some context to assist users in understanding the disclosures and the accounting policies relevant to an understanding of the numbers;
- **Disclosures** (both numbers and commentary) provides analysis of balances as required by Australian Accounting Standards; and
- **Critical accounting judgements and estimates** explains the key estimates and judgements applied by the scheme in determining the numbers.

The notes include information which the directors believe is required to understand the financial statements and is material and relevant to the operations, statement of financial position and results of the Scheme.

Information is considered material and relevant if:

- the amount in question is significant because of its size or nature;
- it is important to assist in understanding the results of the Scheme;
- it helps to explain the impact of significant changes in the Scheme's business; or
- it relates to an aspect of the Scheme's operations that is important to its future performance.

### 1.2.1 Basis of preparation

The Scheme's financial statements are general purpose financial statements which have been prepared using the accrual basis of accounting and are in accordance with applicable Australian Accounting Standards (which include Australian Accounting Interpretations).

Investment assets backing claim liabilities are measured at fair value. All other assets and liabilities are initially measured at historical cost and then at fair value.

### 1.2.2 Functional and presentation currency and rounding

All amounts are rounded to the nearest one thousand dollars and are expressed in Australian currency, which is the functional currency of the reporting entity.

Tables may not add in all instances due to rounding.

### 1.2.3 Use of estimates and judgements

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 3 & 4 – Financial instruments;
- Note 2.4 – Unearned premiums and unexpired risk liability; and
- Note 2.3 – Outstanding claims.

### 1.2.4 Taxation

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis.

# Notes to the financial statements

for the year ended 30 June 2018

### 1.2.4 Taxation (continued)

The Australian Taxation Office has issued Private Rulings that the income of the Workers Compensation Nominal Insurer is not assessable income and that the Workers Compensation Insurance Fund is exempt from income tax from when these entities were established in 2005 to June 2022. Management have considered whether it is likely a taxable position post June 2022 is likely, and concluded that the exemption will be sought post this date.

### 1.2.5 Comparative information

Except when an Australian Accounting Standard permits or requires otherwise, comparative information is disclosed in respect of the previous reporting period for all amounts reported in the financial statements.

Where necessary, comparatives have been restated to conform to changes in presentation in the current year.

The following reclassifications have been made to the comparatives:

| Item | 30 June 2017 Revised $'000 | 30 June 2017 Original $'000 | Variance $'000 |
|---|---|---|---|
| | | | |
| **Statement of comprehensive income** | | | |
| Net earned premium | 2,208,337 | 2,218,638 | (10,301) |
| Other income | 38,424 | 28,123 | 10,301 |
| Underwriting and other expenses | (876,059) | - | (876,059) |
| Service fees | - | (432,305) | 432,305 |
| Statutory levies | - | (313,160) | 313,160 |
| Other operating expenses | - | (161,278) | 161,278 |
| Investment management expense | (30,684) | - | (30,684) |
| **Net result** | **1,340,018** | **1,340,018** | **-** |
| | | | |
| **Statement of financial position** | | | |
| Derivative liabilities | - | 36,020 | (36,020) |
| Investment liabilities | 217,172 | - | 217,172 |
| Trade & other payables | 157,265 | 338,417 | (181,152) |
| **Net Assets** | **374,437** | **374,437** | **-** |

# Notes to the financial statements

for the year ended 30 June 2018

### 1.2.6 Accounting Standards issued but not yet effective

Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the reporting period ending 30 June 2018. The following new Standards will not have a material impact on the financial performance or position of the Scheme:

- AASB 15, AASB 2014-5, AASB 2015-8 and AASB 2016-3 regarding *Revenue from Contracts with Customers*;
- AASB 16 regarding *Leases*;
- AASB 1058 *Income of Not-for-profit Entities;*
- AASB 2016-6 Amendments to Australian Accounting Standards - Applying AASB 9 with AASB 4 *Insurance Contracts*;
- AASB 2016-7 Amendments to Australian Accounting Standards - Deferral of AASB 15 for Not-for-Profit Entities;
- AASB 2016-8 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities;
- AASB 2017-1 Amendments to Australian Accounting Standards – Transfer of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments; and
- AASB 2017-3 Amendments to Australian Accounting Standards - Clarifications to AASB 4.

AASB 9 regarding *Financial Instruments* is being evaluated to assess if there is any impact on the financial performance or position of the Scheme.

The Scheme has commenced a program to assess the financial impact of AASB 17 *Insurance Contracts* on the financial results. This assessment will be concluded by 30 June 2020.

## 2. Underwriting activities

**Overview**

This section provides analysis and commentary on the Scheme's underwriting activities. Underwriting, in simple terms, is the agreement by the insurer to assume insurance risk in return for a premium paid by the insured. The underwriter assesses the quality of the risk and prices it accordingly.

### 2.1 Revenue

**Overview**

Revenue mainly comprises premiums charged for providing insurance coverage. Premiums are classified as either:

- Written premium relates to amounts charged to policy holders on premiums written in the current financial year. Premiums received and receivable is recognised as revenue in the statement of comprehensive income from the date of attachment of risk. The pattern of recognition over the policy periods is based on time, which is considered to approximate the pattern of risks underwritten;
- The earned portion of premium on unclosed business, being business that is written at the balance date but for which detailed policy information is not yet booked, is also included in written premium; or
- Hindsight adjustments relate to earnings on adjustments made to policies mainly written in previous financial years. As the period of the risk for these policies has expired earnings on hindsight adjustments are generally recognized in full in the current financial year.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Written premium on closed business | 2,272,432 | 2,121,149 |
| Written premium on unclosed business | 60,281 | 40,693 |
| Gross written premium | 2,332,713 | 2,161,842 |
| Hindsight adjustments | 10,766 | 135,513 |
| Unearned premium movement | (6,989) | (89,018) |
| Net earned premium | 2,336,490 | 2,208,337 |

# Notes to the financial statements

for the year ended 30 June 2018

## 2.2 Net Claims expense

**Overview**

The largest expense for an insurance entity is net claims, which is the difference between the net outstanding claims liability (Note 2.3) at the beginning and the end of the financial year plus any claims incurred and settled in the financial year and the movement in the unexpired risk liability

Claims incurred is:

- the amount incurred on claims by the Scheme during the year;
- plus the amount, which the reserving actuary has estimated as at 30 June 2018 as being the movement in the amount required to meet the cost of claims reported but not yet paid;
- claims incurred which are yet to be reported and where the event giving rise to the claim occurred before the balance date;
- the escalation in reported and reopened claims; and
- Recoveries receivable on paid claims, reported claims not yet paid and claims incurred but not yet reported are recognised as revenue. Recoveries receivable are estimated at the inflated and discounted values of the expected future receipts, calculated on the same basis as the liability for outstanding claims. Recoveries revenue is recognized as the movement of recoveries receivable (Note 2.7), which are based on estimates provided by icare's reserving actuary, Finity. Pricewaterhouse Coopers have peer reviewed these estimates and support the conclusions of Finity

Recoveries relate principally to amounts that the reserving actuaries estimate can be recovered from an employer's tax and CTP insurers. These recoveries relate to amounts already incurred on a claim or amounts estimated to be recovered from the estimated claim liabilities.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| Claims and related expenses | 1,961,194 | 1,887,893 |
| Finance costs | 202,317 | 106,900 |
| Other movements in claims liabilities | 107,888 | 839,887 |
| Gross claims expense | 2,271,399 | 2,834,680 |
| Recoveries revenue | (74,514) | (10,929) |
| Movement in unexpired risk liability | 43,867 | (56.637) |
| **Net claims expense** | **2,240,752** | **2,767,114** |
| **Analysed as follows:** | | |
| Movement in net discounted central estimate gross claims | 2,335,272 | 2,654,385 |
| Movement in net discounted claims handling expenses | (50,680) | 52,476 |
| Movement in net discounted risk margin | (13,193) | 127,819 |
| Recoveries | (74,514) | (10,929) |
| Movement in unexpired risk liability | 43,867 | (56,637) |
| **Net claims expense** | **2,240,752** | **2,767,114** |

# Notes to the financial statements

for the year ended 30 June 2018

## 2.2 Net Claims expense (continued)

| | Current accident year $M | Prior accident year $M | 2018 Total $M | 2017 Total $M |
|---|---|---|---|---|
| | | | | |
| Gross claims incurred & related expenses – undiscounted | 3,503 | (1,844) | 1,659 | 5,391 |
| Other recoveries – undiscounted | (87) | 14 | (73) | (14) |
| **Net claims incurred – undiscounted** | **3,416** | **(1,830)** | **1,586** | **5,377** |
| | | | | |
| Discount & discount movement – gross claims incurred | (695) | 1,302 | 607 | (2,556) |
| Discount & discount movement – other recoveries | 7 | (4) | 3 | 3 |
| **Net discount movement** | **(688)** | **1,298** | **610** | **(2,553)** |
| | | | | |
| **Net claims incurred** | **2,728** | **(532)** | **2,196** | **2,824** |

# Notes to the financial statements

for the year ended 30 June 2018

## 2.3 Net Outstanding claims liability

**Overview**

The net outstanding claims liability comprises the elements described below:

- The net central estimate (Note 2.3.1) This is the provision for expected future claims payments and includes claims reported but not yet paid, claims incurred but which have not yet been reported (IBNR), claims incurred but not enough reported (known as IBNER) and estimated claims handling costs;
- Less an amount to reflect the discount to present value using risk-free rates of return. The net central estimate is discounted to present value recognising that the claim and/or recovery may not be settled for some time. The discount rate represents a risk-free rate derived from market yields on Commonwealth government bonds; and
- Plus a risk margin (Note 2.3.2). A risk margin is added to reflect the inherent uncertainty in the net discounted central estimate of outstanding claims,and increase the probability that the reserves will ultimately turn out to be adequate.

The *Workers Compensation Legislation Amendment Act 2012* has resulted in claim payments being closely aligned to the pre-injury average weekly earnings of injured workers. Projected inflation factors take into account a number of relevant factors determined by the actuaries relating to future claims levels. The expected future payments are then discounted to a value at the end of the reporting period using rates of interest, which use appropriate risk-free discount rates, consistent with Australian Accounting Standard AASB 1023 *General Insurance Contracts*. Details of inflation and discount rates applied are included in Note 2.3.3.

The determination of the amounts that the Scheme will ultimately pay for claims arising under insurance contracts involves a number of critical assumptions. Whilst the valuation actuaries have employed techniques and assumptions that are appropriate, it should be recognised that future claim development is likely to deviate, perhaps materially, from their estimates.

Some of the uncertainties impacting these assumptions are as follows:

- Behavioral impacts – The reforms could lead to significant behavioral changes in claimants' pursuit of particular benefit types. It is not always possible to incorporate these impacts with accuracy and hence limited allowance for behavioral impacts has been made;
- Honeymoon and slippage – Following most legislative reforms, there is usually a "honeymoon" period, where experience remains favourable over the short term as scheme participants and their representatives take time to understand how the reforms work. However, as they have a better understanding of how the new reforms work, they will begin to fully utilise scheme benefits and experience may turn. The reserving actuaries have allowed for any impact of honeymoon and slippage in their estimate only once it can be estimated;
- Effectiveness of implementation – The ultimate financial impact of the reforms will depend heavily on how effectively the reforms are implemented. A particular risk is if Whole Person Impairment outcomes differ from that assumed; and
- Model risk – there is always the risk that a model will not capture important aspects of reality. As only a short period of time has elapsed since the reforms relative to the durations injured workers remain on benefits. There is relatively little post-reform experience to analyse.

**Impact of Section 39 on worker's insurance claims liabilities in 2017/18**

The Workers Assistance Program (WAP) includes an assessment of each claimant's Whole Person Impairment (WPI) and is intended to assist injured workers in their return to work or empower them in their transition to other support mechanisms.

To date 98 per cent of the pre-2013 injured worker cohort progressing towards the 260 week cap have had their WPI reassessed. This is providing evidence around the actual proportion of these injured workers above the 20 per cent WPI threshold, and hence exempt from the 260 week limit on weekly compensation payments.

Of the 98 per cent assessed, 25 per cent of these injured workers have WPI's in excess of 20 per cent. This is higher than what was allowed for in the June 2017 valuation and has added approximately $517 million to the Nominal Insurer outstanding claims liability including the CHE and Risk Margin. This reserve movement was spread over both the December 2017 and the June 2018 liability valuations.

# Notes to the financial statements

for the year ended 30 June 2018

### 2.3.1 Discounted net outstanding claims

**Overview**

The overall outstanding claims liability of the Scheme is calculated by the reserving actuary using a range of recognised, actuarial methods, appropriate for the characteristics of the various types of claim liability under scrutiny. The expected future payments are estimated on the basis of the ultimate cost of settling claims (including claims handling expenses) which is affected by factors arising during the period to settlement.

The provision for claims handling expenses is calculated as a percentage of the gross outstanding claims central estimate to recognize the ultimate expense of managing outstanding claims until they are finalized and closed. The percentage for claims handling expenses is 8.75 per cent. (2017 9.5 per cent).

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| **Claims liabilities** | | |
| Expected future gross claims payments | 17,063,876 | 16,087,033 |
| Gross claims handling | 1,410,141 | 1,525,149 |
| Gross risk margin | 2,789,576 | 2,746,9958 |
| Gross outstanding claims liabilities | 21,263,593 | 20,359,177 |
| Discount on central estimate | (5,369,790) | (4,767,025) |
| Discount on claims handling expenses | (387,572) | (451,900) |
| Discount on risk margin | (869,362) | (813,588) |
| Total discount on claims liabilities | (6,626,724) | (6,032,513) |
| **Claims liabilities 30 June** | **14,636,869** | **14,326,664** |
| **Recoveries** | | |
| Expected future actuarial assessment of recoveries | 355,947 | 338,447 |
| Discount to present value | (43,189) | (32,610) |
| Discounted actuarial assessment of recoveries | **312,758** | **305,837** |
| **Net outstanding claims** | **14,324,111** | **14,020,827** |

# Notes to the financial statements

for the year ended 30 June 2018

### 2.3.1 Discounted net outstanding claims (continued)

The table below analyses the movement in the net outstanding claims liability:

**Movement in claim liabilities and recoveries**

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| **Claims liabilities** | | |
| Opening balance | 14,326,664 | 13,379,877 |
| Adjustment arising from changes in: | | |
| - Actuarial assumptions | (169,646) | 585,440 |
| - Discount/inflation rates | 62,701 | 85,081 |
| - Risk margins | (54,276) | - |
| Expected expenses on claim payments | (130,155) | (139,172) |
| Release of risk margin on claims payments | (251,574) | (250,708) |
| Claims incurred in current year | 2,807,453 | 2,547,765 |
| Claims payments | (1,954,298) | (1,881,619) |
| | | |
| **Claims liabilities 30 June** | **14,636,869** | **14,326,664** |
| | | |
| **Recoveries** | | |
| Opening balance | 305,837 | 365,102 |
| Adjustment arising from changes in: | | |
| - Actuarial assumptions | (315) | (50,972) |
| - Discount/inflation rates | (2,188) | (1,177) |
| - Risk Margins | 1,071 | - |
| Release of risk margin on recoveries received | (7,768) | (11,028) |
| Recoveries incurred in current year | 80,078 | 74,106 |
| Recoveries received (excluding tax recoveries) | (57,889) | (46,506) |
| Tax recoveries received | (6,068) | (23,688) |
| **Recoveries receivable 30 June** | **312,758** | **305,837** |
| | | |
| **Net outstanding claims per actuarial report** | **14,324,111** | **14,020,827** |

# Notes to the financial statements

for the year ended 30 June 2018

### 2.3.2 Risk Margin

**Overview**

A risk margin is adapted by the Board based on advice from the reserving actuary to reflect the inherent uncertainty in the net discounted central estimate of the outstanding claims liability.

The risk margin and the net discounted central estimate are key inputs in the determination of the probability of adequacy that the outstanding claims liability provision will ultimately turn out to be adequate. The probability of adequacy is a statistical measure of the relative adequacy of the outstanding claims liability to ultimately be able to pay claims in respect of accidents up to and including the balance date. For example, an 80 per cent probability of adequacy indicates that the net discounted provision is expected to be adequate eight times out of 10.

The adopted probability of adequacy for the Scheme for 2018 is 80 per cent (2017 80 per cent). The reserving actuary has assessed this requires a risk margin of 15.1 per cent (2017 15.6 per cent) or $1.9 billion (2017 $1.9 billion).

In arriving at this decision on the probability of adequacy required the legislative provisions to set and retrospectively adjust premiums, and employers being required to fund any deficit as part of future premiums were taken into account.

### 2.3.3 Economic assumptions

**Overview**

Two of the core variables that drive the Schemes liabilities are the inflation rate for benefits and the discount rate applied to the liabilities to reflect the earnings on Scheme investments. Income support benefits to injured workers are indexed half yearly while other payments such as medical costs are considered to increase at least in line with inflation.

Income support benefits are based on workers average weekly earnings. For claims incurred prior to 1 October 2012 income support benefits are indexed to the Labour Price Index (LPI), while claims incurred after that date are indexed to the Consumer Price Index (CPI). Other Scheme costs continue to align with movements in the LPI.

# Notes to the financial statements

for the year ended 30 June 2018

### 2.3.3 Economic assumptions (continued)

The following average inflation, and discount rates were used in the measurement of outstanding claims:

| | 2018 %p.a. | 2017 %p.a. |
|---|---|---|
| **For the first succeeding year** | | |
| Inflation rate | | |
| LPI | 2.39 | 2.73 |
| CPI | 2.36 | 2.01 |
| | | |
| Discount rate | 1.95 | 1.67 |
| | | |
| **For subsequent years** | | |
| Inflation rate | | |
| WPI | 1.80-3.30 | 1.70-3.70 |
| CPI | 0.80-2.42 | 0.70-2.70 |
| | | |
| Discount rate | 2.04-4.50 | 1.82-5.50 |

The weighted average discounted expected term from the balance date to settlement of the outstanding claims is estimated to be 8.9 years (2017: 8.4 years).

### 2.3.4 Claims liability maturity

**Overview**

The maturity profile is the Scheme's expectation of the period over which the net central estimate will be settled. The Scheme uses this information to ensure that it has adequate liquidity to pay claims as they are due to be settled and to inform the Scheme's investment strategy. The expected maturity profile of the Scheme's net discounted net outstanding claims is analysed below:

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| **Outstanding claims net of recoveries maturing:** | | |
| Within 1 year | 1,946,080 | 1,924,181 |
| 2 to 5 years | 4,812,787 | 4,853,294 |
| More than 5 years | 7,565,244 | 7,243,352 |
| | **14,324,111** | **14,020,827** |

# Notes to the financial statements

for the year ended 30 June 2018

### 2.3.5 Impact of changes in key variables on the net outstanding claims liability

**Overview**

The impact of changes in key variables is summarised in the table below. Sensitivity analysis is conducted by the reserving actuaries on each variable whilst holding all other variables constant.

| Variable | Movement in Variable % | 2018 Impact on All Durations | | 2018 Impact with fixed gap beyond 10 years | | 2017 Impact with fixed gap beyond 10 years | |
|---|---|---|---|---|---|---|---|
| | | Profit/ (Loss) $'000 | Liabilities $'000 | Profit/ (Loss) $'000 | Liabilities $'000 | Profit/ (Loss) $'000 | Liabilities $'000 |
| | | | | | | | |
| Inflation Rate | +1 | (1,355,972) | 1,355,972 | (666,428) | 666,428 | (619,134) | 619,134 |
| | -1 | 1,134,703 | (1,134,703) | 632,783 | (632,783) | 588,836 | (588,836) |
| Discount Rate | +1 | 1,118,529 | (1,118,529) | 618,288 | (618,288) | 586,936 | (586,936) |
| | -1 | (1,355,933) | 1,355,933 | (662,993) | 662,993 | (628,824) | 628,824 |

### 2.3.6 Claims development

**Overview**

The Scheme provides ongoing income support benefits to injured workers who are unable to return to pre-injury levels of work up to retirement age, (or if injured after retirement age one year after the date of claim). This results in a significant portion of Scheme liabilities relating to accidents from past years that will be settled in future years.

Under the 2012 reforms the maximum number of years an injured worker who is not seriously injured can remain on income support benefits is 5 years, with medical benefits to continue for a year after the weekly benefits end. The 2015 reforms changed the medical benefit cap from 1 year to 2 or 5 years depending on the severity of the injury.

The following table shows the development of undiscounted net outstanding claims relative to the ultimate expected claims for the most recent accident years for the Nominal Insurer.

# Notes to the financial statements

for the year ended 30 June 2018

### 2.3.6 Claims development (continued)

| Accident year | 2009 $'m | 2010 $'m | 2011 $'m | 2012 $'m | 2013 $'m | 2014 $m | 2015 $'m | 2016 $'m | 2017 $'m | 2018 $'m | Total $'m |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Estimate of ultimate claims cost** | | | | | | | | | | | |
| At end of accident year | 3,712 | 3,635 | 4,047 | 3,361 | 3,326 | 2,610 | 2,506 | 2,482 | 2,515 | 2,790 | |
| One year later | 3,301 | 3,403 | 2,926 | 3,278 | 2,368 | 2,338 | 2,409 | 2,357 | 2,638 | | |
| Two years later | 3,405 | 2,617 | 3,130 | 2,720 | 2,233 | 2,345 | 2,075 | 2,391 | | | |
| Three years later | 2,659 | 2,813 | 2,728 | 2,337 | 2,131 | 2,129 | 2,124 | | | | |
| Four years later | 2,777 | 2,480 | 2,473 | 2,222 | 1,984 | 2,091 | | | | | |
| Five years later | 2,460 | 2,251 | 2,368 | 2,033 | 1,885 | | | | | | |
| Six years later | 2,296 | 2,157 | 2,256 | 1,976 | | | | | | | |
| Seven years later | 2,241 | 2,024 | 2,109 | | | | | | | | |
| Eight years later | 2,166 | 1,996 | | | | | | | | | |
| Nine years later | 2,169 | | | | | | | | | | |
| Ten years and later | | | | | | | | | | | |
| **Current estimate of cumulative claims cost** | **2,169** | **1,996** | **2,109** | **1,976** | **1,885** | **2,091** | **2,124** | **2,391** | **2.638** | **2,790** | **22,169** |
| **Cumulative payments** | | | | | | | | | | | **(10,704)** |
| **Outstanding claims - undiscounted** | | | | | | | | | | | **11,465** |
| Discount | | | | | | | | | | | **(3006)** |
| 2008 and prior | | | | | | | | | | | **2,963** |
| Claims handling expenses | | | | | | | | | | | **1,023** |
| **Net Outstanding claims excluding risk margin** | | | | | | | | | | | **12,445** |
| Risk Margin | | | | | | | | | | | **1,879** |
| | | | | | | | | | | | |
| **Final Net Outstanding claims including risk margin** | | | | | | | | | | | **14,324** |

# Notes to the financial statements

for the year ended 30 June 2018

## 2.4 Unearned premium and unexpired risk liability

**Overview**

**Unearned premium**

Gross written premium is earned in profit or loss in accordance with the pattern of incidence of risk in the related business. The unearned premium liability is that portion of gross written premium that the Scheme has not yet earned in profit or loss as it represents insurance coverage to be provided by the Scheme after the balance date.

**Unexpired risk liability**

At the reporting date, a liability adequacy test (LAT) is performed by the Scheme reserving actuary. At the balance date, the Scheme recognises a liability in respect of outstanding claims and assesses the adequacy of its unearned premium liability. As required under AASB 1023 *General Insurance Contracts*, a Liability Adequacy Test (LAT) is undertaken to determine the adequacy of the unearned premium liability against current estimates of the present value of the expected future cash flows relating to future claims arising from the rights and obligations under current insurance contracts.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| Unearned premium income | 490,699 | 483,711 |
| Unexpired risk liability | 117,937 | 74,070 |
| | 608,636 | 557,781 |

**(a) Unexpired risk liability**

| | | |
|---|---|---|
| Unexpired risk liability as at 1 July | 74,070 | 130,707 |
| Movement in the unexpired risk liability recognised in the Statement of Comprehensive Income | 43,867 | (56,637) |
| Unexpired risk liability as at 30 June | 117,937 | 74,070 |

**(b) Calculation of unexpired risk liability**

| | | |
|---|---|---|
| Unearned premium liability relating to contracts issued | 490,699 | 483,711 |
| Unearned premiums related to expected future premium adjustments | - | 16,936 |
| Total value of expected unearned premiums (A) | 490,699 | 500,647 |
| Central estimate of the present value of expected future cash flows arising from future claims on contracts issued | 535,299 | 489,955 |
| Risk Margin (80% Probability of Sufficiency) | 73,337 | 84,762 |
| (B) | 608,636 | 574,717 |
| Unexpired risk liability (B)-(A) (zero minimum) | 117,937 | 74,070 |

The process for determining the overall risk margin is discussed in Note 2.3.2. As with the outstanding claims, the overall risk margin is intended to achieve an 80 per cent probability of adequacy for the premium liability.

# Notes to the financial statements

for the year ended 30 June 2018

## 2.5 Underwriting, transformation and other expenses

**Overview**

The Scheme incurs a range of expenses in providing its services. Details of these expenses are:

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Statutory levies: | | |
| State Insurance Regulatory Authority (SIRA) | 220,604 | 213,707 |
| Dust Diseases Authority | 50,838 | 91,274 |
| Department of Primary Industries – Mine Safety Levy | 7,807 | 8,179 |
| Total Statutory levies (a) | **279,249** | **313,160** |
| | | |
| Service fees (b) | 436,556 | 432,305 |
| Auditor's remuneration for audit of the financial statements | 281 | 204 |
| Auditor's remuneration other | 2,075 | 2,055 |
| Bad debts written off | 22,140 | 25,112 |
| Labour costs | 32,592 | 23,669 |
| Debt collection fees | 9,829 | 15,248 |
| Impairment of trade and other receivables | 52,102 | (2,106) |
| Interest expense | 187 | 367 |
| Operating lease expenses | 44 | 1,224 |
| Wage audit fees | 3,040 | 5,510 |
| Depreciation expense | - | 54 |
| Other | 17,922 | 10,011 |
| Underwriting and other expenses | **856,017** | **826,813** |
| | | |
| Transformation expenses (c) | 129,835 | 49,246 |
| **Total underwriting, transformation and other expenses** | **985,852** | **876,059** |

# Notes to the financial statements

for the year ended 30 June 2018

## 2.5 Underwriting and other expenses (continued)

### (a) Statutory levies

In accordance with the *State Insurance and Care Governance Act 2015* on 1 September 2015 structural changes to the NSW Workers Compensation System and related agencies were implemented.
The Act established four discrete agencies:

- Insurance and Care NSW (icare), a single insurance and care service provider;
- State Insurance Regulatory Authority (SIRA), an independent insurance regulator;
- SafeWork NSW, an independent workplace safety regulator; and
- Sporting Injuries Compensation Authority, an entity to manage the Sporting Injuries Compensation Scheme.

The payment of Statutory Levies was changed from 1 September 2015 to reflect the structural changes of the Act.

### (b) Service fees

**Service fees**

In accordance with the *State Insurance and Care Governance Act 2015* from 1 September 2015 the Scheme receives services from Insurance and Care NSW (icare). Under the arrangement some of the Scheme's costs are incurred by icare. These services include the provision of staff, claims handling, facilities, scheme agent's remuneration, general business expenses and governance services.

The Scheme's key management personnel are the Board of Directors of icare, the Chief Executive Officer of icare and their direct reports. All transactions with these key management personnel are included in the service fee paid to icare.

As the Scheme is engaged in transformation, the skills and expertise of contractors are used where appropriate to deliver improved outcomes to customers.

### (c) Transformation expenses

2017-18 is the second year of icare's three-year strategy and delivered the following major programs of work for the NI: Service Model and Operating Model for Workers Insurance, Transition of Claims from existing Scheme Agents (CGU and QBE), the development of our medical support panel and the start of our Guidewire Claims System build. Additionally, projects to continue to build icare's corporate technology, human resources, and data & analytics capability were key to 2017-18.

Transformation costs include system build costs and scheme agent costs relating to the transition to icare.

## 2.6 Trade and other receivables

**Overview**

Trade and other receivables are principally amounts owed to the Scheme by policyholders or on investments.  Unclosed premium receivables are estimated amounts due to the Scheme in relation to business for which the Scheme is on risk but where the policy is not billed to the counterparty at the balance date.

Investment receivables are amounts due from investment counterparties in settlement of transactions.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Premiums receivable [(i)] | 653,454 | 424,478 |
| Other receivables | 33,517 | 28,435 |
| Investment receivables (refer Note 3.2) | 266,003 | 148,497 |
| Less: allowance for impairment (refer Note 2.6) | (87,219) | (35,117) |
| **Total trade and other receivables** | **865,755** | **566,293** |

[(i)] Employers are able to pay premiums on a lump sum, quarterly instalment basis or a monthly instalment basis.

[(ii)] Purchases and sales of investments are recognised on the trade date – the date on which the Scheme commits to purchase or sell the asset.

### (a) Status of trade receivables

Collectability of trade receivables is reviewed on an ongoing basis. Where receivables are outstanding beyond the normal trading terms, management assesses the likelihood of the recovery of these receivables. Individual debts that are known to be uncollectible are written off directly to the Statement of Comprehensive Income when identified.

An impairment allowance is recognised when there is evidence that the Scheme is unlikely to collect the receivable.

# Notes to the financial statements

for the year ended 30 June 2018

## 2.6 Trade and other receivables (continued)

### (b) Allowance for impairment status of receivables

At 30 June, the impairment allowance is increased or decreased based on an assessment of the likelihood of recovery of individual receivables.

Apart from a limited number of industries covered by specialised insurance arrangements, all employers in New South Wales are able to take out a worker's compensation insurance policy with the Scheme. Accordingly, the credit quality of these debts is viewed as the average of the credit quality of employers in the State.

**Reconciliation of allowance for impairment – receivables**

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Allowance for impairment as at 1 July | 35,117 | 37,221 |
| Increase/(decrease) to allowance for impairment | 52,102 | (2,104) |
| **Allowance for impairment as at 30 June** | **87,219** | **35,117** |

**Ageing of receivables**

Where credit terms have been re-negotiated, the date that the premium debt was incurred remains unchanged. Consequently, ageing of premium debts applies from the date that the debt was incurred and not from the date of renegotiation.

| | Total $'000 | Past due but not impaired $'000 | Considered impaired $'000 |
|---|---|---|---|
| **2018** | | | |
| Within normal terms | 374,097 | - | - |
| Less than 3 months overdue | 74,362 | 69,268 | 5,094 |
| 3 months to 6 months overdue | 69,384 | 62,137 | 7,247 |
| Greater than 6 months overdue | 169,128 | 94,250 | 74,878 |
| | **686,971** | **225,655** | **87,219** |

# Notes to the financial statements

for the year ended 30 June 2018

## 2.6 Trade and other receivables (continued)

**Ageing of receivables (continued)**

| | Total $'000 | Past due but not impaired $'000 | Considered impaired $'000 |
|---|---|---|---|
| **2017** | | | |
| Within normal terms | 327,683 | - | - |
| Less than 3 months overdue | 49,348 | 46,749 | 2,599 |
| 3 months to 6 months overdue | 33,282 | 28,060 | 5,222 |
| Greater than 6 months overdue | 42,600 | 15,304 | 27,296 |
| | **452,913** | **90,113** | **35,117** |

## 2.7 Trade and other payables

**Overview**

Trade and other payables substantially represent liabilities for services provided to the Scheme prior to the end of financial year, which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

Purchases and sales of investments are recognised on trade date – the date on which the Scheme commits to purchase or sell the asset.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| Service fee payable to icare | 51,444 | 83,304 |
| Goods and Services Tax | 21,181 | 21,252 |
| Pay as you go tax payable | 4,474 | 3,777 |
| Accrued expenses | 42,373 | 47,647 |
| Other | 34,139 | 1,285 |
| **Total payables** | **153,611** | **157,265** |

# Notes to the financial statements

for the year ended 30 June 2018

## 3. Investment activities

**Overview**

The main purpose of the Scheme's investments is to fund claim liabilities. Investment policies are put in place with the intention that the net financial assets to outperform the growth in these liabilities.

Investments and other financial assets are held primarily for the purpose of being traded. Accordingly, all of the Scheme's financial assets and financial liabilities are designated at fair value through profit or loss.

The fair value of financial assets and financial liabilities is estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the statement of financial position date. The quoted market price used for financial assets held by the Scheme is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price, without any deduction for transaction costs.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Scheme uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. The fair value of interest-rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the statement of financial position date.

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible a degree of judgment is required in establishing fair values. The judgments include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives.

Derivatives include interest rate swaps and futures, swaptions, credit default swaps, cross currency swaps and forward foreign currency contracts, and options on interest rates, foreign currencies and equities.

The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Scheme designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or (2) hedges of the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges).

Hedging strategies are determined by icare's Investment and Asset Committee (a sub-Committee of the Board of icare), within the investment strategy for the Scheme. Hedging is conducted at two levels:

- At the overall fund level, where TCorp decides on instruments and transaction parameters. Transactions are implemented in bond options and swaptions by TCorp and equity options by State Street Global Markets (SSGM); or
- In underlying portfolios, by appointed investment managers who have discretion to implement hedges within mandate boundaries.

The fair values of any derivative financial instruments used for hedging purposes, if any, are disclosed in Note 3.3.

# Notes to the financial statements

for the year ended 30 June 2018

## 3.1 Investment income

**Overview**

Dividends on quoted shares are deemed to accrue when the relevant shareholding becomes ex-dividend/distribution. Differences between the fair values of investments at the end of the reporting period and their fair values at the end of the previous reporting period (or cost of acquisition, if acquired during the reporting period) are recognised as revenue in the statement of comprehensive income.

Fund manager remuneration includes base and incentive fees which are generally paid quarterly.

| | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|
| | | |
| Net Realised gain/(loss) on sale of investments | (85,196) | 759,679 |
| Net Unrealised gain/(loss) on investments | 531,074 | (881,030) |
| Dividends/Distributions | 271,882 | 221,243 |
| Interest | 256,896 | 335,022 |
| Other income | (8,406) | 3,948 |
| **Investment income** | **966,250** | **438,862** |
| Investment management expense | (17,492) | (30,684) |
| **Net investment revenue** | **948,758** | **408,178** |

# Notes to the financial statements

for the year ended 30 June 2018

## 3.2 Investment assets and liabilities

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| **Investment assets** | | |
| Indexed and interest-bearing securities | 8,182,274 | 8,700,527 |
| Equities | 91,056 | 81,760 |
| Unit trusts | 8,538,492 | 7,411,922 |
| Derivatives | 167,787 | 193,983 |
| **Total Investment assets** | **16,979,609** | **16,388,192** |
| | | |
| **Investment receivables** | | |
| Interest, dividends and other investment income receivable | 32,100 | 65,678 |
| Trade proceeds yet to be settled (ii) | 220,690 | 30,818 |
| Margin calls | 13,213 | 52,001 |
| **Total Investment receivables** (refer Note 2.6) | **266,003** | **148,497** |
| **Total Investments** | **17,245,612** | **16,536,689** |
| | | |
| **Investment liabilities** | | |
| Derivatives | 51,844 | 36,020 |
| Investment purchases | 434,901 | 32,250 |
| Collateral from Brokers | 65,962 | 148,902 |
| **Total Investment liabilities** | **552,707** | **217,172** |
| **Net Investments** | **16,692,905** | **16,319,517** |

## 3.3 Fair value estimation

### Overview

The carrying amounts of the Scheme's financial assets and liabilities at the end of the reporting period approximated their fair values as all financial assets and liabilities held were either at fair value at the end of the reporting period ('marked to market') or were short term in nature.

The financial assets and liabilities are classified in accordance with the following fair value measurement hierarchy:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities. The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets of the Scheme is the current bid price;

# Notes to the financial statements

for the year ended 30 June 2018

## 3.3 Fair value estimation (continued)

- Level 2 – inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices). The fair value of financial instruments that are not traded in an active market (for example unit trusts and over-the-counter derivatives) is determined using valuation techniques. A variety of methods are used which include assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used to estimate fair value for debt securities for disclosure purposes. Evaluations of such securities are based on market data. Vendors utilise evaluated pricing models that vary by asset class and incorporate available trade, bid and other market information and for structured securities, cash flow and when available loan performance data. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the end of the reporting period. These instruments are included in level 2 and comprise debt instruments and derivative financial instruments; and
- Level 3 – inputs for the assets or liabilities that are not based on observable market data. The fair value of financial instruments that are not based on observable market data (for example unlisted property trusts and infrastructure debt) is determined using valuation techniques. The table below sets out information about significant unobservable inputs used at year end in measuring financial instruments categorised as Level 3 in the fair value hierarchy.

| | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'000 |
|---|---|---|---|---|
| **2018** | | | | |
| **Other financial assets** | | | | |
| Indexed and interest-bearing securities | 454,642 | 7,616,230 | 111,402 | 8,182,274 |
| Equities | 91,039 | - | 17 | 91,056 |
| Unit Trusts | - | 7,189,466 | 1,349,026 | 8,538,492 |
| Derivatives | 35 | 167,752 | - | 167,787 |
| | **545,716** | **14,973,448** | **1,460,445** | **16,979,609** |
| **Other financial liabilities** | | | | |
| Derivatives | **18,410** | **33,434** | **-** | **51,844** |
| | | | | |
| **2017** | | | | |
| **Other financial assets** | | | | |
| Indexed and interest-bearing securities | - | 8,610,115 | 90,412 | 8,700,527 |
| Equities | 81,743 | - | 17 | 81,760 |
| Unit Trusts | - | 6,127,248 | 1,284,674 | 7,411,922 |
| Derivatives | 43,140 | 150,843 | - | 193,983 |
| | **124,883** | **14,888,206** | **1,375,103** | **16,388,192** |
| **Other financial liabilities** | | | | |
| Derivatives | **-** | **36,020** | **-** | **36,020** |

Fair value estimation classifications for 2017 have been restated to reflect a change in methodology. The underlying securities that have been reclassified are NSW and Australian Government fixed income from level 1 to level 2.

# Notes to the financial statements

for the year ended 30 June 2018

## 3.3 Fair value estimation (continued)

| Type | Description | Valuation technique | Significant unobservable inputs | Range of estimates (weighted avg) for unobservable input | Inter-relationship between significant unobservable inputs and fair value measurement |
|---|---|---|---|---|---|
| Unit Trusts | Units in unlisted wholesale property trusts | Adjusted net asset value | Published redemption prices | Lendlease property trusts<br>2018: $1,198- $2,042<br>2017: $1,145- $1,957<br>Other property trusts:<br>2018: $0.04-$2.03<br>2017: $0.02-$1.97 | An increase in published redemption prices would result in a higher fair value. |
| Unit Trusts | Units in unlisted infrastructure trusts | Adjusted net asset value | Published redemption prices | 2018: $0.93- $1.12<br>2017: $0.89- $1.05 | An increase in published redemption prices would result in a higher fair value |
| Indexed and Interest Bearing | Private infrastructure debt | Valuations performed by an independent business and debt valuer | Discount for lack of marketability | 2018: 10–20% (15%)<br>(2017: 10–20%<br>(15%)) | An increase in discount would result in a lower fair value. |

Discount for lack of marketability: represents the discount applied to the net asset value or valuation provided by the independent valuer to reflect the lack of marketability or liquidity of the funds/investments. Management determines these discounts based on its judgement after considering investment-specific factors such as quality of the underlying assets.

# Notes to the financial statements

for the year ended 30 June 2018

## 3.3 Fair value estimation (continued)

**Transfers between levels**

The Scheme recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the transfer has occurred. The following table presents the transfers between levels for the year ended 30 June 2018:

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| Opening balance | 1,375,103 | 1,362,168 |
| Transfers into Level 3 | 43,873 | - |
| Purchases of securities | 7,792 | 21,229 |
| Sale of securities | (28,564) | (83,219) |
| Gain / (loss) in Profit & Loss (investment income) | 62,241 | 74,925 |
| **Closing balance** | **1,460,445** | **1,375,103** |
| Total gains/(losses) for the period included in profit or loss that relate to assets held at the end of the reporting period (shown in investment income) | **62,241** | **74,925** |

### 3.3.1 Valuation framework

The Scheme has an established control framework with respect to the measurement of fair values. This framework has been outsourced to an external service provider which has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements. Specific controls conducted by the outsourced service provider include:

- Verification of observable pricing;
- Re-performance of model valuations;
- A review and approval process for new models and changes to models;
- Quarterly calibration and back testing of models against observed market transactions;
- Analysis and investigation of significant daily valuation movements; and
- Review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3 instruments compared to previous month.

# Notes to the financial statements

for the year ended 30 June 2018

### 3.3.1 Valuation framework (continued)

Where third-party information, such as broker quotes or pricing services, are used to measure fair value, the outsourced service provider assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of accounting standards. This includes:

- Verifying that the broker or pricing service is approved by the Master Custodian of the Insurance Fund for use in pricing the relevant type of financial instrument;
- Understanding how the fair value has been arrived at and the extent to which it represents actual market transactions;
- When prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement; and
- Where a number of quotes for the same financial instrument have been obtained, how fair value has been determined using those quotes.

Significant valuation issues are reported to the icare Board's Risk, Compliance and Audit Committee.

### 3.3.2 Financial assets pledged as collateral

Scheme's financial assets pledged as collateral are $nil (2017: $nil), apart from cash held in margin accounts with the brokers/counter parties across various markets for exchange traded derivatives (refer Note 3.2) and for over the counter securities.

Margin accounts for exchange traded derivatives are held by the relevant exchange to keep the derivative position open and are adjusted daily based on the underlying derivatives marked to market. For over the counter securities the Scheme pays cash to the counter party where the trade documents stipulated that collateral is required to be paid. This collateral is adjusted as stipulated by the terms of the trade document based on underlying derivatives marked to market.

Where the Scheme holds collateral, this is held only in cash.

As outlined previously the Scheme closes out its positions prior to maturity or settles positions in cash rather than physical delivery.

### 3.3.3 Master netting or similar agreements

The Scheme enters into derivative transactions under International Swaps and Derivatives Association (ISDA) master netting agreements. In general, under such agreements the amounts owed by each counterparty on a single day in respect of all transactions outstanding in the same currency are aggregated into a single net amount that is payable by one party to the other. In certain circumstances – e.g. when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is payable in settlement of all transactions.

The ISDA agreements do not meet the criteria for offsetting in the statement of financial position. This is because the Scheme does not have any currently legally enforceable right to offset recognised amounts, as the right to offset is enforceable only on the occurrence of future events such as a default on the bank loans or other credit events.

# Notes to the financial statements

for the year ended 30 June 2018

### 3.3.4 Derivatives

The use of derivative financial instruments is governed by the Scheme's policies. The Scheme enters into derivative contracts for the purpose of gaining market and/or duration exposure or offsetting existing risk exposures.

The table on the following page shows the fair value of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of a derivative is measured. The notional amounts are indicative of the exposure of the Scheme to movements in the instrument underlying the derivatives. The notional amounts do not represent the credit risk of the derivative positions that is equal to the fair value.

The fair value amounts reported in the statement of financial position, and the amounts reported in the following tables are the net value of individual swap positions where there is the ability to settle the swaps on a net basis and the Nominal Insurer intends to settle on this basis.

| | Assets $'000 | Liabilities $'000 | Notional amount $'000 |
|---|---|---|---|
| **2018** | | | |
| Interest rate futures | 35 | (18,410) | 945,086 |
| **Options:** | | | |
| Options on Fixed Income | 155,062 | - | 7,199,190 |
| **Forwards:** | | | |
| Forward foreign exchange contracts | 9,184 | (23,016) | 1,906,265 |
| **Swaps:** | | | |
| Interest rate swaps | 3,506 | (10,418) | - |
| | **167,787** | **(51,844)** | **10,050,541** |
| **2017** | | | |
| Interest rate futures | 43,140 | - | 838,385 |
| **Options:** | | | |
| Options on Fixed Income | 98,913 | - | 2,078,970 |
| Options on index | 13,870 | - | 1,588,983 |
| Swaption | 20,834 | - | 2,866,500 |
| **Forwards:** | | | |
| Forward foreign exchange contracts | 10,537 | (4,044) | 985,666 |
| **Swaps:** | | | |
| Interest rate swaps | 770 | (17,613) | 483,600 |
| Inflation swaps | 5,919 | (14,363) | 325,480 |
| | **193,983** | **(36,020)** | **9,167,584** |

# Notes to the financial statements

for the year ended 30 June 2018

### 3.3.5 Involvement with unconsolidated structured entities

The Scheme does not have a controlling interest in any of the unlisted investment funds in which it invests.

These unconsolidated structured entities are included under unit trusts in Note 3.2. The maximum exposure or loss is limited to the net market value of the investment strategy as at 30 June 2018. The net market value of the exposure will change on a daily basis throughout the period and in the subsequent periods will cease once the investments are disposed.

The investments of the Scheme are managed in accordance with the investment mandates with respective underlying investment managers. The investment decisions of the mandate are based on the analysis conducted by the investment manager. The return of the portfolio is exposed to the variability of the performance of the underlying management of these investments.

| Investment Strategy | Net Market Value as at 30 June 2018 $'000 | Net Market Value as at 30 June 2017 $'000 |
|---|---|---|
| | | |
| Equity | 3,775,487 | 4,006,161 |
| Property | 1,357,494 | 1,284,674 |
| Alternatives | 456,063 | 588,675 |
| Emerging Markets | 314,425 | 404,958 |
| Infrastructure | 335,968 | - |
| Debt | 929,568 | - |
| Cash | 1,369,487 | 1,127,454 |
| **Total** | **8,538,492** | **7,411,922** |

# Notes to the financial statements

for the year ended 30 June 2018

## 4. Risk Management

**Overview**

The Scheme applies a consistent and integrated approach to enterprise risk management (ERM). The Scheme operates within icare's risk management framework which sets out the approach to managing key risks and meeting strategic objectives. The risk management framework is articulated in the Risk Management Strategy (RMS) which is approved annually by the Board.

The icare Board acting for the Nominal Insurer is ultimately responsible for identifying and controlling financial risks. This is done through the establishment of holistic strategies and policies which are cognisant of financial risk management.

The framework consists of complementary elements that are embedded throughout the business management cycle and culture of the organisation. Key aspects include: risk appetite, governance, risk management processes, risk reporting and insights, modelling and stress testing, management, monitoring and culture.

Risk management is a continuous process and an integral part of robust business management. The Scheme's approach is to integrate risk management into the broader management processes of the organisation. It is the Scheme's philosophy to ensure that risk management remains embedded in the business and that the risk makers or risk takers are themselves the risk managers. Specifically, the management of risk must occur at each point in the business management cycle.

The key risk categories used by the Scheme to classify financial risk:

- Insurance risk (Note 4.1);
- Market risk (Note 4.2);
- Interest rate risk (Note 4.3);
- Foreign exchange risk (Note 4.4);
- Liquidity risk (Note 4.5); and
- Credit risk (Note 4.6).

### 4.1 Insurance Risk

**Overview**

Insurance risk is the risk of fluctuations in the timing, frequency and severity of insured events and claims settlements, relative to expectations. Key drivers of insurance risk include natural or man-made catastrophic events, pricing of insurance contracts, reserving and insurance claims

The Nominal Insurer only provides workers compensation insurance to those NSW employers who are not covered by self or specialised insurance arrangements. The wide geographic area, number of employers provided with insurance and variety of industries provided with insurance, reduces the Scheme's risk volatility. Managing insurance risk is part of the Scheme's governance and management philosophy through:

- Detailed review of reserving actuaries, bi-annual actuarial valuation projections and cost drivers to enable early detection of emerging issues and cost pressures;
- Actively monitoring claims and expense patterns to detect increasing expenditure and ensure it is facilitating return to work strategies;
- Designing premium formulas that reflect the cost of injuries in particular industries and for larger employers related to their actual claims costs to encourage employers to reduce injuries and facilitate injured workers to return to work;
- Design of benefits that provide incentives to injured workers to work with the Scheme and employers to encourage a return to work;
- Partnering with regulators including the State Insurance Regulatory Authority (SIRA) to reduce injury rates and detect any fraudulent activities;
- Designing remuneration for Scheme Agents that encourages them to achieve Scheme objectives
- Investment allocation strategies that manage investment risks (refer Note 3 and 4); and
- Actively monitoring and projecting the Scheme's cashflow to ensure premiums are paid and injured worker entitlements are provided in a timely manner.

# Notes to the financial statements

for the year ended 30 June 2018

## 4.1 Insurance Risk (continued)

The nature of the Scheme's insurance operations including the requirement of all employers in NSW to have a policy, the wide geographic/industry spread of risks, the level of Scheme assets and the ability to amend future premiums, has resulted in the Scheme concluding that reinsurance of Scheme liabilities is not currently appropriate.

## 4.2 Market risk

**Overview**

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Market risk arises as a result of the Scheme holding and trading investments as part of its asset allocation.

The Scheme seeks to manage exposure to market risk so that it can generate sufficient returns to meet the Scheme's current and future liabilities. The Scheme's portfolio of investments is invested in accordance with its strategic asset allocation. The purpose of the strategic asset allocation is to construct a portfolio that achieves the Scheme's investment objectives, including a return in excess of the liability discount rate, while limiting the probability of large declines in the Scheme's funding ratio.

The actual asset allocations can deviate from the benchmark asset allocation due to:

- Scheme cash flows;
- Fluctuations in market prices; and
- Dynamic asset allocation decisions.

Dynamic asset allocation refers to medium term shifts away from the strategic asset allocation which are designed to capture market opportunities or to mitigate risks.

The deviations in actual versus benchmark asset allocation at the end of the reporting period were within the agreed tolerance limits for all asset classes.

Based on the asset allocation TCorp appoints investment managers in each asset class, following consultation with icare. Management of the Insurance Fund's assets is allocated to the appointed investment managers. Each investment manager is subject to restrictions in relation to the types of assets in which it may invest, and in relation to the composition of investments within certain asset types. These restrictions are expressed in formalised mandates typically contained in individually negotiated Investment Management Agreements or as described in Information Memoranda (or similar documents) issued by the relevant investment manager where the investment is via a pooled fund. The investment mandates are monitored on a daily basis to ensure that investment managers are compliant with their mandates and relevant agreements.

Each investment manager is responsible for managing security-specific risk using its distinct management style. Each investment manager is also responsible for constructing a portfolio that aims to achieve its own investment objectives while complying with the restrictions and guidelines contained in the mandate or Information Memorandum.

A risk budgeting framework is used to help determine an appropriate strategic asset allocation for the Scheme. This framework incorporates the risk and return characteristic of the different asset classes in the portfolio and additional factors such as inflation and interest rates. Within this framework, a number of risk measures are employed including the frequency of negative returns, the volatility of the investment portfolio relative to the value of the liability and Value-at-Risk (VaR) analysis.

TCorp, in conjunction with its asset consultant (Mercer), conducts the risk budgeting analysis utilising:

- Assumptions regarding the expected level of return, risk and correlations between price and wage inflation, bond yields and returns from different asset classes (for example equities, bonds, property and alternative assets); and
- Assumptions regarding the duration of inflation-linked and other liabilities consistent with those used by the Scheme Actuary.

The analysis incorporates scenario analysis to determine the risk and return of different investment strategies relative to the change in the liabilities over a period.

# Notes to the financial statements

for the year ended 30 June 2018

## 4.2 Market risk (continued)

The analysis is primarily used to compare different investment strategies, and then to determine the investment strategy that has the appropriate level of risk, given the risk and return objectives of the Scheme.

The risk budgeting analysis is based on certain simplifying assumptions such as statistical characteristics of investment returns, volatilities and correlations that may not represent actual outcomes. It is also important to note that the analysis only allows for some economic factors such as inflation and bond yields, which affect the value of the Scheme liabilities. It does not allow for other factors such as the claims loss ratio, claims incidence and recovery rates, which also affect the value of the Scheme liabilities. As such, the analysis may not be accurate in its assessment of the liability.

The VaR risk measure seeks to estimate the potential investment loss over a given holding period at a specified confidence level. The VaR methodology is a statistically-defined, probability-based approach to risk assessment that takes into account market volatilities as well as risk diversification by identifying offsetting positions and correlations between financial instruments and markets. The VaR methodology allows risks to be measured consistently across all markets and financial instruments and to be aggregated into a single risk number.

VaR is calculated using simulated forward looking expected returns at the 95th percentile confidence level over a 12 month time period. This represents the minimum expected reduction in the value of the Scheme's investment portfolio which has a 5 per cent chance of being exceeded over a one year period.

In addition to a VaR measure, the risk budgeting framework is also used to assess the following risk and return characteristics:

- Expected return on the investment portfolio;
- Probability of meeting return targets that incorporate measures of wage inflation; and
- The performance of the investment portfolio under different economic scenarios.

The most recent VaR analysis was conducted in July 2018 based on the June 2018 financial instruments and is computed via forward looking simulation using a 95 per cent confidence interval and a 1-year holding period.

VaR is calculated at the balance date and represents an estimate of the loss that can be expected over a 1-year period with a 5 per cent probability that this amount may be exceeded.

Given the Scheme's statement of financial position at 30 June 2018, the minimum potential loss expected over a 1-year period is $381.6 million (June 2017: $327.7 million), with a 5 per cent probability that this minimum may be exceeded.

## 4.3 Interest rate risk

**Overview**

Interest rate risk is the risk that the (fair) value of a financial instrument will fluctuate because of changes in market interest rates. The value of the Scheme's liabilities is also affected by interest rate fluctuations.

### 4.3.1 Exposure

Interest rate risk arises as a result of the Scheme holding financial instruments which are subject directly or indirectly to changes in value as a result of interest rate fluctuations. Scheme liabilities are similarly subject directly or indirectly to changes in value as a result of interest rate fluctuations.

### 4.3.2 Risk management objective, policies and processes

The interest rate and inflation risk of the Insurance Fund is managed primarily through its strategic asset allocation and mandate objective setting. The Insurance Fund at 30 June 2018 had a 17 per cent (2017: 18 per cent) allocation to Australian Commonwealth and state government bonds to mitigate interest rate risk of Scheme liabilities and a further 23 per cent (2017: 27 per cent) allocation to Australian Commonwealth and state government inflation linked bonds to mitigate inflation risk of Scheme liabilities.

### 4.3.3 Quantitative analysis of exposure

The table on the following page summarises the Scheme's exposure to interest rate risks. It includes the Scheme's indexed and interest-bearing financial assets and liabilities at fair values, categorised by the earlier of their contractual re pricing or maturity dates.

# Notes to the financial statements

for the year ended 30 June 2018

### 4.3.3 Quantitative analysis of exposure (continued)

The table does not show all assets and liabilities of the Scheme. Assets and liabilities not shown in the table below are not indexed and interest bearing and are therefore not directly exposed to interest rate risk.

**2018**

| | Floating interest rate $'000 | Fixed interest rate maturing in | | | | Total $'000 |
|---|---|---|---|---|---|---|
| | | 3 months or less $'000 | 4 to 12 months $'000 | 1 to 5 years $'000 | Over 5 years $'000 | |
| | | | | | | |
| **Class** | | | | | | |
| Cash | 178,486 | - | - | - | - | 178,486 |
| Money market deposits | 2,818 | - | - | - | - | 2,818 |
| Indexed and interest-bearing securities | 4,657,157 | 1,160 | 7,093 | 248,940 | 3,267,924 | 8,182,274 |
| Interest rate swaps | | | | 41 | 3,465 | 3,506 |
| Options on fixed income | - | 95,722 | 35,173 | 4,662 | 19,505 | 155,062 |
| Interest rate futures | - | 35 | - | - | - | 35 |
| **Assets** | **4,838,461** | **96,917** | **42,266** | **253,643** | **3,290,894** | **8,522,181** |
| | | | | | | |
| Interest rate swap | - | - | - | (2,020) | (8,398) | (10,418) |
| Interest rate futures | - | (18,410) | - | - | - | (18,410) |
| **Liabilities** | **-** | **(18410)** | **-** | **(2,020)** | **(8,398)** | **(28,828)** |

# Notes to the financial statements

for the year ended 30 June 2018

### 4.3.3 Quantitative analysis of exposure (continued)

**2017**

| | Floating interest rate $'000 | Fixed interest rate maturing in | | | | Total $'000 |
|---|---|---|---|---|---|---|
| | | 3 months or less $'000 | 4 to 12 months $'000 | 1 to 5 years $'000 | Over 5 years $'000 | |
| | | | | | | |
| **Class** | | | | | | |
| Cash | 290,640 | - | - | - | - | 290,640 |
| Money market deposits | 48,085 | - | - | - | - | 48,085 |
| Indexed and interest -bearing securities | 5,342,008 | 26,366 | 67,210 | 522,349 | 2,742,594 | 8,700,527 |
| Interest rate swaps | - | - | - | - | 770 | 770 |
| Options on fixed income | - | 98,913 | - | - | - | 98,913 |
| Interest rate futures | - | 43,140 | - | - | - | 43,140 |
| **Assets** | **5,680,733** | **168,419** | **67,210** | **522,349** | **2,743,364** | **9,182,075** |
| | | | | | | |
| Interest rate swap | - | - | - | (375) | (17,238) | (17,613) |
| Interest rate futures | - | - | - | - | - | - |
| **Liabilities** | **-** | **-** | **-** | **(375)** | **(17,238)** | **(17,613)** |

The Scheme's exposure to interest rate risk is considered a component of market risk and is quantified as part of the VaR analysis discussed under Market Risk.

The Scheme is exposed to interest rate cash flow risk on its floating rate interest bearing securities as interest income earned varies according to prevailing market interest rates.

## 4.4 Foreign exchange risk

# Notes to the financial statements

for the year ended 30 June 2018

**Overview**

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

### 4.4.1 Exposure

The Scheme is exposed to foreign exchange risk as a result of the foreign currency denominated investments held as part of its asset allocation.

### 4.4.2 Risk management objective, policies and processes

Appointed investment managers manage foreign exchange risk, with one manager implementing a foreign currency overlay for international equity exposures. The investment managers in investment grade credit (developed markets), unlisted infrastructure, alternatives, bank loans, and global high yield bonds are required to fully hedge portfolio foreign currency exposures. An investment manager has been appointed to implement a currency hedge strategy for the developed markets' equity exposure. No hedging of foreign currency exposures to Australian dollars is undertaken on the value of assets invested in emerging markets

The primary instruments used to achieve the foreign currency overlay are forward foreign exchange contracts.

The positions are reported on an ongoing basis by the Scheme's custodian, JPMorgan Investor Services, under a Service Level Agreement and reporting is provided both daily and monthly by the custodian to management for monitoring.

### 4.4.3 Quantitative analysis of exposure

A summary of the Scheme's exposure to foreign exchange risk, including of foreign currency derivatives is shown in the table below:

| | US Dollars $'000 AUD | Euro $'000 AUD | Japanese Yen $'000 AUD | Other currencies $'000 AUD | Total $'000 |
|---|---|---|---|---|---|
| **2018** | | | | | |
| International equities | 17,826 | ,384 | - | 70,626 | 89,836 |
| Australian equities | - | - | - | 1,203 | 1,203 |
| International floating rate securities | 25,197 | - | - | 13,120 | 38,317 |
| International bonds | 154,501 | 3,351 | - | 143,625 | 301,477 |
| Cash | 11,455 | 279 | - | 613 | 12,347 |
| Foreign currency derivatives (Assets- options) | 6,131 | 2,002 | 1,065 | 667 | 9,865 |
| Foreign currency derivatives (Assets- futures) | - | - | - | 35 | 35 |
| Foreign currency derivatives (Liabilities- futures) | (56) | (40) | - | - | (96) |
| Swap derivative (Assets) | 2,639 | 1,914 | 605 | 4,026 | 9,184 |
| Swap derivative (Liability) | (16,377) | (624) | (224) | (5,791) | (23,016) |
| **Foreign exchange exposure position** | **201,316** | **8,266** | **1,446** | **228,124** | **439,152** |

# Notes to the financial statements

for the year ended 30 June 2018

### 4.4.3 Quantitative analysis of exposure (continued)

| | US Dollars $'000 AUD | Euro $'000 AUD | Japanese Yen $'000 AUD | Other currencies $'000 AUD | Total $'000 |
|---|---|---|---|---|---|
| **2017** | | | | | |
| International equities | 16,578 | 1,238 | - | 63,928 | 81,744 |
| International listed property trusts | 102 | - | - | - | 102 |
| International floating rate securities | 22,695 | - | - | 7,043 | 29,738 |
| International bonds | 196,315 | 3,300 | - | 244,966 | 444,581 |
| Foreign currency derivatives (Assets) | 5,046 | 31 | 1,141 | 4,319 | 10,537 |
| Foreign currency derivatives (Liabilities) | (2) | (528) | - | (3,514) | (4,044) |
| Swap derivative (Assets) | - | - | - | - | - |
| Swap derivative (Liability) | - | - | - | - | - |
| **Foreign exchange exposure position** | **240,734** | **4,041** | **1,141** | **316,742** | **562,658** |

## 4.5 Liquidity risk

**Overview**

Liquidity risk is the risk of insufficient liquid assets to meet liabilities as they fall due. The Scheme's liquidity risk arises due to the nature of insurance activities where the timing and amount of cash outflows are uncertain.

The Scheme is exposed to liquidity risk from holding financial assets that may not be readily convertible to cash to meet financial liabilities and claims costs.

### 4.5.1 Exposure

The financial assets of the Scheme that may not be readily convertible to cash are largely premium receivables (refer Note 2.6) and investments in over-the-counter or thinly traded investments, principally unlisted property trusts and infrastructure debt.

### 4.5.2 Risk management objective, policies and processes

The Scheme maintains adequate liquidity to meet the daily cash requirements for claims payments and other operating costs.

To assist in meeting its liquidity risk management objectives, the Scheme maintains a cash balance and invests most of its assets in investments that are traded in active markets that can be readily disposed of. The Scheme also has the ability to borrow in the short term to ensure settlement of amounts due if required.

The Scheme invests a proportion of its assets in less liquid listed investments or investments that are not traded on active markets and this is strictly controlled in accordance with the asset allocation together with a policy which limits exposure to illiquid investments.

Each investment manager is responsible for cashflow management of the assets that have been mandated to them. That is, each investment manager is responsible for managing settlement liquidity risk. The custodian supplies daily reporting to each investment manager to assist them in this process.

# Notes to the financial statements

for the year ended 30 June 2018

### 4.5.3 Quantitative analysis of exposure (continued)

The financial liabilities of the Scheme comprise cash due to brokers, derivative positions, interest and other payables. The types of financial liabilities of the Scheme were similar at 30 June 2017.

The other Scheme liabilities are either claims related (maturity is disclosed in Note 2.3.4) or are related to insurance operations and have a maturity of less than 12 months.

Cash due to brokers is payable on demand. Interest and other payables are typically settled within 30 days. If the derivative positions are closed out prior to maturity by entering into offsetting transactions, the Scheme settles its derivative obligations in cash rather than physical delivery.

**Liability maturity**

All of the Scheme's financial liabilities relate to derivatives whose maturity is listed below:

| | Less than 1 month $'000 | 2 to 12 months $'000 | Greater than 12 months $'000 | Total $'000 |
|---|---|---|---|---|
| | | | | |
| **2018** | | | | |
| Derivatives | 14,830 | 26,596 | 10,418 | 51,844 |
| | | | | |
| **2017** | | | | |
| Derivatives | 783 | 3,261 | 31,976 | 36,020 |

## 4.6 Credit risk

**Overview**

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

### 4.6.1 Exposure

Credit risk arises from the Scheme's investments when investment managers trade with various counterparties who are subsequently unable to meet their obligations. The Scheme's main credit risk concentration is spread between cash, indexed and interest-bearing investments and over-the-counter, in-the-money derivatives.

Credit risk also arises from the Scheme's receivables.

Recoveries arise principally where a worker is injured in a motor vehicle accident and is not at fault. The majority of the costs of these claims are recovered from the third party motor vehicle insurers. The credit quality of these recoveries is considered high as these insurers are licensed by the Australian Prudential Regulation Authority, which imposes strict limits on capital adequacy of these insurers. The Scheme's consulting actuaries assess the amount of recovery potential for the Scheme.

# Notes to the financial statements

for the year ended 30 June 2018

### 4.6.2 Risk management objective, policies and processes

Credit Guidelines ensure the Scheme has controlled levels of credit concentration. These guidelines are at a total Insurance Fund level, with further asset class specific restrictions in investment managers' mandates where applicable. In addition, where possible, collateral arrangements may be implemented to reduce the Scheme's exposure.

The exposure is reported against set guidelines both from an individual managers' compliance and at a total Insurance Fund level. Reporting is provided by the Scheme's custodian and delivered to management for monitoring.

Credit risk arising on financial instruments is mitigated by investing primarily in rated instruments as determined by Standard's and Poor's, Moody's or Fitch. The Insurance Fund minimises its credit risk by monitoring counterparty creditworthiness.

### 4.6.3 Indexed and interest-bearing investments

The majority of the indexed and interest-bearing investments held by the Scheme are held with issuers rated investment grade by Standard and Poor's, Moody's or Fitch. The ratings assigned to the Scheme's indexed and interest-bearing investments at the end of the reporting period were as follows:

| | 2018 $'000 | 2018 % | 2017 $'000 | 2017 % |
|---|---|---|---|---|
| | | | | |
| AAA/aaa | 6,497,813 | 79 | 7,160,019 | 82 |
| AA/Aa | 691,334 | 8 | 689,687 | 8 |
| A/A | 207,807 | 3 | 139,601 | 2 |
| BBB | 171,307 | 2 | 309,441 | 3 |
| BB | 65,518 | 1 | 152,347 | 2 |
| Rated below BB | 548,495 | 7 | 249,432 | 3 |
| Total | 8,182,274 | 100 | 8,700,527 | 100 |

The Scheme's maximum credit risk exposure at balance date in relation to each class of recognised financial asset, other than derivative financial instruments, is the carrying amount of those assets as indicated in the statement of financial position.

In relation to over the counter derivative financial instruments, credit risk arises from the potential failure of counterparties to meet their obligations under the contract or arrangement.

# Notes to the financial statements

for the year ended 30 June 2018

## 5. Other

**Overview**

This section includes other information that must be disclosed to comply with the Australian Accounting Standards.

### 5.1 Cash and cash equivalents

**Overview**

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions and bank overdrafts that are repayable on demand.

The Scheme holds short-term term deposits with major Australian banks as security for the payment of premiums by large employers who participate in the optional alternative premium method commonly known as the Retro-Paid Loss Premium. These term-deposits are not included in cash and cash equivalents. Instead they are included in Prepayments and Other Assets as upon the payment of all potential premium debts or when the security is in excess of the amount of maximum unpaid premium, the security is returned to the employer. (Refer Note 5.6).

The Scheme includes as operating cash flows the purchase and sale of financial assets as premiums less claims cost paid to date are invested to meet future workers compensation claim costs.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Money Market Deposits | 2,818 | 48,085 |
| Cash | 178,486 | 290,640 |
| **Total cash and cash equivalents** | 181,304 | 338,725 |
| Bank overdraft | (5,540) | (4,413) |
| **Balance as per Statement of Cash Flows** | **175,764** | **334,312** |

**Reconciliation of Net cash provided by/(used in) operating activities to Net result**

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| **Net cash provided by/(used) in operating activities** | **(108,104)** | **(351,255)** |
| Depreciation expense | (9,728) | (54) |
| (Increase) in actuarially assessed claim liabilities | (310,205) | (946,787) |
| (Increase) in unearned premiums | (6,988) | (89,019) |
| (Increase)/decrease in unexpired risk liability | (43,867) | 56,637 |
| Unrealised (loss)/gain on investments | 423,335 | (122,500) |
| Net investment purchases/(sales) | (49,632) | 551,193 |
| Increase/(decrease) in receivables | 194,958 | (49,949) |
| Increase/(Decrease) in payables | 1,368 | (49,512) |
| (Increase)/decrease in Security deposits payable | (2,312) | 13,012 |
| Decrease in restoration provisions | 118 | - |
| **Net result** | **88,943** | **(988,234)** |

# Notes to the financial statements

for the year ended 30 June 2018

## 5.1 Cash and cash equivalents (continued)

**Interest rate risk exposure**

Details of the Scheme's exposure to interest rate changes on bank overdraft are set out in Note 4.3.

**Fair value disclosures**

The carrying amount of the Scheme's borrowings approximates their fair value.

**Bank overdraft**

The bank overdraft may be drawn at any time and is non-interest bearing.

## 5.2 Intangible assets

**Overview**

The Scheme recognises intangible assets only if it is probable that future economic benefits will flow to the entity and the cost of the asset can be measured reliably. Intangible assets are measured initially at cost. Where an asset is acquired at no or nominal cost, the cost is its fair value as at the date of acquisition.

The capitalisation threshold for intangible assets is $100,000 and above (including direct allocation of personnel service costs).

All research costs are expensed. Development costs are only capitalised when certain criteria are met.

The useful lives of intangible assets are assessed to be finite. The Scheme charges amortisation on intangible assets using a straight–line method over a period of five years.

Intangible assets are subsequently measured at fair value only if there is an active market. As there is no active market for the Scheme's intangible assets, the assets are carried at cost less any accumulated amortisation and impairment losses.

Intangible assets are tested for impairment where an indicator of impairment exists. If the recoverable amount is less than its carrying amount, the carrying amount is reduced to the recoverable amount and the reduction is recognised as an impairment loss.

| | Software WIP $'000 | Computer Software $'000 | Total $'000 |
|---|---|---|---|
| | | | |
| At 30 June 2018 – fair value | | | |
| Cost (gross carrying amount) | 43,790 | 48,642 | **92,432** |
| Accumulated amortisation and impairment | - | (9,728) | **(9,728)** |
| **Net carrying amount** | 43,790 | 38,914 | **82,704** |
| | | | |
| At 30 June 2017 – fair value | | | |
| Cost (gross carrying amount) | 43,815 | - | 43,815 |
| Accumulated amortisation and impairment | - | - | - |
| **Net carrying amount** | **43,815** | **-** | **43,815** |

# Notes to the financial statements

for the year ended 30 June 2018

## 5.2 Intangible assets (continued)

**Reconciliation**

A reconciliation of the carrying amount of each class of intangible assets at the beginning and end of the current and previous reporting periods is set out below:

| | Software WIP $'000 | Computer Software $'000 | Total $'000 |
|---|---|---|---|
| | | | |
| **Year ended 30 June 2018** | | | |
| Net carrying amount at start of year | 43,815 | - | **43,815** |
| Additions – Internal development | 48,617 | - | **48,617** |
| Transfers from Software WIP | (48,642) | 48,642 | **-** |
| Amortisation expense | - | (9,728) | **(9,728)** |
| **Net carrying amount at end of year** | 43,790 | 38,914 | **82,704** |
| **Year ended 30 June 2017** | | | |
| Net carrying amount at start of year | 8,517 | - | **8,517** |
| Additions – Internal development | 35,298 | - | **35,298** |
| Amortisation expense | **-`** | **-** | **-** |
| **Net carrying amount at end of year** | **43,815** | **-** | **43,815** |

# Notes to the financial statements

for the year ended 30 June 2018

## 5.3 Restoration provisions

**Overview**

A restoration provision is recognised for the estimate of future payments for restoration upon the termination of the leases of current office premises. The effect of discounting is immaterial.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| Restoration provision | - | 118 |
| | **-** | **118** |

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| **Movement in restoration provision** | | |
| Net carrying amount at start of year | 118 | 118 |
| Amount provided during year | - | - |
| Amount used during the year | (118) | - |
| **Net carrying amount at end of year** | **-** | **118** |

## 5.4 Commitments

**Overview**

The Scheme had no lease commitments at 30 June 2018 (30 June 2017: Nil).

As at the 30 June 2018 the Scheme was required to contribute $249.4 million to the Workers Compensation Operational Fund to fund the State Insurance Regulatory Authority and Safework NSW. (2017: $245.8 million) in monthly installments by 30th June 2019.

As at the 30 June 2018 the Scheme was required to contribute $50 million (2017: $48.2 million) to the Workers Compensation Dust Diseases Authority in monthly installments by 30th June 2019.

As at the 30 June 2018 the Scheme was required to contribute $8 million (2017: $7.8 million) to the NSW Department of Primary Industries for the Mine Safety Levy in four (4) equal quarterly installments by 30 June 2019.

# Notes to the financial statements

for the year ended 30 June 2018

### 5.5 Security deposits and bank guarantees

Since 30 June 2009, large employers may apply to have their workers compensation premium calculated under an alternative premium method, called the Retro-Paid Loss Premium Method (RPL). The RPL methodology was amended at 30 June 2016 and renamed Loss Prevention and Recovery (LPR). This methodology change gave employer groups the option of providing security or the payment of a Renewal Premium adjustment (RPA).

Employers are qualified to participate in the Schemes providing they meet specified work health and safety, injury management and financial criteria. Under both methodologies employers pay a deposit premium for the insured period, with subsequent adjustments made over the next three to four years to reflect the actual cost of claims incurred plus a contribution to those costs for very high value claims that are shared across all employers in the group.

Under section 172A of the *Workers Compensation Act 1987*, the Scheme administers security deposits, bank guarantees and securities lodged by employers who elect to participate in the RPL Premium Method or chose the security option of the LPR Premium method.

As at 30 June 2018, the Scheme held deposits of $69 million (2017: $67 million) and bank guarantees of $654 million (2017: $722 million). These deposits are held in trust for payment of their workers compensation premium liability.

Earnings on funds deposited with the Scheme for this purpose are paid directly to the employer group that lodged the Security Deposit provided that the security held meets the security requirements of the employer group.

## 6. Capital management

Capital management is an integral part of icare's risk management framework. One of the key objectives of the Workers Insurance Scheme is to have sufficient capital to meet its obligations to its customers, even under adverse conditions.

The Board of icare has set a Capital Management Policy which defines a Target Capital Ratio and Target Operating Zone for the Scheme.

To determine the Scheme's Target Capital Ratio and Target Operating Zone, consideration was given to the following:

- The unique nature of the business from both various perspectives- internal (financial and operational) and external (economic and political);
- The liabilities of the Scheme are not included in the NSW Government's Statement of financial position and there is no explicit Government guarantee to cover any funding shortfall;
- The Scheme's strategic objectives and the risks of not achieving them; and
- The regulatory requirements of the Australian Prudential Regulation Authority (APRA), consistency with the insurance industry and best practice.

Under this policy the Scheme will be managed towards holding excess capital above the Minimum Capital Requirement within a defined range as set out in the Target Capital Ratio Policy.

The Board has determined that the Target Operating Zone for the Scheme is between 120-140 per cent. This means that the Scheme's Policy Capital Ratio defined as the ratio of the Scheme's assets to liabilities where the liabilities include a risk margin aimed at a 75 per cent Probability of Adequacy (PoA) should be between 120-140 per cent. The actual funding ratio at 30 June 2018 at the 75 per cent PoA level was 118.5 per cent (2017: 119 per cent).

The Scheme's liabilities reported in these financial statements are at an 80 per cent PoA.

The Capital Management policy details actions required where the Policy Capital Ratio falls outside of the target operating zone.

The Capital Management Framework is reviewed annually by Management or as directed by the Board or the Audit and Risk Committee (ARC) of the Board. Any recommendations for change are endorsed by the ARC and approved by the Board.

**END OF AUDITED FINANCIAL STATEMENTS**

# Sporting Injuries Insurance

# Sporting Injuries Insurance Financial statements

for the year ended 30 June 2018

## Contents



## Notes to the financial statements

**SPORTING INJURIES SCHEME**

**Actuarial Certificate**
**Outstanding claims liabilities at 30 June 2018**

PricewaterhouseCoopers Consulting (Australia) Pty Ltd (PwC) has been contracted by Insurance & Care NSW (icare) acting for the Sporting Injuries Compensation Authority (SICA) to make estimates of the outstanding claims liabilities as at 30 June 2018 of the Sporting Injuries Scheme.

**Data**

PwC have relied on data supplied by icare without audit or independent verification. We did, however, review this information for reasonableness and internal consistency, where possible. The accuracy of our results is dependent upon the accuracy and completeness of the underlying data.

**Basis of Our Estimates**

The Sporting Injuries Scheme consists of the Sporting Injuries Insurance Scheme ("Main Scheme") and the Supplementary Sporting Injuries Benefits Scheme ("Supplementary Scheme"). For both schemes, we have made central estimates of the outstanding claims liabilities, meaning that our assumptions have been selected to yield estimates that are not knowingly above or below the ultimate liabilities. Our estimates include allowances for future investment returns and claims handling expenses.

Our recommended outstanding claims liabilities provision for the Main Scheme consists of the central estimate of the outstanding claims liabilities and risk margins for a 75% probability of adequacy.

Our recommended outstanding claims liabilities provision for the Supplementary Scheme consists of only the central estimate of the outstanding claims liabilities. We have not included any allowance for a risk margin for the Supplementary Scheme as instructed by icare.

**Valuation Results**

The PwC estimated outstanding claims liabilities provision as at 30 June 2018 for the Main Scheme is $1.56 million. For the Supplementary Scheme, the estimated outstanding claims liabilities as at 30 June 2018 is $0.23 million.

The following table summarises the outstanding claims liabilities.

| | Main Scheme | Supplementary Scheme | Total |
|---|---|---|---|
| | $000 | $000 | $000 |
| Central estimate | 900 | 195 | 1,096 |
| Expenses | 180 | 39 | 219 |
| Risk margin | 481 | Not Included | 481 |
| Outstanding claims liability | 1,561 | 234 | 1,795 |

It is a decision for the SICA as to the amount adopted in the accounts.

***PricewaterhouseCoopers Consulting (Australia) Pty Ltd, ABN 20 607 773 295***
*One International Towers Sydney, Watermans Quay, Barangaroo NSW 2000,*
*GPO BOX 2650 Sydney NSW 2001*
*T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au*

**Uncertainty**

There is a limitation upon the accuracy of the estimates in this certificate in that there is an inherent uncertainty in any estimate of insurance liabilities. This is due to the fact that the ultimate liability is subject to the outcome of events yet to occur. These include, but are not limited to, the number of participants accepted into the scheme and the injury profile of those participants.

In our judgement, we have employed techniques and assumptions that are appropriate, and we believe the conclusions presented herein are reasonable, given the information currently available.

**Valuation Report**

Full details of data, methodology, assumptions and results are set out in our valuation report dated 30 August 2018.

**Relevant Standards**

Our estimates and reports were prepared in compliance with the Actuaries Institute's Professional Standard 300, which relates to estimation of outstanding claims liabilities.

icare have informed us that the financial statements for the Main Scheme are intended to comply with Accounting Standard AASB 1023 and those for the Supplementary Scheme are intended to comply with Accounting Standard AASB 137. The latter requires the determination of a best estimate. For both the Main Scheme and the Supplementary Scheme we have been instructed by icare to prepare a central estimate and our report includes the determination of a risk margin intended to achieve higher probabilities of adequacy.

Andrew Smith
FIAA
30 August 2018

Gavin Moore
FIAA
30 August 2018

# Statement by the chairman and chief executive officer

for the year ended 30 June 2018

**Sporting Injuries Compensation Authority**

**Certificate under Section 41C(1B) and 41C(1C) of the *Public Finance and Audit Act 1983* and Clause 7 of the *Public Finance and Audit Regulation 2015*.**

In the opinion of the Board of Directors:

1. the financial statements of Sporting Injuries Compensation Authority have been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2015* and the NSW Treasurer's Directions. They have also been prepared in accordance with Australian Accounting Standards (which include Australian Accounting Interpretations) and other authoritative pronouncements of the Australian Accounting Standards Board;

2. the financial statements for the year ended 30 June 2018 exhibit a true and fair view of the position and transactions of the Sporting Injuries Compensation Authority; and

3. the directors are not aware of any circumstances as at the date of this certificate which would render any particulars included in the financial statements misleading or inaccurate.

Signed on behalf of the Board of Directors of Insurance and Care NSW.

**Michael Carapiet**
**Chairman**
**Insurance and Care NSW**
**24 September 2018**

**John Nagle**
**Chief Executive Officer and**
**Managing Director**
**Sporting Injuries Compensation Authority &**
**Insurance and Care NSW**
**24 September 2018**

# INDEPENDENT AUDITOR'S REPORT

**Sporting Injuries Compensation Authority**

To Members of the New South Wales Parliament

## Opinion

I have audited the accompanying financial statements of the Sporting Injuries Compensation Authority (the Authority), which comprise the Statement of Comprehensive Income for the year ended 30 June 2018, the Statement of Financial Position as at 30 June 2018, the Statement of Changes in Equity and the Statement of Cash Flows for the year then ended, notes comprising accounting policies and other explanatory information.

In my opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 30 June 2018, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards
- are in accordance with section 41B of the *Public Finance and Audit Act 1983* (PF&A Act) and the Public Finance and Audit Regulation 2015.

My opinion should be read in conjunction with the rest of this report.

## Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under the standards are described in the 'Auditor's Responsibilities for the Audit of the Financial Statements' section of my report.

I am independent of the Authority in accordance with the requirements of the:

- Australian Auditing Standards
- Accounting Professional and Ethical Standards Board's APES 110 'Code of Ethics for Professional Accountants' (APES 110).

I have fulfilled my other ethical responsibilities in accordance with APES 110.

Parliament promotes independence by ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of public sector agencies
- precluding the Auditor-General from providing non-audit services.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

**Level 15, 1 Margaret Street, Sydney NSW 2000** | GPO Box 12, Sydney NSW 2001 | **t** 02 9275 7101 | **f** 02 9275 7179 | **e** mail@audit.nsw.gov.au | **audit.nsw.gov.au**

## Other Information

Other information comprises the information included in the Authority's annual report for the year ended 30 June 2018, other than the financial statements and my Independent Auditor's Report thereon. The Chief Executive Officer of the Authority is responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprise the Statement by the Chairman and Chief Executive Officer.

My opinion on the financial statements does not cover the other information. Accordingly, I do not express any form of assurance conclusion on the other information.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude there is a material misstatement of the other information, I must report that fact.

I have nothing to report in this regard.

## The Chief Executive Officer's Responsibilities for the Financial Statements

The Chief Executive Officer is responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards and the PF&A Act, and for such internal control as the Chief Executive Officer determines is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Executive Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting except where the Authority will be dissolved by an Act of Parliament or otherwise cease operations.

## Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to:

- obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions users take based on the financial statements.

A description of my responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_responsibilities/ar4.pdf. The description forms part of my auditor's report.

My opinion does *not* provide assurance:

- that the Authority carried out its activities effectively, efficiently and economically
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.

D Daniels

David Daniels
Director, Financial Audit Services

2 October 2018
SYDNEY

# Statement of comprehensive income

for the year ended 30 June 2018

| | Notes | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|---|
| | | | |
| **Gross written premium** | | 761 | 759 |
| Unearned premium movement | | (14) | 27 |
| **Gross earned premium** | | **747** | **786** |
| Hindsight adjustments | | (6) | - |
| **Net earned premium (a)** | | **741** | **786** |
| Net Claims expense | 2.2 | 2 | (448) |
| Unexpired risk liability expense | 2.3.6.2 | (3) | (28) |
| **Net claims expense (b)** | | **(1)** | **(476)** |
| Underwriting and other expenses (c) | 2.3.7 | (271) | (307) |
| **Underwriting result (a+b+c)** | | **469** | **3** |
| Investment Revenue | 3.1 | 158 | 163 |
| Investment management expenses | 3.1 | (46) | (79) |
| Net investment revenue | | 112 | 84 |
| Levies | 5.2 | 49 | 43 |
| **Net result** | | **630** | **130** |
| **Other comprehensive income** | | | |
| Items that will not be reclassified to net result | | - | - |
| **Total Other comprehensive income** | | - | - |
| | | | |
| **TOTAL COMPREHENSIVE INCOME** | | **630** | **130** |

The accompanying notes form part of these financial statements.

# Statement of financial position

as at 30 June 2018

| | Notes | 2018 $'000 | 2017 $'000 |
|---|---|---|---|
| | | | |
| **ASSETS** | | | |
| Cash and cash equivalents | 5.1 | 628 | 379 |
| Investments | 3.2 | 3,877 | 4,128 |
| Receivables | 2.3.8 | 237 | 274 |
| **Total Assets** | | **4,742** | **4,781** |
| | | | |
| **LIABILITIES** | | | |
| Payables | 2.3.9 | 120 | 243 |
| Unearned premium | 2.3.6.1 | 412 | 399 |
| Unexpired risk | 2.3.6.2 | 31 | 28 |
| Provision for outstanding claims | 2.3.1 | 1,561 | 2,123 |
| **Total Liabilities** | | **2,124** | **2,793** |
| | | | |
| **Net Assets** | | **2,618** | **1,988** |
| | | | |
| **EQUITY** | | | |
| Accumulated funds | | 2,618 | 1,988 |
| **Total Equity** | | **2,618** | **1,988** |

The accompanying notes form part of these financial statements.

# Statements of changes in equity

for the year ended 30 June 2018

| | Accumulated funds $'000 |
|---|---|
| | |
| **Balance at 1 July 2017** | 1,988 |
| | |
| Net result for the year | 630 |
| | |
| Other comprehensive income | - |
| | |
| **Total other comprehensive income** | - |
| | |
| **Total comprehensive income for the year** | **630** |
| | |
| | |
| **Balance at 30 June 2018** | **2,618** |
| **Balance at 1 July 2016** | 1,858 |
| | |
| Net result for the period | 130 |
| | |
| Other comprehensive income | - |
| | |
| **Total other comprehensive income** | - |
| | |
| **Total comprehensive income for the period** | **130** |
| | |
| **Balance at 30 June 2017** | **1,988** |

The accompanying notes form part of these financial statements.

# Statement of cash flows

for the year ended 30 June 2018

| | Notes | 2018 $'000 | 2017 $'000 |
|---|---|---|---|
| | | | |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Premiums received | | 752 | 787 |
| Claims paid | | (630) | (426) |
| **Net Cash Flow from Net premiums less claims** | | **122** | **361** |
| | | | |
| **Receipts** | | | |
| Proceeds from sale of Investments | | 4,870 | 107 |
| Levies received | | 72 | 21 |
| Interest received | | 74 | 141 |
| **Receipts Excluding Authority Activities** | | **5,016** | **269** |
| | | | |
| **Payments** | | | |
| Purchases of Investments | | (4,535) | (2,144) |
| Service fees | | (233) | (340) |
| Other payments | | (121) | (47) |
| **Payments Excluding Authority Activities** | | **(4,889)** | **(2,531)** |
| | | | |
| **NET CASH FLOWS FROM OPERATING ACTIVITIES** | 5.1 | **249** | **(1,901)** |
| | | | |
| Opening cash and cash equivalents | | 379 | 2,280 |
| | | | |
| **CLOSING CASH AND CASH EQUIVALENTS** | 5.1 | **628** | **379** |

The accompanying notes form part of these financial statements.

# Notes to the financial statements

for the year ended 30 June 2018

## 1. Overview

### 1.1 About the Scheme

Sporting Injuries Compensation Authority (the Authority) is a NSW government entity. The Authority is a not-for-profit entity (as profit is not its principal objective) and it has no cash generating units. The reporting entity is consolidated as part of the NSW Total State Sector Accounts.

The Authority manages the Sporting Injuries Insurance Scheme. The Scheme covers registered participants of sporting organisations for injury while engaged in specific activities or events. The Scheme provides capital lump sum benefits for injuries that lead to a prescribed percentage of permanent loss of use or fatality.

The Sporting Injuries Compensation Authority was established on 1 September 2015 in accordance with the *State Insurance and Care Governance Act 2015*.

icare was established on 1 September 2015 in accordance with the *State Insurance and Care Governance Act 2015*. Its functions include the monitoring of performance of the insurance or compensation schemes in respect of which it provides services. The Authority is one such scheme.

These financial statements for the year ended 30 June 2018 have been authorised for issue by the Chairman of the Board of icare and the Chief Executive Officer and Managing Director of the Authority on behalf of the Board of Directors of icare on 24 September 2018.

### 1.2 About this report

This Financial Report includes the consolidated financial statements of the Authority.

The Financial Report includes the four primary statements, namely the statement of comprehensive income (which comprises profit or loss and other comprehensive income), statement of financial position, statement of changes in equity and statement of cash flows as well as associated notes as required by Australian Accounting Standards. Disclosures have been grouped into the following categories in order to assist users in their understanding of the financial statements:

1. **Overview** contains information that impacts the Financial Report as a whole.
2. **Underwriting activities** brings together results and statement of financial position disclosures relevant to the Authority's insurance activities.
3. **Investment activities** includes results and statement of financial position disclosures relevant to the Authority's investments.
4. **Risk management** provides commentary on the Authority's exposure to various financial and capital risks, explaining the potential impact on the results and statement of financial position and how the Authority manages these risks.
5. **Other** includes additional disclosures required in order to comply with Australian Accounting Standards.

Where applicable within each note, disclosures are further analysed as follows:

- **Overview** provides some context to assist users in understanding the disclosures and the accounting policies relevant to an understanding of the numbers;
- **Disclosures** (both numbers and commentary) provides analysis of balances as required by Australian Accounting Standards; and
- **Critical accounting judgements and estimates** explains the key estimates and judgements applied by the Authority in determining the numbers.

The notes include information which the directors believe is required to understand the financial statements and is material and relevant to the operations, statement of financial position and results of the Authority.

Information is considered material and relevant if:

- the amount in question is significant because of its size or nature;
- it is important to assist in understanding the results of the Authority;
- it helps to explain the impact of significant changes in the Authority's business; or
- it relates to an aspect of the Authority's operations that is important to its future performance.

# Notes to the financial statements

for the year ended 30 June 2018

### 1.2.1 Basis of preparation

These financial statements are general purpose financial statements which have been prepared using the accrual basis of accounting and are in accordance with:

- requirements of the *Public Finance and Audit Act 1983* and the *Public Finance and Audit Regulation 2015*;
- applicable Australian Accounting Standards (which include Australian Accounting Interpretations); and
- the NSW Treasurer's directions.

These financial statements have been presented on a liquidity basis following receipt of an exemption from TC18-01 by NSW Treasury that statements are presented on a current and non-current basis.

All amounts are rounded to the nearest one thousand dollars and are expressed in Australian currency which is the functional currency of the reporting entity. Tables may not add in all instances due to rounding.

### 1.2.2 Statement of compliance

The financial statements and notes comply with Australian Accounting Standards, which include Australian Accounting Interpretations.

### 1.2.3 Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

Judgements, key assumptions and estimations management has made are disclosed in the relevant notes to the financial statements.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised. Actual results may differ from these estimates.

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following notes:

- Note 3 & 4 – Financial instruments;
- Note 2.3 – Outstanding Claims liability; and
- Note 2.3.7 - Unearned premiums and unexpired risk liability for outstanding claims.

### 1.2.4 Accounting for the Goods and Services Tax (GST)

The Authority is exempt from income tax under Division 50 of the *Income Tax Assessment Act 1997*.

Income, expenses and assets are recognised net of the amount of associated GST, except that the:

- amount of GST incurred by the Authority as a purchaser that is not recovered from the Australian Taxation Office is recognised as part of an asset's cost of acquisition or as part of an item of expense; and
- receivables and payables are stated with the amount of GST included.

Cash flows are included in the statement of cash flows on a gross basis. However, the GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the Australian Taxation Office are classified as operating cash flows.

# Notes to the financial statements

for the year ended 30 June 2018

### 1.2.5 Comparative information

Except when an Australian Accounting Standard permits or requires otherwise, comparative information is disclosed in respect of the previous reporting period for all amounts reported in the financial statements.

Where necessary, comparatives have been restated to conform to changes in presentation in the current year.

The following reclassifications have been made to the comparatives:

| Item | 30 June 2017 Revised $'000 | 30 June 2017 Original $'000 | Variance $'000 |
|---|---|---|---|
| | | | |
| **Statement of comprehensive income** | | | |
| Investment revenue | 84 | 163 | (79) |
| Underwriting and other expenses | (307) | - | (307) |
| Service fees | - | (284) | 284 |
| Other operating expenses | - | (102) | 102 |
| **Net Result** | (223) | (223) | - |
| **Statement of financial position** | | | |
| Cash and cash equivalents | 379 | 2,523 | (2,144) |
| Investments | 4,128 | 1,984 | 2,144 |
| **Net Assets** | 4,507 | 4,507 | - |

# Notes to the financial statements

for the year ended 30 June 2018

### 1.2.6 Accounting Standards issued but not yet effective

Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the reporting year ending 30 June 2018. The following new Standards will not have a material impact on the financial performance or position of the schemes:

- AASB 15, AASB 2014-5, AASB 2015-8 and AASB 2016-3 regarding *Revenue from Contracts with Customers*;
- AASB 16 regarding *Leases*;
- AASB 1058 *Income of Not-for-profit Entities*;
- AASB 2016-6 Amendments to Australian Accounting Standards - Applying AASB 9 with AASB 4 *Insurance Contracts;*
- AASB 2016-7 Amendments to Australian Accounting Standards - Deferral of AASB 15 for Not-for-Profit Entities;
- AASB 2016-8 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities;
- AASB 2017-1 Amendments to Australian Accounting Standards – Transfer of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments; and
- AASB 2017-3 Amendments to Australian Accounting Standards - Clarifications to AASB 4.

AASB 9 regarding *Financial Instruments* is being evaluated to assess if there is any impact on the financial performance or position of the Authority.

The Authority has commenced a program to assess the financial impact of AASB 17 *Insurance Contracts* on the financial results. This assessment will be concluded by June 2020.

## 2. Underwriting activities

**Overview**

This section provides analysis and commentary on the Authority's underwriting activities. Underwriting, in simple terms, is the agreement by the insurer to assume insurance risk in return for a premium paid by the insured. The underwriter assesses the quality of the risk and prices it accordingly.

### 2.1 Revenue

Premiums of the Sporting Injuries Insurance Scheme comprise amounts charged to sporting organisations declared to be members of the Scheme. Premiums are assessed on an estimate of the number of participants expected to register for the sporting year and on completion of that year adjustments are made in accordance with actual registrations.

Premium income is treated as earned from the date of attachment of risk. The earned portion of premiums received or receivable relating to the financial year is recognised as income.

# Notes to the financial statements

for the year ended 30 June 2018

## 2.2 Net Claims expense

**Overview**

The largest expense for an insurance entity is net claims, which is the difference between the net outstanding claims liability (Note 2.3) at the beginning and the end of the financial year plus any claims incurred and settled in the financial year and the movement in the unexpired risk liability.

Claims incurred is:

- the amount incurred on claims by the Authority during the year;
- plus the amount, which the consulting actuary has estimated as at 30 June 2018 as being the movement in the amount required to meet the cost of claims reported but not yet paid;
- claims incurred which are yet to be reported; and
- the escalation in reported and reopened claims.

There are no recoveries in the Sporting Injuries Insurance Scheme.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| Claims paid | 560 | 426 |
| Finance cost | 29 | 21 |
| Other movements in claims liabilities | (591) | 1 |
| **Net claims expense** | **(2)** | **448** |

| | 2018 | | | 2017 |
|---|---|---|---|---|
| | Current Year $'000 | Prior Years $'000 | Total $'000 | Total $'000 |
| **Direct business** | | | | |
| Gross claims incurred and related expenses – undiscounted | 517 | (546) | **(29)** | 466 |
| Discount and discount movement – gross claims incurred | (20) | 47 | **27** | (18) |
| **Net claims incurred** | **497** | **(499)** | **(2)** | **448** |

# Notes to the financial statements

for the year ended 30 June 2018

## 2.3 Net Outstanding claims liability

**Overview**

Provisions are recognised when the Authority has a present obligation as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

- The net outstanding claims liability comprises the elements described below:
- The net central estimate (Note 2.3.1). This is the provision for expected future claims payments and includes claims reported but not yet paid, claims incurred but which have not yet been reported (IBNR), claims incurred but not enough reported (known as IBNER) and estimated claims handling costs;
- Less an amount to reflect the discount to present value using risk-free rates of return. The net central estimate is discounted to present value recognising that the claim may not be settled for some time. The expected future payments are discounted to a present value at the reporting date using discount rates based on the market yields on Commonwealth Government securities; and
- Plus a risk margin (Note 2.3.2). A risk margin is added to reflect the inherent uncertainty in the net discounted central estimate of outstanding claims.

### 2.3.1 Discounted net outstanding claims

**Overview**

The provision for outstanding claims is actuarially determined. It is measured as the estimate of the expected future payments required to settle the present obligation at the reporting date, including the expenses associated with the settlement.

The expected future payments are estimated on the basis of the ultimate cost of the settling of claims, which is affected by factors arising during the period to settlement such as normal inflation and “superimposed inflation”. Superimposed inflation refers to factors such as trends in court awards, for example increases in the level and period of compensation for injury or above inflation increases in the cost of obtaining medical services.

# Notes to the financial statements

for the year ended 30 June 2018

### 2.3.1 Discounted net outstanding claims (continued)

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| Central Estimate | 940 | 1,312 |
| Claims handling costs | 188 | 262 |
| Risk margin | 502 | 646 |
| | | |
| **Outstanding claims liability– undiscounted** | **1,630** | **2,220** |
| Discount to present value | (69) | (97) |
| **Liability for Outstanding Claims – discounted** | **1,561** | **2,123** |
| | | |
| The movement in the net outstanding claims liability is: | | |
| At 1 July | 2,123 | 2,101 |
| Reconciliation of discounted risk margin under AIFRS | (137) | 30 |
| Effect of changes in experience and assumptions on claims occurring in prior years | (140) | (258) |
| Increase in claims incurred arising from claims occurring in current year | 345 | 676 |
| Claims payments during the year | (630) | (426) |
| **At 30 June** | **1,561** | **2,123** |

### 2.3.2 Risk Margin

**Overview**

A risk margin is determined by the Board to reflect the inherent uncertainty in the net discounted central estimate.

The risk margin and the net discounted central estimate are key inputs in the determination of the probability of adequacy, which is a statistical measure of the relative adequacy of the outstanding claims liability to ultimately be able to pay claims. For example, a 75 per cent probability of adequacy indicates that the net discounted central estimate is expected to be adequate seven and a half years in 10.

The overall risk margin was determined allowing for the relative uncertainty of the outstanding claims estimate. Uncertainty was analysed using stochastic modelling and also taking into account potential uncertainties relating to the actuarial models and assumptions, the quality of the underlying data used in the models, the general insurance environment, the underlying characteristics of business written and the impact of legislative reform.

The estimate of uncertainty is greater for long tailed classes when compared to short tailed classes due to the longer time until settlement of the outstanding claims.

# Notes to the financial statements

for the year ended 30 June 2018

### 2.3.2 Risk Margin (continued)

**Uncertainty in estimation process**

The estimated cost of claims includes direct expenses to be incurred in settling claims. The Authority takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of claims incurred but not reported ('IBNR') is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Authority, where more information about the claim event is generally available. IBNR claims may often not be apparent to the insured until many years after the incident giving rise to the claim. In calculating the estimated cost of unpaid claims the Authority uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

- the high level of severe injury claims reported in the latest accident years;
- the change in mix of sporting injuries over time;
- limitations of historical information;
- outcomes remain dependent on future events, including legislative, social and economic forces; and
- inherent volatility in the portfolio due to the small number of claims.

Uncertainty can also arise from the process of selecting a simplified model and assumptions since it is difficult to reflect reality completely in a model. Erroneous data can cause additional issues with selecting appropriate assumptions. The inherent randomness in the claims process means that experience can differ to expected even if the modeling and assumptions were perfect.

The assumptions regarding uncertainty were applied to the central estimates of the liability for the Sporting Injuries Insurance Scheme only and are intended to result in a 75 per cent probability of adequacy. The overall risk margin applied is 45 per cent (2017 41 per cent).

### 2.3.3 Core claims liability variables

**Overview**

The actuarial valuation at 30 June 2018 was performed by Pricewaterhouse Coopers (Australia) (PwC). The assumptions used by PwC in determining the outstanding claims liabilities as at 30 June 2018 were:

| | 2018 | 2017 |
|---|---|---|
| Claims handling expense | 20% | 20% |
| Discount rate | 2.2% | 2.2% |
| Inflation | 0% | 0% |
| Superimposed inflation | 0% | 0% |

Claims handling expense assumptions have been expressed as a claim cost as a percentage of claim payments. The expected cost to settle future claims has been applied to the projected payments to estimate the outstanding claims handling expense liability.

# Notes to the financial statements

for the year ended 30 June 2018

**Discount Rate**

Discount rates are derived from market yields on Commonwealth Government securities.

**Inflation**

No allowance has been made for future claims inflation. Past claims are fixed by the benefit schedules as specified by the *Sporting Injuries Insurance Act 1978* and the Authority has assumed that there are no future legislation changes that will affect the level of benefits paid in respect of past claims. The introduction of the *Sporting Injuries Regulation 2014* has had no impact on the level of benefits as it only changed the impairment thresholds for a person to qualify for benefits.

**Superimposed Inflation**

Superimposed inflation occurs due to non-economic effects such as court settlements increasing at a faster rate than wages or CPI inflation. As the benefits are fixed by legislation, the Authority has not made an allowance for superimposed inflation. Hence to the extent that they are present in the historic experience, the valuation methodology makes an implicit allowance for superimposed inflation in claims cost.

### 2.3.4 Impact of changes in key variables on the net outstanding claims liability

**Overview**

The Authority conducts a sensitivity analysis to quantify the exposure to risk of changes in the key underlying variables. The valuations included in the reported results are calculated using certain assumptions about these variables as disclosed above. The movement in any key variable will impact the performance and equity of the Authority. The tables below describe how a change in each assumption will affect the insurance liabilities and show an analysis of the sensitivity of the net result and equity to changes in these assumptions. There are no recoveries in the Sporting Injuries Insurance Scheme.

A sensitivity analysis of the key assumption changes for and their impact on the net central estimate is shown in the following tables:

| | Movement in variable | 2018 Impact on Net Result $'000 | 2018 Impact on Liabilities $'000 |
|---|---|---|---|
| | | | |
| Expenses | 5% | (65) | 65 |
| Expenses | (5%) | 65 | (65) |
| | | | |
| Discount rate | 1% | 29 | (29) |
| Discount rate | (1%) | (31) | 31 |

# Notes to the financial statements

for the year ended 30 June 2018

### 2.3.4 Impact of changes in key variables on the net outstanding claims liability (continued)

| | Movement in variable | 2017 Impact on Net Result $'000 | 2017 Impact on Liabilities $'000 |
|---|---|---|---|
| | | | |
| Expenses | 5% | (88) | 88 |
| Expenses | (5%) | 88 | (88) |
| | | | |
| Discount rate | 1% | 41 | (41) |
| Discount rate | (1%) | (43) | 43 |

**Weighted average expected term to settlement of the outstanding claims**

The weighted average expected term to settlement from the reporting date of the outstanding claims is estimated to be 1.96 years for the Scheme (2017- 2.5 years).

### 2.3.5 Claims development

**Overview**

A significant portion of the Authority's liabilities relate to claim liabilities of past years that will be settled in future years.

The following table shows the development of undiscounted outstanding claims relative to the ultimate expected claims for the most recent accident years for the Authority.

# Notes to the financial statements

for the year ended 30 June 2018

### 2.3.5 Claims development (continued)

| Accident year | 2008 $'000 | 2009 $'000 | 2010 $'000 | 2011 $'000 | 2012 $'000 | 2013 $'000 | 2014 $'000 | 2015 $'000 | 2016 $'000 | 2017 $'000 | 2018 $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Estimate of ultimate claims cost** | | | | | | | | | | | | |
| At end of accident year | - | - | - | - | 381 | 365 | 712 | 731 | 504 | 736 | 298 | 3,727 |
| One year later | - | - | - | 234 | 260 | 378 | 755 | 852 | 556 | 741 | - | 3,776 |
| Two years later | - | - | 363 | 231 | 320 | 385 | 679 | 753 | 375 | - | - | 3,106 |
| Three years later | | 329 | 441 | 203 | 308 | 541 | 570 | 766 | - | - | - | 3,158 |
| Four years later | 267 | 223 | 330 | 171 | 190 | 459 | 545 | - | - | - | - | 2,185 |
| Five years later | 249 | 206 | 342 | 146 | 194 | 427 | - | - | - | - | - | 1,564 |
| Six years later | 235 | 168 | 272 | 121 | 187 | - | - | - | - | - | - | 983 |
| Seven years later | 222 | 151 | 262 | 114 | - | - | - | - | - | - | - | 749 |
| Eight years later | 215 | 135 | 271 | - | - | - | - | - | - | - | - | 621 |
| Nine years later | 200 | 127 | - | - | - | - | - | - | - | - | - | 327 |
| Ten years and later | 200 | - | - | - | - | - | - | - | - | - | - | 200 |
| Current estimate of cumulative claims cost | 200 | 127 | 271 | 114 | 187 | 427 | 545 | 766 | 375 | 741 | 298 | 4,051 |
| Cumulative payments | (200) | (127) | (262) | (96) | (157) | (407) | (489) | (658) | (248) | (489) | 0 | (3,133) |
| **Outstanding claims – undiscounted** | - | - | 9 | 19 | 30 | 20 | 55 | 108 | 127 | 251 | 298 | 918 |
| | | | | | | | | | | | | |
| Discount | | | | | | | | | | | | (40) |
| 2007 and prior | | | | | | | | | | | | 22 |
| Claims handling expenses | | | | | | | | | | | | 180 |
| Outstanding claims excluding risk margin | | | | | | | | | | | | 1,080 |
| Risk Margin | | | | | | | | | | | | 481 |
| | | | | | | | | | | | | |
| Outstanding claims including risk margin | | | | | | | | | | | | **1,561** |

# Notes to the financial statements

for the year ended 30 June 2018

### 2.3.6 Unearned premium and unexpired risk liability

**Overview**

**Unearned premium**

Gross written premium is earned in profit or loss in accordance with the pattern of incidence of risk of the related business. The unearned premium liability is that portion of gross written premium that the Authority has not yet earned in profit or loss as it represents insurance coverage to be provided by the Authority after the balance date.

**Unexpired risk liability**

At the reporting date, a liability adequacy test (LAT) is performed by the Fund Actuaries for the Authority.

At the balance date, the Authority recognises a liability in respect of outstanding claims and assesses the adequacy of its unearned premium liability. As required under AASB 1023 *General Insurance Contracts*, a LAT is undertaken to determine the adequacy of the unearned premium liability against current estimates of the present value of the expected future cash flows relating to future claims arising from the rights and obligations under current insurance contracts.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| Unearned premium income | 412 | 399 |
| Unexpired risk liability | 31 | 28 |
| | **443** | **427** |

#### 2.3.6.1 Reconciliation of unearned premiums

A reconciliation of the carrying amount of unearned premiums at the beginning and end of the reporting periods is set out below.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| **Year ended 30 June** | | |
| Net carrying amount at start of year | 399 | 426 |
| Deferral of premiums written in current year | 760 | 759 |
| Premiums earned during the year | (747) | (786) |
| **Net carrying amount at end of year** | **412** | **399** |

# Notes to the financial statements

for the year ended 30 June 2018

### 2.3.6.2 Reconciliation of unexpired risk liability

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| Unexpired risk liability as at 1 July | 28 | - |
| Movement in the unexpired risk liability recognised in the statement of comprehensive income | 3 | 28 |
| **Unexpired risk liability as at 30 June** | **31** | **28** |

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| Unearned premium liability relating to contracts issued under the Sporting Injuries Insurance Scheme (A) | **412** | **399** |
| Central estimate of the present value of expected future cash flows arising from future claims on contracts issued under the Sporting Injuries Insurance Scheme | 296 | 285 |
| Risk Margin (75 per cent Probability of Sufficiency) | 147 | 142 |
| (B) | **443** | **427** |
| | | |
| **Unexpired risk liability (B)-(A) (zero minimum)** | **31** | **28** |

The process for determining the overall risk margin, including the way in which diversification of risks has been allowed for is discussed in Note 2.3.2. As with outstanding claims, the overall risk margin is intended to achieve a 75 per cent probability of adequacy.

### 2.3.7 Underwriting and other expenses

**Overview**

The Authority incurs a range of expenses in providing its underwriting services. Details of these expenses are;

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Service fees | 195 | 284 |
| Other | 6 | 1 |
| Audit fees for audit of financial statements | 70 | 22 |
| **Total underwriting and other expenses** | **271** | **307** |

# Notes to the financial statements

for the year ended 30 June 2018

### 2.3.7.1 Service fees

In accordance with the *State Insurance and Care Governance Act 2015* from 1 September 2015 the Authority receives services from Insurance and Care NSW (icare). Under the arrangement some of the Authority's costs are initially incurred by icare. These services include the provision of staff, claims handling, facilities, general business expenses and governance services.

The Authority's key management personnel are the Board of Directors of icare, the Chief Executive Officer of icare and their direct reports. All transactions with these key management personnel are included in the service fee paid to icare for those personnel remunerated by icare.

### 2.3.8 Trade and other receivables

**Overview**

Trade and other receivables are principally amounts owed to the Authority by policyholders or on investments. Investment receivables are amounts due from investment counterparties in settlement of transactions.

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These financial assets are recognised initially at fair value, usually based on the transaction costs or face value. Subsequent measurement is at amortised cost using the effective interest methods, less an allowance for any impairment of receivables. Any changes are recognised in the net result for the year when impaired, derecognised or through the amortisation process. Short term receivables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial.

Details regarding credit risk, liquidity risk, and market risk, including financial assets that are either past due or impaired, are disclosed in Note 4.

The collection of receivables is reviewed on an ongoing basis. An allowance for impairment is established when there is objective evidence that not all amounts due will be collectable. Bad debts are written off when there is objective evidence that the chance of collecting an amount is unlikely.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| Premiums and injury prevention levies receivable | 234 | 256 |
| Investments receivable | 3 | 2 |
| Interest | - | 2 |
| Other | - | 14 |
| **Total Receivables** | **237** | **274** |

### 2.3.9 Trade and other payables

**Overview**

Trade and other payables represent liabilities for services provided to the Authority prior to the end of financial year, which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

Payables are recognised initially at fair value, usually based on the transaction cost or face value. Short-term payables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial.

These amounts represent liabilities for goods and services provided to the Authority and other amounts. Payables are recognised initially at fair value, usually based on the transaction cost or face value. Subsequent measurement is at amortised cost using the effective interest method. Short-term payables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial.

# Notes to the financial statements

for the year ended 30 June 2018

The payables are recognised for amounts due to be paid in the future for goods or services received, whether or not invoiced. Amounts owing to suppliers (which are unsecured) are settled in accordance with the policy set out in Treasury Circular 11/12.

Details regarding credit risk, liquidity risk, and market risk, including a maturity analysis of the above payables are disclosed in Note 4.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| Accrued claims costs | - | 71 |
| Unearned Injury Prevention levies | 18 | 20 |
| Accrued Operating Expenses | 89 | 46 |
| Service fees payable | 13 | 64 |
| GST payable | - | 42 |
| **Total Payables** | **120** | **243** |

# 3. Investment activities

**Overview**

Investments in New South Wales Treasury Corporation's Funds (TCorpIM Funds) and the managed asset portfolio are designated as fair value through profit or loss. The investments within the Funds are unit holdings. The value of the Funds is based on the Authority's share of the value of the underlying assets of the Fund, based on the market value. All of the Funds are valued at redemption price.

The fair value quoted market price for similar instruments and the underlying value are provided by Portfolio manager, TCorp.

The movement in the fair value of the Funds incorporates distributions received as well as realised and unrealised movements in fair value and is reported as investment revenue in the statement of comprehensive income.

Purchases or sales of investments are recognised on the trade date i.e. the date the entity commits itself to purchase or sell the asset.

Refer to Note 4 for further information regarding fair value measurement, credit risk, liquidity risk and market risk arising from financial assets at fair value.

All investments are held to back insurance liabilities. As part of its investment strategy the Authority actively manages its investment portfolio to ensure that investment liquidity is in accordance with the expected pattern of future cash flows arising from insurance liabilities.

## 3.1 Investment income

**Overview**

Investment revenue includes interest income, distributions, realised and unrealised gains or loss. Interest income is recognised on an accrual basis.

Realised and unrealised gains or losses are recognised on a change in fair value basis.

Differences between the fair values of investments at the end of the reporting period and their fair values at the end of the previous reporting period (or cost of acquisition, if acquired during the reporting period) are recognised as revenue in the statement of comprehensive income.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| Distributions | 37 | 26 |
| TCorp Fixed variable interest discrete portfolio | - | 83 |
| Interest Income other | 36 | 29 |
| Realised gains /(losses) other | 80 | 7 |
| Unrealised gains /(losses) TCorp | 5 | 18 |
| **Total Investment income** | **158** | **163** |
| | | |
| Investment management expense | (46) | (79) |
| **Net Investment income** | **112** | **84** |

# Notes to the financial statements

for the year ended 30 June 2018

## 3.2 Investment assets and liabilities

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| Indexed and interest-bearing securities | 1,112 | 2,144 |
| TCorp IM Funds | 2,765 | 1,984 |
| **Total financial assets at fair value** | **3,877** | **4,128** |

All investments are held to fund outstanding claims liabilities.

Details regarding credit risk, liquidity risk, and market risk on investments are disclosed in Note 4.

Investments are held for trading.

## 3.3 Fair value estimation

**Overview**

The carrying amounts of the Authority's financial assets and liabilities at the end of the reporting period approximated their fair values as all financial assets and liabilities held were either at fair value at the end of the reporting period ('marked to market') or were short term in nature.

The Authority uses the following hierarchy for disclosing the fair value of financial instruments by valuation technique:

- Level 1 – derived from quoted prices in active markets for identical assets / liabilities that the entity can access at measurement date;
- Level 2 – derived from inputs other than quoted prices that are observable directly or indirectly; and
- Level 3 – derived from valuation techniques that include inputs for the asset / liability not based on observable market data (unobservable inputs).

# Notes to the financial statements

for the year ended 30 June 2018

### 3.3 Fair value estimation (continued)

| | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'000 |
|---|---|---|---|---|
| **2018** | | | | |
| Financial assets at fair value | | | | |
| Indexed and interest-bearing securities | 1,112 | - | - | 1,112 |
| TCorpIM Funds | - | 2,765 | - | 2,765 |
| **Total** | **1,112** | **2,765** | **-** | **3,877** |
| **2017** | | | | |
| Financial assets at fair value | | | | |
| Indexed and interest-bearing securities | 1,084 | 1,060 | - | 2,144 |
| TCorpIM Funds | - | 1,984 | - | 1,984 |
| **Total** | **1,084** | **3,044** | **-** | **4,128** |

(The tables above include only financial assets, as no financial liabilities were measured at fair value in the statement of financial position).

The value of the Investments is based on the entity's share of the value of the underlying assets of the fund, based on the market value. All of the facilities are valued using 'redemption' pricing.

**Transfer between levels**

The Authority recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the transfer has occurred. There were no transfers during the year ended 30 June 2018 (Nil- 2017).

## 4. Risk Management

**Overview**

The Authority applies a consistent and integrated approach to enterprise risk management (ERM). The Authority operates within icare's risk management framework which sets out the approach to managing key risks and meeting strategic objectives. The risk management framework is articulated in the Risk Management Strategy (RMS) which is approved annually by the Board.

The icare Board is ultimately responsible for identifying and controlling financial risks. This is done through the establishment of holistic strategies and policies which are cognisant of financial risk management.

The framework consists of complementary elements that are embedded throughout the business management cycle and culture of the organisation. Key aspects include: risk appetite, governance, risk reporting and insights, modelling and stress testing, management, monitoring and culture.

Risk management is a continuous process and an integral part of robust business management. The Authority's approach is to integrate risk management into the broader management processes of the organisation. It is the Authority's philosophy to ensure that risk management remains embedded in the business and that the risk makers or risk takers are themselves the risk managers. Specifically, the management of risk must occur at each point in the business management cycle.

# Notes to the financial statements

for the year ended 30 June 2018

## 4. Risk Management (continued)

The key risk categories used by the Authority to classify financial risk:

- Insurance risk (Note 4.1);
- Market risk (Note 4.2);
- Interest rate risk (Note 4.3);
- Other price risk (Note 4.4);
- Liquidity risk (Note 4.5); and
- Credit risk (Note 4.6).

In accordance with the *State Insurance and Care Governance Act 2015* the Board of Insurance and Care NSW has overall responsibility for the establishment and oversight of risk management and reviews and agrees policies for managing each of these risks. Risk management policies are established to identify and analyse the risks faced by the Authority, to set risk limits and controls and to monitor risk. Compliance with policies is reviewed by sub Committees of the Board on a continual basis.

NSW Treasury Corporation (TCorp) has been appointed to provide investment management, advisory and administration services to icare managed investment funds. TCorp is engaged through a Master Financial Services Agreement (MFSA) which details, amongst other things, the service and reporting provisions. Service levels and compliance to the MFSA are monitored through icare's Finance & Services team. Ministerial Orders that were introduced in December 2016, outline the key responsibilities of TCorp including, yet not limited to, the appointment of investment managers and service providers such as the custodian.

The Authority's principal financial instruments are outlined below. These financial instruments arise directly from the Authority's operations and are required to finance these operations. The Authority does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The main purpose of these financial instruments is to derive income and investment gains which are used to fund insurance liabilities.

**Financial instrument categories**

| | Note | Category | 2018 $'000 | 2017 $'000 |
|---|---|---|---|---|
| **Financial Assets** | | | | |
| Cash and cash equivalents | 5.1 | N/A | 628 | 379 |
| Receivables[1] | 2.3.8 | Loans and receivables at amortised cost | 237 | 250 |
| | | | | |
| Investments | 3.2 | At fair value through profit or loss | 3,877 | 4,128 |
| **Financial Liabilities** | | | | |
| Payables[2] | 2.3.9 | Financial liabilities measured at amortised cost | 102 | 181 |

[1] Excludes statutory receivables and prepayments (i.e. not within the scope of AASB 7).
[2] Excludes statutory payables and unearned revenue (i.e. not within scope of AASB 7).

# Notes to the financial statements

for the year ended 30 June 2018

## 4.1 Insurance Risk

**Overview**

Insurance risk is the risk of fluctuations in the timing, frequency and severity of insured events and claims settlements, relative to expectations. Key drivers of insurance risk include natural or man-made catastrophic events, pricing of insurance contracts, reserving and insurance claims.

## 4.2 Market risk

**Overview**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Authority's exposures to market risk are primarily through other price risk associated with the movement in the unit price of the TCorpIM Funds.

The effect on net result and equity due to a reasonably possible change in risk variable is outlined in the information below, for interest rate risk and other price risk (refer Note 4.4). A reasonably possible change in risk variable has been determined after taking into account the economic environment in which the Authority operates and the time frame for the assessment (i.e. until the end of the next annual reporting year). The sensitivity analysis is based on risk exposures in existence at the statement of financial position date. The analysis assumes that all other variables remain constant.

## 4.3 Interest rate risk

**Overview**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Exposure to interest rate risk arises primarily through the Authority's cash deposits held at other financial institutions. TCorp manages the portfolio to agreed benchmarks to minimise the fair value interest rate risk.

The following table provides the sensitivity analysis of interest rate risk affecting applicable financial assets on the operating result and equity of the Authority. A reasonably possible change of +/- 1 per cent is used, consistent with current trends in interest rates (based on official RBA interest rate volatility over the last five years). The basis will be reviewed annually and amended where there is a structural change in the level of interest rate volatility.

| | Carrying Amount $'000 | -1% Profit $'000 | -1% Equity $'000 | +1% Profit $'000 | +1% Equity $'000 |
|---|---|---|---|---|---|
| | | | | | |
| **2018** | | | | | |
| Cash and cash equivalents | 628 | (6) | (6) | 6 | 6 |
| **2017** | | | | | |
| Cash and cash equivalents | 379 | (4) | (4) | 4 | 4 |

# Notes to the financial statements

for the year ended 30 June 2018

## 4.4 Other price risk

**Overview**

Exposure to "other price risk" primarily arises through the investment in the TCorpIM Funds which are held for strategic rather than trading purposes. The Authority has no direct equity investments. The Authority holds units in the following Funds:

| TCorpIM Fund | Investment Section | Investment Horizon | 2018 $'000 | 2017 $'000 |
|---|---|---|---|---|
| | | | | |
| Cash | Cash and money market instruments | Up to 1.5 years | 3,877 | 1,060 |
| Australian equities | Australian shares | 7 years and over | - | 205 |
| International equities hedged | International shares | 7 years and over | - | 84 |
| International equities unhedged | International shares | 7 years and over | - | 205 |
| Emerging market equities | Emerging market shares | 7 years and over | - | 82 |
| Listed property | Listed property | 7 years and over | - | 123 |
| Multi asset | Multi asset class | 7 years and over | - | 124 |
| Bonds | Bonds | 7 years and over | - | 2,245 |

The unit price of each fund is equal to the total fair value of net assets held by the fund divided by the number of units on issue for that fund. Unit prices are calculated and published daily.

TCorp as trustee for each of the above funds is required to act in the best interest of the unit holders and to administer the trusts in accordance with the trust deeds. As trustee, TCorp has appointed external managers to manage the performance and risks of each facility in accordance with a mandate agreed by the parties. TCorp's Cash and Fixed Income Investments team also manages certain cash and fixed income assets for the Funds. A significant portion of the administration of the funds is outsourced to an external custodian.

Investment in the funds limits the Authority's exposure to risk, as it allows diversification across a pool of funds, with different investment horizons and a mix of investments.

TCorp provides sensitivity analysis information for each of the investment funds, using historically based volatility information collected over a ten-year year, quoted at two standard deviations (i.e. 95 per cent probability). The TCorp investment funds are designated at fair value through profit or loss and therefore any change in unit price impacts directly on profit (rather than equity). A reasonably possible change is based on the percentage change in unit price (as advised by TCorp) multiplied by the redemption value as at 30 June each year for each fund (balance from investment fund statement).

# Notes to the financial statements

for the year ended 30 June 2018

## 4.4 Other price risk (continued)

| TCorpIM Fund | | Change in Unit Price 2018 % | Impact on Net Result 2018 $'000 | Change in Unit Price 2017 % | Impact on Net Result 2017 $'000 |
|---|---|---|---|---|---|
| | | | | | |
| Cash | +/- | 1 | 39 | 1 | 11 |
| Australian shares sector | +/- | 27 | - | 28 | 57 |
| International shares hedged sector | +/- | 14 | - | 15 | 13 |
| International shares unhedged sector | +/- | 23 | - | 25 | 51 |
| Emerging market shares sector | +/- | 19 | - | 19 | 15 |
| Listed property sector | +/- | 37 | - | 38 | 47 |
| Australian Bond sector | +/- | 6 | - | 6 | 135 |
| Multi asset class sector | +/- | 9 | - | 9 | 11 |

# Notes to the financial statements

for the year ended 30 June 2018

## 4.5 Liquidity risk

**Overview**

Liquidity risk is the risk of insufficient liquid assets to meet liabilities as they fall due. The Authority's liquidity risk arises due to the nature of insurance activities where the timing and amount of cash outflows are uncertain.

The Authority continuously manages risk through monitoring of future cash flows and maturities planning to ensure adequate holding of high quality liquid assets. The objective is to maintain a balance between continuity of funding and flexibility through the use of overdrafts, loans and other advances, if applicable.

The Authority does not have any loans payable and no assets have been pledged as collateral. The Authority's exposure to liquidity risk is deemed insignificant based on current assessment of risk.

The liabilities are recognised for amounts due to be paid in the future for goods or services received, whether or not invoiced. Amounts owing to suppliers (which are unsecured) are settled in accordance with the policy set out in NSW Treasury Circular 11/12.

The table below summarises the maturity profile of the Authority's financial liabilities, together with the interest rate exposure.

**Maturity analysis and interest rate exposure of financial liabilities**

| | Weighted Average Effective Interest Rate | Nominal Amount (1) $'000 | Interest Rate Exposure $'000 | | | Maturity Dates $'000 | | |
|---|---|---|---|---|---|---|---|---|
| | | | Fixed rate | Variable rate | Non-interest bearing | <1 year | 1-5 years | >5 years |
| **2018** | **%** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** |
| Payables | N/A | 102 | - | - | 102 | 102 | - | - |
| **2017** | | | | | | | | |
| Payables | N/A | 181 | - | - | 181 | 181 | - | - |

Notes:
1. The amounts disclosed are the contractual undiscounted cash flows of each class of financial liabilities based on the earliest date on which the Authority can be required to pay. The tables include both interest (if applicable) and principal cash flows and therefore may not reconcile to the statement of financial position.

# Notes to the financial statements

for the year ended 30 June 2018

## 4.6 Credit risk

**Overview**

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Credit risk arises from the financial assets of the Authority, which comprise cash and cash equivalents, receivables and financial assets at fair value. No collateral is held by the Authority. The Authority has not granted any financial guarantees. The Authority's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments at balance date.

Financial assets and liabilities arising from insurance contracts are stated in the statement of financial position at the amount that best represents the maximum credit risk exposure at balance date.

Credit risk associated with the Authority's financial assets, other than receivables, is managed through the selection of counterparties and establishment of minimum credit rating standards. The Authority's exposure to credit risk is considered to be minimal.

### 4.6.1 Cash

Cash comprises cash on hand, balances held at private financial institutions, term deposits with a maturity of less than 3 months and bank balances within the NSW Treasury Banking System. Interest is earned on daily bank balances on funds in the NSW Treasury Banking System at the Reserve Bank of Australia's prevailing cash rate. The TCorpIM Cash Fund is discussed in Note 4.4.

### 4.6.2 Receivables – trade debtors

Collectability of trade debtors is reviewed on an ongoing basis. Procedures have been established to recover outstanding amounts, including letters of demand. Debts which are known to be uncollectible are written off. An allowance for impairment is raised when there is objective evidence that the Authority will not be able to collect the amount due. This evidence includes past experience, and current and expected changes in economic conditions and debtor credit ratings. Sales are made on 30 day terms.

There were no debtors past due or considered impaired at 30 June 2018 (30 June 2017- Nil).

There are no debtors past due or impaired whose terms have been re-negotiated.

### 4.6.3 Financial assets at fair value

Financial assets at fair value include investments in TCorp's Funds and the managed assets portfolio. The investments within the Funds are unit holdings, and as such, do not give rise to credit risk. Credit risk within the Funds is managed by ensuring there is a wide spread of risks. TCorp, as trustee, contracts with specialist investment managers and requires the mandates to include a series of controls over the concentration and credit quality of assets.

# Notes to the financial statements

for the year ended 30 June 2018

## 5. Other

**Overview**

This section includes other information that must be disclosed to comply with the Australian Accounting Standards.

### 5.1 Cash and cash equivalents

**Overview**

Cash and cash equivalents include cash at bank and short term money market investments held at TCorp.

For the purposes of the statement of cash flows, cash and cash equivalents includes cash at bank and on hand, term deposits with a maturity of less than 3 months and highly liquid investments.

| | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|
| | | |
| Cash at bank and on hand | 623 | 374 |
| Short term deposits | | |
| - Cash Other | 5 | 5 |
| | **628** | **379** |

Cash and cash equivalent assets recognised in the statement of financial position are reconciled at the end of the financial year to the statement of cash flows as follows:

| | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|
| | | |
| Cash and cash equivalent assets (per statement of financial position) | 628 | 379 |
| **Closing cash and cash equivalents (per statement of cash flows)** | **628** | **379** |

Refer to Note 4 for further information regarding credit risk, liquidity risk and market risk arising from financial instruments.

Reconciliation of Net Cash Flows from Operating Activities to Net Result

# Notes to the financial statements

for the year ended 30 June 2018

| | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|
| | | |
| Net cashflows from operating activities | 249 | (1,901) |
| Net cashflows from investment operating activities | (250) | 2,062 |
| Change in assets and liabilities | | |
| Increase/(Decrease) in receivables | (38) | 6 |
| Decrease/(Increase) in payables | 123 | (14) |
| Decrease/(increase) in unearned premium income | (13) | 27 |
| (Increase) in unexpired risk | (3) | (28) |
| Decrease/ (Increase) in provisions for outstanding claims | 562 | (22) |
| **Net result** | **630** | **130** |

## 5.2 Levies

**Overview**

During 2002/03 the Parliament approved a major amendment to the *Sporting Injuries Insurance Act 1978* which enables declared sporting organisations under the Act to apply for, and be granted an insurance exemption for a private scheme rather than participate in the Sporting Injuries Insurance Scheme.

Levy income is treated as income from the date the levy year commences. The portion of levies received or receivable relating to the financial year is recognised as income.

| | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|
| | | |
| Injury Prevention Levies | 49 | 43 |
| | **49** | **43** |

## 5.3 Contingent liabilities and contingent assets

The Authority does not have any known contingent liabilities or assets at reporting date.

**End of Audited Financial Statements**

# BIG Corp

# BIG Corp Financial statements

for the year ended 30 June 2018

## Contents



## Notes to the financial statements

finity
Actuarial and Insurance Consultants

# Actuarial Certificate
# Outstanding Claims Liabilities at 30 June 2018

Finity Consulting Pty Ltd (Finity) has been contracted by Insurance & Care NSW (icare) to estimate the outstanding claims liabilities of the Building Insurers' Guarantee Corporation (BIG Corp) as at 30 June 2018.

## Data

Finity has relied on the completeness and accuracy of the data provided by icare for this valuation. We have also placed significant reliance on the information provided for previous valuations undertaken for BIG Corp. We have not independently audited the data but it was reviewed for reasonableness and internal consistency. The accuracy of our results is dependent on the accuracy and completeness of the underlying data.

## Basis of our Estimates

We have made central estimates of the outstanding claims liabilities; this means that the valuation assumptions have been selected such that our estimates of these liabilities contain no deliberate overstatement or understatement. Our estimates:

- Are discounted, using a risk-free discount rate, to allow for the time value of money
- Contain an allowance for associated claims handling expenses.

Given the inherent uncertainty in any central estimate of insurance liabilities, icare may choose to hold an additional margin when reporting the provision in the accounts. Furthermore, icare can decide on the level of margin to hold in the accounts. We understand that under icare's policy, the accounting provision for BIG Corp is required to be a central estimate, i.e. with a zero risk margin.

## Valuation Results

Finity estimates the outstanding claims liability for BIG Corp to be $13.8 million. The components of the outstanding claims liability are shown in Table 1.

**Table 1 – Outstanding Claims Liability at 30 June 2018**

| | |
|---|---|
| Undiscounted: | |
| Case Estimates | 16,966 |
| Adjustments[1] | (4,257) |
| Future Development | 690 |
| Sub Total | 13,399 |
| CHE | 670 |
| Undiscounted Total | 14,069 |
| | |
| Discounting | (278) |
| Discounted Total | 13,791 |

1 Removing case estimates held on closed claims (#1538 and #2898)

It is a decision for icare to determine the amount adopted in the accounts.

Tue 31 July 2018 9:21 AM
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finity

Actuarial and Insurance Consultants

## Uncertainty

There is inherent uncertainty in estimates of outstanding claims liabilities. Claims outcomes remain dependent on future events, including legislative, social and economic forces. A key source of the uncertainty in the valuation is that as the BIG Corp scheme is now deep into run-off, individual large claims drive the outcome.

We have prepared our estimates on the basis that they represent our current assessment of the likely future experience of BIG Corp. However, potentially material deviations of the actual experience from our estimates are normal and to be expected.

## Reports

Full details of data, analysis and results for the valuation of BIG Corp's claims liabilities are set out in a letter titled "Review of the Building Insurers' Guarantee Corporation at 30 June 2018", dated 31 July 2018.

## Relevant Standards

Our estimates and letter are prepared in accordance with Australian Accounting Standard AASB137 and the Actuaries Institute's Professional Standard 300.

Yours sincerely

Kane Boulton | Stephen Lee

**Fellows of the Institute of Actuaries of Australia**

31 July 2018

# Statement by the chairman and chief executive officer

for the year ended 30 June 2018

**Building Insurers' Guarantee Corporation**

**Certificate under Section 41C(1B) and 41C(1C) of the *Public Finance and Audit Act 1983* and Clause 7 of the Public *Finance and Audit Regulation 2015*.**

In the opinion of the Board of Directors:

1. the financial statements of the Building Insurers' Guarantee Corporation have been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2015* and the Treasurer's Directions. They have also been prepared in accordance with Australian Accounting Standards (which include Australian Accounting Interpretations) and other authoritative pronouncements of the Australian Accounting Standards Board;
2. the financial statements for the year ended 30 June 2018 exhibit a true and fair view of the position and transactions of the Building Insurers' Guarantee Corporation; and
3. the directors are not aware of any circumstances as at the date of this certificate which would render any particulars included in the financial statements misleading or inaccurate.

Signed on behalf of the Board of Directors of Insurance and Care NSW.

**Michael Carapiet**
**Chairman**
**Insurance and Care NSW**
**24 September 2018**

**John Nagle**
**Chief Executive Officer and**
**Managing Director**
**Building Insurers' Guarantee Corporation and**
**Insurance and Care NSW**
**24 September 2018**

# INDEPENDENT AUDITOR'S REPORT

**Building Insurers' Guarantee Corporation**

To Members of the New South Wales Parliament

## Opinion

I have audited the accompanying financial statements of the Building Insurers' Guarantee Corporation (the Corporation), which comprise the Statement of Comprehensive Income for the year ended 30 June 2018, the Statement of Financial Position as at 30 June 2018, the Statement of Changes in Equity and the Statement of Cash Flows for the year then ended, notes comprising accounting policies and other explanatory information.

In my opinion, the financial statements:

- give a true and fair view of the financial position of the Corporation as at 30 June 2018, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards
- are in accordance with section 41B of the *Public Finance and Audit Act 1983* (PF&A Act) and the Public Finance and Audit Regulation 2015.

My opinion should be read in conjunction with the rest of this report.

## Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under the standards are described in the 'Auditor's Responsibilities for the Audit of the Financial Statements' section of my report.

I am independent of the Corporation in accordance with the requirements of the:

- Australian Auditing Standards
- Accounting Professional and Ethical Standards Board's APES 110 'Code of Ethics for Professional Accountants' (APES 110).

I have fulfilled my other ethical responsibilities in accordance with APES 110.

Parliament promotes independence by ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of public sector agencies
- precluding the Auditor-General from providing non-audit services.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

**Level 15, 1 Margaret Street, Sydney NSW 2000** | GPO Box 12, Sydney NSW 2001 | **t** 02 9275 7101 | **f** 02 9275 7179 | **e** mail@audit.nsw.gov.au | **audit.nsw.gov.au**

## Other Information

Other information comprises the information included in the Corporation’s annual report for the year ended 30 June 2018, other than the financial statements and my Independent Auditor’s Report thereon. The Chief Executive Officer of the Corporation is responsible for the other information. At the date of this Independent Auditor’s Report, the other information I have received comprise the Statement by the Chairman and Chief Executive Officer.

My opinion on the financial statements does not cover the other information. Accordingly, I do not express any form of assurance conclusion on the other information.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude there is a material misstatement of the other information, I must report that fact.

I have nothing to report in this regard.

## The Chief Executive Officer’s Responsibilities for the Financial Statements

The Chief Executive Officer is responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards and the PF&A Act, and for such internal control as the Chief Executive Officer determines is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Executive Officer is responsible for assessing the Corporation’s ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting except where the Corporation will be dissolved by an Act of Parliament or otherwise cease operations.

## Auditor’s Responsibilities for the Audit of the Financial Statements

My objectives are to:

- obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error
- issue an Independent Auditor’s Report including my opinion.

Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions users take based on the financial statements.

A description of my responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_responsibilities/ar4.pdf. The description forms part of my auditor’s report.

My opinion does *not* provide assurance:

- that the Corporation carried out its activities effectively, efficiently and economically
- about the assumptions used in formulating the budget figures disclosed in the financial statements
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.

David Daniels
Director, Financial Audit Services

2 October 2018
SYDNEY

# Statement of comprehensive income

for the year ended 30 June 2018

| | Notes | 2018 $'000 | 2017 $'000 |
|---|---|---|---|
| | | | |
| **Revenue** | | | |
| Recoveries | 2.1 | - | 193 |
| Interest income | 4.1 | 834 | 928 |
| **Total Revenue** | | **834** | **1,121** |
| | | | |
| **Expenses** | | | |
| Claims(released) | 2.2 | (5,899) | (1,596) |
| Service fees | 4.2 | 169 | 223 |
| Other expenses | 4.2 | 34 | 25 |
| **Total expenses** | | **(5,696)** | **(1,348)** |
| | | | |
| **Net result** | | **6,530** | **2,469** |
| | | | |
| **Other comprehensive income** | | **-** | **-** |
| | | | |
| **TOTAL COMPREHENSIVE INCOME** | | **6,530** | **2,469** |

The accompanying notes form part of these financial statements.

# Statement of financial position

as at 30 June 2018

| | Notes | 2018 $'000 | 2017 $'000 |
|---|---|---|---|
| | | | |
| **Assets** | | | |
| Cash and cash equivalents | 4.3 | 49,126 | 60,523 |
| Receivables | 4.4 | 85 | 536 |
| **Total Assets** | | **49,211** | **61,059** |
| | | | |
| **Liabilities** | | | |
| Payables | 4.5 | 112 | 297 |
| Outstanding claims | 2.3 | 13,791 | 31,984 |
| **Total Liabilities** | | **13,903** | **32,281** |
| | | | |
| **Net Assets** | | **35,308** | **28,778** |
| | | | |
| **Equity** | | | |
| **Accumulated funds** | | **35,308** | **28,778** |

The accompanying notes form part of these financial statements.

# Statement of changes in equity

for the year ended 30 June 2018

| | Accumulated Funds Total $'000 |
|---|---|
| | |
| **Balance at 1 July 2017** | **28,778** |
| | |
| **Net result for the year** | **6,530** |
| Other comprehensive income | - |
| **Total comprehensive income** | **6,530** |
| | |
| **Balance at 30 June 2018** | **35,308** |
| | |
| | |
| **Balance at 1 July 2016** | 26,309 |
| | |
| **Net result for the year** | 2,469 |
| Other comprehensive income | - |
| **Total comprehensive income** | 2,469 |
| | |
| **Balance at 30 June 2017** | 28,778 |

The accompanying notes form part of these financial statements.

# Statement of cash flows

for the year ended 30 June 2018

| | Notes | 2018 $'000 | 2017 $'000 |
|---|---|---|---|
| | | | |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Recoveries | | - | 210 |
| Claims paid | | (12,287) | (6,318) |
| **Net Cash Flows from Scheme Activities** | | **(12,287)** | (6,108) |
| | | | |
| Interest received | | 1,271 | 1,145 |
| Service fees paid | | (304) | (66) |
| Other expenses paid | | (77) | (264) |
| | | | |
| **Net Cash Flow used in Operating Activities** | 4.3 | **(11,397)** | (5,293) |
| | | | |
| **Net decrease in cash and cash equivalents** | | **(11,397)** | (5,293) |
| | | | |
| **Opening cash and cash equivalents** | | 60,523 | 65,816 |
| | | | |
| **Closing cash and cash equivalents** | 4.3 | **49,126** | 60,523 |

The accompanying notes form part of these financial statements.

# Notes to the financial statements

for the year ended 30 June 2018

## 1. Overview

### 1.1 About the Scheme

Building Insurers' Guarantee Corporation (the Corporation) is a reporting entity established under the *Home Building Act, 1989*. It was established by the NSW Government in 2001 after the collapse of HIH Insurance Limited (HIH)/ FAI Insurance (FAI) as a rescue package to protect home owners who were covered by HIH/FAI Home Warranty Insurance policies.

The Corporation is a not-for-profit entity (as profit is not its principal objective) and it has no cash generating units. The reporting entity is consolidated as part of the NSW Total State Sector Accounts.

Effective 1 July 2016 the Chief Executive Officer of NSW Self Insurance Corporation is also the Chief Executive Officer of the Corporation.

icare was established on 1 September 2015 in accordance with the *State Insurance and Care Governance Act 2015*. Its functions include the monitoring of performance of the insurance or compensation schemes in respect of which it provides services. The Corporation is one such scheme.

The financial statements for the year ended 30 June 2018 have been authorised for issue by the Chairman of the Board of icare and the Chief Executive Officer and Managing Director of icare on behalf of the Board of Directors of icare on 24 September 2018.

### 1.2 About this report

This Financial Report includes the financial statements of the Corporation.

The Financial Report includes the four primary statements, namely the statement of comprehensive income (which comprises profit or loss and other comprehensive income), statement of financial position, statement of changes in equity and statement of cash flows as well as associated notes as required by Australian Accounting Standards. Disclosures have been grouped into the following categories in order to assist users in their understanding of the financial statements:

1. **Overview** contains information that impacts the Financial Report as a whole.
2. **Scheme activities** brings together results and statement of financial position disclosures relevant to the Corporation's scheme activities.
3. **Risk management** provides commentary on the Corporation's exposure to various financial and capital risks, explaining the potential impact on the results and statement of financial position and how the Corporation manages these risks.
4. **Other** includes additional disclosures required in order to comply with Australian Accounting Standards.

Where applicable within each note, disclosures are further analysed as follows:

- **Overview** provides some context to assist users in understanding the disclosures and the accounting policies relevant to an understanding of the numbers.
- **Disclosures** (both numbers and commentary) provides analysis of balances as required by Australian Accounting Standards.
- **Critical accounting judgements and estimates** explains the key estimates and judgements applied by the Corporation in determining the numbers.

The notes include information which the directors believe is required to understand the financial statements and is material and relevant to the operations, statement of financial position and results of the Corporation.

Information is considered material and relevant if:

- the amount in question is significant because of its size or nature;
- it is important to assist in understanding the results of the Corporation;
- it helps to explain the impact of significant changes in the Corporation's business; or
- it relates to an aspect of the Corporation's operations that is important to its future performance.

# Notes to the financial statements

for the year ended 30 June 2018

### 1.2.1 Basis of preparation

The Corporation's financial statements are general purpose financial statements which have been prepared on an accruals basis and in accordance with:

- applicable Australian Accounting Standards (which include Australian Accounting Interpretations); and
- the requirements of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2015* and the Treasurer's Directions.

These financial statements have been presented on a liquidity basis following receipt of an exemption from TC18-01 by NSW Treasury that statements are presented on a current and non-current basis.

All amounts are rounded to the nearest one thousand dollars and are expressed in Australian currency.

### 1.2.2 Statement of compliance

The financial statements and notes comply with Australian Accounting Standards, which include Australian Accounting Interpretations.

### 1.2.3 Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

Judgements, key assumptions and estimations management has made are disclosed in the relevant notes to the financial statements.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised. Actual results may differ from these estimates.

In particular information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following notes:

- Note 2.3 – Outstanding Claims

### 1.2.4 Taxation

The Corporation is exempt from income tax under Division 50 of the *Income Tax Assessment Act 1997*.

Revenue, expenses and assets are recognised net of Goods and Services Tax (GST), except that:

- the amount of GST incurred by the Corporation as a purchaser that is not recoverable from the Australian Tax Office is recognised as part of the cost of acquisition of an asset or as part of an item of expense; and
- Receivables and payables are stated in the statement of financial position inclusive of GST.

Cash flows are included in the statement of cash flows on a gross basis. However, the GST components of cash flows arising from investing activities and financing activities which are recoverable from, or payable to, the Australian Tax Office are classified as operating cash flows.

### 1.2.5 Comparative figures

Except where an Australian Accounting Standard permits, comparative information is disclosed in respect of the previous period for all amounts reported in the financial statements.

Where necessary, comparatives have been reclassified to conform to changes in presentation in the current year.

# Notes to the financial statements

for the year ended 30 June 2018

### 1.2.6 Changes in accounting policy, including new or revised Australian Accounting Standards.

Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the reporting year ending 30 June 2018. The following new Standards will not have a material impact on the financial performance or position of the Corporation:

- AASB 15, AASB 2014-5, AASB 2015-8 and AASB 2016-3 regarding *Revenue from Contracts with Customers*;
- AASB 16 regarding *Leases*;
- AASB 17 regarding *Insurance Contracts*;
- AASB 1058 *Income of Not-for-profit Entities*;
- AASB 2016-6 Amendments to Australian Accounting Standards - Applying AASB 9 with AASB 4 *Insurance Contracts*;
- AASB 2016-7 Amendments to Australian Accounting Standards - Deferral of AASB 15 for Not-for-Profit Entities;
- AASB 2016-8 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities;
- AASB 2017-1 Amendments to Australian Accounting Standards – Transfer of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments; and
- AASB 2017-3 Amendments to Australian Accounting Standards - Clarifications to AASB 4.

AASB 9 regarding *Financial Instruments* is being evaluated to assess if there is any impact on the financial performance or position of the Corporation.

## 2. Scheme activities

**Overview**

This section provides analysis and commentary on the Corporation's scheme activities. Scheme activities involve all activities undertaken in relation to the provision of compensation to the Corporation's claimants.

### 2.1 Revenue

**Recoveries**

The Corporation is entitled to the recovery revenue benefits due to insolvent insurers under the *Home Building Act, 1989*.

Recoveries are recognised as revenue when it is virtually certain the recovery will be made.

Recoveries include recoveries of monies from builders for claims paid to homeowners.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| Recoveries | - | 193 |

# Notes to the financial statements

for the year ended 30 June 2018

## 2.2 Claims released

**Overview**

The largest expense for the Corporation is Scheme costs or claims expense. Scheme costs are:

- the amount incurred by the Corporation on claims during the year;
- plus the amount, which the consulting actuary has estimated as at 30 June 2018 as being the movement in the amount required to meet the cost of claims expenses reported; and
- the escalation in reported and reopened claims expenses.

Claim payments are funded by drawings collected from the Building Insurers' Guarantee Fund in accordance with Section 103P(3b) of the *Home Building Act, 1989*.

Under section 16D of the *Insurance Protection Tax Act 2001*, the Policy Holders Protection Fund must be applied to meet expenditure from the Building Insurers Guarantee Fund.

| | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|
| | | |
| Claims expenses | 12,100 | 6,113 |
| Claims handling | 194 | 208 |
| Movement in outstanding claims provision | (18,643) | (8,426) |
| Finance cost | 450 | 509 |
| | **(5,899)** | **(1,596)** |

## 2.3 Outstanding claims

**Overview**

Provisions are recognised when the Corporation has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The net outstanding claims liability comprises the elements described below:

- The net central estimate (Note 2.3.1). This is the provision for expected future claims payments and includes claims reported and estimated claims handling costs. The liability for the outstanding claims expenses is estimated as the inflated values of the expected future payments, reflecting the fact that these payments will be spread over future years. The expected future payments are estimated on the basis of the ultimate cost of claims expenses which is affected by factors arising during the period to settlement.
- Less an amount to reflect the discount to present value using risk-free rates of return. The net central estimate is discounted to present value recognising that the claim and/or recovery may not be settled for some time.

The expected future payments are estimated on the basis of the ultimate cost of the settling of claims, which is affected by factors arising during the period to settlement such as normal inflation and "superimposed inflation".

Superimposed inflation refers to factors such as in court awards, to increase at levels in excess of economic inflation. The expected future payments are then discounted to a present value at the reporting date.

# Notes to the financial statements

for the year ended 30 June 2018

### 2.3.1 Gross discounted net outstanding claims

**Overview**

The liabilities for claims are valued by the Actuaries as at the end of the financial year. They are measured as the present value of the expected future payments for all claims up to year end.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| **Claims liabilities** | | |
| Expected future gross claims payments | 13,384 | 31,142 |
| Gross claims handling | 670 | 1,557 |
| Gross outstanding claims liabilities | 14,054 | 32,699 |
| Discount on central estimate | (250) | (681) |
| Discount on claims handling expenses | (13) | (34) |
| Total discount on claims liabilities | (263) | (715) |
| **Claims liabilities 30 June** | **13,791** | **31,984** |

The table below analyses the movement in the net outstanding claims liability.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| Opening Balance | 31,984 | 39,901 |
| Less: Claims Provision released | (6,349) | (2,105) |
| Less: Claims paid | (12,294) | (6,321) |
| Add: Finance Costs | 450 | 509 |
| **Carrying amount at end of year** | **13,791** | **31,984** |

The finance costs above represent the increase in the liability for outstanding claims from the end of the previous financial year to the end of the current financial year which is due to discounted claims not settled being one period closer to settlement.

# Notes to the financial statements

for the year ended 30 June 2018

### 2.3.2 Core claims liability variables

**Overview**

The following average inflation rates and discount rates were used in measuring the liability for outstanding claims:

| | 2018 | 2017 |
|---|---|---|
| **Inflation rate** | | |
| Current year | 2.36% | 2.0% |
| Future years | 2.36-2.41% | 2.21-2.31% |
| Superimposed inflation | 3.0% | 3.0% |
| Discount rate | 1.97% | 1.7% |

The weighted average expected term to settlement from the balance date of the outstanding claims is estimated to be 1.0 years (2017: 1.3 years). The timing of claim settlement and payments is very uncertain, so there may be considerable variation in the actual emergence of payments from year to year.

### 2.3.4 Impact of changes in key variables on the net outstanding claims liability

**Overview**

The core variables that drive the Corporation's liabilities are movements in case estimates on open claims and the timing of future payments.

The actuarial review has noted significant uncertainty variations may occur between the outstanding claim estimate and ultimate cost of claims due to various factors including:

- As the scheme is now deep into run-off, individual large claims drive the outcome; and
- The number of settlements and the volume of claim payments continue to fluctuate, making it more difficult to estimate outstanding amounts at future balance dates.

## 3. Risk Management

**Overview**

The Corporation applies a consistent and integrated approach to enterprise risk management (ERM). The Corporation operates within icare's risk management framework which sets out the approach to managing key risks and meeting strategic objectives. The risk management framework is articulated in the Risk Management Strategy (RMS) which is approved annually by the Board.

The icare Board is ultimately responsible for identifying and controlling financial risk. This is done through the establishment of holistic strategies and policies which are cognisant of financial risk management.

The framework consists of complementary elements that are embedded throughout the business management cycle and culture of the organisation. Key aspects include: risk appetite, governance, risk management processes, risk reporting and insights, modelling and stress testing, management, monitoring and culture.

Risk management is a continuous process and an integral part of robust business management. The Corporation's approach is to integrate risk management into the broader management processes of the organisation. It is the Corporation's philosophy to ensure that risk management remains embedded in the business and that the risk makers or risk takers are themselves the risk managers. Specifically, the management of risk must occur at each point in the business management cycle.

The key risk categories used by the Corporation to classify financial risk:

- Market risk (Note 3.1);
- Interest rate risk (Note 3.2);
- Liquidity risk (Note 3.3); and
- Credit risk (Note 3.4).

The Corporation's principal financial instruments are outlined below. These financial instruments arise directly from the Corporation's operations or are required to finance those operations. The Corporation does not enter into financial instruments, including derivative financial instruments, for speculative purposes.

# Notes to the financial statements

for the year ended 30 June 2018

The Corporation's main risks arising from financial instruments are outlined below, together with the Corporation's objectives, policies and processes for measuring and managing risk. Further quantitative and qualitative disclosures are included through these financial statements.

Management has overall responsibility for the establishment and oversight of risk management, and reviews and sets policies for managing each of these risks. Risk management policies are in place to establish frameworks and processes that identify and analyse the risks faced by the Corporation, set risk limits and controls, and monitor risks.

**Financial instrument categories**

| | Notes | Category | Carrying amount 2018 $'000 | Carrying amount 2017 $'000 |
|---|---|---|---|---|
| | | | | |
| **Financial Assets** | | | | |
| Cash and cash equivalents | 4.3 | N/A | 49,126 | 60,523 |
| Receivables* | 4.4 | Receivables (measured at amortised cost) | - | 437 |
| | | | | |
| **Financial liabilities** | | | | |
| Payables** | 4.5 | Payables (measured at amortised cost) | 112 | 297 |

* Excludes statutory receivables and prepayments

** Excludes statutory payables and unearned income

## 3.1 Market risks

**Overview**

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Corporation has no significant exposure to market risk as it does not hold any investments or securities traded in the market.

# Notes to the financial statements

for the year ended 30 June 2018

## 3.2 Interest rate risk

**Overview**

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market interest rates. The value of the Corporation's liabilities is also affected by interest rate fluctuations.

The following table provides the sensitivity analysis of interest rate risk affecting applicable financial assets on the operating result and equity of the Corporation. A reasonably possible change of +/- 1% is used, consistent with current trends in interest rates. The basis will be reviewed annually and amended where there is a structural change in the level of interest rate volatility.

| | Carrying amount $'000 | -1% | | +1% | |
|---|---|---|---|---|---|
| | | Net Result $'000 | Equity $'000 | Net Result $'000 | Equity $'000 |
| | | | | | |
| **2018** | | | | | |
| Cash and cash equivalents | 49,126 | (491) | (491) | 491 | 491 |
| | | | | | |
| **2017** | | | | | |
| Cash and cash equivalents | 60,523 | (605) | (605) | 605 | 605 |

## 3.3 Liquidity Risk

**Overview**

Liquidity risk is the risk that the Corporation will be unable to meet its payment obligations when they fall due. The Corporation continuously manages risk through monitoring future cash flows and maturities planning to ensure adequate holding of high quality liquid assets. The objective is to maintain a balance between continuity of funding and flexibility through the use of overdrafts, loans and other advances, if applicable.

The Corporation does not have any loans payable and no assets have been pledged as collateral. The Corporation's exposure to liquidity risk is deemed insignificant based on prior periods' data and current assessment of risk.

During the current year, there were no defaults on payables. No assets have been pledged as collateral.

The payables are recognised for amounts due to be paid in the future for services received, whether or not invoiced. Amounts owing to suppliers (which are unsecured) are settled in accordance with the policy set out in Treasury Circular TC11/12. If trade terms are not specified, payment is made no later than the end of the month following the month in which an invoice or a statement is received.

# Notes to the financial statements

for the year ended 30 June 2018

## 3.3 Liquidity Risk (continued)

The table below summarises the maturity profile of the Corporation's financial liabilities.

| | Weighted average effective interest rate % | Nominal amount $'000 | Interest rate exposure | | | Maturity dates | | |
|---|---|---|---|---|---|---|---|---|
| | | | Fixed interest rate $'000 | Variable interest rate $'000 | Non-interest bearing $'000 | < 1 year $'000 | 1-5 years $'000 | >5 years $'000 |
| | | | | | | | | |
| **2018** | | | | | | | | |
| Payables | - | 112 | - | - | - | 112 | - | - |
| **Total financial liabilities** | - | 112 | - | - | - | 112 | - | - |
| | | | | | | | | |
| **2017** | | | | | | | | |
| Payables | - | 297 | - | - | - | 297 | - | - |
| **Total financial liabilities** | - | 297 | - | - | - | 297 | - | - |

## 3.4 Credit risk

**Overview**

Credit risk arises when there is the possibility of the Corporation's debtors defaulting on their contractual obligations, resulting in a financial loss to the Corporation. The maximum exposure to credit risk is generally represented by the carrying amount of the financial assets (net of any allowance for impairment).

Credit risk arises from the financial assets of the Corporation, including cash and receivables. Cash is held within the NSW Treasury Banking System (TBS.) Interest is earned on daily bank balances at the TBS interest rate.

### 3.4.1 Cash

Cash comprises cash on hand and bank balances within the NSW Treasury Banking System. Interest is earned on daily bank balances at the Reserve Bank of Australia's cash rate.

# Notes to the financial statements

for the year ended 30 June 2018

### 3.4.2 Receivables

The Corporation does not receive any collateral for receivables.

The financial assets that are past due or considered impaired are included in the table below.

| | Total $'000 | Neither past due nor impaired $'000 | Past due but not impaired $'000 | | | Considered impaired $'000 |
|---|---|---|---|---|---|---|
| | | | < 3 months overdue | 3-6 months overdue | > 6 months overdue | |
| **2018** | | | | | | |
| Receivables | 85 | 85 | - | - | - | - |
| | | | | | | |
| **2017** | | | | | | |
| Receivables | 536 | 519 | - | - | 17 | - |

| | AAA $'000 | AA+ $'000 | AA $'000 | AA- $'000 | A+ $'000 | A $'000 | Other Ratings $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | | |
| **2018** | | | | | | | | |
| Receivables | 85 | - | - | - | - | - | - | 85 |
| | | | | | | | | |
| **2017** | | | | | | | | |
| Receivables | 536 | - | - | - | - | - | - | 536 |

* At the balance sheet date, receivable of the Corporation is concentrated only to the Government sector.

# Notes to the financial statements

for the year ended 30 June 2018

## 4. Other

**Overview**

This section includes other information that must be disclosed to comply with the Australian Accounting Standards.

### 4.1 Investment income

**Overview**

Investment revenue is brought to account on an accruals basis.

Interest revenue is recognised using the effective interest method as set out in AASB 139 *Financial Instruments: Recognition and Measurement*.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| Interest on Cash at bank | **834** | **928** |

### 4.2 Service Fees and Other Expenses

**Overview**

In accordance with the *State Insurance and Care Governance Act 2015* from 1 July 2016, the Corporation receives services from icare. Under the arrangement some of the Corporation's costs are incurred by icare and recovered at cost from the Corporation. These services include the provision of staff, claims handling expenses, general business expenses and governance services.

The Corporation's key management personnel are the Board of Directors of icare, the Chief Executive Officer of icare and their direct reports. All transactions with these keys management personnel are included in the service fee paid to icare for those personnel remunerated by icare.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| Audit fees – audit of financial statements | 34 | 25 |
| Service fees | 169 | 223 |
| | **203** | **248** |

### 4.3 Cash and Cash Equivalents

**Overview**

Cash and cash equivalents includes cash at bank, cash on hand and short-term deposits of less than 3 months duration.

Refer to Note 3 for details regarding credit risk, liquidity risk and market risk arising from financial instruments.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| Cash at bank | **49,126** | **60,523** |

Cash and cash equivalent assets recognised in the statement of financial position are reconciled at the end of the financial year to the statement of cash flows as follows:

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| Cash and cash equivalent assets (per statement of financial position) | 49,126 | 60,523 |
| Closing cash and cash equivalents (per statement of cash flows) | **49,126** | **60,523** |

**Reconciliation of Cash Flows from Operating Activities to Net Results**

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| | | |
| **Net cash flow provided by/(used) in operating activities** | **(11,397)** | **(5,293)** |
| Decrease in provisions | 18,193 | 7,917 |
| (Decrease)/increase in receivables | (451) | (159) |
| Decrease/(increase) in payables | 185 | 4 |
| **Net Result** | **6,530** | **2,469** |

# Notes to the financial statements

for the year ended 30 June 2018

## 4.4 Receivables

**Overview**

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Other recoveries receivable are assessed on an ongoing basis by the claims managers. They are recognised when recovery is virtually certain to take place.

Details regarding credit risk, liquidity risk and market risk including financial assets that are either past due or impaired, are disclosed in Note 3.4.2.

| | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|
| | | |
| GST receivable | 85 | 37 |
| Prepayments | - | 62 |
| Accrued Interest | - | 437 |
| **Total receivables** | **85** | **536** |

## 4.5 Payables

**Overview**

These amounts represent liabilities for services provided to the Corporation and other amounts. Payables are recognised initially at fair value, usually based on the transaction cost or face value. Subsequent measurement is at amortised cost using the effective interest method. Short-term payables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial.

Details regarding credit risk, liquidity risk and market risk including maturity analysis on payables are disclosed in Note 3.

| | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|
| | | |
| Service fees | 22 | 157 |
| Accrued expenses | 90 | 140 |
| | **112** | **297** |

# Notes to the financial statements

for the year ended 30 June 2018

## 4.6 Budget Review

### Statement of Comprehensive Income

| | Notes | Actual 2018 $'000 | Budget 2018 $'000 |
|---|---|---|---|
| | | | |
| **Revenue** | | | |
| Interest income | 4.1 | 834 | 677 |
| **Total Revenue** | | **834** | **677** |
| | | | |
| **Expenses excluding losses** | | | |
| Claims incurred | 2.2 | (5,899) | 488 |
| Service fees | 4.2 | 169 | 169 |
| Other expenses | 4.2 | 34 | 53 |
| **Total Expenses excluding losses** | | **(5,696)** | **710** |
| | | | |
| **Net Results** | | **6,530** | **(33)** |
| | | | |
| **Other Comprehensive Income** | | **-** | **-** |
| | | | |
| **Total comprehensive income** | | **6,530** | **(33)** |

**Commentary**

Net result for the year is favourable to budget driven by claims experience with savings in expected case estimates related to two claims not expected to be paid

# Notes to the financial statements

for the year ended 30 June 2018

### Statement of Financial Position

| | Notes | Actual 2018 $'000 | Budget 2018 $'000 |
|---|---|---|---|
| | | | |
| **Assets** | | | |
| Cash and cash equivalents | 4.3 | 49,126 | 38,069 |
| Receivables | 4.4 | 85 | 407 |
| **Total assets** | | **49,211** | **38,476** |
| | | | |
| **Liabilities** | | | |
| Payables | 4.5 | 112 | 212 |
| Outstanding claims | 2.3 | 13,791 | 11,866 |
| **Total Liabilities** | | **13,903** | **12,078** |
| | | | |
| **Net assets** | | **35,308** | **26,398** |
| | | | |
| **Equity** | | | |
| **Accumulated funds** | | **35,308** | **26,398** |

**Commentary**

Cash and cash equivalents favourable to budget due to lower than expected payments on open and finalised claims last year, leading to higher opening cash balance for this year. The small number of open claims means that payment experience in a year can be volatile versus expectations.

Provisions represent actuarial estimate of liabilities. The unfavourable position in provisions against budget is due to actual claim payments being lower than budgeted, leading to more cost remaining outstanding than budgeted.

Total net assets favourable to budget due to timing of claims payments.

# Notes to the financial statements

for the year ended 30 June 2018

### Statement of Cash Flows

| | Notes | Actual 2018 $'000 | Budget 2018 $'000 |
|---|---|---|---|
| | | | |
| **Cash flows from operating activities** | | | |
| Recoveries | | - | - |
| Claims paid | | (12,287) | (13,273) |
| **Total Scheme** | | **(12,287)** | **(13,273)** |
| | | | |
| Interest received | | 1,271 | 677 |
| Service fees paid | | (304) | (169) |
| Other expenses paid | | (77) | (252) |
| | | | |
| **Net cash used in operating activities** | | **(11,397)** | **(13,017)** |
| | | | |
| **Net decrease in cash and cash equivalents** | | **(11,397)** | **(13,017)** |
| | | | |
| Opening cash and cash equivalents | | 60,523 | 51,086 |
| | | | |
| **Closing cash and cash equivalents** | | **49,126** | **38,069** |

**Commentary**

Cash and cash equivalents favourable to budget due to lower than expected payments on open and finalised claims last year, leading to higher opening cash balance for this year.

## 4.7 Events after the Reporting Date

There are no events occurring after reporting date.

**End of audited financial statements**

icare™

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