icare™
Insurance and Care NSW

Annual Report
2021-22

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for the year ended 30 June 2022

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Statement by by the board of directors

for the year ended 30 June 2022

Insurance and Care NSW

Statement under Section 7.6 Government Sector Finance Act 2018

Pursuant to section 7.6(4) of the *Government Sector Finance Act 2018* ("the Act"), In the opinion of the Board of Directors we state that these financial statements:

- have been prepared in accordance with the Australian Accounting Standards and the applicable requirements of the Act, the *Government Sector Finance Regulation 2018,* and the Treasurer's directions, and
- present fairly the Insurance and Care NSW's financial position, financial performance and cash flows.

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

John Robertson
Chairman
Insurance and Care NSW
26 September 2022

Richard Harding
Chief Executive Officer and Managing Director
Insurance and Care NSW
26 September 2022

INDEPENDENT AUDITOR'S REPORT

Insurance and Care NSW

To Members of the New South Wales Parliament

Opinion

I have audited the accompanying financial statements of Insurance and Care NSW (icare), which comprises the statement by the board of directors, the statement of comprehensive income for the year ended 30 June 2022, the statement of financial position as at 30 June 2022, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements.

In my opinion, the financial statements:

- have been prepared in accordance with Australian Accounting Standards and the applicable financial reporting requirements of the *Government Sector Finance Act 2018* (GSF Act), the Government Sector Finance Regulation 2018 (GSF Regulation) and the Treasurer's Directions
- presents fairly icare's financial position, financial performance and cash flows.

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 (including Independence Standards)' (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.

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, the GSF Act, GSF Regulations and Treasurer's Directions. The Board of Directors' responsibility also includes such internal control as the Board of Directors 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 Board of 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.

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.

The scope of my audit does not include, nor 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

Delegate of the Auditor-General for New South Wales

29 September 2022
SYDNEY

Statement of comprehensive income

for the year ended 30 June 2022

	Notes	2022 $'000	2021 $'000
REVENUE			
Service fee revenue	2.1	939,177	926,007
Investment revenue		18	15
Other revenue		15	49
Total Revenue		**939,210**	**926,071**
EXPENSES			
Employee related	2.2	235,441	214,226
Other operating expenses	2.3	703,350	699,240
Grants	2.4	4,989	12,340
Total Expenses		**943,780**	**925,806**
Gain on disposal of assets	4.4	6,410	-
Impairment losses		(1,840)	(265)
Net result		**-**	**-**
Other Comprehensive Income			
Items that will not be reclassified to net result		-	-
Total Other comprehensive income		-	-
Total Comprehensive Income		**-**	**-**

The accompanying notes form part of these financial statements

Statement of financial position

as at 30 June 2022

	Notes	2022 $'000	2021 $'000
ASSETS			
Cash and cash equivalents	4.1	3,026	38,913
Receivables and prepayments	2.5	208,841	220,616
Property, plant and equipment	4.2	3,403	5,398
Intangible assets	4.3	13,325	11,532
Right of use assets	4.4	106,194	42,190
Total Assets		**334,789**	**318,649**
LIABILITIES			
Payables	2.6	161,179	199,695
Provisions	4.5	48,766	56,671
Lease liabilities	4.4	111,765	49,204
Total Liabilities		**321,710**	**305,570**
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 2022

	2022 $'000	2021 $'000
Accumulated funds		
Balance at the beginning of financial year	13,079	13,079
Net Result for the year	-	-
Other Comprehensive Income	-	-
Total other comprehensive income	**-**	**-**
Total comprehensive income for the year	**-**	**-**
Balance at the end of the financial year	**13,079**	**13,079**

The accompanying notes form part of these financial statements

Statement of cash flows

for the year ended 30 June 2022

	Notes	2022 $'000	2021 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts			
Service fees		963,391	936,831
Interest received		18	15
Other receipts		15	49
Total Receipts		**963,424**	**936,895**
Payments			
Agent remuneration		(453,805)	(434,198)
Employee related		(238,013)	(203,718)
Grants		(4,989)	(12,331)
Other payments		(296,440)	(243,645)
Total Payments		**(993,247)**	**(893,892)**
NET CASH FLOWS FROM OPERATING ACTIVITIES	4.1	**(29,823)**	**43,003**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment	4.2	6	-
Purchases of property, plant and equipment and intangibles	4.2	(6,070)	(11,943)
NET CASH FLOWS USED IN INVESTING ACTIVITIES		**(6,064)**	**(11,943)**
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		**(35,887)**	**31,060**
Opening cash and cash equivalents		38,913	7,853
CLOSING CASH AND CASH EQUIVALENTS	4.1	**3,026**	**38,913**

The accompanying notes form part of these financial statements

Notes to the financial statements

for the year ended 30 June 2022

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 (the Act)*. Under the Act icare has the following functions:

- to act for the Nominal Insurer in accordance with section 154C of the *Workers Compensation Act 1987*,
- to provide services (including staff and facilities) for any relevant authority, or for any other person or body, in relation to any insurance or compensation scheme administered or provided by the relevant authority or that other person or body,
- to enter into agreements or arrangements with any person or body for the purposes of providing services of any kind or for the purposes of exercising the functions of the Nominal Insurer,
- to monitor the performance of the insurance or compensation schemes in respect of which it provides services,
- such other functions as are conferred or imposed on it by or under this or any other Act.

These financial statements for the year ended 30 June 2022 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 26 September 2022.

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 net result 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.

Notes to the financial statements

for the year ended 30 June 2022

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 *Government Sector Finance Act 2018, the Government Sector Finance Regulation 2018* and NSW Treasurer's directions.

Judgements, key assumptions and estimations made by management 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 TPG 22-07 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. Going concern basis

These financial statements have been prepared on a going concern basis.

1.2.4. 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.

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.

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 – Risk Management;
- Note 4.4- Leases; and
- Note 4.5 – Provisions.

1.2.5. 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.

Notes to the financial statements

for the year ended 30 June 2022

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 reclassified to conform to changes in presentation in the current year.

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 ended 30 June 2022. The following are new Australian Accounting Standards or amendments which have been issued but are not yet effective and are not expected to have a material impact on the financial performance or position of icare:

- AASB 2020-3 *Amendments to Australian Accounting Standards – Annual Improvements 2018–2020 and Other Amendments*
- AASB 2021-2 *Amendments to Australian Accounting Standards - Disclosure of Accounting Policies and Definition of Accounting Estimates*

Icare has commenced the AASB 17 implementation project with a view to being compliant with the public sector equivalent of AASB 17 *Insurance Contracts* by FY2024/25. The public sector equivalent is expected to be released in September 2022.

Icare will incur increased costs in complying with AASB 17 with these costs being passed on to the impacted Schemes.

1.2.8. Coronavirus (COVID-19) pandemic

As a consequence of COVID-19 and in preparing these financial statements, management:

- re-evaluated whether there were any additional areas of judgement or estimation uncertainty;
- assessed the carrying values of its assets and liabilities and determined any impact that may occur as a result of market inputs and variables impacted by COVID-19;
- considered the impact of COVID-19 on icare's financial statement disclosures.

Accounting Estimates and judgement:

The ongoing COVID-19 pandemic has increased the estimation uncertainty in the preparation of these financial statements. icare has developed various accounting estimates in these financial statements based on forecasts of economic conditions which reflect expectations and assumptions as at 30 June 2022 about future events that we believe are reasonable in the circumstances. There is a considerable degree of judgement involved in preparing these forecasts. The underlying assumptions are also subject to uncertainties which are often outside the control of icare. Accordingly, actual economic conditions may be different from those forecast since anticipated events may not occur as expected, and the effect of those differences may significantly impact accounting estimates included in these financial statements.

The significant accounting estimates particularly impacted by these associated uncertainties are predominantly related to the valuation of right of use lease assets as noted in note 4.4.

Notes to the financial statements

for the year ended 30 June 2022

1.2.8. Coronavirus (COVID-19) pandemic (continued)

Risk Management

The financial and social impacts of COVID-19 continue to emerge and will further develop over the coming year. Their extent and duration are difficult to forecast and remain dependent on many factors. These include the extent to which the virus persists, the efficacy of government and central bank responses (both locally and globally) and the impact prolonged uncertainty has on consumer and business sentiment.

As the impacts of the virus and associated responses evolve, so too will the associated risks.

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, NSW 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, the indirect costs of operating Schemes are incurred by icare and recovered as Service Fees at cost from those schemes. These costs are allocated to the Schemes based on an assessment of the benefit each Scheme is receiving from the provision of these services. This assessment is reviewed each year and approved by the Board as part of icare's budgeting processes.

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).

Notes to the financial statements

for the year ended 30 June 2022

2.1. Service fee revenue

	2022 $'000	2021 $'000
Lifetime Care and Support Authority of NSW	61,018	64,499
NSW Self Insurance Corporation	224,915	195,736
NSW Workers Insurance Scheme	623,245	627,802
Sporting Injuries Compensation Authority	229	192
Workers Compensation (Dust Diseases) Authority	29,325	37,407
Building Insurers' Guarantee Corporation	56	214
Generators and Transgrid	390	157
	939,177	**926,007**

2.2. Employee related

	2022 $'000	2021 $'000
Salaries and wages (including Annual leave)	197,863	183,634
Agency short-term staff	-	39
Long service leave	4,619	2,609
Superannuation	18,829	15,949
Payroll tax and fringe benefit tax	10,937	9,584
Allowances	2,045	1,643
Workers' compensation insurance	1,148	768
	235,441	**214,226**

Notes to the financial statements

for the year ended 30 June 2022

2.3. Other operating expenses

	2022 $'000	2021 $'000
Agent remuneration	459,526	404,225
Advertising, promotion and publicity	902	530
Auditor's remuneration - Audit Office of NSW – audit of financial statements for icare and serviced entities	2,937	2,026
Other external audits	589	1,256
Internal audit and reviews	945	2,065
Building maintenance, repairs and management	194	196
Board and Committee fees	1,116	1,027
Consultants – Actuarial fees	8,328	9,655
Consultants – Other	3,457	11,510
Contractors	51,305	67,363
Communication expenses	1,532	2,125
Depreciation and amortisation expense	14,999	13,469
Fees Hosted Contingent workers	30,956	39,597
ICT Services- Managed Service	17,626	14,723
Insurance	523	301
Interest expense on leased liabilities	2,372	1,143
Legal Fees	4,235	13,787
Other miscellaneous	13,097	9,288
Operating lease rental expense		
- minimum lease payments	-	578
- other related expenses	4,100	3,558
Other repairs and maintenance	27	10
Reinsurance administration fees	1,308	1,231
Printing	2,983	3,745
Risk Consulting Services	7,055	10,660
Service Fees charged from other icare entities	9,464	33,221
Service NSW Service fees	15,794	16,782
Software Licences	44,805	32,715
Stores	1,656	688
Training	1,184	1,539
Travel and vehicle expenses	335	227
	703,350	**699,240**

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

Risk consulting fees are not paid to brokers. These fees are paid to Corporate Scorecard (Equifax) for administering the HBCF eligibility assessments and advising icare on the eligibility of builders to purchase HBCF policies by reviewing the insolvency risk.

Notes to the financial statements

for the year ended 30 June 2022

2.4. Grants

Overview

icare through the icare Foundation (which is a part of icare) 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.

icare also provides grants to fund other research initiatives outside of the icare foundation.

	2022 $'000	2021 $'000
Grants	**4,989**	**12,340**

2.5. Receivables

Overview

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They include trade and other receivables and are recognised at their amortised cost less impairment losses, which approximates fair value. The settlement period for receivables is 14 days from the date of issue of invoices.

Receivables are recognised at amortised cost using the effective interest method, less any allowance for expected credit losses. icare has applied a simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, receivables have been grouped based on days overdue.

Receivables represent amounts due from the entities that icare provides support and services to including Lifetime Care and Support Authority of NSW, NSW 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 scheme agent remuneration paid in advance for the September 2022 quarter in relation to the insurance activities of icare and the entities it supports.

No receivables are considered impaired (2021 $nil).

Refer to Note 3 for further information regarding credit risk, liquidity risk and market risk arising from trade debtors that are neither past due nor impaired.

Notes to the financial statements

for the year ended 30 June 2022

2.5. Receivables (continued)

	2022 $'000	2021 $'000
Service fees receivable from relevant entities		
Lifetime Care and Support Authority of NSW	7,898	11,562
NSW Self Insurance Corporation	25,204	24,690
NSW Workers Insurance Scheme	56,545	74,494
Sporting Injuries Compensation Authority	37	45
Workers Compensation (Dust Diseases) Authority	3,337	9,314
Building Insurers' Guarantee Corporation	-	214
Generators and Transgrid	145	144
Prepayments	108,668	92,193
Receivables – other	761	542
GST receivable	6,246	7,418
	208,841	**220,616**

2.6. Payables

Overview

Payables 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 and subsequently at amortised cost which approximates fair value. Short-term payables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial. They are settled in accordance with the suppliers terms.

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

	2022 $'000	2021 $'000
Agents remuneration	110,579	88,383
Trade Creditors	41,042	94,222
Accrued salaries, wages and on-costs (Refer Note 4.5.1)	9,558	17,090
Total Payables	**161,179**	**199,695**

Notes to the financial statements

for the year ended 30 June 2022

3. Risk Management

Overview

icare applies a consistent and integrated approach to enterprise risk management. icare's risk management framework sets out the approach to managing key risks and meeting strategic objectives. icare's risk management framework (RMF) is approved annually by the Board.

The icare Board is ultimately accountable for identifying and managing risk, including financial risk. This is done through the establishment of holistic strategies and policies where risk management has been considered.

Key aspects of icare's risk management framework 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 are:

- 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.

Financial instrument categories

	Note	Category	Carrying Amount 2022 $'000	Carrying Amount 2021 $'000
Financial Assets				
Class:				
Cash and cash equivalents	4.1	Amortised cost	3,026	38,913
Receivables[1]	2.5	Amortised cost	93,927	121,005
Financial Liabilities				
Class:				
Payables[2]	2.6	Amortised cost	161,179	199,695

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 2022

3.1. Market risk

Market risk is the variability in the value of an investment or the assessed fair value of a financial instrument because of changes in market prices. Market risk is a systemic risk that reflects factors affecting all similar investments or 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 icare'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.

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
2022					
Cash and cash equivalents	3,026	(30)	(30)	30	30
2021					
Cash and cash equivalents	38,913	(389)	(389)	389	389

Notes to the financial statements

for the year ended 30 June 2022

3.2.2. Quantitative analysis of exposure (continued)

	Floating Interest Rate	Fixed Interest Rates		
		< 1 year $'000	1-5 years $'000	> 5 years $'000
2022				
Class				
Cash	3,026	-	-	-
Assets	**3,026**	**-**	**-**	**-**
2021				
Class				
Cash	38,913	-	-	-
Assets	**38,913**	**-**	**-**	**-**

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.

icare paid no interest to small business suppliers for late payment of invoices in accordance with Government guidelines. (2021: Nil)

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		
		Fixed Rate $'000	Variable Rate $'000	Non-Interest Bearing $'000
2022				
Payables	161,179	-	-	161,179
2021				
Payables	199,695	-	-	199,695

Notes to the financial statements

for the year ended 30 June 2022

3.3. Liquidity risk (continued)

Maturity Analysis of financial liabilities

	Interest Rate Exposure		
	< 1 year $'000	1-5 years $'000	> 5 years $'000
2022			
Payables	161,179	-	-
2021			
Payables	199,695	-	-

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.

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, bank balances within the NSW Treasury Banking System and term deposits with a maturity of less than 3 months. Interest is earned on daily bank balances at the monthly average TCorp 11am unofficial cash rate, adjusted for a management fee to NSW Treasury.

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 icare's 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.

Notes to the financial statements

for the year ended 30 June 2022

4. Other

Overview

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

4.1. 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, and term deposits with a maturity of less than 3 months.

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

	2022 $'000	2021 $'000
Cash at bank	3,026	38,913
	3,026	**38,913**

	2022 $'000	2021 $'000
Cash and cash equivalent assets (per statement of financial position)	3,026	38,913
Closing cash and cash equivalents (per statement of cash flows)	**3,026**	**38,913**

Reconciliation of cash flows from operating activities to Net Result

	2022 $'000	2021 $'000
Net cash flow from operating activities	(29,823)	43,003
Depreciation and amortisation	(14,999)	(13,469)
Assets impaired	(1,840)	-
Gain/(loss) on disposal of assets	6,410	-
Increase/(decrease) in receivables	(11,774)	11,713
(Increase)/decrease in payables	38,516	(20,246)
(Increase) in provisions	7,905	(27,321)
(Increase)/Decrease in net Right of use asset and liability	5,605	6,320
Net result per Statement of Comprehensive Income	**-**	**-**

Notes to the financial statements

for the year ended 30 June 2022

4.2. Property, plant and equipment

Overview

Plant and equipment are recorded at cost on acquisition and subsequently less accumulated depreciation and impairment.

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 five thousand dollars individually are capitalised.

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

Physical non-current assets are valued in accordance with the '*Valuation of Physical Non-Current Assets at Fair Value*' Policy and Guidelines Paper (TPP 21-09). 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.

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

	2022 %	2021 %
	per annum	per annum
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.

Restoration costs

The present value of 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.

Notes to the financial statements

for the year ended 30 June 2022

4.2. 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 2021 fair value						
Gross carrying amount	430	33,681	323	154	-	34,588
Accumulated depreciation and impairment	-	(28,713)	(323)	(154)	-	(29,190)
Net carrying amount	**430**	**4,968**	**-**	**-**	**-**	**5,398**
At 30 June 2022 fair value						
Gross carrying amount	943	33,681	333	142	-	35,099
Accumulated depreciation and impairment	-	(31,231)	(323)	(142)	-	(31,696)
Net carrying amount	**943**	**2,450**	**10**	**-**	**-**	**3,403**

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 Work in Progress $'000	Leasehold Improvements $'000	Office Machines and Equipment $'000	Computer Hardware $'000	Total $'000
Net carrying amount at start of the year	430	4,968	-	-	5,398
Additions	513	-	10	-	523
Disposals	-	-		(12)	(12)
Depreciation writeback on disposal	-	-	-	12	12
Depreciation expense	-	(2,518)	-	-	(2,518)
Net carrying amount at end of the year	**943**	**2,450**	**10**	**-**	**3,403**

Notes to the financial statements

for the year ended 30 June 2022

4.2. Property, plant and equipment (continued)

	Capital Work in Progress $'000	Leasehold Improvements $'000	Office Machines and Equipment $'000	Computer Hardware $'000	Total $'000
At 1 July 2020 fair value					
Gross carrying amount	1,253	32,446	323	154	34,176
Accumulated depreciation and impairment	-	(22,317)	(277)	(142)	(22,736)
Net carrying amount	**1,253**	**10,129**	**46**	**12**	**11,440**
At 30 June 2021 fair value					
Gross carrying amount	430	33,681	323	154	34,588
Accumulated depreciation and impairment	-	(28,713)	(323)	(154)	(29,190)
Net carrying amount	**430**	**4,968**	**-**	**-**	**5,398**

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 Work in Progress $'000	Leasehold Improvements $'000	Office Machines and Equipment $'000	Computer Hardware $'000	Total $'000
Net carrying amount at start of the year	1,253	10,129	46	12	11,440
Additions	430	1,235	-	-	1,665
Disposals	(1,253)		-	-	(1,253)
Depreciation expense	-	(6,396)	(46)	(12)	(6,454)
Net carrying amount at end of the year	**430**	**4,968**	**-**	**-**	**5,398**

Notes to the financial statements

for the year ended 30 June 2022

4.3. Intangibles

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 one hundred thousand dollars 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.

	Capital Work in Progress $'000	Computer Software $'000	Total $'000
At 1 July 2021 fair value			
Gross carrying amount	11,532	993	12,525
Accumulated amortisation and impairment	-	(993)	(993)
Net carrying amount	**11,532**	**-**	**11,532**
At 30 June 2022 fair value			
Gross carrying amount	6,190	11,882	18,072
Accumulated amortisation and impairment	-	(4,747)	(4,747)
Net carrying amount	**6,190**	**7,135**	**13,325**

Notes to the financial statements

for the year ended 30 June 2022

4.3. Intangibles (continued)

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 Work in Progress $'000	Computer Software $'000	Total $'000
Net carrying amount at start of the year	11,532	-	11,532
Additions	5,548	-	5,548
Transfers from WIP	(10,890)	10,890	-
Amortisation (recognised in depreciation and amortisation)	-	(3,755)	(3,755)
Net carrying amount at end of the year	**6,190**	**7,135**	**13,325**

	Capital Work in Progress $'000	Computer Software $'000	Total $'000
At 1 July 2020 fair value			
Gross carrying amount	-	993	993
Accumulated depreciation and impairment	-	(993)	(993)
Net carrying amount	**-**	**-**	**-**
At 30 June 2021 fair value			
Gross carrying amount	11,532	993	12,525
Accumulated depreciation and impairment	-	(993)	(993)
Net carrying amount	**11,532**	**-**	**11,532**

Notes to the financial statements

for the year ended 30 June 2022

4.3. Intangibles (continued)

A reconciliation of the carrying amount of each class of property, plant and equipment at the beginning and end of the previous reporting period is set out below:

	Capital Work in Progress $'000	Computer Software $'000	Total $'000
Net carrying amount at start of the year	-	-	-
Additions	11,532	-	11,532
Net carrying amount at end of the year	**11,532**	**-**	**11,532**

4.4. Leases

icare has applied AASB 16 to properties it leases to accommodate staff.

Under this standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised at the commencement of the lease in the Statement of Financial Position. The only exceptions are short-term and low-value leases. icare expenses short-term leases directly into the Statement of Comprehensive Income.

The right-of-use assets are also subject to impairment. icare assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, icare estimates the asset's recoverable amount. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. After an impairment loss has been recognised, it is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the net result.

Right-of-use assets under leases

	2022 $'000	2021 $'000
Right of use asset		
Cost (gross carrying amount)	117,779	56,122
Accumulated depreciation	(11,585)	(13,932)
Total right of use asset	**106,194**	**42,190**

Notes to the financial statements

for the year ended 30 June 2022

4.4. Leases (continued)

Reconciliation

A reconciliation of the carrying amount of the right of use lease asset at the beginning and end of the current reporting periods is set out below:

	2022 $'000	2021 $'000
Balance at 1 July	**42,190**	**42,458**
Additions	103,640	7,014
Disposals	(40,142)	-
Depreciation writeback on disposal	11,072	-
Impairment	(1,840)	(265)
Depreciation	(8,726)	(7,017)
Balance at 30 June	**106,194**	**42,190**

Lease liabilities

The following table presents liabilities under leases:

	2022 $'000	2021 $'000
Balance at 1 July	**49,204**	**48,775**
Additions	101,268	7,050
Disposal	(35,474)	-
Interest expenses	2,372	1,143
Payments	(5,605)	(7,764)
Balance at 30 June	**111,765**	**49,204**

Notes to the financial statements

for the year ended 30 June 2022

4.4. Leases (continued)

The maturity profile of icare's future minimum lease payments under non-cancellable leases at 30 June are shown in the following table:

	2022 $'000	2021 $'000
Outstanding lease liability		
Not later than one year	10,803	8,463
Later than one year but not later than five years	47,059	36,831
Later than five years	86,159	13,839
Total (including GST)	**144,021**	**59,134**
Less: GST recoverable from Australian Tax Office	(13,093)	(5,376)
Total (excluding GST)	**130,928**	**53,758**

The reconciliation between the total future minimum lease payments for finance leases and their present value as shown in the statement of financial position follows:

	2022 $'000	2021 $'000
Total minimum finance lease payments	130,928	53,758
Less: future finance charges	(19,163)	(4,554)
Present value of minimum lease payments as per Statement of financial position	**111,765**	**49,204**

Notes to the financial statements

for the year ended 30 June 2022

4.5. 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.

	2022 $'000	2021 $'000
Employee benefits and related on-costs		
Annual leave entitlements including on-costs	18,408	16,138
Long service leave entitlements including on-costs	16,506	13,500
Other provisions	13,852	27,033
Total Provisions	**48,766**	**56,671**
Aggregate employee benefits and related on-costs		
Annual leave entitlements including on-costs	18,408	16,138
Long service leave entitlements including on-costs	16,506	13,500
Accrued salaries, wages and on-costs	9,558	17,090
	44,472	**46,728**

Employee Benefits and Other Provisions

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

	2022 $'000	2021 $'000
Expected to be settled no more than twelve months		
Annual leave and related on-costs	18,408	16,138
Long service leave and related on-costs	1,435	1,329
	19,843	**17,467**
Expected to be settled after more than twelve months		
Long service leave and related on-costs	**15,071**	**12,171**

Notes to the financial statements

for the year ended 30 June 2022

4.5. Provisions (continued)

4.5.1. 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 that 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.

4.5.2. 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.

The liability for long service leave is measured as the accrued long service leave benefits with an allowance for superannuation on-cost, payroll tax and workers compensation on-cost.

The calculation is actuarially performed.

4.5.3. 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.

4.5.4. Other provision

A leasehold make-good 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.

The icare remediation provision was created for the expenses associated with remediation work required as a result of the Statutory reviews of icare carried out in 2020 & 2021. These remediation activities will be ongoing for the next 12 months and are being delivered in consultation and within the time frames agreed with the regulators. The areas covered by the remediation are icare's culture and accountability, risk, enterprise sustainability, customer service and procurement.

Notes to the financial statements

for the year ended 30 June 2022

4.5. Provisions (continued)

	icare remediation $'000	Leasehold makegood $'000	Total $'000
2022			
Carrying amount at the beginning of financial year	24,729	2,304	27,033
Additional provisions	-	-	-
Utilisation	(13,181)	-	(13,181)
Carrying amount at end of financial year	**11,548**	**2,304**	**13,852**
2021			
Carrying amount at the beginning of financial year	-	2,304	2,304
Additional provisions	24,729	-	24,729
Utilisation	-	-	-
Carrying amount at end of financial year	**24,729**	**2,304**	**27,033**

4.6. 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.

Notes to the financial statements

for the year ended 30 June 2022

4.7. Related party disclosures

Overview

As the service entity icare transacts with other entities controlled by the NSW government which have been disclosed throughout the report.

During the year, icare did not enter into transactions with key management personnel, their close family members and controlled or jointly controlled entities thereof other than those disclosed below.

icare'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:

	2022 $'000	2021 $'000
Short term employee benefits		
Salaries	5,093	5,521
Other long-term employee benefits	318	289
Termination benefits	-	1,786
Total Remuneration	**5,411**	**7,596**

4.8. Post balance date events

icare has not identified any subsequent events that would require the financial statements or other disclosures to be adjusted, nor has icare identified any material non-adjusting subsequent events requiring additional disclosure to the financial statements.

- End of audited financial statements -

NSW Workers Insurance Scheme

Workers Insurance Financial statements

for the year ended 30 June 2022

Contents

Notes to the financial statements

Actuarial Certificate
Outstanding Claims Liabilities at 30 June 2022

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 2022.

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 11.2%. This has been added to the net outstanding claims central estimate in order to provide a probability of adequacy of 75%.

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 2022

	$m
Central Estimate	
Gross	16,348
Recoveries	(308)
Net Central Estimate	16,040
Risk Margin	1,796
Provision	**17,837**

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.

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.

Many aspects of the scheme environment have been impacted by COVID. As NSW emerges from its second major lockdown, there remains uncertainty around the nature of post-COVID experience.

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 2022 – NSW Nominal Insurer", dated 19 September 2022.

Our estimates and report were prepared in accordance with the Actuaries Institute's Professional Standard 302.

Scott Collings

Stephen Lee

Fellows of the Institute of Actuaries of Australia
28 September 2022

Statement by the board of directors

for the year ended 30 June 2022

NSW Workers Insurance Scheme
Financial Statements for the year ended 30 June 2022

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 2022 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.

John Robertson
Chairman
Insurance and Care NSW
26 September 2022

Richard Harding
Chief Executive Officer and
Managing Director
NSW Workers Insurance Scheme and Insurance and Care NSW
26 September 2022

INDEPENDENT AUDITOR'S REPORT

Workers Compensation Nominal Insurer (trading as the NSW Workers Insurance Scheme)

To the Treasurer, Minister for Finance and members of the Board for Insurance and Care NSW

Opinion

I have audited the accompanying financial statements of the Workers Compensation Nominal Insurer (the Scheme), which comprises the statement by the board of directors, statement of comprehensive income for the year ended 30 June 2022, the statement of financial position as at 30 June 2022, the statement of changes in equity and the statement of cash flows, for the year then ended, and notes to the financial statements.

In my opinion, the financial statements:

- have been prepared in accordance with Australian Accounting Standards
- present fairly the Scheme's financial position, financial performance and cash flows.

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 (including Independence Standards)' (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.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the financial statements for the year ended 30 June 2022. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, I do not provide a separate opinion on these matters.

<table>
<tr><th>Key Audit Matter</th><th>How my audit addressed the matter</th></tr>
<tr><td colspan="2">Valuation of outstanding claims liability</td></tr>
<tr><td>
At 30 June 2022, the Scheme recorded an outstanding claims liability balance of $18.2 billion. The valuation of the outstanding claims liability involves significant judgement in determining the timing and value of expected future payments for claims incurred and related costs to settle the claims. In determining the valuation of the liabilities, the Scheme engages actuarial specialists to model and develop assumptions to estimate the outstanding claims liability.

I considered this to be a key audit matter because of the:
• financial significance of the outstanding claims liability
• degree of judgement in developing assumptions and the complexity of valuation models. The key inputs and judgements involved in estimating the outstanding claim liability include:
– discount rates
– assumed rates of inflation, particularly in the near term
– assumptions as to the timing of reported claim payments
– assumptions over the number and size of claims incurred but not reported
– assumptions over the future costs of claims handling expenses
– allowance for risk in estimating future cash flows through the inclusion of a risk margin
– assumptions that estimate the extent of future psychological claims
– assumptions that estimate the impact of the continuing COVID-19 pandemic.

The level of judgement means that the valuation of the outstanding claims liability may change significantly and unexpectedly due to changes in assumptions.

Details on the valuation techniques, inputs and assumptions are disclosed in Note 2.3.
</td><td>
Key audit procedures included the following:
• with the assistance of an actuarial specialist:
– evaluated the competence, capabilities and objectivity of the Scheme's actuary
– gained an understanding of the work of the Scheme's actuary and evaluated the appropriateness of their work, including their models
– assessed the valuation methods and approach used by the Scheme's actuary for consistency with industry practice and the underlying claims exposure
– assessed the assumption setting process, including data on the Scheme's obligations to policyholders/beneficiaries and claims payment information used as inputs into the valuation models
– assessed the economic assumptions derived by the Scheme Actuary, particularly inflation
– reviewed the results of the experience investigations carried out by the Scheme's actuary, to determine how they inform the key assumptions adopted, with specific emphasis on trends in the incidence and cost for psychological related claims
– evaluated the judgements made by the Scheme's actuary in assessing the impact of the COVID-19 pandemic on the assumptions
– performed an overall assessment of the valuation methodology, key assumptions and models used to derive the valuation of the outstanding claims liability
• assessed the calculation of the outstanding claim liability balance and related financial statement disclosures against the requirements of applicable Australian Accounting Standards.
</td></tr>
</table>

Key Audit Matter	How my audit addressed the matter
Valuation of investments	
At 30 June 2022, the Scheme held investments of \$2.4 billion classified as Level 3 assets within the fair value hierarchy under Australian Accounting Standards (i.e. where significant unobservable inputs are used in the valuation). These investments include: • unlisted wholesale property trusts • unlisted infrastructure trusts • private infrastructure debt. Level 3 assets require judgment to be applied in determining their fair value, as the valuation inputs for these assets are not based on observable market transactions or other readily available market data. The valuation of Level 3 assets has a greater degree of uncertainty and subjectivity as there are alternative assumptions and valuation methods that may result in a range of values. The Scheme exercised judgement to arrive at their best estimates of fair value of these assets. There is complexity in this process, as well as uncertainty associated with the valuation and modelling methodologies and the assumptions adopted. The level of judgement means that Level 3 asset values may change significantly and unexpectedly due to changes in assumptions. I considered this to be a key audit matter because of the: • value of the investments balance relative to total assets • degree of judgement and estimation uncertainty associated with the valuation. Details on the valuation techniques, inputs and assumptions are disclosed in Note 3.3.	Key audit procedures included the following: • obtained, for a sample of unit trust investments, the valuation statements provided by external investments managers and assessed the reliability of the information received including the: – frequency of pricing and liquidity of the units of the trust • assessed, for a sample of infrastructure debt investments, the Scheme's valuation and modelling methodologies and the key judgmental inputs used in the year-end valuations, including the discount rate and the terminal value, as applicable • assessed the methodology used by the external investment manager • tested the mathematical accuracy of the valuation models and checked for consistency with the Scheme's documented methodology and assumptions • assessed the adequacy of the related financial statement disclosures against the requirements of applicable Australian Accounting Standards.

Key Audit Matter	How my audit addressed the matter
Operation of information technology (IT) systems and controls	
The financial reporting process is highly dependent on the recording and retention of financially relevant data in administration systems, the complete and accurate transfer of such data to financial reporting systems, and the correct embedding of accounting rules and controls in both financial reporting and administration systems. I considered this to be a key audit matter because of the volume of transactions processed through IT systems and the reliance on IT related controls for the purposes of financial reporting.	My approach is tailored based on the financial significance of the systems and whether there were automated processes supported by the systems. With the assistance of information technology audit specialists, key audit procedures included the following: • assessed the controls: – relating to access to systems and data, as well as programme changes to systems relevant to financial reporting – in place to address the risk of unauthorised or erroneous changes being made to the system and data – in place to ensure transactions are recorded consistently with relevant accounting rules • reviewed system and organisation control (SOC) reports from the third party's auditor on the design and operating effectiveness of controls, where technology services are provided by a third party • performed procedures to test the information produced from affected systems in response to any identified control design or effectiveness exceptions.
Outsourced claims activities	
For the year ended 30 June 2022, the Scheme outsourced a substantial component of the end-to-end claims management and payment process to external claim managers. The external claim managers performed claim processes on both their own claim systems and on Insurance and Care NSW's (icare) system, Guidewire Claim Centre ("Guidewire"), depending on when the claim was reported. Claims management is a key process within the Scheme as it facilitates the payment of funds out of the Scheme and the data captured is transmitted to the Scheme actuary to inform the assumptions used in the valuation of the outstanding claim liabilities. The external claim managers provide monthly and annual returns which form the basis of accounting entries in the Scheme's financial reporting systems when claims are managed on their own systems. They also provide a service organisation controls report where they respond to risks and control objectives provided by icare management on behalf of the Scheme.	For claims managed on Guidewire, key audit procedures included the following: • tested the design and operating effectiveness of controls • vouched a sample of claim payments, including key claim fields, to supporting evidence • tested management's reconciliation of claims cost between Guidewire and the Scheme's financial reporting systems at 30 June 2022. For claims managed on external claims managers' own systems, key audit procedures included the following: • tested the reconciliation of the annual external claim manager returns to the Scheme's financial reporting systems at 30 June 2022 • with reference to Australian Auditing Standard ASA 402 Auditing Considerations Relating to an Entity Using a Service Organisation: – obtained an understanding of the services provided by the external claims managers and the internal controls relevant to the Scheme's financial statements – tested key controls over financial reporting within the external claims managers' control environment

Key Audit Matter	How my audit addressed the matter
I considered this to be a key audit matter because the external claim managers are responsible for a material component of the reported claims expense and the policyholder data used in the calculation of the Scheme's outstanding claim liability.	– tested the completeness of the external claims managers' claim data and vouched a sample of key claim fields to supporting evidence – tested the reconciliation between the cost of claims on the annual return to the claim information submitted to the claim database for use by the Scheme's actuary.

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 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.

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.

A description of my responsibilities for the audit of the financial is located at the Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_responsibilities/ar6.pdf. The description forms part of my auditor's report.

The scope of my audit does not include, nor 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

Delegate of the Auditor-General for New South Wales

29 September 2022
SYDNEY

Statement of comprehensive income

for the year ended 30 June 2022

	Notes	2022 $'000	2021 $'000
Gross Written Premium		3,110,206	2,986,122
Unearned premium movement		(51,433)	(75,898)
Gross earned premium		3,058,773	2,910,224
Hindsight adjustments		291,305	183,676
Net Earned premiums (a)	2.1	3,350,078	3,093,900
Gross Claims expense		(2,561,128)	(3,528,028)
Recoveries		103,619	77,713
Unexpired risk liability	2.4	6,449	(63,343)
Net claims expense (b)	2.2	(2,451,060)	(3,513,658)
Underwriting and other expenses (c)	2.5	(1,015,056)	(1,047,718)
Underwriting result (a+b+c)		**(116,038)**	**(1,467,476)**
Investment income		(873,865)	1,500,556
Investment management expense		(16,136)	(18,705)
Net investment revenue	3.1	(890,001)	1,481,851
Other income		13,075	48,926
Net Result		**(992,964)**	**63,301**
Other Comprehensive Income			
Items that will not be reclassified to net result		-	-
Total Comprehensive (Loss)/Income		**(992,964)**	**63,301**

The accompanying notes form part of these financial statements.

Statement of financial position

as at 30 June 2022

	Notes	2022 $'000	2021 $'000
Assets			
Cash and cash equivalents	5.1	582,081	675,617
Investments	3.2	16,279,851	17,528,225
Trade and other receivables	2.6	1,292,660	1,186,498
Recoveries receivable	2.3.1	342,859	313,832
Prepayments and other assets		1,857	52,709
Intangible assets	5.2	49,484	91,752
Right of use assets	5.5	-	29,108
Total assets		**18,548,792**	**19,877,741**
Liabilities			
Bank overdraft	5.1	4,829	5,681
Investment liabilities	3.2	403,118	297,787
Trade and other payables	2.7	127,172	135,546
Unearned premiums	2.4	668,953	617,520
Outstanding claims	2.3.1	18,194,280	18,621,805
Unexpired risk liability	2.4	323,471	329,920
Security deposits	5.4	72,806	86,183
Lease liabilities	5.5	-	36,172
Total liabilities		**19,794,629**	**20,130,614**
Net assets		**(1,245,837)**	**(252,873)**
Equity			
Accumulated funds		**(1,245,837)**	**(252,873)**

The accompanying notes form part of these financial statements.

Statement of changes in equity

for the year ended 30 June 2022

	2022 $'000	2021 $'000
Accumulated funds		
Balance at the beginning of financial year (1 July)	(252,873)	(316,174)
Net Result for the year	(992,964)	63,301
Other Comprehensive Income	-	-
Total Comprehensive Income	**(992,964)**	**63,301**
Balance at the end of the financial year (30 June)	**(1,245,837)**	**(252,873)**

The accompanying notes form part of these financial statements.

Statement of cash flows

for the year ended 30 June 2022

	Notes	2022 $'000	2021 $'000
Cash flows from operating activities			
Premiums received		3,272,288	2,948,612
Recoveries received		75,409	79,027
Claims paid		(2,990,097)	(2,879,048)
Total Premiums/Recoveries less claims		**357,600**	**148,591**
Receipts			
Proceeds from sale of investments		489,185	1,175,138
Investment returns received		5,836	3,978
Security deposits received		37,809	10,623
Other receipts		9,113	45,424
Total Receipts		**541,943**	**1,235,163**
Payments			
Service fees		(616,402)	(645,070)
Statutory levies paid		(314,773)	(305,584)
Other payments		(54,532)	(131,086)
Total Payments		**(985,707)**	**(1,081,740)**
Net cash flows from operating activities	5.1	**(86,164)**	**302,014**
Cash flows from Investing activities			
Purchases of intangible assets		(6,520)	(4,089)
Net cash flows from investing activities		**(6,520)**	**(4,089)**
Net increase/(decrease) in cash and cash equivalents		**(92,684)**	**297,925**
Cash and cash equivalents at the beginning of the financial year		669,936	372,011
Cash and cash equivalents at the end of the financial year	5.1	**577,252**	**669,936**

The accompanying notes form part of these financial statements.

Notes to the financial statements

for the year ended 30 June 2022

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* (the Act) 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 which is used to meet the Scheme's liabilities.

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 2022 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 26 September 2022.

1.2. About this report

The Financial Report includes the four primary statements, namely the statement of comprehensive income (which comprises net result 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 2022

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.

1.2.1. Basis of preparation

The Scheme's financial statements are general purpose financial statements which have been prepared under the Act using the accrual basis of accounting and are in accordance with applicable Australian Accounting Standards (which include Australian Accounting Interpretations).

Unless otherwise stated in the notes, the assets and liabilities are prepared on a historical cost basis.

All amounts are rounded to the nearest one thousand dollars and are expressed in Australian currency, which is the functional currency of the Scheme.

1.2.2. Statement of compliance

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

1.2.3. Going concern basis

These financial statements have been prepared on a going concern basis. Despite the accumulated deficit, the Scheme can pay its debts as and when they fall due. Refer to Note 5.6 for more information on the Scheme's Target Operating Zone for capital management.

1.2.4. 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.

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.

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 2.3 – Net outstanding claims liability;
- Note 2.4- Unearned premiums and unexpired risk liability; and
- Note 3 & 4 – Investment Activities and Risk Management

Notes to the financial statements

for the year ended 30 June 2022

1.2.5. 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 in the statement of cash flows.

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 2026. Management have considered whether it is likely a taxable position post June 2026 is likely and concluded that the exemption will be sought and granted for periods post this date.

1.2.6. 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 reclassified to conform to changes in presentation in the current year.

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 ended 30 June 2022. The following are new Australian Accounting Standards or amendments which have been issued but are not yet effective and are not expected to have a material impact on the financial performance or position of the Scheme:

- AASB 2020-3 *Amendments to Australian Accounting Standards – Annual Improvements 2018–2020 and Other Amendments*
- AASB 2021-2 *Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates*

The Scheme has commenced the AASB 17 implementation project with a view to being compliant with the public sector equivalent of AASB 17 *Insurance Contracts* by FY 2025/26. The public sector equivalent is expected to be released in December 2022.

1.2.8. Coronavirus (COVID-19) pandemic

As a consequence of COVID-19 and in preparing these financial statements, management:

- Re-evaluated whether there were any additional areas of judgement or estimation uncertainty;
- Assessed the carrying values of its assets and liabilities and determined any impact that may occur as a result of market inputs and variables impacted by COVID-19;
- Considered the impact of COVID-19 on the Scheme's financial statement disclosures.

Notes to the financial statements

for the year ended 30 June 2022

1.2.8. Coronavirus (COVID-19) pandemic (continued)

Accounting Estimates and judgement:

The ongoing COVID-19 pandemic has increased the estimation uncertainty in the preparation of these financial statements. The scheme has developed various accounting estimates in these financial statements based on forecasts of economic conditions which reflect expectations and assumptions as at 30 June 2022 about future events that we believe are reasonable in the circumstances. There is a considerable degree of judgement involved in preparing these forecasts. The underlying assumptions are also subject to uncertainties which are often outside the control of the scheme. Accordingly, actual economic conditions may be different from those forecast since anticipated events may not occur as expected, and the effect of those differences may significantly impact accounting estimates included in these financial statements.

The significant accounting estimates particularly impacted by these associated uncertainties are predominantly related to the valuation of outstanding claims liabilities, fair value measurement of investments and expected credit losses for receivables.

The impact of the COVID-19 pandemic on each of these accounting estimates is discussed further below. Readers should carefully consider these disclosures considering the inherent uncertainty described above.

- Net Outstanding claims liability – please refer to note 2.3
- Liability Adequacy Test (LAT) note 2.4 – The LAT test might be impacted by a reduction in unearned premium liabilities as a result of Covid 19. This can result in an increase in the unexpired risk provision if claim liabilities do not decrease at the same rate.
- Fair value measurement of investments – please refer to note 3

The schemes investments are designated at fair value through profit and loss, and for the vast majority of the investments, the fair value is determined based on observable market data. This measurement basis has not changed as a result of COVID-19.

The investments which are subject to valuation using unobservable inputs are disclosed in note 3.3.

- Expected credit losses

The impact of COVID-19 on the recoverability of receivables has been considered. While the methodologies and assumptions applied in the base expected credit loss (ECL) calculations remained unchanged from those applied in the prior financial year, the scheme has incorporated estimates, assumptions and judgements specific to the impact of the COVID-19 pandemic. Whilst no material recoverability issues have been identified, there is a risk that the economic impacts of COVID-19 could be deeper or more prolonged than anticipated, which could result in higher credit losses than those modelled under the base case. Refer to note 2.6 for further details on ECL.

Risk Management

The financial and social impacts of COVID-19 continue to emerge and will further develop over the coming year. Their extent and duration are difficult to forecast and remain dependent on many factors. These include the extent to which the virus persists, the efficacy of government and central bank responses (both locally and globally) and the impact prolonged uncertainty has on consumer and business sentiment.

The immediate impacts on the scheme have been from market volatility creating lower investment returns, increases in claims liabilities including negative impacts on Return to Work rates and the effect on the financial position of our customers including reductions in employee wages that impact Workers Compensation premiums. As the impacts of the virus and associated responses evolve, so too will the associated risks.

Notes to the financial statements

for the year ended 30 June 2022

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

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. Closed business relates to premium actually written issued and booked.
- Premiums received and receivable are recognised as written premium 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 premium 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 recognised in full in the current financial year.

	2022 $'000	2021 $'000
Written premium on closed business	3,013,535	2,763,442
Written premium on unclosed business	96,671	222,680
Gross written premium	3,110,206	2,986,122
Hindsight adjustments	291,305	183,676
Unearned premium movement	(51,433)	(75,898)
Net earned premium	3,350,078	3,093,900

Notes to the financial statements

for the year ended 30 June 2022

2.2. Net Claims expense

The largest expense for WI is net claims, which is the sum of

- The movement in the net outstanding claims liability (Note 2.3) which is the difference between the net outstanding claims liability at the beginning and the end of the financial year; plus
- Any net claim payments made during the financial year; plus
- The movement in the unexpired risk liability (Note 2.4) and
- The movement in outstanding recoveries (which are recognised as revenue when it is virtually certain the recovery will be made) and recoveries received during the financial year, including amounts that the consulting actuaries estimate can be recovered from an employer's tax and CTP insurers

WI's claims liability is accounted for in accordance with AASB 1023 "General Insurance Contracts".

	2022 $'000	2021 $'000
Claims and related expenses	2,988,653	2,879,357
Finance costs	(1,966)	33,901
Other movements in claims liabilities	(425,559)	614,770
Gross claims expense	2,561,128	3,528,028
Recoveries revenue	(103,619)	(77,713)
Net claims incurred	2,457,509	3,450,315
Movement in unexpired risk liability	(6,449)	63,343
Net claims expense	**2,451,060**	**3,513,658**
Analysed as follows:		
Movement in net discounted central estimate gross claims	2,833,760	3,949,434
Movement in net discounted claims handling expenses	(154,336)	51,878
Movement in net discounted risk margin	(118,296)	(473,284)
Recoveries	(103,619)	(77,713)
Movement in unexpired risk liability	(6,449)	63,343
Net claims expense	**2,451,060**	**3,513,658**

Notes to the financial statements

for the year ended 30 June 2022

2.2. Net Claims expense (continued)

	Current accident year $M	Prior accident year $M	2022 Total $M	2021 Total $M
Gross claims incurred & related expenses – undiscounted	5,070	1,032	6,102	4,605
Other recoveries – undiscounted	(96)	(48)	(144)	(87)
Net claims incurred – undiscounted	**4,974**	**984**	**5,958**	**4,518**
Discount & discount movement – gross claims incurred	(1,054)	(2,487)	(3,540)	(1,077)
Discount & discount movement – other recoveries	12	28	40	9
Net discount movement	**(1,042)**	**(2,459)**	**(3,500)**	**(1,068)**
Net claims incurred	**3,932**	**(1,475)**	**2,458**	**3,450**

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.

Notes to the financial statements

for the year ended 30 June 2022

2.3. Net Outstanding claims liability (continued)

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 consulting 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:

- The Workers Compensation Act underwent significant reforms in 2012, and again in 2015. The reforms changed some benefits and made the degree of whole person impairment of an injured worker a key determinant of entitlement to ongoing benefits. These changes limit the relevance of historical data in guiding the selection of assumptions in the valuation.
- Changes in claimant behaviour, particularly in relation to the lodgement of lump sum claims, have altered the observed pattern of claim data and added further to the uncertainty inherent in valuation assumptions.
- There has been an increase in claims with a primary psychological injury over the past few years, although the numbers have recently stabilised. These claims have significantly longer durations and higher cost associated with them. There is uncertainty over how many stress claims will have higher whole person impairment and therefore higher claims cost.
- Above economic inflation rises in attendant care costs has driven strong growth in average medical payments for the most severe claims. The growth in average medical payments for other claims has moderated over the past three years. There remains uncertainty around the future experience and potential for periods of hyperinflation.
- The claims cost of the recent accident years has been higher due to lower return to work rates. There is potential for further changes, improvements or deterioration that can change the estimated total claims cost.
- The proportion of eligible claimants that pursue a common law action has varied historically and the future experience is uncertain.
- Due to the long tail nature of many of the benefits payable, changes in future inflation and discount rate assumptions can have a significant effect on the liability.
- The COVID-19 pandemic has elevated the uncertainty around the number of claims, return to work prospects of new and existing claims, medical costs, and claims directly relating to COVID-19 infections. It has also created additional uncertainty for future inflation rates. While there has been two years of experience with COVID-19 and lock-downs there is still uncertainty around how the pandemic may impact the claims cost.

2.3.1. Discounted net outstanding claims

Overview

The overall outstanding claims liability of the Scheme is calculated by the consulting 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.

Notes to the financial statements

for the year ended 30 June 2022

2.3.1. Discounted net outstanding claims (continued)

The provision for claims handling expenses is calculated as a percentage of the gross outstanding claims central estimate to recognise the ultimate expense of managing outstanding claims until they are finalised and closed. The percentage for claims handling expenses is 6.4 per cent. (2021 7.3 per cent).

	2022 $'000	2021 $'000
Expected future gross claims payments	**21,597,337**	**18,240,205**
Gross claims handling	1,392,613	1,345,110
Gross risk margin	2,573,217	2,290,124
Gross outstanding claims liabilities	25,563,167	21,875,439
Discount on central estimate	(6,225,744)	(2,713,718)
Discount on claims handling expenses	(400,954)	(199,115)
Discount on risk margin	(742,189)	(340,801)
Total discount on claims liabilities	(7,368,887)	(3,253,634)
Claims liabilities	**18,194,280**	**18,621,805**
Recoveries		
Expected future actuarial assessment of recoveries	403,226	286,510
Discount to present value	(60,367)	27,322
Recoveries	**342,859**	**313,832**
Net outstanding claims	**17,851,421**	**18,307,973**

Notes to the financial statements

for the year ended 30 June 2022

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

	2022 $'000	2021 $'000
Opening balance	18,307,973	17,657,354
Discount unwind	(1,966)	33,901
Expected claim payments (prior years only)	(2,369,309)	(2,127,321)
CHE on expected claim payments (prior years only)	(178,220)	(163,407)
Release of Risk Margin on claim payments (prior years only)	(298,061)	(279,469)
Adjustment arising from change in (prior years only):		
- Actuarial assumptions*	237,960	16,485
- Covid-19 Risk Margin	(70,221)	(65,052)
- Discount/inflation rates	(1,208,004)	236,678
- Change in the POA reporting basis	-	(518,715)
- PIAWE remediation allowance	3,188	(9,390)
Net outstanding claims in current year	3,428,081	3,526,909
Net outstanding claims	**17,851,421**	**18,307,973**
Breakdown of Actuarial assumptions*	**237,960**	**16,485**
Actual vs Expected Payments	(40,539)	(144,767)
Change in experience	202,843	163,477
Change in actuarial assumptions	210,814	16,271
Change in CHE	(135,158)	(18,496)

The PIAWE remediation allowance includes the current best estimate of the cost of the remediation program covering both potential underpayments and the cost of the program itself.

icare Workers Insurance will be reviewing indexation of claims payments for claims greater than 26 weeks in duration. This review will be for the period between 2012 and 2019 when workers compensation claims were managed by Claims Service Providers (CSPs) engaged by the Nominal Insurer. icare Workers Insurance are in the process of quantifying any adjustments to the payments made for the above period. We have assessed that any adjustment would not be material to the claims liability if any.

Notes to the financial statements

for the year ended 30 June 2022

2.3.2. Risk Margin

Overview

A risk margin is adopted by the Board based on advice from the consulting 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, a 75 percent probability of adequacy indicates that the net discounted provision is expected to be adequate seven and a half years in 10.

The adopted probability of adequacy for the Scheme for 2022 is 75 per cent (2021: 75 per cent). The consulting actuary has assessed this requires a risk margin of 11.2 per cent (2021 11.7 per cent) or a discounted $1.8 billion (2021 $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 Scheme's 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 2022

2.3.3. Economic assumptions (continued)

The following average inflation, and discount rates were used in the measurement of outstanding claims:

	2022 %p.a.	2021 %p.a.
For the first succeeding year		
Inflation rate		
LPI	3.15	1.10
CPI	4.35	1.49
Discount rate1	2.38	(0.01)
For subsequent years		
Inflation rate		
LPI	2.50-3.40	1.13-2.50
CPI	2.00-3.30	1.60-2.25
Discount rate	3.10-4.17	(0.05)-4.00

The weighted average discounted expected term from the balance date to settlement of the outstanding claims is estimated to be 7.49 years (2021: 8.44 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:

	2022 $'000	2021 $'000
Discounted net outstanding claims maturing:		
Within 1 year	3,197,001	2,851,395
2 to 5 years	7,206,887	6,915,945
More than 5 years	7,447,533	8,540,633
	17,851,421	**18,307,973**

Notes to the financial statements

for the year ended 30 June 2022

2.3.5. Impact of changes in key variables on the net outstanding claims liability

Overview

Sensitivity analysis is conducted by the consulting actuaries on each variable to measure the change in outstanding claims liability estimate that would result from a change in the assumptions whilst holding all other variables constant.

The impact of changes in key variables is summarised in the table below.

Variable	Movement in Variable %	2022 Impact on All Durations		2022 Impact with fixed gap beyond 10 years		2022 Impact with Discount Rate at flat 5%, and Inflation Rate for LPI of 2.5% and CPI of 2.0% beyond five years	
		Net result $'000	Liabilities $'000	Net result $'000	Liabilities $'000	Net result $'000	Liabilities $M
Inflation	+1	(1,395,242)	1,395,242	(688,213)	688,213		
Rate	-1	1,250,390	(1,250,390)	742,305	(742,305)		
Discount	+1	1,216,523	(1,216,523)	709,251	(709,251)		
Rate	-1	(1,375,925)	1,375,925	(665,638)	665,638		
Discount Rate at flat 5%, and Inflation Rate for LPI of 2.5% and CPI of 2.0% beyond five years						1,624,200	(1,624,200)

Variable	Movement in Variable %	2021 Impact on All Durations		2021 Impact with fixed gap beyond 10 years		2021 Impact with Discount Rate at flat 5%, and Inflation Rate for LPI of 2.5% and CPI of 2.0% beyond five years	
		Net result $'000	Liabilities $'000	Net result $'000	Liabilities $'000	Net result $'000	Liabilities $M
Inflation	+1	(1,685,267)	1,685,267	(806,809)	806,809		
Rate	-1	1,393,538	(1,393,538)	767,128	(767,128)		
Discount	+1	1,372,704	(1,372,704)	748,620	(748,620)		
Rate	-1	(1,687,211)	1,687,211	(802,679)	802,679		
Discount Rate at flat 5%, and Inflation Rate for LPI of 2.5% and CPI of 2.0% beyond five years						3,670,575	(3,670,575)

Notes to the financial statements

for the year ended 30 June 2022

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 up to 5 years, with medical benefits to continue for a year after the weekly benefits end. The 2015 reforms changed the medical benefit cap from an additional 1 year to an additional 2 or 5 years after the last weekly payment depending on the severity of the injury.

Notes to the financial statements

for the year ended 30 June 2022

2.3.6. Claims development (continued)

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.

Accident year	2013 & prior $'m	2014 $'m	2015 $'m	2016 $'m	2017 $'m	2018 $'m	2019 $'m	2020 $'m	2021 $'m	2022 $'m	Total $'m
Estimate of ultimate claims cost											
At end of accident year		2,610	2,506	2,482	2,515	2,790	2,965	3,287	3,888	4,269	
One year later		2,338	2,409	2,357	2,638	3,010	3,384	3,973	4,138		
Two years later		2,345	2,075	2,391	2,567	3,182	3,683	4,229			
Three years later		2,129	2,124	2,279	2,641	3,241	3,854				
Four years later		2,091	1,981	2,231	2,681	3,393					
Five years later		1,919	1,886	2,164	2,685						
Six years later		1,801	1,726	2,193							
Seven years later		1,760	1,713								
Eight years later		1,768									
Nine years later	47,640										
Ten years and later											
Current estimate of cumulative claims cost	**47,640**	**1,768**	**1,713**	**2,193**	**2,685**	**3,393**	**3,854**	**4,229**	**4,138**	**4,269**	**75,882**
Cumulative payments	**(41,973)**	**(1,198)**	**(1,272)**	**(1,468)**	**(1,628)**	**(1,837)**	**(1,722)**	**(1,480)**	**(1,140)**	**(497)**	**(54,215)**
Outstanding claims – undiscounted	**5,667**	**570**	**441**	**725**	**1,057**	**1,556**	**2,132**	**2,749**	**2,998**	**3,772**	**21,667**
Discount											(6,604)
Claims handling expenses											992
Net Outstanding claims excluding risk margin											**16,055**
Risk Margin											1,796
Outstanding claims liability											**17,851**

For accident years prior to 2017, the estimated undiscounted ultimate cost of claims has tended to reduce as the years pass. The main driver is the 2012 legislative reforms leading to more favourable experience than the actuarial valuation assumptions. For the 2017 to 2020 accident years, the increases have been driven by valuation strengthening in response to claims remaining on benefits for longer and a growing proportion of psychological claims. For 2017 to 2019 there were also higher than anticipated costs relating to catastrophic medical claims.

Notes to the financial statements

for the year ended 30 June 2022

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 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. An additional risk margin is included to take into account the inherent uncertainty in the central estimate.

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.

	2022 $'000	2021 $'000
Unearned premium income	668,953	617,520
Unexpired risk liability	323,471	329,920
Premium liability	**992,424**	**947,440**
(a) Unexpired risk liability		
As at 1 July	329,920	266,577
Recognition of (reduction in)/additional unexpired risk liability in the year	(6,449)	63,343
As at 30 June	**323,471**	**329,920**
(b) Calculation of unexpired risk liability		
Unearned premium liability (A)	668,953	617,520
Central estimate of the present value of expected future cash flows arising from future claims on contracts issued	889,269	845,174
Risk Margin (75% Probability of Sufficiency)	103,155	102,266
Premium liability (B)	**992,424**	**947,440**
Unexpired risk liability (B)-(A) (zero minimum)	**323,471**	**329,920**

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 a 75% probability (2021: 75%) of adequacy for the premium liability.

Notes to the financial statements

for the year ended 30 June 2022

2.5. Underwriting and other expenses

Overview

The Scheme incurs a range of expenses in providing its services. Details of these expenses are:

	2022 $'000	2021 $'000
Statutory levies:		
State Insurance Regulatory Authority (SIRA)	249,311	245,348
Workers Compensation (Dust Diseases) Authority	57,916	54,551
Department of Primary Industries – Mine Safety Levy	7,546	5,685
Total Statutory levies (a)	**314,773**	**305,584**
Service fees (b)	608,731	610,411
Bad debts written off	37,247	50,872
Labour costs	361	7,230
Debt collection fees	552	4,650
Impairment of trade and other receivables	2,816	(11,331)
Wage audit fees	48	659
Depreciation & amortisation expense	49,675	51,476
Interest expense on leased liabilities	171	1,038
Other	682	27,129
Underwriting and other expenses	**1,015,056**	**1,047,718**

External audit fees for the audit of the financial statements were incurred by icare in 2022 and are included as part of the service fee. The amount incurred was $0.9m (2021: $0.9m)

(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.

Notes to the financial statements

for the year ended 30 June 2022

2.5. Underwriting and other expenses (continued)

(b) 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.

2.6. Trade and other receivables

Overview

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They include trade and other receivables and are recognised at their amortised cost less impairment losses, which approximates fair value.

Receivables are recognised at amortised cost using the effective interest method, less any allowance for expected credit losses. The Scheme has applied a simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, receivables have been grouped based on days overdue.

Trade and other receivables are principally amounts owed to the Scheme by policyholders or investment receivables. 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.

	2022 $'000	2021 $'000
Premiums receivable (i)	1,157,664	1,032,045
Other receivables	50,905	51,765
Investment receivables (refer note 3.2)	126,533	142,314
Less: allowance for impairment (refer note 2.6b)	(42,442)	(39,626)
Total trade and other receivables	**1,292,660**	**1,186,498**

(i) Employers are able to pay premiums on a lump sum, quarterly instalment basis or a monthly instalment basis.

Notes to the financial statements

for the year ended 30 June 2022

2.6. Trade and other receivables (continued)

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.

(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.

Reconciliation of allowance for impairment – receivables

	2022 $'000	2021 $'000
Allowance for impairment as at 1 July	39,626	50,957
Increase/(decrease) to allowance for impairment	2,816	(11,331)
Allowance for impairment as at 30 June	**42,442**	**39,626**

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
2022			
Within normal terms	943,832	-	-
Less than 3 months overdue	78,364	71,477	6,887
3 months to 6 months overdue	52,983	47,182	5,801
Greater than 6 months overdue	133,390	103,636	29,754
	1,208,569	**222,295**	**42,442**

Notes to the financial statements

for the year ended 30 June 2022

2.6 Trade and other receivables (continued)

	Total $'000	Past due but not impaired $'000	Considered impaired $'000
2021			
Within normal terms	789,082	-	-
Less than 3 months overdue	94,006	88,844	5,162
3 months to 6 months overdue	42,593	39,127	3,466
Greater than 6 months overdue	158,129	127,131	30,998
	1,083,810	**255,102**	**39,626**

2.7. Trade and other payables

Overview

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

	2022 $'000	2021 $'000
Service fee payable to icare	62,815	74,494
Goods and Services Tax	51,933	45,376
Pay as you go tax payable	2,628	3,544
Accrued expenses	4,096	5,259
Other	5,700	6,873
Total payables	**127,172**	**135,546**

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

Notes to the financial statements

for the year ended 30 June 2022

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 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 may be conducted at two levels:

- At the overall fund level, where TCorp decides on instruments and transaction parameters. Transactions may be implemented in bond options and swaptions by TCorp and equity options by TCorp appointed investment managers; 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 2022

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.

	2022 $'000	2021 $'000
Net Realised gain/(loss) on sale of investments	(108,666)	1,207,651
Net Unrealised gain/(loss) on investments	(1,201,470)	(207,076)
Dividends/Distributions	316,793	359,215
Interest	133,015	152,895
Other income	(13,537)	(12,129)
Investment income	**(873,865)**	**1,500,556**
Investment management expense	(16,136)	(18,705)
Net investment revenue	**(890,001)**	**1,481,851**

Notes to the financial statements

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3.2. Investment assets and liabilities

	2022 $'000	2021 $'000
Investment assets		
Indexed and interest-bearing securities	4,773,136	5,733,749
Equities	-	3
Unit trusts	11,308,202	11,673,612
Derivatives	198,513	120,861
Total Investment assets	**16,279,851**	**17,528,225**
Investment receivables		
Interest, dividends and other investment income receivable	28,198	24,500
Trade proceeds yet to be settled	30,113	34,438
Margin calls	68,222	83,376
Total Investment receivables (refer note 2.6)	**126,533**	**142,314**
Total Investments	**16,406,384**	**17,670,539**
Investment liabilities		
Derivatives	272,648	77,060
Investment purchases	130,470	220,727
Total Investment liabilities	**403,118**	**297,787**
Net Investments	**16,003,266**	**17,372,752**

Notes to the financial statements

for the year ended 30 June 2022

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;
- 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.

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for the year ended 30 June 2022

3.3 Fair value estimation (continued)

	2022				2021			
	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	4,581	4,713,384	55,171	**4,773,136**	15,701	5,608,934	109,114	5,733,749
Equities	-	-	-	**-**	-	3	-	3
Unit Trusts	-	8,934,342	2,373,860	**11,308,202**	-	9,251,438	2,422,174	11,673,612
Derivatives	1,082	197,431	-	**198,513**	7,834	113,027	-	120,861
	5,663	**13,845,157**	**2,429,031**	**16,279,851**	**23,535**	**14,973,402**	**2,531,288**	**17,528,225**
Other financial liabilities								
Derivatives	**4,561**	**268,087**	**-**	**272,648**	**2,422**	**74,638**	**-**	**77,060**

Notes to the financial statements

for the year ended 30 June 2022

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: 2022: $1,584 2021: $1,498 - $1,593 Other property trusts: 2022: $0.04- $1.91 2021: $0.04 - $1.76	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	2022: $0.78- $1.43 2021: $0.37 - $1.29	An increase in published redemption prices would result in a higher fair value.
Indexed and Interest Bearing Securities	Private infrastructure debt	Valuations performed by an independent business and debt valuer	Discount rates	2022: 4.37%- 27.8% 2021: 1.14% - 25.0%	An increase in discount would result in a lower fair value.
Unit Trusts	Units in unlisted trust investing in the Opportunistic asset class	Adjusted net asset value	Published redemption prices	2022: $1.01- $1.05 2021: $0.99 - $0.99	An increase in published redemption prices would result in a higher 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.

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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 2022:

	2022 $'000	2021 $'000
Opening balance	2,531,288	1,986,938
Transfers into Level 3	4,959	307,581
Purchases of securities	570,916	653,815
Sale of securities	(810,586)	(466,073)
Transfers out of Level 3	-	-
Investment gains/(loss) (investment income)	132,454	49,027
Closing balance	**2,429,031**	**2,531,288**

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 the Master Custodian who 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 2022

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 Workers Compensation Insurance Fund (WCIF) 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.

3.3.2. Financial assets pledged as collateral

Scheme's financial assets pledged as collateral are $nil (2021: $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.

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for the year ended 30 June 2022

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 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 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
2022			
Interest rate futures	1,072	(3,355)	982,829
Shares futures	9	(1,206)	217,681
Options:			
Options on Fixed Income	11,751	-	360,589
Forwards:			
Forward foreign exchange contracts	37,011	(155,745)	6,217,820
Swaps:			
Interest rate swaps	148,670	(112,342)	7,443,413
	198,513	**(272,648)**	**15,222,332**
2021			
Interest rate futures	7,834	(2,422)	(556,161)
Shares futures			
Options:			
Options on Fixed Income	12,224	-	360,589
Forwards:			
Forward foreign exchange contracts	17,173	(19,935)	1,535,406
Swaps:			
Interest rate swaps	83,630	(54,703)	4,090,160
	120,861	**(77,060)**	**5,429,994**

Notes to the financial statements

for the year ended 30 June 2022

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 2022. 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 2022 $'000	Net Market Value as at 30 June 2021 $'000
Equity- Unlisted	4,001,802	3,830,532
Equity Listed	408,697	465,166
Property	1,575,002	1,350,546
Alternatives	1,195,023	1,346,131
Infrastructure	862,091	869,614
Debt	2,231,544	3,181,822
Cash	1,034,043	629,801
Total	**11,308,202**	**11,673,612**

4. Risk Management

Overview

The Scheme applies a consistent and integrated approach to enterprise risk management. 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 (RMF) is approved annually by the Board.

The icare Board acting for the Nominal Insurer is ultimately accountable for identifying and managing risk, including financial risk. This is done through the establishment of holistic strategies and policies where risk management has been considered.

Key aspects of icare's risk management framework include risk appetite, governance, risk management processes, risk reporting and insights, modelling and stress testing, management, monitoring and culture.

Notes to the financial statements

for the year ended 30 June 2022

4. Risk Management (continued)

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 valuation 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.

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.

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for the year ended 30 June 2022

4.2. Market risk

Overview

Market risk is the variability in the value of an investment or the assessed fair value of a financial instrument because of changes in market prices. Market risk is a systemic risk that reflects factors affecting all similar investments or financial instruments traded in the market.

The Scheme is exposed to market risk as a result of holding various investments and financial instruments that support the operation of its business.

The Scheme seeks to manage exposure to market risk so as to maximise the long term return of its financial assets in order to meet the Scheme's current and future liabilities. The management of market risk also serves to mitigate the likelihood that the Scheme's investments will be insufficient to meet such liabilities. The Scheme's portfolio of investments is implemented in accordance with its investment strategy and the associated asset allocation. The purpose of the investment strategy is to align a portfolio construction to the Scheme's investment objectives, including achieving a return in excess of the target return specified by icare (above which the investment assets would contribute to long term sufficiency), while reducing the probability of large negative investment returns. The investment strategy and resulting portfolio asset allocation is reviewed by the Board on an annual basis.

The realised asset allocations can deviate from the targeted asset allocation due to:

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

Dynamic asset allocation refers to shorter term shifts away from the targeted asset allocation which are designed to mitigate the impact of market risk mispricing so as to benefit longer term portfolio risk adjusted return. TCorp is responsible for determining and implementing such dynamic asset allocation positions, within pre-approved ranges set by the Board.

The deviations in actual asset allocation relative to target 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.

Notes to the financial statements

for the year ended 30 June 2022

4.2 Market risk (continued)

A risk budgeting framework is used to inform the investment strategy and determine an appropriate asset allocation for the Authority. This framework incorporates the underlying risk and return characteristics of the different asset classes the portfolio is invested in and the risks posed by additional factors such as inflation and changing 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 Conditional Value-at-Risk (CVaR) analysis.

TCorp, supported by its asset consultant, 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.

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 asset class returns, volatilities and correlations that may differ from 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 CVaR risk measure seeks to estimate the potential investment loss over a given holding period at a specified confidence level. The CVaR 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 CVaR methodology allows risks to be measured consistently across all markets and financial instruments and to be aggregated into a single risk number.

CVaR 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 CVaR 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.

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for the year ended 30 June 2022

4.2 Market risk (continued)

The most recent CVaR analysis was conducted in July 2022 based on the June 2022 financial instruments and is computed via forward looking simulation using a 95 per cent confidence interval and a 1-year holding period.

CVaR 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 2022, the minimum potential loss expected over a 1-year period is $530.4 million (June 2021: $762.5 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 2022 had a 25 per cent (2021: 30 per cent) allocation to Australian Commonwealth and State government inflation linked bonds to partially 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.

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.

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for the year ended 30 June 2022

4.3.3. Quantitative analysis of exposure (continued)

	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	
2022						
Class						
Cash	513,252	-	-	-	-	513,252
Money market deposits	64,000					64,000
Indexed and interest- bearing securities	3,946,248	10,707	22,444	144,563	649,174	4,773,136
Swap assets-FFX	37,012	-	-	-	-	37,012
Interest rate swaps	-	-	6,019	55,304	87,346	148,669
Options on fixed income	-	248	-	11503	-	11,751
Interest rate futures	-	1,072	-	-	-	1,072
Shares futures	-	-	9	-	-	9
Assets	**4,560,512**	**12,027**	**28,472**	**211,370**	**736,520**	**5,548,901**
Interest rate swap	-	-	(2,939)	(47,917)	(61,486)	(112,342)
Interest rate futures	-	(3,355)	-	-	-	(3,355)
Swap liability - FFX	(155,745)	-	-	-	-	(155,745)
Share futures	-	-	(1,105)	(101)	-	(1,206)
Liabilities	**(155,745)**	**(3,355)**	**(4,044)**	**(48,018)**	**(61,486)**	**(272,648)**

Notes to the financial statements

for the year ended 30 June 2022

4.3.3. Quantitative analysis of exposure (continued)

	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	
2021						
Class						
Cash	669,936	-	-	-	-	669,936
Indexed and interest- bearing securities	5,070,651	2,680	12,787	155,193	492,438	5,733,749
Swap assets-FFX	17,173	-	-	-	-	17,173
Interest rate swaps	-	-	-	12,161	71,469	83,630
Options on fixed income	-	-	-	12,224	-	12,224
Interest rate futures	-	7,834	-	-	-	7,834
Assets	**5,757,760**	**10,514**	**12,787**	**179,578**	**563,907**	**6,524,546**
Interest rate swap	-	-	(3,162)	(171)	(51,370)	(54,703)
Interest rate futures	-	(2,422)	-	-	-	(2,422)
Shares futures	(19,935)	-	-	-	-	(19,935)
Liabilities	**(19,935)**	**(2,422)**	**(3,162)**	**(171)**	**(51,370)**	**(77,060)**

The Scheme's exposure to interest rate risk is considered a component of market risk and is quantified as part of the CVaR 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.

Notes to the financial statements

for the year ended 30 June 2022

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 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.

Notes to the financial statements

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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
2022					
International floating rate securities	44,445	-	-	7,802	52,247
International bonds	393,652	21,502	-	279,690	694,844
Cash	24,381	106	-	4,249	28,736
Foreign currency derivatives (Assets- futures)	883	-	90	44	1,017
Foreign currency derivatives (Liabilities- futures)	-	(68)	-	(44)	(112)
Swap derivative (Assets)	35,025	3,242	3,010	7,314	48,591
Swap derivative (Liability)	(143,901)	(9,536)	(764)	(12,364)	(166,565)
Unit trusts	5,110	-	-	-	5,110
Investment purchases payable	(3,924)	-	-	(5,346)	(9,270)
Foreign exchange exposure position	**355,671**	**15,246**	**2,336**	**281,345**	**654,598**

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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
2021					
International floating rate securities	23,476	1,115	-	7,171	31,762
International bonds	233,885	13,302	-	226,641	473,828
Cash	30,737	56	-	892	31,685
Foreign currency derivatives (Assets- options)	16,611	(110)	195	477	17,173
Foreign currency derivatives (Assets- futures)	67	-	-	-	67
Foreign currency derivatives (Liabilities- futures)	(52)	-	-	-	(52)
Swap derivative (Assets)					-
Swap derivative (Liability)	(19,662)	(704)	(1)	432	(19,935)
Unit trusts	36,725	32,109	-	-	68,834
Investment purchases payable	(11,744)	-	-	(13,025)	(24,769)
Foreign exchange exposure position	**310,043**	**45,768**	**194**	**222,588**	**578,593**

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.

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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.

4.5.3. Quantit3tive analysis of exposure

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 2021.

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
2022				
Derivatives	155,746	7,398	109,504	272,648
2021				
Derivatives	19,935	5,584	51,541	77,060

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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.

4.6.2. Risk management objective, policies and processes

A Credit and Risk Policy ensures that the Scheme has controlled levels of credit concentration. This policy applies 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.

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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:

	2022 $'000	2022 %	2021 $'000	2021 %
AAA/aaa	3,333,765	70	4,304,846	75
AA/Aa	674,230	14	858,702	15
A/A	126,925	3	62,206	1
BBB	194,797	4	110,770	2
BB	185,294	4	127,158	2
Rated below BB	258,125	5	270,067	5
Total	**4,773,136**	**100**	**5,733,749**	**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.

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for the year ended 30 June 2022

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 cashflow statement reflects actual cashflow movements in the fund and not the movements in the underlying investment portfolios within the fund.

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 to Note 5.4).

The Scheme includes as operating cash flows, the purchase and sale of financial assets as premiums less claims costs paid to date are invested to meet future workers compensation claim costs.

	2022 $'000	2021 $'000
Money Market Deposits	64,000	-
Cash at bank	518,081	675,617
Total cash and cash equivalents	582,081	675,617
Bank overdraft	(4,829)	(5,681)
Balance as per Statement of Cash Flows	**577,252**	**669,936**

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for the year ended 30 June 2022

5.1. Cash and cash equivalents (continued)

Reconciliation of Net cash provided by/(used in) operating activities to Net result

	2022 $'000	2021 $'000
Net cash flows from operating activities	**(86,164)**	**302,014**
Amortisation expense	(49,674)	(51,476)
Assets written off/impaired	(211)	-
(Increase)/decrease in actuarially assessed claim liabilities	427,526	(648,671)
Decrease/(Increase) in unearned premiums	(51,433)	(75,898)
(Increase)/decrease in unexpired risk liability	6,449	(63,343)
Net investment purchases/(sales)	(1,248,374)	332,479
Increase/(decrease) in receivables	84,335	105,621
(Increase)/decrease in payables	(96,958)	163,961
(Increase)/decrease in Security deposits payable	13,377	(6,677)
(Increase)/decrease in Right of use asset and liability	8,163	5,291
Net result	**(992,964)**	**63,301**

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.

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for the year ended 30 June 2022

5.2. Intangible assets

Overview

The Scheme recognises intangible assets only if it is probable that future economic benefits will flow to the Scheme 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 one hundred thousand dollars 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.

	At 30 June 2022 - fair value $'000	At 30 June 2021 - fair value $'000
Software WIP		
Cost (gross carrying amount)	422	381
Accumulated amortisation and impairment	-	-
Net carrying amount	422	381
Computer software		
Cost (gross carrying amount)	200,678	194,959
Accumulated amortisation and impairment	(151,616)	(103,588)
Net carrying amount	49,062	91,371
Total	**49,484**	**91,752**

Notes to the financial statements

for the year ended 30 June 2022

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:

	2022 $'000	2021 $'000
Software WIP		
Net carrying amount at start of year	381	14,045
Additions	6,520	3,134
Transfers from Software WIP	(6,479)	(16,798)
Net carrying amount at end of year	**422**	**381**
Computer software		
Net carrying amount at start of year	91,371	120,368
Disposals	(760)	-
Write back of depreciation on disposal	549	-
Transfers from Software WIP	6,479	16,798
Amortisation expense	(48,577)	(45,795)
Net carrying amount at end of year	**49,062**	**91,371**
Total	**49,484**	**91,752**

5.3. Commitments

Overview

As at the 30 June 2022 the Scheme was required to contribute $290.3 million to the Workers Compensation Operational Fund to fund the State Insurance Regulatory Authority and Safework NSW. (2021: $281.3 million) in monthly installments by 30th June 2023.

As at the 30 June 2022 the Scheme was required to contribute $56.5 million (2021: $56.8 million) to the Workers Compensation Dust Diseases Authority in monthly installments by 30th June 2023.

As at the 30 June 2022 the Scheme was required to contribute $8.0 million (2021: $7.5 million) to the NSW Department of Primary Industries for the Mine Safety Levy in four (4) equal quarterly installments by 30 June 2023.

Notes to the financial statements

for the year ended 30 June 2022

5.4. 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 2022, the Scheme held deposits of $72.8 million (2021: $86.1 million) and bank guarantees of $291 million (2021: $358 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.

5.5. Leases

The Scheme has applied AASB 16 to properties it leases to accommodate staff

In September 2021 all of WI's leases were transferred to icare and are managed by Property NSW.

Right-of-use assets under leases

	At 30 June 2022 $'000	At 30 June 2021 $'000
Right of use asset		
Cost (gross carrying amount)	-	40,761
Accumulated depreciation and impairment	-	(11,654)
Total right of use asset	**-**	**29,107**

Notes to the financial statements

for the year ended 30 June 2022

5.5 Leases (continued)

Reconciliation

A reconciliation of the carrying amount of the right of use lease asset at the beginning and end of the current reporting periods is set out below:

	2022 $'000	2021 $'000
Movement in right of use asset		
Net carrying amount at start of the year	29,107	41,010
Additions	-	148
Disposals	(28,009)	(6,370)
Impairment	-	-
Depreciation	(1,098)	(5,681)
Net carrying amount at end of the year	**-**	**29,107**

Lease liabilities

The following table presents liabilities under leases

	2022 $'000	2021 $'000
Balance at 1 July	36,172	48,640
Additions	-	148
Disposals	(34,992)	(6,696)
Interest expenses	171	1,038
Payments	(1,351)	(6,958)
Balance at 30 June	**-**	**36,172**

Notes to the financial statements

for the year ended 30 June 2022

5.5 Leases (continued)

The maturity profile of the Scheme's future minimum lease payments under non-cancellable leases at 30 June are shown in the following table:

	2022 $'000	2021 $'000
Outstanding lease liability		
Not later than one year	-	7,286
Later than one year but not later than five years	-	23,798
Later than five years	-	11,977
Total (including GST)	**-**	**43,061**
Less: GST recoverable from Australian Tax Office	-	3,915
Total (excluding GST)	**-**	**39,146**

The reconciliation between the total future minimum lease payments for finance leases and their present value as shown in the statement of financial position follows:

	2022 $'000	2021 $'000
Total minimum finance lease payments	-	39,146
Less: future finance charges	-	(2,974)
Present value of minimum lease payments as per Statement of financial position	**-**	**36,172**

5.6. Capital management

Capital management is an integral part of icare's risk management framework. One of the key objectives of the Scheme is to have sufficient capital to meet its obligations to its participants, even under adverse conditions.

icare's Capital Management Policy has been reviewed and updated. The capital management policy has changed from a single measure using the Accounting Funding Ratio to a composite of measures that include the Insurance Ratio. The Insurance Ratio is the ratio of scheme assets to scheme liabilities, where the scheme liabilities allow for the time value of money that is reflective of the scheme's investments. The Insurance Ratio is the same as the "Economic Funding Ratio" recommended by the McDougall Review for icare to adopt for capital management as it is "a more realistic appraisal" of the financial sustainability. icare has renamed the ratio to Insurance Ratio to avoid confusion with the Accounting Funding Ratio. In addition to the Insurance Ratio, the Accounting Funding Ratio and operational cashflows as well as their trajectory over future years is considered under the Capital Management Policy.

Notes to the financial statements

for the year ended 30 June 2022

5.6. Capital management (continued)

The Board of icare set a Capital Management Policy which defines a Target Operating Zone of the Insurance Ratio for the Scheme

To determine the Scheme's Target Operating Zone, consideration was given to the following:

- The unique nature of the business from 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 NI's strategic objectives and the risks of not achieving them; and
- The underlying uncertainty of the financials of the Scheme and a capital position that ensured a higher than 96.7% probability of coverage in a hypothetical runoff portfolio.

The Board of icare has set the Target Operating Zone to achieve this probability of coverage as an Insurance Ratio higher than 130%. The Insurance Ratio as at 30 June 2022 is 102% and below the Target Operating Zone. The Capital Management Policy details actions required when the Insurance Ratio falls outside of the Target Operating Zone. Management is executing the Nominal Insurer Improvement Program to lift the performance of the NI and changing premiums to bring the Scheme's Insurance Ratio into the Target Operating Zone.

The Capital Management Framework is reviewed annually by Management or as directed by the Board or the Audit Committee (AC) of the Board. Any recommendations for change are endorsed by the AC and approved by the Board

5.7. Post balance date events

The Scheme has not identified any subsequent events that would require the financial statements or other disclosures to be adjusted.

- End of Audited Financial Statements -

Insurance for NSW

Insurance for NSW Financial statements

for the year ended 30 June 2022

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Actuarial Certificate TMF General Lines - Outstanding Claims Liabilities at 30 June 2022

Finity Consulting Pty Ltd (Finity) has been requested by Insurance & Care NSW (icare) to estimate the outstanding claims liabilities for the NSW Self Insurance Corporation (Insurance for NSW, or IfNSW) TMF General Lines portfolio as at 30 June 2022.

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.

At icare's direction our estimates have been prepared in accordance with accounting standard AASB 137, utilising risk-free discount rates and nil risk margin.

Valuation Results

The components of the discounted Outstanding Claims Liability are shown in Table 1.

Table 1 – Outstanding Claims Liability at 30 June 2022

	Liability	Property	Motor	Miscellaneous	TMF General Lines
	$m	$m	$m	$m	$m
Central Estimate					
Gross (incl. CHE)[1]	5,237.2	1,423.9	37.2	30.5	6,728.8
Recoveries	(212.3)	(194.6)	(11.5)	(0.1)	(418.5)
Net Central Estimate	5,024.8	1,229.2	25.7	30.5	6,310.3
Risk Margin	-	-	-	-	-
Provision	5,024.8	1,229.2	25.7	30.5	6,310.3

[1] Claims Handling Expenses (CHE)

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 TMF. 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:

- **February 2022 floods** – A reasonable proportion of claims are yet to be formally assessed. The reinsurance treatment of the event is not yet settled. The valuation allows for virtually certain reinsurance recoveries, which assumes that the floods were two separate events for reinsurance purposes.
- **Historical Child abuse claims that are yet to be reported** – There is considerable uncertainty in the estimate of the IBNR since there is limited information about the number of children who experienced institutional child sexual abuse. Ongoing changes to the civil environment, including amendments to the Civil Liability Act (2002) which removed restrictions on people abused in Juvenile Justice, have led to instability in the volume of claims being reported.
- **Medical Indemnity** – The number of Medical Indemnity claims reported in the last three years has increased and has resulted in a higher frequency of physical injury claims. This changing experience results in greater uncertainty in the assessment of frequency.

In our judgement, we have employed techniques and assumptions that are appropriate and the conclusions presented in our report 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 "Outstanding Claims Liabilities as at 30 June 2022 – NSW Treasury Managed Fund General Lines", dated 13 September 2022.

Our estimates and report were prepared in accordance with the Actuaries Institute's Professional Standard 302.

Yours sincerely

Estelle Pearson
Fellow of the Institute of Actuaries of Australia

Hun Kim
Fellow of the Institute of Actuaries of Australia

Stephen Lee
Fellow of the Institute of Actuaries of Australia

Actuarial Certificate
Outstanding Claims Liabilities at 30 June 2022

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 2022.

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, but 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.

In relation to the COVID-19 pandemic and associated economic disruptions, our central estimate basis has been set with consideration of claims notified up to 26 May 2022. We assume that there will be no material impact on return to work outcomes beyond what has already been observed prior to mid-2022. We note that any COVID-19-related claims beyond 30 June 2022 are not part of the outstanding claims liability.

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.

Valuation Results

The components of the estimated Outstanding Claims Liability are shown in Table 1.

Table 1 – Outstanding Claims Liability at 30 June 2022

	$m
Gross	6,799
Recoveries	(76)
Net Central Estimate	6,723
Risk Margin	-
Provision	6,723

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 are a number of cost drivers that have the potential to move the liabilities higher or lower than our estimates.

The uncertainty at this valuation is heightened by the impact of COVID-19 and associated lockdowns, including the spread of the Omicron variant during the first six months of 2022. While our valuation analysis attributed some changes in the experience during the last two years to COVID-19, there remains considerable uncertainty around the potential impacts over the next few years, and potentially longer. The actual impacts of COVID-19 may be materially different from what we have assumed, particularly in relation to the impacts on return to work outcomes.

The uncertainty around the flow-on impacts of the legal case *Ozcan vs Macarthur Disability Services Ltd* (decision handed down by the NSW Court of Appeal in April 2021) also impacts on the uncertainty at the current valuation. While we have made an allowance for the impacts of this case in the valuation results, it is currently based on very limited claim file review information and it is possible that further information will come to light over time that requires us to revise our allowance.

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; related to this is uncertainty around the average level of payment each claim will receive many years into the future. Psychological injury claims, which have grown strongly in recent years, are a key component of this risk.
- 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.

Report

Full details of the outstanding claims valuation are documented in our valuation report titled "Insurance for NSW TMF – Workers Compensation Insurance Liabilities at 30 June 2022", dated 14 September 2022.

Our estimates and report were prepared in accordance with the Actuaries Institute's Professional Standard 302, apart from the exclusion of risk margins.

Yours sincerely

A McInerney

Andrew McInerney
Fellows of the Institute of Actuaries of Australia

Scott Collings

06 October 2022

ICARE INSURANCE FOR NSW

Actuarial Certificate
Outstanding claims liabilities at 30 June 2022

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 2022 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 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;
- 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 2022; and
- Future expected recoveries.

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

Valuation Results

The PwC estimated liabilities as at 30 June 2022, net of recoveries, including claims handing expenses are summarised in the following table:

Table 1 - icare Insurance for NSW Outstanding Claims Liability at 30 June 2022 ($M)	**Rail**	**GWC**	**BFFCF**	**ERWCF**
Gross Outstanding Claims	83.6	77.8	62.5	27.5
Less Anticipated Recoveries	8.0	2.9	0.7	0.8
Net Outstanding Claims	75.6	75.0	61.9	26.7

* Note the net outstanding claims may not add up due to rounding

The gross outstanding claims liabilities include allowances for expenses to meet the cost of managing the outstanding compensation payments to claimants (including claims incurred but yet to be reported) as at 30 June 2022. The allowances are summarised in the following table:

Table 2 - icare Insurance for NSW Claims Handling Expense at 30 June 2022	**Rail**	**GWC**	**BFFCF**	**ERWCF**
Claims Handling Expense Allowance ($M)	0.0	0.0	6.3	5.4
Claims Handling Expense Allowance (%)*	0.0%	0.0%	11.2%	24.6%

* 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 preparing our liability estimates, we have concluded that no explicit adjustment for the impact of COVID-19 is required. There is clearly a degree of uncertainty on how the pandemic may impact claim outcomes.

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	7 September 2022
GWC	7 September 2022
BFFCF	7 September 2022
ERWCF	7 September 2022

Relevant Standards

Our estimates and reports were prepared in compliance with the Actuaries Institute's Professional Standard 302, which relates to estimation of outstanding claims liabilities.

icare has 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 risk margins intended to achieve higher probabilities of adequacy.

Andrew Smith
FIAA
7 September 2022

Actuarial Certificate
Solvency Fund –
Outstanding Claims Liabilities at 30 June 2022

Finity Consulting Pty Ltd (Finity) has been requested by Insurance & Care NSW (icare) to estimate the outstanding claims liabilities for the Solvency Fund or Pre-Managed Fund (PMF) as at 30 June 2022.

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.

At icare's direction our estimates have been prepared in accordance with accounting standard AASB 137, utilising risk-free discount rates and nil risk margin.

Valuation Results

The components of the discounted Outstanding Claims Liability are shown in Table 1.

Table 1 – Outstanding Claims Liability at 30 June 2022

	$m
Central Estimate	
Gross (incl. CHE)[1]	635.6
Recoveries	(15.0)
Net Central Estimate	620.6
Risk Margin	-
Provision	**620.6**

[1] Claims Handling Expenses (CHE)

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 Solvency Fund. Sources of uncertainty include the fact that outcomes remain dependent on future events, including legislative, social and economic forces.

The estimate of the liability for historic child abuse claims which have not yet been reported is subject to particular uncertainty since there is limited information about the number of children who experienced institutional child abuse and the impact of the National Redress Scheme on the civil claim experience is difficult to predict.

In our judgement, we have employed techniques and assumptions that are appropriate and the conclusions presented in our report 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.

Report

Full details of data, analysis and results for the outstanding claims valuation are documented in our valuation letter titled "Outstanding Claims Liabilities for the Solvency Fund at 30 June 2022", dated 13 September 2022.

Our estimates and report were prepared in accordance with the Actuaries Institute's Professional Standard 302.

Yours sincerely

Estelle Pearson
Fellow of the Institute of Actuaries of Australia

Luke Cassar
Fellow of the Institute of Actuaries of Australia

13 September 2022

Actuarial Certificate
Transport Accidents Compensation Fund – Outstanding Claims Liabilities at 30 June 2022

Finity Consulting Pty Ltd (Finity) has been requested by Insurance & Care NSW (icare) to estimate the outstanding claims liabilities for the Transport Accidents Compensation Fund (TAC), as at 30 June 2022.

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.

At icare's direction our estimates have been prepared in accordance with accounting standard AASB 137, utilising risk-free discount rates and nil risk margin.

Valuation results

The components of the discounted Outstanding Claims Liability are shown in Table 1.

Table 1 – Outstanding Claims Liability at 30 June 2022

	$m
Central Estimate	
Gross (incl. CHE)[1]	237.8
Recoveries	(5.7)
Net Central Estimate	232.1
Risk Margin	-
Provision	**232.1**

[1] Claims Handling Expenses (CHE)

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.

The TAC portfolio is deep into run-off, covering claims from motor vehicle accidents occurring prior to 1 July 1989, and uncertainty is higher than usual due to the following:

- 96% of the liability relates to only 5 structured settlement claims. This means that the results are very sensitive to the experience of these individual claimants.
- TAC has the liability to meet the ongoing treatment and care costs of the structured settlement claimants over their remaining lifetime. This means payments are projected for many years – on average payments are expected to be paid 25 years in the future (with 20% of payments expected to be made more than 35 years into the future).
- The liability represents an ageing cohort of claimants. This means it is more likely that past experience may not be indicative of future care needs.
- Some structured settlement claims or reinsurance recoveries may be commuted in the future for amounts that differ from the estimates we have made in our valuation basis.

In our judgement, we have employed techniques and assumptions that are appropriate and the conclusions presented in our report are reasonable given the information currently available, subject to our comments above. However, it should be recognised that future claim outcomes and costs will likely deviate, perhaps materially, from the estimates shown in this report.

Report

Full details of data, analysis and results for the outstanding claims valuation are documented in our valuation report titled "Outstanding Claims Liabilities for the Transport Accidents Compensation Fund at 30 June 2022", dated 13 September 2022.

Our estimates and report were prepared in accordance with the Actuaries Institute's Professional Standard 302.

Yours sincerely

Estelle Pearson	John Jeaitani
Fellow of the Institute of Actuaries of Australia	Fellow of the Institute of Actuaries of Australia

13 September 2022

Actuarial Certificate
Construction Risk Insurance Fund – Outstanding Claims Liabilities at 30 June 2022

Finity Consulting Pty Ltd (Finity) has been requested by Insurance & Care NSW (icare) to estimate the outstanding claims liabilities for the Construction Risk Insurance Fund (CRIF), as at 30 June 2022.

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.

At icare's direction our estimates have been prepared in accordance with accounting standard AASB 1023, utilising risk-free discount rates and a risk margin intended to provide a probability of sufficiency that the provisions held is at the 75th percentile.

Valuation results

The components of the discounted Outstanding Claims Liability are shown in Table 1.

Table 1 – Outstanding Claims Liability at 30 June 2022

	$m
Central Estimate	
Gross (incl. CHE)[1]	88.5
Recoveries	(10.9)
Net Central Estimate	77.5
Risk Margin	17.8
Provision	**95.4**

[1] Claims Handling Expenses (CHE)

Uncertainty

There is considerable uncertainty in the projected outcomes of future claims costs, particularly as constructions are susceptible to weather events and policies have multi-year exposures with long tail claims, where payments are expected to occur many years into the future. Therefore, it is not possible to value or project claims with certainty.

finity

We have prepared our estimates on the basis that they represent our current assessment of the likely future experience of the CRIF. Sources of uncertainty include the fact that outcomes remain dependent on future events, including legislative, social and economic forces.

In our judgement, we have employed techniques and assumptions that are appropriate and the conclusions presented in our report 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 "Actuarial Valuation Report as at 30 June 2022 – Construction Risk Insurance Fund", dated 13 September 2022.

Our estimates and report were prepared in accordance with the Actuaries Institute's Professional Standard 302.

Yours sincerely

Stephen Lee
Fellow of the Institute of Actuaries of Australia

Estelle Pearson
Fellow of the Institute of Actuaries of Australia

13 September 2022

HOME BUILDING COMPENSATION FUND

Actuarial Certificate
Outstanding claims liabilities at 30 June 2022

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 2022 of the Home Building Compensation Fund.

Data

PwC has relied on historical data and other quantitative and qualitative information supplied by icare from 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 not knowingly above or below the ultimate liabilities. 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;
- A loading for future expenses to meet the cost of managing the outstanding claims (including claims incurred but yet to be reported) as at 30 June 2022;
- 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 2022, net of recoveries, including claims handing expenses and a risk margin of 15%, is $279.2 million. This amount is made up as follows:

Home Building Compensation Fund Outstanding Claims Liability at 30 June 2022	$M
Gross Outstanding Claims	284.9
Less Anticipated Recoveries	5.6
Net Outstanding Claims	279.2

It is a decision for icare, acting as operator for the Home Building Compensation Fund, as to the amount adopted in the accounts.

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 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 impact of the future building cycle on claims experience, tail development of Multi Unit claims, the future claims experience for Duplexes/Triplexes, the impact of higher inflation in the building industry, and the potential for large builder insolvencies.

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.

Valuation Report

Full details of data, methodology, assumptions and results are set out in our valuation report dated 19 September 2022.

Relevant Standards

Our estimates and reports were prepared in compliance with the Actuaries Institute's Professional Standard 302, 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
26 September 2022

James Richardson
FIAA
26 September 2022

Statement by the board of directors

for the year ended 30 June 2022

NSW Self Insurance Corporation

Statement under Section 7.6 Government Sector Finance Act 2018

Pursuant to section 7.6(4) of the *Government Sector Finance Act 2018* ("the Act"), In the opinion of the Board of Directors we state that these financial statements:

- have been prepared in accordance with the Australian Accounting Standards and the applicable requirements of the Act, the *Government Sector Finance Regulation 2018* and the Treasurer's directions. and
- present fairly the NSW Self Insurance Corporation's financial position, financial performance and cash flows.

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

John Robertson
Chairman
Insurance and Care NSW
26 September 2022

Richard Harding
Chief Executive Officer and Managing Director
NSW Self Insurance Corporation and Insurance and Care NSW
26 September 2022

INDEPENDENT AUDITOR'S REPORT

NSW Self Insurance Corporation

To Members of the New South Wales Parliament

Opinion

I have audited the accompanying financial statements of the NSW Self Insurance Corporation (the Corporation), which comprises the statement by the board of directors, the statement of comprehensive income for the year ended 30 June 2022, the statement of financial position as at 30 June 2022, the statement of changes in equity and the statement of cash flows, for the year then ended, and notes to the financial statements.

In my opinion, the financial statements:

- have been prepared in accordance with Australian Accounting Standards and the applicable financial reporting requirements of the *Government Sector Finance Act 2018* (GSF Act), the Government Sector Finance Regulation 2018 (GSF Regulation) and the Treasurer's Directions
- presents fairly the Corporation's financial position, financial performance and cash flows.

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 (including Independence Standards)' (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.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the financial statements for the year ended 30 June 2022. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, I do not provide a separate opinion on these matters.

<table>
<tr><th>Key Audit Matter</th><th>How my audit addressed the matter</th></tr>
<tr><td colspan="2">Valuation of outstanding claims liability</td></tr>
<tr><td>
At 30 June 2022, the Corporation recorded an outstanding claims liability balance of $15.0 billion. The valuation of the outstanding claims liability involves significant judgement in determining the timing and value of expected future payments for claims incurred and related costs to settle the claims. In determining the valuation of the liabilities, the Corporation engages actuarial specialists to model and develop assumptions to estimate the outstanding claims liability.

I considered this to be a key audit matter because of the:
• financial significance of the outstanding claims liability
• degree of judgement in developing assumptions and the complexity of valuation models. The key inputs and judgements involved in estimating the outstanding claim liability include:
– discount rates
– assumed rates of inflation, particularly in the near term
– assumptions as to the timing of reported claim payments
– assumptions over the number and size of claims incurred but not reported
– assumptions over the future costs of claims handling expenses
– assumptions over the reliability of the claim experience to inform future experience
– assumptions that estimate the extent and severity of future psychological claims; the incidence and cost of future child abuse and medical indemnity claims
– assumptions that estimate the impact of the continuing COVID-19 pandemic
– assumptions that estimate the impact of event losses largely relating to floods
– assumptions to reflect the relative uncertainty of the environment the Corporation operates in, including the building cycle for the Home Building Compensation Fund
</td><td>
Key audit procedures included the following:
• with the assistance of an actuarial specialist:
– evaluated the competence, capabilities and objectivity of the Corporation’s actuaries
– gained an understanding of the work of the Corporation’s actuaries and evaluated the appropriateness of their work, including their models
– assessed the valuation methods and approach used by the Corporation’s actuaries against the requirements of accounting standards and consistency with industry practice and the underlying claims exposure
– assessed the assumption setting process, including data on the Corporation’s statutory obligations to policyholders/beneficiaries and claims payment information used as inputs into the valuation models
– assessed the data used by the Corporations' actuaries to derive the economic assumptions particularly inflation
– assessed the results of the experience investigations carried out by the Corporation’s actuaries, to determine how they inform the assumptions adopted, with specific emphasis on the trends in incidence and claim cost for psychological, child abuse and medical indemnity claims, the changes to the building cycle, and incurred but not reported claims for event losses largely relating to floods
– evaluated the judgements made by the Corporation’s actuaries in assessing the impact of the COVID-19 pandemic on assumptions
– performed an overall assessment of the valuation methodology, key assumptions and models used to derive the valuation of the outstanding claims liabilities
• evaluated the judgement applied in recognising reinsurance recoveries.
• assessed the adequacy of the related financial statement disclosures against the requirements of applicable Australian Accounting Standards.
</td></tr>
</table>

Key Audit Matter	How my audit addressed the matter
– the allowance for risk in estimating future cash flows, including a risk margin for the Home Building Compensation Fund and Construction Risk Insurance Fund. • the probability of reinsurance recoveries on event losses largely relating to floods. The level of judgement means that the valuation of the outstanding claims liability may change significantly and unexpectedly due to changes in assumptions. Details on the valuation techniques, inputs and assumptions are disclosed in Note 2.3.	
Outsourced claims activities	
For the year ended 30 June 2022, the Corporation outsourced a substantial component of the end-to-end claims management and payment process to external claim managers. Claim managers process all of the Corporation's workers compensation and general lines claims, including retaining the historical claim data provided to the Corporation's actuaries for the valuation of the outstanding claims liability. Claim managers provide monthly and annual returns, which form the basis of accounting entries in the Corporation's financial reporting systems. They also provide an annual service organisation controls report where they respond to risks and control objectives provided by icare management on behalf of the Corporation. I considered this to be a key audit matter because the claim managers' control environment is responsible for a material component of the reported claims expense and the policyholder data used in the calculation of the Corporation's outstanding claims liability.	Key audit procedures included the following: • tested the reconciliation of the annual claim manager returns to the Corporation's financial reporting systems at 30 June 2022 • with reference to Australian Auditing Standard ASA 402 Auditing Considerations Relating to an Entity Using a Service Organisation: – obtained an understanding of the services provided by claim managers and the internal controls relevant to the Corporation's financial statements – tested key controls over financial reporting within the claim managers' control environment – tested the completeness of the claim managers data and vouched a sample of key claim fields to supporting evidence – tested the reconciliation between the cost of claims on the annual return to the claim information submitted to the claim database for use by the Corporation's actuaries.

The Board's Responsibilities for the Financial Statements

The Board of Directors of Insurance and Care NSW, acting for the Corporation, are responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards, the GSF Act, GSF Regulations and Treasurer's Directions. The Board of Directors' responsibility also includes such internal control as the Board of Directors 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 Board of Directors are 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.

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/ar6.pdf . The description forms part of my auditor's report.

The scope of my audit does not include, nor 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

Delegate of the Auditor-General for New South Wales

29 September 2022
SYDNEY

Statement of comprehensive income

for the year ended 30 June 2022

	Notes	2022 $'000	2021 $'000
Gross written premium and contributions		2,180,738	1,934,385
Unearned premium and contribution movement		(171,138)	(177,211)
Net earned premium & contributions		2,009,600	1,757,174
Outwards reinsurance expense	2.1	(21,828)	(11,224)
Gross Earned premium and contributions net of reinsurance (a)	**2.1**	**1,987,772**	**1,745,950**
Gross claims expenses	2.2	(3,958,821)	(2,850,047)
Recoveries revenue	2.2	256,659	61,000
Acquisition costs	2.2	(9,333)	(10,661)
Unexpired risk liability expense	2.3.7.2	69,342	161,305
Net Claims expense (b)		**(3,642,153)**	**(2,638,403)**
Underwriting and other expenses (c)	2.3.9	(326,826)	(273,362)
Underwriting result (a+b+c)		**(1,981,207)**	**(1,165,815)**
Hindsight adjustments	2.1	153,574	80,215
Investment earnings	3.1	(649,657)	2,065,889
Other revenue		132	357
Insurance result		**(2,477,158)**	**980,646**
Grants from the Crown	5.2	1,927,672	13,523
Loss on disposal of assets		-	(552)
Net Result		**(549,486)**	**993,617**
Other comprehensive income		-	-
Total comprehensive income		**(549,486)**	**993,617**

The accompanying notes form part of these financial statements

Statement of financial position

as at 30 June 2022

	Notes	2022 $'000	2021 $'000
ASSETS			
Cash and cash equivalents	5.1	2,188,422	576,268
Investments	3.2	13,452,855	13,990,857
Trade and other receivables	2.3.10	954,392	596,947
Total Assets		**16,595,669**	**15,164,072**
LIABILITIES			
Trade and other payables	2.3.11	123,622	117,584
Unearned premiums	2.3.7.1	769,036	601,216
Outstanding claims liabilities	2.3.1	15,046,560	13,169,992
Unexpired risk liability	2.3.7.2	338,493	407,836
Total Liabilities		**16,277,711**	**14,296,628**
Net Assets		**317,958**	**867,444**
EQUITY			
Accumulated funds		317,958	867,444
Total Equity		**317,958**	**867,444**

The accompanying notes form part of these financial statements

Statement of changes in equity

for the year ended 30 June 2022

	2022 Accumulated Funds $'000	2021 Accumulated Funds $'000
Balance at beginning of year	**867,444**	**(126,173)**
Net Result for the year	(549,486)	993,617
Other comprehensive income	-	-
Total comprehensive income for the year	**(549,486)**	**993,617**
Transfers with owners in their capacity as owners	-	-
Balance at 30 June	**317,958**	**867,444**

The accompanying notes form part of these financial statements

Statement of cash flows

for the year ended 30 June 2022

	Notes	2022 $'000	2021 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Premiums & contributions received		2,250,708	1,877,790
Claims paid		(2,095,732)	(1,902,795)
Recoveries received		33,002	40,704
Total Premiums/contributions less claims		**187,978**	**15,699**
Receipts			
Investment income		612,817	776,976
Interest received		1,938	1,830
Grants from the Crown	5.2	1,913,523	-
Other income		132	221
Total Receipts		**2,528,410**	**779,027**
Payments			
Purchases of investments		(726,409)	(2,681,976)
Service fees paid		(225,835)	(195,809)
Other payments		(151,990)	(100,471)
Total Payments		**(1,104,234)**	**(2,978,256)**
Net cash flows from operating activities	5.1	**1,612,154**	**(2,183,530)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		-	-
Purchase of PPE & Intangible Assets		-	-
Net cash flows from investing activities		**-**	**-**
NET INCREASE / (DECREASE) IN CASH		**1,612,154**	**(2,183,530)**
Opening cash and cash equivalents		576,268	2,759,798
CLOSING CASH AND CASH EQUIVALENTS	**5.1**	**2,188,422**	**576,268**

The accompanying notes form part of these financial statements

Notes to the financial statements

for the year ended 30 June 2022

1. Overview

1.1. About the Corporation

The NSW Self Insurance Corporation (SI) operates under the *NSW Self Insurance Corporation Act 2004*, the *Government Sector Finance Act 2018*, the *Government Sector Finance Regulation 2018* and the Treasurer's Directions. The reporting entity is consolidated as part of the NSW Total State Sector Accounts. SI is a not-for-profit entity.

SI is a statutory entity that provides self-insurance coverage for most of the general NSW 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.

Insurance and Care 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. SI is one such scheme.

The financial statements for the year ended 30 June 2022 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 26 September 2022.

1.2. About this report

This Financial Report is an aggregation of the Schemes (Funds) that comprise the SI. (Refer to Note 1.3).

The Financial Report includes the four primary statements, namely the statement of comprehensive income (which comprises net result 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.

Notes to the financial statements

for the year ended 30 June 2022

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.

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:

- Allianz Australia Insurance Limited
- Employers Mutual Limited
- Gallagher Bassett
- QBE Insurance (Australia) Limited

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 Government Sector Finance Act 2018, the Government Sector Finance Regulation 2018 and the Treasurer's Directions

These financial statements have been presented on a liquidity basis following receipt of an exemption from TPG 22-07 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. Going concern basis

These financial statements have been prepared on a going concern basis.

1.2.5. 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 liability;
- Note 2.3.7- Unearned premiums and unexpired risk liability.and
- Note 3 & 4 – Investment Activities & Risk Management

Notes to the financial statements

for the year ended 30 June 2022

1.2.6. 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.

1.2.7. Comparative information

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.

1.2.8. 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 ended 30 June 2022. The following are new Australian Accounting Standards or amendments which have been issued but are not yet effective and are not expected to have a material impact on the financial performance or position of SI:

- AASB 2020-3 *Amendments to Australian Accounting Standards – Annual Improvements 2018–2020 and Other Amendments*
- AASB 2021-2 *Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates*

SI has commenced the AASB 17 implementation project with a view to being compliant with the public sector equivalent of AASB 17 Insurance Contracts by FY 2025/26. The public sector equivalent is expected to be released in December 2022.

1.2.9. Coronavirus (COVID-19) pandemic

As a consequence of COVID-19 and in preparing these financial statements, management:

- re-evaluated whether there were any additional areas of judgement or estimation uncertainty;
- assessed the carrying values of its assets and liabilities and determined any impact that may occur as a result of market inputs and variables impacted by COVID-19;
- considered the impact of COVID-19 on SI's financial statement disclosures.

Notes to the financial statements

for the year ended 30 June 2022

1.2.9 Coronavirus (COVID-19) pandemic (continued)

Accounting Estimates and judgement:

The ongoing COVID-19 pandemic has increased the estimation uncertainty in the preparation of these financial statements. SI has developed various accounting estimates in these financial statements based on forecasts of economic conditions which reflect expectations and assumptions as at 30 June 2022 about future events that we believe are reasonable in the circumstances. There is a considerable degree of judgement involved in preparing these forecasts. The underlying assumptions are also subject to uncertainties which are often outside the control of SI. Accordingly, actual economic conditions may be different from those forecast since anticipated events may not occur as expected, and the effect of those differences may significantly impact accounting estimates included in these financial statements.

The significant accounting estimates particularly impacted by these associated uncertainties are predominantly related to the valuation of outstanding claims liabilities and the fair value measurement of investments.

The impact of the COVID-19 pandemic on each of these accounting estimates is discussed further below. Readers should carefully consider these disclosures considering the inherent uncertainty described above.

- Outstanding Claims Liability – please refer to Note 2.3
- Liability Adequacy Test (LAT) Note 2.3.7 – The LAT test might be impacted by a reduction in unearned premium liabilities as a result of Covid 19. This can result in an increase in the unexpired risk provision if claim liability valuation does not have a corresponding decrease.
- Fair value measurement of investments.

SI's investments are designated at fair value through profit and loss, and for the vast majority of the investments, the fair value is determined based on observable market data. This measurement basis has not changed as a result of COVID-19.

The investments which are subject to valuation using unobservable inputs are disclosed in Note 3.

Risk Management

The financial and social impacts of COVID-19 continue to emerge and will further develop over the coming year. Their extent and duration are difficult to forecast and remain dependent on many factors. These include the extent to which the virus persists, the efficacy of government and central bank responses (both locally and globally) and the impact prolonged uncertainty has on consumer and business sentiment.

The immediate impacts on SI have been from market volatility creating lower investment returns and increases in claims liabilities. As the impacts of the virus and associated responses evolve, so too will the associated risks.

Notes to the financial statements

for the year ended 30 June 2022

1.3. Fund information

Overview

The fund note provides information by Schemes 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 NSW Government's largest self-insurance scheme that safeguards the insurable assets and provides workers compensation coverage to:

- most general government sector agencies; and
- various statutory authorities and state owned corporations.

The TMF is covered by the Net Asset Holding Level Policy (NAHLP) as detailed in Note 5.2. This includes funding for the impact of major claims as noted in Note 2.3 that are either not covered by the TMF insurance protection or exhausting the TMF insured retention level.

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).

As HBCF issue insurance contracts its 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 icare (on behalf of SI) for all major capital works projects with a contract value greater than $10 million. SOC's must demonstrate that they can acquire PAI at a price more competitive than the price offered by icare. Agencies, including SOCs, are able to decide whether or not to insure for projects under $10 million. However if they decide to insure projects under $10 million, PAI must be organised through icare.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.

Notes to the financial statements

for the year ended 30 June 2022

1.3 Fund information (continued)

As CRIF issues insurance contracts its 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*".

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*".

Notes to the financial statements

for the year ended 30 June 2022

1.3 Fund information (continued)

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 2022

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	2022 Total $'000
Gross written premium and contributions	1,831,052	215,932	128,135	-	-	-	-	-	5,619	-	2,180,738
Unearned premium and contributions movement	-	(87,534)	(80,285)	-	-	-	-	(584)	(2,715)	(20)	(171,138)
Net earned premiums	1,831,052	128,398	47,850	-	-	-	-	(584)	2,904	(20)	2,009,600
Outwards reinsurance expense	-	-	(21,828)	-	-	-	-	-	-	-	(21,828)
Net earned premiums and contributions less reinsurance expense (a)	**1,831,052**	**128,398**	**26,022**	**-**	**-**	**-**	**-**	**(584)**	**2,904**	**(20)**	**1,987,772**
Gross Claims expenses	(3,640,782)	(117,763)	(43,067)	(163,804)	10,647	3,455	(7,694)	2,192	(2,025)	20	(3,958,821)
Recoveries received	247,723	1,052	4,810	2,286	(1,304)	(818)	2,567	(98)	441	-	256,659
Acquisition costs	-	(9,333)	-	-	-	-	-	-	-	-	(9,333)
Unexpired risk liability	-	59,365	9,977	-	-	-	-	-	-	-	69,342
Net Claims expense (b)	**(3,393,059)**	**(66,679)**	**(28,280)**	**(161,518)**	**9,343**	**2,637**	**(5,127)**	**2,094**	**(1,584)**	**20**	**(3,642,153)**
Underwriting and other expenses (c)	(285,767)	(25,393)	(5,391)	(3,858)	(826)	(1,584)	(1,177)	(1,510)	(1,320)	-	(326,826)
Underwriting result (a+b+c)	**(1,847,774)**	**36,326**	**(7,649)**	**(165,376)**	**8,517**	**1,053**	**(6,304)**	**-**	**-**	**-**	**(1,981,207)**
Hindsight adjustments	153,574	-	-	-	-	-	-	-	-	-	153,574
Investment Revenue	(533,652)	(35,693)	(1,551)	(23,976)	(8,809)	(38,770)	(7,206)	-	-	-	(649,657)
Other Revenue	96	-	-	-	30	-	6	-	-	-	132
Insurance profit/(loss)	**(2,227,756)**	**633**	**(9,200)**	**(189,352)**	**(262)**	**(37,717)**	**(13,504)**	**-**	**-**	**-**	**(2,477,158)**
Grants from the Crown	1,940,000	27,672	130,000	95,000	(10,000)	(250,000)	(5,000)	-	-	-	1,927,672
Loss on disposal of assets	-	-	-	-	-	-	-	-	-	-	-
Net Result	**(287,756)**	**28,305**	**120,800**	**(94,352)**	**(10,262)**	**(287,717)**	**(18,504)**	**-**	**-**	**-**	**(549,486)**
Other Comprehensive Income	-	-	-	-	-	-	-	-	-	-	-
Total Comprehensive Income	**(287,756)**	**28,305**	**120,800**	**(94,352)**	**(10,262)**	**(287,717)**	**(18,504)**	**-**	**-**	**-**	**(549,486)**

Notes to the financial statements

for the year ended 30 June 2022

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	2021 Total $'000
Gross written premium and contributions	1,643,245	206,851	81,289	-	-	-	-	-	3,000	-	1,934,385
Unearned premium and contributions movement	-	(102,935)	(53,462)	-	-	-	-	(23,287)	2,486	(13)	(177,211)
Net earned premiums	1,643,245	103,916	27,827	-	-	-	-	(23,287)	5,486	(13)	1,757,174
Outwards reinsurance expense	-	-	(11,224)	-	-	-	-	-	-	-	(11,224)
Net earned premiums and contributions less reinsurance expense (a)	**1,643,245**	**103,916**	**16,603**	**-**	**-**	**-**	**-**	**(23,287)**	**5,486**	**(13)**	**1,745,950**
Gross Claims expenses	(2,883,746)	(73,357)	(44,446)	42,460	4,516	90,899	(6,220)	24,688	(4,854)	13	(2,850,047)
Recoveries received	70,921	(821)	3,744	(3,837)	(667)	(2,792)	(5,762)	(3)	217	-	61,000
Acquisition costs	-	(10,661)	-	-	-	-	-	-	-	-	(10,661)
Unexpired risk liability	-	171,282	(9,977)	-	-	-	-	-	-	-	161,305
Net Claims expense (b)	**(2,812,825)**	**86,443**	**(50,679)**	**38,623**	**3,849**	**88,107**	**(11,982)**	**24,685**	**(4,637)**	**13**	**(2,638,403)**
Underwriting and other expenses (c)	(237,453)	(23,447)	(5,270)	(3,933)	(218)	(505)	(289)	(1,398)	(849)	-	(273,362)
Underwriting result (a+b+c)	**(1,407,033)**	**166,912**	**(39,346)**	**34,690**	**3,631**	**87,602**	**(12,271)**	**-**	**-**	**-**	**(1,165,815)**
Hindsight adjustments	80,215	-	-	-	-	-	-	-	-	-	80,215
Investment Revenue	1,925,849	30,636	120	-	17,943	76,519	14,822	-	-	-	2,065,889
Other Revenue	201	136	-	-	3	6	11	-	-	-	357
Insurance profit/(loss)	**599,232**	**197,684**	**(39,226)**	**34,690**	**21,577**	**164,127**	**2,562**	**-**	**-**	**-**	**980,646**
Grants from the Crown	-	13,523	-	-	-	-	-	-	-	-	13,523
Net Result	**598,680**	**211,207**	**(39,226)**	**34,690**	**21,577**	**164,127**	**2,562**	**-**	**-**	**-**	**993,617**
Other Comprehensive Income	-	-	-	-	-	-	-	-	-	-	-
Total Comprehensive Income	**598,680**	**211,207**	**(39,226)**	**34,690**	**21,577**	**164,127**	**2,562**	**-**	**-**	**-**	**993,617**

Notes to the financial statements

for the year ended 30 June 2022

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	2022 Total $'000
ASSETS											
Cash and cash equivalents	1,866,202	148,917	173,571	-	-	(12)	(256)	-	-	-	2,188,422
Investments	11,737,538	504,590	58,307	526,024	97,211	452,573	76,612	-	-	-	13,452,855
Trade and other receivables	715,672	58,941	141,058	15,160	2,863	5,700	7,951	689	6,212	146	954,392
Total Assets	**14,319,412**	**712,448**	**372,936**	**541,184**	**100,074**	**458,261**	**84,307**	**689**	**6,212**	**146**	**16,595,669**
LIABILITIES											
Trade and other payables	11,634	4,690	445	(79,085)	10,889	251,892	6,337	(61,853)	(21,319)	(8)	123,622
Unearned premiums	-	590,435	178,601	-	-	-	-	-	-	-	769,036
Outstanding claims liabilities	13,527,613	284,882	109,001	635,619	77,820	237,802	83,596	62,542	27,531	154	15,046,560
Unexpired risk liability	-	338,493	-	-	-	-	-	-	-	-	338,493
Total Liabilities	**13,539,247**	**1,218,500**	**288,047**	**556,534**	**88,709**	**489,694**	**89,933**	**689**	**6,212**	**146**	**16,277,711**
Net Assets	**780,165**	**(506,052)**	**84,889**	**(15,350)**	**11,365**	**(31,433)**	**(5,626)**	**-**	**-**	**-**	**317,958**
EQUITY											
Balance as at 1 July 2021	1,067,921	(534,357)	(35,911)	79,002	21,627	256,284	12,878	-	-	-	867,444
Net Result for the year	(287,756)	28,305	120,800	(94,352)	(10,262)	(287,717)	(18,504)	-	-	-	(549,486)
Total Equity	**780,165**	**(506,052)**	**84,889**	**(15,350)**	**11,365**	**(31,433)**	**(5,626)**	**-**	**-**	**-**	**317,958**

Notes to the financial statements

for the year ended 30 June 2022

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	2021 Total $'000
ASSETS											
Cash and cash equivalents	401,496	81,627	93,160	-	(4)	(13)	2	-	-	-	576,268
Investments	12,802,994	485,469	-	-	112,628	497,890	91,876	-	-	-	13,990,857
Trade and other receivables	373,865	49,889	103,417	13,270	4,163	6,638	6,237	764	38,538	166	596,947
Total Assets	**13,578,355**	**616,985**	**196,577**	**13,270**	**116,787**	**504,515**	**98,115**	**764**	**38,538**	**166**	**15,164,072**
LIABILITIES											
Trade and other payables	775,900	7,131	36,662	(638,588)	518	841	501	(72,617)	7,244	(8)	117,584
Unearned premiums	-	502,900	98,316	-	-	-	-	-	-	-	601,216
Outstanding claims liabilities	11,734,534	243,452	87,533	572,856	94,642	247,390	84,736	73,381	31,294	174	13,169,992
Unexpired risk liability	-	397,859	9,977	-	-	-	-	-	-	-	407,836
Total Liabilities	**12,510,434**	**1,151,342**	**232,488**	**(65,732)**	**95,160**	**248,231**	**85,237**	**764**	**38,538**	**166**	**14,296,628**
Net Assets	**1,067,921**	**(534,357)**	**(35,911)**	**79,002**	**21,627**	**256,284**	**12,878**	**-**	**-**	**-**	**867,444**
EQUITY											
Balance as at 1 July 2020	469,241	(745,564)	3,315	44,312	50	92,157	10,316	-	-	-	(126,173)
Net Result for the year	598,680	211,207	(39,226)	34,690	21,577	164,127	2,562	-	-	-	993,617
Total Equity	**1,067,921**	**(534,357)**	**(35,911)**	**79,002**	**21,627**	**256,284**	**12,878**	**-**	**-**	**-**	**867,444**

Notes to the financial statements

for the year ended 30 June 2022

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**

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 of cover. Agencies have an option to insure for projects under $10m in value and if they chose to do so this insurance must be done through icare.

Premiums are exclusive of taxes and duties levied.

Contributions for ERW, BFFF and SSIF are received from their respective agencies and recognised as levied. Under the legislation for these agencies, the directors have assessed all claims will be borne by these agencies and have booked the corresponding surplus or shortfall as a receivable/ payable to the various entities.

- **Agency performance adjustments**

TMF uses a discretionary performance adjustment to encourage agencies to improve their claims performance. From 20-21 this is known as the agency performance adjustment (APA). Expected claims costs and the agency's contribution are established at the start of a fund year. This is then re-assessed as actual claims experience develops at 6 months, 18 months and 2.5 years after the start of the fund year. The APA is the difference between the initial contribution paid and the latest re-assessed amount. If the re-assessed amount is lower than the initial contribution the agency receives the difference as a refund from icare, otherwise the agency makes a payment to icare.

The purpose of the APA is to:

- Use price signalling to identify claims issues and overall performance of individual agencies
- Incentivise Agencies to engage in appropriate claims prevention and mitigation activities
- Ensure the Agency is accountable for trends under their control, and receive relevant information to understand those trends

As the APA adjustments are discretionary and not contractually required they are recognised as revenue or expense when they are declared.

- **Outwards reinsurance or insurance paid/ ceded expense**

Reinsurance or insurance paid/ceded to reinsurers are recognised as an expense when the period of cover commences.

Notes to the financial statements

for the year ended 30 June 2022

2.1 Revenue (continued)

	2022 $'000	2021 $'000
Gross written premium	344,067	288,140
Unearned premium movement	(167,819)	(156,397)
Outwards Reinsurance expense	(21,828)	(11,224)
Net earned premium (a)	154,420	120,519
Contributions	1,836,671	1,646,245
Unearned contribution movement	(3,319)	(20,814)
Net earned contributions (b)	1,833,352	1,625,431
Net earned premium and contributions (a+b)	1,987,772	1,745,950

2.2. Net Claims expense

Overview

The largest expense for SI is net claims, which are primarily the sum of

- the movement in the net outstanding claims liability (Note 2.3) which is the difference between the net outstanding claims liability at the beginning and the end of the financial year; plus
- any net claim payments made during the financial year; plus
- the movement in the unexpired risk liability (Note 2.3.7).

This comprises of what is estimated by the consulting actuary as at 30 June 2022 as being the movement in the amount require to meet the cost of claims reported but not yet paid, claims incurred but which have not yet been reported and future claims from after the balance date.

Notes to the financial statements

for the year ended 30 June 2022

2.2 Net claims expense (continued)

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.

	2022 $'000	2021 $'000
Claims and related expenses	2,082,253	1,908,772
Finance costs	(1,240)	24,658
Other movements in outstanding claims liabilities	1,877,808	916,617
Gross claims expenses	3,958,821	2,850,047
Recoveries revenue	(256,659)	(61,000)
Acquisition costs	9,333	10,661
Movement in unexpired risk liability	(69,342)	(161,305)
Net claims expense	**3,642,153**	**2,638,403**

Major drivers for the increase in claims expense were:

- The workers compensation portfolio continues to be impacted by adverse claims experience from increasing psychological injury numbers and increasing number of higher severity claims (WPI >15%). WPI of 15% or more allow access to Work Injury Damages, pressure on s66 payments as entitlement is WPI dependent and increasing duration for Weekly and Medical benefits.
- The March 2022 floods have resulted in $311m estimated losses as at 30 June 2022 of NSW State assets covered by TMF.
- An allowance has been made for increased claims numbers as a result of plaintiff law firm and advocate activity in correctional centres as well as non-litigated DCJ batch claims;
- The medical indemnity portfolio continues to be impacted by adverse experience from increasing physical injury claims numbers.

Finance costs 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 2022

2.2 Net claims expense (continued)

Finance costs are dissected by scheme in the table below:

	2022 $'000	2021 $'000
Unwinding of discounts on provision for outstanding claims see below:		
NSW Treasury Managed Fund (TMF)	(1,092)	21,362
Pre Managed Fund (PMF)	(57)	1,490
Governmental Workers Compensation Account (GWC)	(11)	225
Home Building Compensation Fund (HBCF)	(24)	478
Construction Risk Insurance Fund (CRIF)	(5)	60
Transport Accidents Compensation Fund (TAC)	(30)	597
Residual Workers Compensation Liabilities of the Crown (SRA/RIC)	(10)	163
Bush Fire Fighters Compensation Fund (BFFF)	(7)	216
Emergency and Rescue Workers Compensation Fund (ERWF)	(4)	66
Supplementary Sporting Injuries Fund (SSIF)	-	1
Finance costs	**(1,240)**	**24,658**

An analysis of the net claims incurred for the TMF (SI's largest 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 2022

2.2 Net claims expense (continued)

(i) TMF Workers Compensation

	12 Months to 30 June 2022			12 Months to 30 June 2021		
	Current year $'000	Prior Years $'000	Total $'000	Current year $'000	Prior Years $'000	Total $'000
Gross Claims Expense[3]						
Gross claims incurred – Undiscounted	1,834,182	966,884	2,801,066	1,516,239	227,269	1,743,508
Discount movement	(371,700)	(907,059)	(1,278,759)	(143,544)	(158,997)	(302,541)
	1,462,482	**59,825**	**1,522,307**	**1,372,695**	**68,272**	**1,440,967**
Reinsurance and other recoveries revenue						
Reinsurance and other recoveries revenue - undiscounted	(16,127)	(6,054)	(22,181)	(13,325)	(13,726)	(27,051)
Discount movement	2,473	6,785	9,258	790	1,286	2,076
	(13,654)	731	(12,923)	(12,535)	(12,440)	(24,975)
Total Net Claims Incurred	**1,448,828**	**60,556**	**1,509,384**	**1,360,160**	**55,832**	**1,415,992**

[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.

Notes to the financial statements

for the year ended 30 June 2022

2.2 Net claims expense (continued)

(ii) TMF General Lines

	12 Months to 30 June 2022			12 Months to 30 June 2021		
	Current year $'000	Prior Years $'000	Total $'000	Current year $'000	Prior Years $'000	Total $'000
Gross Claims Expense[3]						
Gross claims incurred – Undiscounted	1,667,892	1,318,315	2,986,207	1,059,030	531,171	1,590,201
Discount movement	(229,623)	(638,110)	(867,733)	(61,115)	(75,817)	(136,932)
	1,438,269	**680,205**	**2,118,474**	**997,915**	**455,354**	**1,453,269**
Reinsurance and other recoveries revenue						
Reinsurance and other recoveries revenue - undiscounted	(253,220)	(21,519)	(274,739)	(48,237)	(16,866)	(65,103)
Discount movement	16,948	22,991	39,939	2,933	5,734	8,667
	(236,272)	**1,472**	**(234,800)**	**(45,304)**	**(11,132)**	**(56,436)**
Total Net Claims Incurred	**1,201,997**	**681,677**	**1,883,674**	**952,611**	**444,222**	**1,396,833**

Notes to the financial statements

for the year ended 30 June 2022

2.2 Net claims expense (continued)

(iii) Other

	12 Months to 30 June 2022			12 Months to 30 June 2021		
	Current year $'000	Prior Years $'000	Total $'000	Current year $'000	Prior Years $'000	Total $'000
Gross Claims Expense[3]						
Gross claims incurred – Undiscounted	204,070	372,854	576,924	162,349	(235,443)	(73,094)
Discount movement	(14,690)	(244,194)	(258,884)	(2,382)	41,777	39,395
	189,380	**128,660**	**318,040**	**159,967**	**(193,666)**	**(33,699)**
Reinsurance and other recoveries revenue						
Reinsurance and other recoveries revenue - undiscounted	(10,391)	(6,645)	(17,036)	(7,126)	17,443	10,317
Discount movement	822	7,279	8,101	83	(478)	(395)
	(9,568)	**633**	**(8,935)**	**(7,043)**	**16,964**	**9,921**
Total Net Claims Incurred	**179,812**	**129,293**	**309,105**	**152,924**	**(176,702)**	**(23,778)**

[3]Gross outstanding claims movements include an estimate for claims handling expenses.

Notes to the financial statements

for the year ended 30 June 2022

2.3. Net 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 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). While Management have considered risks and uncertainties in the estimation of the central estimate, consistent with the requirements of AASB 1023, an explicit risk margin has been 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 using appropriate risk-free discount rates. The increase in the provision resulting from the passage of time is recognised in the finance costs.

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.

Notes to the financial statements

for the year ended 30 June 2022

2.3.1 Discounted net outstanding claims (continued)

SI will be reviewing indexation of claims payments for periods after 2012 where claims are greater than 26 weeks in duration. SI has engaged with Claims Service Providers (CSP's) to understand whether indexation of claims payments is and was applied accurately and will take appropriate steps based on the outcome. SI are in the process of quantifying any adjustments to the payments made for the above period. We have assessed that any adjustment would not be material to the claims liability if any.

	2022 $'000	2021 $'000
Outstanding claims		
Expected future gross claims payments	17,691,095	13,740,761
Gross claims handling	928,010	768,432
Gross risk margin	61,230	46,501
Gross outstanding claims liabilities	18,680,335	14,555,694
Discount on central estimate	(3,429,279)	(1,305,507)
Discount on claims handling expenses	(200,971)	(79,818)
Discount on risk margin	(3,525)	(377)
Total discount on claims liabilities	(3,633,775)	(1,385,702)
Claims liabilities	**15,046,560**	**13,169,992**
Recoveries		
Expected future actuarial assessment of reinsurance recoveries	217,891	17,028
Expected future actuarial assessment of other recoveries	404,648	328,325
Gross outstanding recoveries	622,539	345,353
Discount to present value reinsurance recoveries	(10,680)	(2,169)
Discount to present value other recoveries	(65,222)	(20,677)
Total discounted on recoveries	(75,902)	(22,846)
Recoveries	**546,637**	**322,507**
Net outstanding claims	**14,499,923**	**12,847,485**

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. The discount rates adopted for TMF are 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 2022

2.3.1 Discounted net outstanding claims (continued)

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

	TMF $'000	HBCF $'000	CRIF $'000	PMF $'000	GWC $'000	TAC $'000	SRA/ RIC $'000	BFFF $'000	ERWF $'000	SSIF $'000	2022 Total $'000
Opening balance	11,458,137	238,184	78,577	559,586	90,478	240,752	78,499	72,618	30,479	175	12,847,485
Discount unwind	(1,092)	(24)	(5)	(57)	(11)	(30)	(10)	(7)	(4)	-	(1,240)
Expected claim payments (prior years only)	(2,085,993)	(74,666)	(25,254)	(81,595)	(5,833)	(6,200)	(6,227)	(16,241)	(3,718)	(44)	(2,305,771)
CHE on expected claim payments (prior years only)	(94,854)	(4,853)	(1,434)	(3,310)	-	(396)	-	(1,746)	(772)	(11)	(107,376)
Release of Risk Margin on claim payments (prior years only)	-	(11,928)	(5,103)	-	-	-	-	-	-	-	(17,031)
- Actuarial assumptions*	1,824,427	25,318	10,221	160,409	(5,156)	19,605	7,881	(3,030)	(500)	(9)	2,039,166
- Discount/ inflation rates	(502,768)	(2,097)	(368)	(14,417)	(4,517)	(21,629)	(4,498)	(2,060)	(2,179)	(4)	(554,537)
Net outstanding claims in current year	2,435,391	109,298	38,724	-	-	-	-	12,343	3,424	47	2,599,227
Net outstanding claims	13,033,248	279,232	95,358	620,616	74,961	232,102	75,645	61,877	26,730	154	14,499,923
Breakdown of Actuarial assumptions*											
Actual vs Expected Payments	497,259	12,946	4,275	(18,892)	(342)	-	(1,753)	8,146	(505)	43	501,177
Change in experience	215,974	(7,769)	1,676	66,601	(44)	5,496	3,496	(6,572)	(1,035)	(43)	277,780
Change in actuarial assumptions	1,170,384	17,752	937	112,700	(4,770)	1,837	6,138	(4,604)	(524)	(13)	1,299,837
Change in CHE	(53,625)	2,389	-	-	-	12,272	-	-	1,564	4	(37,396)
Other	(5,565)		3,333	-	-	-	-	-	-	-	(2,232)
	1,824,427	25,318	10,221	160,409	(5,156)	19,605	7,881	(3,030)	(500)	(9)	2,039,166

AY = Accident year CHE = Claims handling expense

Notes to the financial statements

for the year ended 30 June 2022

2.3.2. Risk Margin

Overview

For scheme's accounted for under AASB 1023 "General Insurance Contracts" 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 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, a 75 per cent probability of adequacy indicates that the net discounted provision is expected to be adequate seven and a half years in 10.

For HBCF and CRIF, the outstanding claims liability estimate includes a risk margin of 15 and 23.0 per cent respectively (2021: 15 and 19.7 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 (2021: 75 per cent).

The risk margin for the HBCF was $37.1 million (2021: $31.8 million) and for the CRIF $20.5 million (2021: $14.4 million).

No risk margin is included in the outstanding claims liability for the TMF as management has determined the central estimate adequately allows for risk and uncertainty in the liability (2021 nil). The overall probability of sufficiency of the liability was 54 per cent at 30 June 2022 (2021: 53 per cent).

Notes to the financial statements

for the year ended 30 June 2022

2.3.3. Economic assumptions

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:

	2022 %			2021 %		
Next 12 months	**Inflation rate**	**Discount rate**	**Superimposed inflation**	**Inflation rate**	**Discount rate**	**Superimposed inflation**
TMF Workers	3.1 - 3.6	1.80 - 2.46	0.07 - 0.15	1.0 - 1.2	-0.02 - 0.03	0.28 - 0.33
TMF General	3.30 - 5.40	1.52 - 2.90	1.50 - 6.00	1.06 - 1.56	-0.06 - 0.04	1.50-6.00
CRIF	3.30 - 5.40	1.52 - 2.90	-	1.37 - 1.56	-0.06 - 0.04	-
PMF	3.69 - 4.08	1.52 - 2.90	2.00 for Dust Diseases; 2.00 for Child Abuse	1.06 - 1.12	-0.06 - 0.04	2.00 for Dust Diseases; 2.00 for Child Abuse
GWC	3.15 - 3.91	2.38	0-1.75	1.1	-0.01	0-1.75
TAC	3.69 - 4.08	1.52 - 2.90	2	1.06 - 1.12	-0.06 - 0.04	2
SRA/RIC	3.15 - 3.91	2.38	0-1.70	1.1	-0.01	0-1.70
HBCF	3.66 - 4.23	1.52 - 2.90	0.00 - 4.50	1.14 - 2.75	-0.06-4.00	0.00 - 4.50
ERWF	3.15	2.38	-	1.10	-0.01	-
BFF	2.98-3.32	1.94-2.82	0-2.00	1.08-1.11	-0.05-0.02	0-2.00
SSIF	-	2.38	-	-	-0.01	-
Greater than 12 months						
TMF Workers	2.6 - 3.2	2.46 - 3.99	0.0 - 0.1	1.1 - 2.4	-0.02 - 3.45	0.0 - 0.3
TMF General	2.00 - 3.49	3.10 - 4.17	0.00 - 6.00	1.13 - 3.00	-0.05 - 4.00	1.50-6.00
CRIF	2.00 - 3.30	3.10 - 4.17	-	1.60 - 2.25	-0.05 - 4.00	-
PMF	3.00 - 3.49	3.10 - 4.17	2.00 for Dust Diseases; 2.00 for Child Abuse	1.13 - 3.00	-0.05 - 4.00	2.00 for Dust Diseases; 2.00 for Child Abuse
GWC	2.5 - 3.26	3.34 - 4.16	0-1.75	1.19 - 3	0.06 - 4	0-1.75
TAC	3.00 - 3.49	3.10 - 4.17	2	1.13 - 3.00	-0.05 - 4.00	2
SRA/RIC	2.5 - 3.26	3.34 - 4.16	0-1.70	1.19 - 3	0.06 - 4	0-1.70
HBCF	2.75 - 3.44	3.10 - 4.17	0.00 - 4.50	1.14 - 2.75	-0.05 - 4.00	0.00 - 4.50
ERWF	2.50-2.96	3.34-4.16	-	1.19-2.50	0.06-4.00	-
BFF	2.50-3.11	3.19-4.17	0-2.00	1.13-2.50	-0.03-4.00	0-2.00
SSIF	-	3.34-4.16	-	-	0.06-4.00	-

Notes to the financial statements

for the year ended 30 June 2022

2.3.3 Economic assumptions (continued)

The weighted average expected term to settlement from the balance date of the outstanding claims is estimated to be 4.3 years for TMF General Lines, 6.5 years for TMF Workers Compensation (2021: 4.3 years and 7.2 years), 1.6 years for the CRIF (2021: 1.6 years), 9.4 years for GWC (2021: 9.9 years), 17.4 years for TAC (2021: 18.3 years), 8.6 years for SRA/RIC (2021: 8.9 years), 3.7 years for BFF (2021: 3.9 years), 8.3 years for ERWF (2021: 8.9 years), 3.1 years for PMF (2021: 3.8 years) and 2.2 years for HBCF (2021: 2.0 years).

2.3.4. Net Claims liability maturity

Overview

The maturity profile is SI's expectation of the period over which the net outstanding claims 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 outstanding claims is analysed below:

	2022 $'000	2021 $'000
Discounted net outstanding claims maturing:		
Within 1 year	2,646,682	2,433,275
2 to 5 years	6,618,197	5,403,809
More than 5 years	5,235,044	5,010,401
	14,499,923	**12,847,485**

2.3.5. Impact of changes in key variables on the gross and net outstanding claims liability

Overview

The outstanding claims liabilities are central estimates (excluding HBCF & CRIF that have a risk margin applied) 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% (2021: 89%) 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.

Notes to the financial statements

for the year ended 30 June 2022

2.3.5 Impact of changes in key variables on the gross and net outstanding claims liability (continued)

(i) TMF Workers Compensation

Variable	Movement in variable %	Net Central Estimate $'000	Impact of Change $'000	Impact %
Net Central Estimate[1]		6,722,985		
Discount rate[2]	Discount rate -4.5%	6,388,358	(334,628)	-5.0%
Discount rate[2]	+1%	6,328,754	(394,232)	-5.9%
	-1%	7,179,688	456,703	6.8%
Inflation rate[2]	+1%	7,189,722	466,737	6.9%
	-1%	6,313,425	(409,560)	-6.1%

[1]The net central estimate is inflated and discounted, net of insurance and other recoveries and includes an allowance for claims handling expenses.

[2]Inflation/discounting changes applied to all durations." This compares to the second set of eco sensitivities where the inflation is applied to <5 yrs, 5-10 yrs and >10 yrs differently in order to maintain the 2% gap for years 10 and beyond.

(ii) TMF General Lines

Variable	Movement in variable %	Net Central Estimate $'000	Impact of Change $'000	Impact %
Net Central Estimate1		6,310,263		
Discount rate	Discount rate -4.5%	6,057,027	(253,236)	-4.0%
Discount Rate	+1	6,060,264	(249,999)	-4.0%
	-1	6,584,412	274,149	4.3%
Inflation rate	+1	6,584,619	274,356	4.3%
	-1	6,055,681	(254,581)	-4.0%
Superimposed Inflation rate	+1	6,602,039	291,776	4.6%
	-1	6,039,779	(270,483)	-4.3%

[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 2022

2.3.5 Impact of changes in key variables on the gross and net outstanding claims liability (continued)

(iii) TMF Workers Compensation

Variable	Movement in variable %	Gross Central Estimate $'000	Impact of Change $'000	Impact %
Gross Central Estimate[1]		6,798,861		
Discount rate[2]	Discount rate -4.5%	6,461,136	(337,724)	-5.0%
Discount rate[2]	+1	6,401,539	(397,321)	-5.8%
	-1	7,258,948	460,088	6.8%
Inflation rate[2]	+1	7,269,257	470,396	6.9%
	-1	6,385,899	(412,961)	-6.1%

[1]The gross central estimate is inflated and discounted, gross of insurance and other recoveries and includes an allowance for claims handling expenses.

[2]Inflation/discounting changes applied to all durations." This compares to the second set of eco sensitivities where the inflation is applied to <5 yrs, 5-10 yrs and >10 yrs differently in order to maintain the 2% gap for years 10 and beyond.

(iv) TMF General lines

Variable	Movement in variable %	Net Central Estimate $'000	Impact of Change $'000	Impact %
Gross Central Estimate1		6,728,753		
Discount rate	Discount rate -4.5%	6,461,119	(267,634)	-4.0%
Discount Rate	+1	6,466,231	(262,522)	-3.9%
	-1	7,016,506	287,753	4.3%
Inflation rate	+1	7,019,385	290,632	4.3%
	-1	6,458,811	(269,942)	-4.0%
Superimposed Inflation rate	+1	7,038,452	309,700	4.6%
	-1	6,441,347	(287,406)	-4.3%

Notes to the financial statements

for the year ended 30 June 2022

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	2013 & prior $'000	2014 $'000	2015 $'000	2016 $'000	2017 $'000	2018 $'000	2019 $'000	2020 $'000	2021 $'000	2022 $'000	Total $'000
Estimate of ultimate claims cost											
At the end of accident year		742,282	675,108	674,813	762,098	793,708	921,123	1,132,509	1,400,955	1,702,794	8,805,390
One year later		638,548	653,422	703,381	801,942	884,103	1,099,888	1,238,660	1,741,607		7,761,551
Two years later		611,692	676,302	715,097	791,182	883,048	1,175,574	1,363,253			6,216,148
Three years later		594,766	652,035	693,413	777,084	924,029	1,325,440				4,966,767
Four years later		552,638	618,210	662,912	790,332	991,297					3,615,389
Five years later		514,624	597,791	663,635	865,518						2,641,568
Six years later		511,557	573,186	689,658							1,774,401
Seven years later		500,969	601,315								1,102,284
Eight years later		516,977									516,977
Accumulated nine years and greater	10,930,836										10,930,836
Current estimate of cumulative claim costs	10,930,836	516,977	601,315	689,658	865,518	991,297	1,325,440	1,363,253	1,741,607	1,702,794	20,728,695
Cumulative payments	8,951,496	337,779	378,270	404,210	446,918	454,076	513,221	416,192	361,282	156,402	12,419,846
Outstanding claims-undiscounted	1,979,340	179,198	223,045	285,448	418,600	537,221	812,219	947,061	1,380,325	1,546,392	8,308,849
Discounting	(598,299)	(51,433)	(59,676)	(70,969)	(104,617)	(127,701)	(182,220)	(210,383)	(310,386)	(343,467)	(2,059,151)
Claims handling expense	104,826	9,698	12,401	16,280	23,832	31,084	47,819	55,916	81,212	90,219	473,287
Risk margin											
Outstanding claims liability as at 30 June 2022	**1,485,867**	**137,463**	**175,770**	**230,759**	**337,815**	**440,604**	**677,818**	**792,594**	**1,151,151**	**1,293,144**	**6,722,985**

Notes to the financial statements

for the year ended 30 June 2022

2.3.6 Claims development (continued)

For accident years prior to 2016, the estimated undiscounted ultimate cost of claims has tended to reduce as the years pass. The two main drivers of this are: (1) the 2012 legislative reforms leading to more favourable claims experience than the initial actuarial valuation assumptions for claims from non-emergency services agencies, and (2) the 2012 changes to NSW Police's Death and Disability scheme leading to more favourable claims experience. For accident years since 2017, annual costs have progressively increased due to a number of compounding factors: significant growth in the number and severity of psychological injury claims. A growing proportion of claims are reaching higher Whole Person Impairment (WPI) thresholds which opens up access to Work Injury Damages (WID), long term Weekly benefits and higher s66 payment. Over the past 12 months, costs have generally increased most years due to valuation strengthening in response to claims remaining on benefits for longer durations and lower return to work rates, particularly for psychological injuries; continuing strong intimation experience with low finalisation activity; the re-emergence of high numbers of medical discharges for NSW Police.

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for the year ended 30 June 2022

2.3.6 Claims development (continued)

(ii) TMF General Lines

Accident Year	2013 & prior $'000	2014 $'000	2015 $'000	2016 $'000	2017 $'000	2018 $'000	2019 $'000	2020 $'000	2021 $'000	2022 $'000	Total $'000
Estimate of ultimate claims cost											
At the end of accident year		536,890	644,473	604,770	645,521	696,438	692,723	1,650,555	977,934	1,371,731	7,821,035
One year later		528,947	588,976	638,931	635,203	655,324	721,649	1,863,979	1,387,967		7,020,976
Two years later		543,330	624,003	654,920	577,888	638,756	744,866	1,748,309			5,532,072
Three years later		551,632	559,785	697,905	570,675	679,026	824,858				3,883,881
Four years later		553,665	541,945	666,976	612,666	792,184					3,167,436
Five years later		518,189	530,279	683,958	682,086						2,414,512
Six years later		518,577	534,038	743,178							1,795,793
Seven years later		536,925	591,041								1,127,966
Eight years later		580,482									580,482
Accumulated nine years and greater	7,794,350										7,794,350
Current estimate of cumulative claim costs	7,794,350	580,482	591,041	743,178	682,086	792,184	824,858	1,748,309	1,387,967	1,371,731	16,516,186
Cumulative payments	6,317,705	414,330	373,832	422,129	333,243	307,237	249,677	629,312	194,806	59,750	9,302,021
Outstanding claims-undiscounted	1,476,645	166,152	217,209	321,049	348,843	484,947	575,181	1,118,997	1,193,161	1,311,981	7,214,165
Discounting	(222,090)	(34,443)	(41,712)	(51,993)	(58,584)	(76,629)	(88,874)	(133,502)	(170,357)	(205,452)	(1,083,636)
Claims handling expense	31,328	4,330	5,978	9,705	10,606	14,902	18,143	22,055	26,969	35,718	179,734
Risk margin											
Outstanding claims liability as at 30 June 2022	**1,285,883**	**136,039**	**181,475**	**278,761**	**300,865**	**423,220**	**504,450**	**1,007,550**	**1,049,773**	**1,142,247**	**6,310,263**

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.

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for the year ended 30 June 2022

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

A liability adequacy test (LAT) is performed by the consulting actuary 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. An additional risk margin is included to take into account the inherent uncertainty in the central estimate.

	2022 $'000	2021 $'000
Unearned premiums	769,036	601,216
Unexpired risk liability	338,493	407,836
Premium liability	**1,107,529**	**1,009,052**

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.

	2022 $'000	2021 $'000
Year Ended 30 June		
Net carrying amount at start of year	601,216	441,967
Deferral of premiums written in current year	344,067	290,992
Premiums earned during the year	(176,247)	(131,743)
Net carrying amount at end of year	**769,036**	**601,216**

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for the year ended 30 June 2022

2.3.7.2. Reconciliation of unexpired risk liability

At the reporting date, a LAT is performed by the consulting Actuary 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:

	2022 $'000	2021 $'000
As at 1 July	407,836	569,141
Reduction of unexpired risk liability in the year	(69,343)	(161,305)
As at 30 June	**338,493**	**407,836**

As at the reporting date, the LAT identified a deficit of $347.8 million (2021: $408.5 million) in the HBCF and a deficit of $0 million in CRIF (2021: $10 million) . The movement in the unexpired risk liability is recognised in the statement of comprehensive Income.

The net deficiency calculation is shown below:

	2022 $'000	2021 $'000
Net unearned premium liability	590,435	549,651
Deferred acquisition costs	(9,333)	(10,661)
	581,102	**538,990**
Central estimate of present value of expected future cash flows arising from future claims	767,814	788,167
Risk Margin	161,114	169,320
Premium liability provision	**928,928**	**957,487**
Net Deficiency	**347,826**	**418,497**

[1]Refer to Note 2.3.8 Other Assets – Deferred Acquisition Costs.

Notes to the financial statements

for the year ended 30 June 2022

2.3.7.2 Reconciliation of unexpired risk liability (continued)

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 6.0 years (2021: 5.8 years) for HBCF and 0 years (2021: 5.1 years) for CRIF.

	2022 $'000	2021 $'000
Gross movement in unexpired risk liability	69,342	161,305
Write down of deferred acquisition costs 1	(9,333)	(10,661)
Total surplus/(deficiency) recognised in the Statement of Comprehensive Income	**60,009**	**150,644**

Refer to Note 2.3.8 Other Assets – Deferred Acquisition Costs.

The probability of adequacy for HBCF was 75 per cent (2021: 75 per cent) and for CRIF was 75 percent

(2021: 75 percent.)

The risk margins have been determined by the consulting actuary 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.

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 (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.

	2022 $'000	2021 $'000
As at 1 July	-	-
Acquisition costs incurred during the year	9,333	10,661
Acquisition costs amortised during the year	-	-
Net deficiency write down	(9,333)	(10,661)
as at 30 June	**-**	**-**

[1]Refer to Note 2.3.7.2 for details

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for the year ended 30 June 2022

2.3.9. Underwriting and other expenses

Overview

SI incurs a range of expenses in providing its services. Details of these expenses are:

	2022 $'000	2021 $'000
Statutory levies:		
State Insurance Regulatory Authority	26,850	26,281
Dust Diseases Authority	5,018	4,207
Total Statutory levies	**31,868**	**30,488**
Service fees to icare (2.3.9.1)	212,076	185,842
Insurance	82,650	56,632
Software licensing	-	136
Depreciation and amortisation	-	68
Other expenses	232	196
Total underwriting and other expenses	**326,826**	**273,262**

Audit fees for the audit of the financial statements were paid by icare and are included as part of the service fee. The amount incurred was $1.007 million (2021: $0.992 million)

2.3.9.1. Service fees and Statutory levies

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 specifically related to HBCF scheme agent costs of $7.1 million (2021: $10.7 million) 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 2022-23:

State Insurance Regulatory Authority and NSW Workers Compensation (Dust Diseases) Authority. The amount of these levies has not been finalised for 2022-23.

Notes to the financial statements

for the year ended 30 June 2022

2.3.10. Trade and other receivables

Overview

Trade and other receivables are principally amounts owed to SI by policyholders and participants.

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They include trade and other receivables and are recognised at their amortised cost less impairment losses, which approximates fair value.

Receivables are recognised at amortised cost using the effective interest method, less any allowance for expected credit losses. SI has applied a simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, receivables have been grouped based on days overdue.

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.

	2022 $'000	2021 $'000
Premium and contribution receivable	298,809	205,977
Insurance and other recoveries receivable	546,637	322,981
GST receivable	2,065	-
Prepayments	75,692	51,656
Other	31,189	16,333
	954,392	**596,947**

1. Includes a insurance recovery for NSW Water that is additional to the actuarial assessment.

Trade & Other receivables are non-interest bearing and are generally on 30 day terms.

Other receivables is mainly comprised of grants from the Crown of $27.7m (2021: $13.4m) to fund the cash deficit of the pre reform portfolio Insurance. Recoveries receivables are discounted to present value.

SI receives recoveries from both reinsurance and non reinsurance areas (this 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.

Notes to the financial statements

for the year ended 30 June 2022

2.3.10. Trade and other receivables (continued)

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).

	2022 $'000	2021 $'000
Present value of insurance and other recoveries		
Expected future recoveries (undiscounted)	622,539	345,353
Discount to present value	(75,902)	(22,846)
	546,637	**322,507**

Refer to Note 4 for further information regarding credit risk of trade debtors that are neither past due nor impaired.

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.

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.

	2022 $'000	2021 $'000
Accrued expenses & other creditors	95,193	89,131
Service fee	25,291	24,776
Statutory fees	2,080	1,930
GST Payable	-	719
Other	1,058	1,028
	123,622	**117,584**

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

Notes to the financial statements

for the year ended 30 June 2022

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 majority of SI's investments 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 the investment 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 claims 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 claims liabilities.

3.1. Investment income

Overview

Interest revenue and expenses are 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.

	2022 $'000	2021 $'000
Return on investment		
Revenue from financial assets held at fair value	612,817	776,975
Gains/(losses) from financial assets held at fair value	(1,264,412)	1,287,084
Interest	1,938	1,830
	(649,657)	**2,065,889**

Notes to the financial statements

for the year ended 30 June 2022

3.2. Investment assets

	2022 $'000	2021 $'000
TCorpIM Funds	13,452,855	13,990,857
	13,452,855	**13,990,857**

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).

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
2022				
Financial assets at fair value				
TcorpIM Funds	-	13,452,855	-	13,452,855
	-	**13,452,855**	**-**	**13,452,855**
2021				
Financial assets at fair value				
TcorpIM Funds	-	13,990,857	-	13,990,857
	-	**13,990,857**	**-**	**13,990,857**

There were no transfers between the levels during the period ended 30 June 2022 (2021: 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.

Notes to the financial statements

for the year ended 30 June 2022

4. Risk Management

Overview

SI applies a consistent and integrated approach to enterprise risk management. SI operates within icare's risk management framework which sets out the approach to managing key risks and meeting strategic objectives. The documented Risk Management Framework (RMF) is approved annually by the Board.

The icare Board is ultimately accountable for identifying and managing risk, including financial risk. This is done through the establishment of holistic strategies and policies where risk management has been considered.

Key aspects of icare's risk management framework include: risk appetite, governance, risk management and 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. 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.

Following the enactment of the State Insurance and Care Governance Act 2015 (Act), 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 from Self Insurance Corporation. 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.

SI's Strategic Asset Allocation is recommended by the icare Board, in line with risk and return objectives recommended by the NSW Treasury Asset and Liability Committee (ALCO). Both the risk and return objectives recommended by the ALCO, and the SAA recommended by icare Board are considered, and if appropriate, approved by the Treasurer. icare and NSW Treasury entered a Memorandum of Understanding in July 2018 which defines the roles and responsibilities for the Funds.

SI manages insurance 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.

The key risk categories used by SI 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);
- Other price risk (Note 4.5);
- Liquidity risk (Note 4.6); and
- Credit risk (Note 4.7).

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 claims liabilities.

Notes to the financial statements

for the year ended 30 June 2022

4 Risk Management (continued)

Financial instrument categories

	Note	Category	2022 $'000	2021 $'000
Financial assets				
Cash and cash equivalents	5.1	Amortised cost	2,188,422	576,268
Investments	3.2	At fair value through profit and loss (designated as such upon initial recognition)	13,452,855	13,990,857
Receivables (i)	2.3.10	Amortised cost	329,998	547,291
Financial liabilities				
Payables (ii)	2.3.11	Amortised cost	121,542	114,935

(i) Excludes statutory receivables and prepayments (i.e. not within scope of AASB 7)
(ii) Excludes statutory payables (i.e. not within scope of AASB 7)

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 claims.

SI is affected by insurance risk, market risk, credit risk, and liquidity risks. Overall risk management within icare forms a part of operations and line responsibilities. The Risk Committee (RC) has oversight of risk management and reports to the icare Board. Internal Audit helps identify, monitor and evaluate risks and gives assurance to the RC 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;
- Risk registers that identify key risks and controls, residual risk exposures, and risk treatment and owner. Periodic attestations are performed on key compliance obligations and material exceptions are reported to the icare Board;

Notes to the financial statements

for the year ended 30 June 2022

4.1 Insurance Risk (continued)

- 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;
- Contributions received by the largest fund (TMF) are paid by member agencies through funding from the NSW Treasury;
- Most premiums or contributions 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 Holding Level Policy (NAHLP, refer Note 5.2) SI maintains the required level of net assets for each scheme (except HBCF, BFFF, ERWF and SSIF) through fund transfers to/from NSW Treasury.

4.2. Market risk

Overview

Market risk is the variability in the value of an investment or the assessed fair value of a financial instrument because of changes in market prices. Market risk is a systemic risk that reflects factors affecting all similar investments or financial instruments traded in the market.

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 2020. 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 SI's cash deposits held at other financial institutions. TCorp manages the portfolio to agreed benchmarks to minimise the fair value interest rate risk.

Notes to the financial statements

for the year ended 30 June 2022

4.3 Interest rate risk (continued)

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
2022					
Cash and cash equivalents	2,188,422	(10,942)	(10,942)	10,942	10,942
2021					
Cash and cash equivalents	576,268	(2,881)	(2,881)	2,881	2,881

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 2022 SI has no currency exposures (2021: Nil).

Notes to the financial statements

for the year ended 30 June 2022

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	2022 $'000	2021 $'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 and Opportunistic	Long term	11,737,538	12,802,994
Medium Term Growth Fund	Cash (Domestic and International), Australian shares, Australian Bond, Emerging Markets Debt, Bank Loans, Inflation Linked Bonds, Core Alternatives, Global Credit, High Yield, Developed Market Equities, Defensive Alternatives.	3-7 years	562,897	485,469
Long Term Growth Fund	Cash (Domestic and International), Bank Loans, High Yield, Australian Bond, Emerging Market Debt, Australian Share, Emerging Market Shares, Core Alternatives, Developed Markets Equities	7 years	1,152,420	702,394
			13,452,855	13,990,857

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 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 funds in accordance with the trust deeds. As trustee, TCorp has appointed external managers to manage the performance and risks of each fund in accordance with a mandate agreed by the parties. TCorp has also leveraged off internal expertise to manage certain fixed income assets for the TCorpIM funds. A significant portion of the administration of the funds is outsourced to an external custodian.

Investments in the Funds limit SI's exposure to risk as this allows diversification across a pool of funds with different investment horizons.

Notes to the financial statements

for the year ended 30 June 2022

4.5 Other price risk (continued)

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 per cent 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.

	Change in unit price		Impact on surplus/(deficit)	
Investment fund	2022 %	2021 %	2022 $'000	2021 $'000
Treasury Managed Fund Investment Portfolio	+/- 10.0	+/- 10.0	1,173,754	1,280,299
Medium Term Growth Fund	+/- 10.0	+/- 10.0	56,290	48,547
Long Term Growth Fund	+/- 10.0	+/- 10.0	115,242	70,239

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 both account for 8 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.

Notes to the financial statements

for the year ended 30 June 2022

4.6 Liquidity risk (continued)

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
2022								
Payables	-	121,542	-	-	121,542	121,542	-	-
2021								
Payables	-	114,935	-	-	114,935	114,935	-	-

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 at the monthly average TCorp 11am unofficial cash rate, adjusted for a management fee to NSW Treasury.

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.

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 2022

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.

The cashflow statement reflects actual cashflow movements in the fund and not the movements in the underlying investment portfolios within the fund.

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

	2022 $'000	2021 $'000
Cash at bank	2,188,422	576,268

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:

	2022 $'000	2021 $'000
Cash and cash equivalents (per statement of financial position)	2,188,422	576,268
Closing cash and cash equivalents (per statement of cash flows)	2,188,422	576,268

Notes to the financial statements

for the year ended 30 June 2022

5.1. Cash and cash equivalents (continued)

Reconciliation of net cash flows from operating activities to the Net Result

	2022 $'000	2021 $'000
Net cash flows from operating activities	**1,612,154**	**(2,183,530)**
Adjustments for:		
Depreciation and amortisation	-	(68)
(Decrease)/Increase in investments	(538,002)	3,969,059
(Increase) in outstanding claims	(1,876,568)	(941,276)
Increase in unearned premiums	(167,819)	(159,249)
Decrease/(Increase) in payables	(3,973)	(32,412)
(Increase) in unexpired risk	69,342	161,305
Increase / (Decrease) in receivables	355,380	180,340
Assets written off	-	(552)
Net Result	**(549,486)**	**993,617**

Notes to the financial statements

for the year ended 30 June 2022

5.2. Grants from/(to) the Crown

Overview

Pursuant to the Net Assets Holding Level Policy (NAHLP), SI makes payments to or receives funding from the Crown in right of the State of New South Wales (Crown) to maintain the required level of net assets.

The policy, introduced in March 2006 and revised in May 2019, requires SI to maintain total assets for each scheme (except HBCF, BFFF, ERWF and SSIF) at between 105% and 115% of liabilities. For CRIF the net level of total assets is required to be maintained at the greater of either all liabilities, including the actuarially assessed liabilities, to a 99 percent probability of adequacy (including an appropriate prudential margin), or the 1-in-1000 year natural catastrophe return period net of reinsurance (the CRIF Net Asset Holding Level). 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 insurance protection or exhausting the TMF insured retention level; and
- absence of premium and contribution income and insurance cover for residual schemes.

The annual funding adequacy assessment was based on requirements assessed as at 31 December 2021 and has been approved and the funds will be transferred from the Consolidated Fund.

Net assets in surplus of the required holding level are paid to the Crown and net assets in deficit are covered through payments from the Crown.

Additionally the Crown has agreed to fund any cash deficit incurred in the pre reform portfolio of HBCF. Refer to Note 5.4 for further details on this arrangement.

The payments are recognised as expenses at the earlier of when they are paid or payable. Income from grants without sufficiently specific performance obligations are recognised when the entity obtains control over the granted assets.

	2022 $'000	2021 $'000
Grants from the Crown	1,927,672	13,523
Net grants revenue	**1,927,672**	**13,523**

Notes to the financial statements

for the year ended 30 June 2022

5.3. Budget review

Statement of comprehensive income

	2022 actuals $'000	2022 budget $'000
Premium and contributions	2,180,738	1,996,312
Unearned premium and contribution movement	(171,138)	-
Net Earned premiums	**2,009,600**	**1,996,312**
Outwards reinsurance expense	(21,828)	(112,638)
Net Earned premiums and contributions (a)	**1,987,772**	**1,883,674**
Gross Claims expenses	(3,958,821)	(2,492,376)
Recoveries received	256,659	75,774
Acquisition costs	(9,333)	-
Unexpired risk liability expense	69,342	133,046
Net Claims expense (b)	**(3,642,153)**	**(2,283,556)**
Underwriting and other expenses (c)	(326,826)	(272,657)
Underwriting result (a+b+c)	**(1,981,207)**	**(672,539)**
Hindsight adjustments	153,574	31,989
Investment revenue	(649,657)	890,605
Other revenue	132	-
Insurance profit	**(2,477,158)**	**250,055**
Grants from the Crown	1,927,672	-
Loss on disposal of assets	-	-
Net Result	**(549,486)**	**250,055**
Other comprehensive income	-	-
Total comprehensive income	**(549,486)**	**250,055**

Commentary

Net result for the year was $978 million unfavourable to budget due to the follow factors:

- higher net claims expenses resulting from the valuations of outstanding claims;
- lower than expected investment revenue due to volatile equity markets and rising interest rates; offset by
- Grants from the Crown under the NAHLP.

Notes to the financial statements

for the year ended 30 June 2022

5.3 Budget review (continued)

The strengthening in the outstanding claims reserves for the TMF workers compensation portfolio in the December 2021 valuation results was predominantly due deteriorating experience in high severity claims with underlying pressure continuing from psychological claims. The strengthening in the outstanding claims reserves for the TMF general lines portfolio in the December 2021 and June 2022 valuation results was predominantly due to the impact of a significant increase in child abuse claims due to recent changes in the Civil Liability Act and event losses largely relating to floods.

Statement of financial position

	2022 actuals $'000	2022 budget $'000
ASSETS		
Cash and cash equivalents	2,188,422	427,956
Investments	13,452,855	13,812,693
Trade and other receivables	954,392	366,892
Plant and equipment	-	218
Intangible assets	-	118
Total Assets	**16,595,669**	**14,607,877**
LIABILITIES		
Trade and other payables	123,622	44,916
Unearned premiums	769,036	621,637
Outstanding claims liabilities	15,046,560	12,712,359
Unexpired risk liability	338,493	367,075
Total Liabilities	**16,277,711**	**13,745,987**
Net Assets	**317,958**	**861,890**
EQUITY		
Accumulated funds	317,958	861,890
Total Equity	**317,958**	**861,890**

Commentary

Total assets were $2.0 billion favourable to budget mainly due to the grants from the Grown under the NAHLP. Total liabilities were $2.5 billion unfavourable to budget mainly due to the increase in the provision for outstanding claims liabilities. The TMF workers' compensation outstanding claims liabilities were unfavourable to budget due to the deteriorating experience in high severity claims. The TMF general lines outstanding claims liabilities were unfavourable to budget predominantly due to the impact of the amendments to the Civil Liability Act and event losses largely relating to the March 2022 floods.

Notes to the financial statements

for the year ended 30 June 2022

5.3 Budget review (continued)

Statement of cash flows

	2022 actuals $'000	2022 budget $'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Premiums received	2,250,708	2,133,390
Claims paid	(2,095,732)	(2,396,158)
Recoveries received	33,002	77,595
Total Premiums/contributions less claims	**187,978**	**(185,173)**
Receipts		
Proceeds from sale of investment	-	606,500
Investment Income	612,817	539,510
Interest received	1,938	3,078
Grants from the Crown	1,913,523	-
Other income	132	31,989
Total Receipts	**2,528,410**	**1,181,077**
Payments		
Purchases of investments	(726,409)	(589,510)
Service fees paid	(225,835)	(218,118)
Other payments	(151,990)	(134,153)
Total Payments	**(1,104,234)**	**(941,781)**
Total cash flows from operating activities	**1,612,154**	**54,123**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of plant and equipment	-	(110)
Purchases of intangibles/software	-	-
Total cash flows from investing activities	**-**	**(110)**
NET INCREASE / (DECREASE) IN CASH	**1,612,154**	**54,013**
Opening cash and cash equivalents	**576,268**	**374,003**
CLOSING CASH AND CASH EQUIVALENTS	**2,188,422**	**428,016**

Commentary

Cash and cash equivalents held at 30 June 2022 were $1.7 billion higher than budget mainly due to grants from the Crown under the NAHLP.

Notes to the financial statements

for the year ended 30 June 2022

5.4. Funding Accumulated deficit in HBCF

Overview

The SI accounts include the accumulated deficit of HBCF. Details of how the accumulated deficit in HBCF is being addressed are below.

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 can apply to the State Insurance Regulatory Authority to approve future risk-based premium rates intended to achieve full cost recovery

HBCF adjusted 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. This effectively created two portfolios for HBCF:

- A portfolio of premiums issued prior to 1 July 2018 that were substantially underfunded. This has led to the current accumulated deficit. This is referred to as the pre-reform portfolio. In 2019-20 the NSW Government approved a long term funding arrangement for the pre-reform HBCF portfolio. Under this arrangement NSW Treasury will fund in arrears the actual cash losses incurred by the pre-reform portfolio until no further funding of these losses is required. The accumulated deficit in HBCF is largely due to the pre-reform portfolio. The amount to be received for these losses for the 2022 financial year is $27.672m (2021: $13.523m). Income from grants without sufficiently specific performance obligations are recognised when the entity obtains control over the granted assets. These amounts are accrued when agreed in principle with NSW Treasury that the payment will be made. The actual payment is received in the next financial year.
- Premiums issued after 1 July 2018 under the new pricing arrangements are expected to be self-sustaining. From October 2022 management expect HBCF pricing will be at sustainable rates for all cover types. As at 1 July 2022, all construction types other than Duplex/Triplex are at sustainable premium rates. Duplex/Triplex is currently paired with single dwellings, and this will be maintained until new the new construction categories and premium rates come into effect in October 2022. The sustainable premium rates contain an uncertainty margin of 15%. As the policies are earned and claims paid out, on average, the uncertainty margin will deliver a surplus. This is expected to take HBCF's Post-2018 portfolio's to full funding by 2029.

5.5. Post balance day events

SI has identified that the recent floods in NSW in July 2022 could impact the TMF property line within the General Lines portfolio by $50 million.No reserve is reflected in the outstanding claims liabilities at 30 June 2022 for these events.

- End of audited financial statements -

HBCF

HBCF
Financial statements
for the year ended 30 June 2022

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HOME BUILDING COMPENSATION FUND

Actuarial Certificate
Outstanding claims liabilities at 30 June 2022

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 2022 of the Home Building Compensation Fund.

Data

PwC has relied on historical data and other quantitative and qualitative information supplied by icare from 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 not knowingly above or below the ultimate liabilities. 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;
- A loading for future expenses to meet the cost of managing the outstanding claims (including claims incurred but yet to be reported) as at 30 June 2022;
- 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 2022, net of recoveries, including claims handing expenses and a risk margin of 15%, is $279.2 million. This amount is made up as follows:

Home Building Compensation Fund Outstanding Claims Liability at 30 June 2022	$M
Gross Outstanding Claims	284.9
Less Anticipated Recoveries	5.6
Net Outstanding Claims	279.2

It is a decision for icare, acting as operator for the Home Building Compensation Fund, 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 impact of the future building cycle on claims experience, tail development of Multi Unit claims, the future claims experience for Duplexes/Triplexes, the impact of higher inflation in the building industry, and the potential for large builder insolvencies.

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.

Valuation Report

Full details of data, methodology, assumptions and results are set out in our valuation report dated 19 September 2022.

Relevant Standards

Our estimates and reports were prepared in compliance with the Actuaries Institute's Professional Standard 302, 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
26 September 2022

James Richardson
FIAA
26 September 2022

Statement by the board of directors

for the year ended 30 June 2022

Home Building Compensation Fund

In the opinion of the Board of Directors:

(a) The financial statements of the Home Building Compensation Fund 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 2022 exhibit a true and fair view of the position and transactions of the Home Building Compensation Fund; 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.

John Robertson
Chairman
Insurance and Care NSW
26 September 2022

Richard Harding
Chief Executive Officer and Managing Director
NSW Self Insurance Corporation and Insurance and Care NSW
26 September 2022

AUDITOR-GENERAL
NEW SOUTH WALES

INDEPENDENT AUDITOR'S REPORT

Home Building Compensation Fund

To the Treasurer and members of the Board for Insurance and Care NSW

Opinion

I have audited the accompanying financial statements of the Home Building Compensation Fund (the Fund), which comprises the statement by the board of directors, statement of comprehensive income for the year ended 30 June 2022, the statement of financial position as at 30 June 2022, the statement of changes in equity and the statement of cash flows, for the year then ended, and notes to the financial statements.

In my opinion, the financial statements:

- have been prepared in accordance with Australian Accounting Standards
- present fairly the Fund's financial position, financial performance and cash flows.

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 (including Independence Standards)' (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.

The Board's Responsibilities for the Financial Statements

The Board of Directors of Insurance and Care NSW, acting for the Fund, are responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards, 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 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.

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.

The scope of my audit does not include, nor 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

Delegate of the Auditor-General for New South Wales

29 September 2022
SYDNEY

Statement of comprehensive income

for the year ended 30 June 2022

	Notes	2022 $'000	2021 $'000
Gross premium written	2.1	215,931	206,851
Unearned premium movement		(87,534)	(102,935)
Net earned premium (a)		**128,397**	**103,916**
Gross claims expenses	2.2	(117,763)	(73,357)
Recoveries received		1,052	(821)
Acquisition costs		(9,333)	(10,661)
Unexpired risk liability expense	2.3.7	59,365	171,282
Net Claims expense (b)		**(66,679)**	**86,443**
Underwriting and other expenses (c)	2.3.9	(25,392)	(23,447)
Underwriting result (a+b+c)		**36,326**	**166,912**
Investment income	3.1	(35,693)	30,636
Other Revenue		-	136
Insurance result		**633**	**197,684**
Grants from the Crown	5.3	27,672	13,523
Net Result		**28,305**	**211,207**
Other Comprehensive Income			
Items that will not be reclassified to the net result		**-**	**-**
Total Other comprehensive income		**-**	**-**
Total Comprehensive Income		**28,305**	**211,207**

The accompanying notes form part of these financial statements.

Statement of financial position

as at 30 June 2022

	Notes	2022 $'000	2021 $'000
Assets			
Cash and cash equivalents	5.1	148,917	81,626
Investments	3.2	504,590	485,469
Trade and other receivables	2.3.10	62,596	49,890
Total Assets		**716,103**	**616,985**
Liabilities			
Trade and other payables	2.3.11	8,346	7,130
Unearned premiums	2.3.7	590,435	502,901
Outstanding claims liabilities	2.3.1	284,881	243,452
Unexpired risk liability	2.3.7.2	338,493	397,859
Total Liabilities		**1,222,155**	**1,151,342**
Net Assets		**(506,052)**	**(534,357)**
Equity			
Accumulated deficit		(506,052)	(534,357)
Total Equity		**(506,052)**	**(534,357)**

The accompanying notes form part of these financial statements.

Statement of changes in equity

for the year ended 30 June 2022

	2022 $'000	2021 $'000
Accumulated funds		
Balance at the beginning of financial year	(534,357)	(745,564)
Net Result for the year	28,305	211,207
Other Comprehensive Income	-	-
Total other comprehensive income	**-**	**-**
Total comprehensive income for the year	**28,305**	**211,207**
Balance at the end of the financial year	**(506,052)**	**(534,357)**

The accompanying notes form part of these financial statements.

Statement of cash flows

for the year ended 30 June 2022

	Notes	2022 $'000	2021 $'000
CASH FLOW FROM OPERATING ACTIVITIES			
Premiums received		217,824	200,618
Recoveries		669	769
Claims and expenses paid		(85,666)	(97,844)
Total cash flow from premiums less claims		**132,827**	**103,543**
Receipts			
Interest received		12,575	26,967
Grants received from Crown		13,523	-
Other Income		-	136
Total Receipts		**26,098**	**27,103**
Payments			
Purchase of investments		(67,389)	(481,800)
Service fees paid		(20,894)	(18,884)
Other payments		(3,351)	(5,159)
Total Payments		**(91,634)**	**(505,843)**
Net cash from Operating Activities	5.1	**67,291**	**(375,197)**
Net increase/(decrease) in cash and cash equivalents		67,291	(375,197)
Cash and cash equivalents at the beginning of the year		81,626	456,823
Cash and cash equivalents at the end of the year	5.1	**148,917**	**81,626**

The accompanying notes form part of these financial statements.

Notes to the financial statements

for the year ended 30 June 2022

1. Overview

1.1. About the Home Building Compensation Fund (HBCF)

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. HBCF is a not for profit entity.

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. NSW Treasury have provided a guarantee to fund cash short falls in the HBCF portfolio for policies issued before 1 July 2018.

HBCF operates in one geographical segment and is a single portfolio with general insurance conducted in New South Wales only.

Insurance and Care 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. SICorp is one such scheme.

The financial statements for the year ended 30 June 2022 have been authorised for issue by the Chairman of the Board of icare and the Chief Executive Officer and Managing Director of SI Corp on behalf of the Board of Directors of icare on 26 September 2022. .

1.2. About this report

The Financial Report includes the four primary statements, namely the statement of comprehensive income (which comprises net result 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 HBCF's insurance activities.
3. **Investment activities** includes results and statement of financial position disclosures relevant to HBCF's investments.
4. **Risk management** provides commentary on HBCF's exposure to various financial and capital risks, explaining the potential impact on the results and statement of financial position and how HBCF 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 2022

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 HBCF 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 HBCF.

1.2.1. Basis of preparation

HBCF'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).

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 TPG 22-07 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. Statement of compliance

HBCF's financial statements and notes comply with Australian Accounting Standards, which include Australian Accounting Interpretations.

1.2.3. 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.

1.2.4. 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. Actual results may differ from these estimates.

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.

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 – Net outstanding claims liability;
- Note 2.3.7- Unearned premiums and unexpired risk liability; and
- Notes 3 & 4 – Investment Activities & Risk management.

Notes to the financial statements

for the year ended 30 June 2022

1.2.5. Taxation

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 reclassified to conform to changes in presentation in the current year.

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 ended 30 June 2022. The following new Standards will not have a material impact on the financial performance or position of HBCF:

- AASB 2020-3 *Amendments to Australian Accounting Standards – Annual Improvements 2018–2020 and Other Amendments*
- AASB 2021-2 *Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates*

HBCF has commenced the AASB 17 implementation project with a view to being compliant with the public sector equivalent of AASB 17 *Insurance Contracts* by FY 2025/26. The public sector equivalent is expected to be released in December 2022.

1.2.8. Coronavirus (COVID-19) pandemic

As a consequence of COVID-19 and in preparing these financial statements, management:

- re-evaluated whether there were any additional areas of judgement or estimation uncertainty;
- assessed the carrying values of its assets and liabilities and determined any impact that may occur as a result of market inputs and variables impacted by COVID-19;
- considered the impact of COVID-19 on HBCF's financial statement disclosures.

Accounting Estimates and judgement:

The ongoing COVID-19 pandemic has increased the estimation uncertainty in the preparation of these financial statements. HBCF has developed various accounting estimates in these financial statements based on forecasts of economic conditions which reflect expectations and assumptions as at 30 June 2022 about future events that we believe are reasonable in the circumstances. There is a considerable degree of judgement involved in preparing these forecasts. The underlying assumptions are also subject to uncertainties which are often outside the control of HBCF. Accordingly, actual economic conditions may be different from those forecast since anticipated events may not occur as expected, and the effect of those differences may significantly impact accounting estimates included in these financial statements.

Notes to the financial statements

for the year ended 30 June 2022

1.2.8. Coronavirus (COVID-19) pandemic (continued)

The significant accounting estimates particularly impacted by these associated uncertainties are predominantly related to:

- the valuation of outstanding claims liabilities – please refer Note 2.3.
- Liability Adequacy Test (LAT) Note 2.3.7 – The LAT test might be impacted by a reduction in unearned premium liabilities as a result of Covid 19. This can result in an increase in the unexpired risk provision if claim liability valuation does not have a corresponding decrease.

Risk Management

The financial and social impacts of COVID-19 continue to emerge and will further develop over the coming year. Their extent and duration are difficult to forecast and remain dependent on many factors. These include the extent to which the virus persists, the efficacy of government and central bank responses (both locally and globally) and the impact prolonged uncertainty has on consumer and business sentiment.

The immediate impact on HBCF has been the increases in claims liabilities. As the impacts of the virus and associated responses evolve, so too will the associated risks.

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. They are exclusive of taxes and duties levied.

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.

2.2. Net Claims expense

Overview

The largest expense for HBCF is net claims, which is the sum of:

- the movement in the net outstanding claims liability (Note 2.3) which is the difference between the net outstanding claims liability at the beginning and the end of the financial year; plus
- any net claim payments made during the financial year; plus
- the movement in the unexpired risk liability (Note 2.3.7).

HBCF's claims liability is accounted for in accordance with AASB 1023 "*General Insurance Contracts*".

This comprises of what is estimated by the consulting actuary as at 30 June 2022 as being the movement in the amount required to meet the cost of claims reported but not yet paid, claims incurred but which have not yet been reported and future claims from after the balance date.

Movement in outstanding recoveries (which are recognised as revenue when it is virtually certain the recovery will be made) and recoveries received during the financial year, including those under sharing agreements, third party recoveries, and salvage and subrogation, are excluded from net claims (Note 2.3.10).

Notes to the financial statements

for the year ended 30 June 2022

2.2 Net Claims expense (continued)

	2022 $'000	2021 $'000
Claims and related expenses	76,334	87,184
Finance costs (net)	(24)	478
Other movements in claims liabilities	41,453	(14,305)
Gross claims expenses	117,763	73,357
Recoveries revenue	(1,052)	821
Acquisition costs	9,333	10,661
Movement in unexpired risk liability	(59,365)	(171,282)
Net claims expense	**66,679**	**(86,443)**

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.

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	2022 Total $'000	2021 Total $'000
Gross claims incurred & related expenses – undiscounted	133,802	2,637	136,439	73,591
Other recoveries – undiscounted	(1,953)	571	(1,382)	825
Net claims incurred – undiscounted	**131,849**	**3,208**	**135,057**	**74,416**
Discount & discount movement – gross claims incurred	(8,668)	(10,007)	(18,675)	(235)
Discount & discount movement – other recoveries	171	158	329	(3)
Net discount movement	**(8,497)**	**(9,849)**	**(18,346)**	**(238)**
Net claims incurred	**123,352**	**(6,641)**	**116,711**	**74,178**

Notes to the financial statements

for the year ended 30 June 2022

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.

2.3.1. Discounted net outstanding claims

Overview

The overall outstanding claims liability of the Scheme is calculated by the consulting actuary using a range of actuarial methods, appropriate for the characteristics of the various types of claim liability under scrutiny. 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 above economic inflation increases in the cost of construction.

Notes to the financial statements

for the year ended 30 June 2022

2.3.1 Discounted net outstanding claims (continued)

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.

	2022 $'000	2021 $'000
Expected future gross claims payments	246,273	199,902
Gross claims handling	19,283	12,695
Gross risk margin	39,833	31,889
Gross outstanding claims liabilities	**305,389**	**244,486**
Discount on central estimate	(16,536)	(845)
Discount on claims handling expenses	(1,297)	(54)
Discount on risk margin	(2,675)	(135)
Total discount on claims liabilities	**(20,508)**	**(1,034)**
Claims liabilities	**284,881**	**243,452**
Expected future actuarial assessment of recoveries	(6,019)	(5,285)
Discount to present value recoveries	370	17
Recoveries	**(5,649)**	**(5,268)**
Net outstanding claims	**279,232**	**238,184**

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

	2022 $'000	2021 $'000
Net carrying amount at start of year	238,184	250,421
Expected claim payments (prior years only)	(74,666)	(74,264)
Unwinding of discounts	(24)	478
CHE on expected claims payments (prior year only)[1]	(4,853)	(4,456)
Adjustments arising from change in (prior years only) including. release of risk margin on claims payments	11,292	(7,398)
Net outstanding claims in current year	109,299	73,403
Net outstanding claims	**279,232**	**238,184**

[1]CHE= Claims handling expenses

HBCF has no non-insurance contracts, as such all assets held are used to back general insurance liabilities.

Notes to the financial statements

for the year ended 30 June 2022

2.3.2. Risk Margin

Overview

A risk margin is adopted by the Board based on advice from the consulting actuary to reflect the inherent uncertainty in the net discounted central estimate of the outstanding claims liability.

The uncertainty has been determined on a basis that reflects HBCF'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 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, a 75 per cent probability of adequacy indicates that the net discounted provision 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 (2021: 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 (2021: 75 per cent).

The discounted risk margin on outstanding claims for HBCF was $37.2 million (2021: $31.8 million).

2.3.3. Economic assumptions

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:

	2022	2021
Discount rates		
- Not later than one year	1.52% - 2.90%	-0.06% - 0.04%
- Later than one year	3.10% - 4.17%	-0.05% - 4.00%
Inflation rates	2.75% - 4.23%	1.14% - 2.75%
Superimposed inflation rates	0.00% - 4.50%	0.00% - 4.50%
Weighted average term to settlement	2.2 years	2.0 years

Notes to the financial statements

for the year ended 30 June 2022

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 discounted net outstanding claims is analysed below:

	2022 $'000	2021 $'000
Outstanding claims net of recoveries maturing:		
Within one year	96,462	91,452
1 to 2 years	60,303	55,441
2 to 5 years	93,316	71,384
More than 5 years	29,151	19,907
Total net outstanding claims liability	**279,232**	**238,184**

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 consulting actuaries on each key underlying variable to measure the change in outstanding claims liability estimate that would result from a change in the assumptions whilst holding all other variables constant.

Significant uncertainty exists as to the long-term nature of the liabilities.

The main uncertainty around the estimates of future claims costs include:

- Post the 30 June 2002 reforms, the private insurance industry exited the market in 2010 and the product became publicly underwritten by HBCF. This makes the building cycle effects on the new publicly underwritten arrangement uncertain as there are questions on the relevance of the past schemes data.
- 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;
- 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.
- There is uncertainty as to the impact of inflationary pressures in the building industry on future average claim sizes and builder insolvency numbers

Notes to the financial statements

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

Movement in Variable		Financial Impact					
		2022 Change in outstanding claims liability		2022 Change in insurance liability		Net Result *	Lat Deficiency
Variable		$'000	%	$'000	%	$'000	$'000
Base		**279,232**		**1,208,160**			**347,826**
Inflation rate	+1	5,976	2.1%	49,116	4.1%	(49,116)	390,967
	-1	(5,821)	-2.1%	(47,675)	-3.9%	47,675	305,972
Discount rate	+1	(5,780)	-2.1%	(47,060)	-3.9%	47,060	306,546
	-1	6,048	2.2%	49,407	4.1%	(49,407)	391,185
Largest builder failing				338,646	28.0%	(338,646)	686,472

*Note: The above table reflects changes to the first 10 years before reverting back to the long-term gap assumption

Notes to the financial statements

for the year ended 30 June 2022

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 the ultimate claims cost estimates for HBCF.

Underwriting year	2013 & prior $'000	2014 $'000	2015 $'000	2016 $'000	2017 $'000	2018 $'000	2019 $'000	2020 $'000	2021 $'000	2022 $'000	Total $'000
Estimate of ultimate claim cost											
At the end of underwriting year	243,170	89,186	98,858	118,917	150,195	178,925	176,967	174,848	222,915	221,039	
One year later	218,031	82,364	88,800	125,694	159,223	190,149	168,113	157,009	231,810		
Two years later	233,059	80,577	100,558	132,049	168,601	187,699	142,471	159,852			
Three years later	226,889	79,353	102,473	141,755	177,027	152,983	142,686				
Four years later	232,695	84,423	113,074	144,287	145,691	156,614					
Five years later	234,524	93,011	113,598	112,424	146,210						
Six years later	232,305	96,370	85,960	115,556							
Seven year later	225,537	85,049	86,912								
Eight years later	218,316	86,258									
Nine years later	217,982										
Current estimate of cumulative claim costs	217,982	86,258	86,912	115,556	146,210	156,614	142,686	159,852	231,810	221,039	1,564,918
Cumulative payments	184,603	55,944	41,599	51,033	53,097	42,094	25,235	7,152	5,168	2,029	467,953
Outstanding claims-undiscounted	33,379	30,314	45,313	64,523	93,113	114,519	117,451	152,701	226,641	219,010	1,096,965
Discounting	(2,447)	(2,888)	(4,979)	(7,657)	(12,382)	(16,566)	(18,586)	(26,266)	(40,546)	(41,811)	(174,128)
Claims handling expense	2,521	2,322	3,522	5,095	7,431	9,211	9,479	12,285	18,268	17,653	87,787
Risk margin	5,171	4,882	7,550	11,090	16,426	20,597	21,419	27,949	41,781	40,671	197,536
Total insurance liability	38,623	34,630	51,406	73,051	104,589	127,761	129,764	166,669	246,144	235,524	1,208,160
Premium liability											928,928
Outstanding claims liability											279,232

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for the year ended 30 June 2022

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 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.

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 $347.8 million (2021: $408.5 million). The deficit, after deducting the opening balance of the unexpired risk liability, is recognised as an expense in the statement of comprehensive income.

	2022 $'000	2021 $'000
Unearned premium income	590,435	502,901
Unexpired risk liability	338,493	397,859
Premium liability	**928,928**	**900,760**

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.

	2022 $'000	2021 $'000
As at 1 July		
Net carrying amount at start of year	502,901	399,966
Deferral of premiums written in current year	215,931	206,851
Premiums earned during the year	(128,397)	(103,916)
As at 30 June	**590,435**	**502,901**

Notes to the financial statements

for the year ended 30 June 2022

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.

	2022 $'000	2021 $'000
Unexpired risk liability		
Unexpired risk liability as at 1 July	397,859	569,141
Release of reduction in unexpired risk liability in the year	(59,365)	(171,282)
Unexpired risk liability as at 30 June	**338,493**	**397,859**
Surplus/(Deficiency) recognised in the Statement of Comprehensive Income		
Gross movement in unexpired risk liability	59,365	171,282
Write down of deferred acquisition costs*	(9,333)	(10,661)
Total surplus/(deficiency) recognised in the Statement of Comprehensive Income	**50,032**	**160,621**
Calculation of deficiency		
Unearned premium liability	590,435	502,901
Acquisition costs*	(9,333)	(10,661)
	581,102	**492,240**
Central estimate of present value of expected future cash flows arising from future claims	767,814	744,531
Risk Margin (refer 2.3.2)	161,114	156,229
Premium liability provision	**928,928**	**900,760**
Net Deficiency	**347,826**	**408,520**

*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 6.0 years (2021: 5.8 years).

Notes to the financial statements

for the year ended 30 June 2022

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.

	2022 $'000	2021 $'000
As at 1 July		
Acquisition costs incurred during the year	9,333	10,661
Acquisition costs amortised during the year	-	-
Net deficiency write-down[1]	(9,333)	(10,661)
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]	9,333	10,661
	9,333	**10,661**

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 services. Details of these expenses are:

	2022 $'000	2021 $'000
Statutory levies paid to State Insurance Regulatory Authority (SIRA) (2.3.9.1)	3,772	4,400
Service fees to icare (2.3.9.2)	21,616	18,841
Software support	-	136
Amortisation	-	66
Other	4	4
	25,392	**23,447**

Notes to the financial statements

for the year ended 30 June 2022

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.

Costs to assess builders risk of $9.3 million (2021 $10.7 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.

Audit fees for the audit of the financial statements were paid by icare in 2022 and are included as part of the service fee. The amount incurred was $148,000 (2021 $145,000.)

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 HBCF in relation to business for which HBCF is on risk but where the policy is not billed to the counterparty at the balance date.

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They include trade and other receivables and are recognised at their amortised cost less impairment losses, which approximates fair value.

Short-term receivables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial.

Receivables are recognised at amortised cost using the effective interest method, less any allowance for expected credit losses. HBCF has applied a simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, receivables have been grouped based on days overdue.

Other receivables is mainly comprised of grants from the Crown of $27.7m to fund the cash deficit of the pre- reform portfolio. (Refer to Note 5.3 for more details)

Notes to the financial statements

for the year ended 30 June 2022

2.3.10 Trade and other receivables (continued)

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

	2022 $'000	2021 $'000
Premiums receivable	27,047	28,939
Insurance and other recoveries	5,649	5,268
Other	29,900	15,683
	62,596	**49,890**

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 and subsequently at amortised cost which approximates fair 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.

Amounts owing to suppliers (which are unsecured) are settled in accordance with the policy set out in Treasury Circular 11/12.

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

	2022 $'000	2021 $'000
Insurance duty payable	2,081	1,930
Service fees	2,610	1,888
Accrued expenses	-	51
Goods and Services Tax	3,655	3,261
	8,346	**7,130**

Notes to the financial statements

for the year ended 30 June 2022

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 majority of HBCF's investments are unit holdings. The value of the Funds is based on HBCF's share of the value of the underlying assets of the Funds, 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 TCorp as trustee for each of the funds..

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 HBCF actively manages its investment portfolio to ensure that investment liquidity is in accordance with the expected pattern of future cash flows arising from claims liabilities.

3.1. Investment income

Overview

Interest revenue and expenses are 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.

	2022 $'000	2021 $'000
Interest	186	167
Net Realised gain/(loss) on sale of investments	12,389	26,800
Net Unrealised gain/(loss) on investments	(48,268)	3,669
Investment income	**(35,693)**	**30,636**

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for the year ended 30 June 2022

3.2. Investment assets

	2022 $'000	2021 $'000
TCorpIM Funds	504,590	485,469
	504,590	**485,469**

3.3. Fair value estimation

Overview

The carrying amounts of HBCF'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.

HBCF 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).

There were no transfers between the levels during the period ended 30 June 2022 (2021: Nil). The value of the Funds is based on HBCF'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.

	2022				2021			
	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								
TCorpIM Medium term Growth Fund	-	504,590	-	504,590	-	485,469	-	485,469
	-	**504,590**	**-**	**504,590**	**-**	**485,469**	**-**	**485,469**

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4. Risk management

Overview

HBCF applies a consistent and integrated approach to enterprise risk management. 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 (RMF) is approved annually by the Board.

The icare Board is ultimately accountable for identifying and managing risk, financial risk. This is done through the establishment of holistic strategies and policies where risk management has been considered.

Overall risk management within HBCF forms a part of operations and line responsibilities. The Risk Committee (RC) has oversight of risk management and reports to the icare Board. Internal Audit helps identify, monitor and evaluate risks and gives assurance to the RC 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.

Key aspects of icare's risk management framework 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.

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);
- Credit risk (Note 4.5): and
- Other price risk (Note 4.6).

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 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.

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Note 4 Risk Management Overview (continued)

Financial instrument categories

	Note	Category	2022 Carrying Amount $'000	2021 Carrying Amount $'000
Financial Assets				
Cash and cash equivalents	5.1	Amortised cost	148,917	81,626
Investments	3.2	At fair value through profit or loss (designated as such upon initial recognition)	504,590	485,469
Receivables[1]	2.3.10	Amortised cost	56,947	44,622
Financial Liabilities				
Payables[2]	2.3.11	Amortised cost	2,610	1,939

[1]Excludes statutory receivables (i.e. not within the scope of AASB 7)
[2]Excludes statutory payables (i.e. not within the scope of AASB 7)

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 variability in the value of an investment or the assessed fair value of a financial instrument because of changes in market prices. Market risk is a systemic risk that reflects factors affecting all similar investments or financial instruments traded in the market HBCF's exposures to market risk are primarily through price risks associated with the movement in the unit price of the Funds.

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4.2 Market risk (continued)

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 and other price risk. A reasonably possible change in each 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 was performed on the same basis as 2021. 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 net result and equity of HBCF. 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% Profit $'000	-1% Equity $'000	+1% Profit $'000	+1% Equity $'000
2022					
Cash and cash equivalents	148,917	(1,489)	(1,489)	1,489	1,489
2021					
Cash and cash equivalents	81,626	(816)	(816)	816	816

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.

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4.4 Liquidity risk (continued)

During the current and prior years, there were no defaults on payables. No assets have been pledged as collateral. HBCF's exposure to liquidity risk is deemed insignificant based on historical data and current assessment of risk.

The maturity profile of HBCF's financial liabilities is summarised in the table below:

	Weighted average effective interest rate	Nominal amount $'000	Interest rate exposure $'000					
	%		Fixed interest rate	Variable interest rate	Non-interest bearing	< 1 year	1-5 years	>5 years
2022								
Payables	-	2,610	-	-	2,610	2,610	-	-
2021								
Payables	-	1,939	-	-	1,939	1,939	-	-

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 monthly average TCorp 11am unofficial cash rate, adjusted for a management fee to NSW Treasury.

Receivables

Receivables include premium 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.

HBCF does not receive any collateral for receivables.

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4.5. Credit risk (continued)

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	
2022					
Receivables	546	434	42	70	-
2021					
Receivables	1,845	1,295	3	547	-

Concentration of credit risk

By Credit Rating	AAA $'000	AA+ $'000	AA $'000	AA- $'000	A+ $'000	A $'000	A- $'000	Other Ratings* $'000	Total $'000
2022									
Receivables	-	-	-	-	-	-	-	56,947	56,947
2021									
Receivables	-	-	-	-	-	-	-	44,622	44,622

By classification of counterparty	Governments $'000	Commercial insurer $'000	Other $'000	Total $'000
2022				
Receivables	29,900	-	27,047	56,947
2021				
Receivables	15,683	-	28,939	44,622

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.

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4.6. 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. HBCF has no direct equity investments. HBCF holds units in the following Funds.

Fund	Investment sectors	Investment horizon	2022 $'000	2021 $'000
TCorpIM Medium term Growth Fund	Cash (Domestic and International), Australian shares, Australian Bond, Emerging Markets Debt, Bank Loans, Inflation Linked Bonds, Core Alternatives, Global Credit, High Yield, Developed Market Equities, Defensive Alternatives.	3-7 years	504,590	485,469
			504,590	485,469

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 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 Funds in accordance with the trust deeds. As trustee, TCorp has appointed external managers to manage the performance and risks of each Fund in accordance with a mandate agreed by the parties. TCorp has also leveraged off internal expertise to manage certain fixed income assets for the TCorpIM funds. A significant portion of the administration of the facilities is outsourced to an external custodian.

Investments in the Funds limit HBCF'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 per cent 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.

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for the year ended 30 June 2022

4.6 Other price risk (continued)

Investment fund	Change in unit price		Impact on surplus/(deficit)	
	2022 %	2021 %	2022 $'000	2021 $'000
TCorpIM Medium term Growth Fund	+/- 10.0	+/- 10.0	50,459	48,547

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.

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.

Notes to the financial statements

for the year ended 30 June 2022

5.1 Cash and cash equivalents (continued)

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:

	2022 $'000	2021 $'000
Cash and cash equivalents (per statement of financial position)	148,917	81,626
Closing cash and cash equivalents (per statement of cash flows)	148,917	81,626

	2022 $'000	2021 $'000
Reconciliation of net cash flows from operating activities to net result for the year		
Net cash flows from operating activities	**67,291**	**(375,197)**
Adjustments for:		
Amortisation	-	(66)
(Decrease)/Increase in investments	19,121	485,469
(Decrease)/Increase in receivables	12,706	20,326
Decrease/(Increase) in unearned premiums	(87,534)	(102,935)
Decrease/(Increase) in payables	(1,215)	(1,499)
Decrease/(Increase) in outstanding claims	(41,429)	13,827
Decrease/(Increase) in unexpired risk liability	59,365	171,282
Net result for the year	**28,305**	**211,207**

Notes to the financial statements

for the year ended 30 June 2022

5.2. Intangible assets

Overview

HBCF recognises intangible assets only if it is probable that future economic benefits will flow to HBCF 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 one hundred thousand dollars only 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.

	2022 $'000	2021 $'000
Gross carrying amount	3,968	3,968
Accumulated amortisation and impairment	(3,968)	(3,968)
Net carrying amount at end of year	**-**	**-**
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	-	66
Additions	-	-
Amortisation expense	-	(66)
Net carrying amount at end of year	**-**	**-**

Notes to the financial statements

for the year ended 30 June 2022

5.3. Funding Accumulated deficit

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 can apply to the State Insurance Regulatory Authority to approve future risk-based premium rates intended to achieve full cost recovery.

HBCF adjusted 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. This effectively created two portfolios for HBCF:

- A portfolio of premiums issued prior to 1 July 2018 that were substantially underfunded. This has led to the current accumulated deficit. This is referred to as the pre-reform portfolio. In 2019-20 the NSW Government approved a long term funding arrangement for the pre-reform HBCF portfolio. Under this arrangement NSW Treasury will fund in arrears the actual cash losses incurred by the pre-reform portfolio until no further funding of these losses is required. The accumulated deficit in HBCF is largely due to the pre-reform portfolio. The amount to be received for these losses for the 2021-22 financial year is $27.672m (2021: $13.523m). Income from grants without sufficiently specific performance obligations are recognised when the entity obtains control over the granted assets. These amounts are accrued when agreed in principle with NSW Treasury that the payment will be made. The actual payment is received in the next financial year
- Premiums issued after 1 July 2018 under the new pricing arrangements are expected to be self-sustaining. From October 2022 management expect HBCF pricing will be at sustainable rates for all cover types. As at 1 July 2022, all construction types other than Duplex/Triplex are at sustainable premium rates. Duplex/Triplex is currently paired with single dwellings, and this will be maintained until new the new construction categories and premium rates come into effect in October 2022. The sustainable premium rates contain an uncertainty margin of 15%. As the policies are earned and claims paid out, on average, the uncertainty margin will deliver a surplus. This is expected to take HBCF's Post-2018 portfolio's to full funding by 2029.

5.4. Post balance day events

HBCF has not identified any subsequent events that would require the financial statements or other disclosures to be adjusted.

- End of audited financial statements -

Lifetime Care

Lifetime Care Financial statements

for the year ended 30 June 2022

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Notes to the financial statements

pwc

LIFETIME CARE AND SUPPORT SCHEME

Actuarial Certificate
Outstanding claims liabilities at 30 June 2022

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 2022 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 expected care costs for scheme participants (including participants incurred but yet to be reported) throughout their lifetime;
- Future inflation and discounting for the time value of money;
- Future mortality and injury severity improvements of participants; and
- 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 2022.

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 2022 is $7,252 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 icare and service providers in response to demand pressures particularly for attendant care services; and changes to the future levels of care and support provided to participants.

pwc

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 07 September 2022.

Relevant Standards

Our estimates and reports were prepared in compliance with the Actuaries Institute's Professional Standard 302, 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
07 September 2022

Gavin Moore
FIAA
07 September 2022

MOTOR ACCIDENT INJURIES TREATMENT AND CARE BENEFITS FUND

Actuarial Certificate
Outstanding claims liabilities at 30 June 2022

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 2022 of the Motor Accident Injuries Treatment and Care Benefits Fund (referred to as "CTP Care 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 2022.

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

Valuation Results

The PwC estimated liability for the CTP Care Fund as at 30 June 2022 is $425.5 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.

Valuation Report

Full details of data, methodology, assumptions and results are set out in our valuation report dated 7 September 2022.

Relevant Standards

Our estimates and reports were prepared in compliance with the Actuaries Institute's Professional Standard 302, which relates to estimation of outstanding claims liabilities.

icare have informed us that the financial statements for the CTP Care Fund 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
7 September 2022

Gavin Moore
FIAA
7 September 2022

Statement by the board of directors

for the year ended 30 June 2022

Lifetime Care and Support Authority of New South Wales

Statement under Section 7.6 Government Sector Finance Act 2018

Pursuant to section 7.6(4) of the *Government Sector Finance Act 2018* ("the Act"), In the opinion of the Board of Directors we state that these financial statements:

- have been prepared in accordance with the Australian Accounting Standards and the applicable requirements of the Act, the *Government Sector Finance Regulation 2018* and the Treasurer's directions. and
- present fairly the Lifetime Care and Support Authority of NSW's financial position, financial performance and cash flows.

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

John Robertson
Chairman
Insurance and Care NSW
26 September 2022

Richard Harding
Chief Executive Officer and Managing Director
Lifetime Care and Support Authority of NSW and Insurance and Care NSW
26 September 2022

INDEPENDENT AUDITOR'S REPORT

Lifetime Care and Support Authority of New South Wales

To Members of the New South Wales Parliament

Opinion

I have audited the accompanying financial statements of the Lifetime Care and Support Authority of New South Wales (the Authority), which comprises the statement by the board of directors, the statement of comprehensive income for the year ended 30 June 2022, the statement of financial position as at 30 June 2022, the statement of changes in equity and the statement of cash flows, for the year then ended, and notes to the financial statements.

In my opinion, the financial statements:

- have been prepared in accordance with Australian Accounting Standards and the applicable financial reporting requirements of the *Government Sector Finance Act 2018* (GSF Act), the Government Sector Finance Regulation 2018 (GSF Regulation) and the Treasurer's Directions
- presents fairly the Authority 's financial position, financial performance and cash flows.

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 (including Independence Standards)' (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.

The Board's Responsibilities for the Financial Statements

The Board of Directors of Insurance and Care NSW, acting for the Authority, are responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards, the GSF Act, GSF Regulations and Treasurer's Directions. The Board of Directors' responsibility also includes such internal control as the Board of Directors 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 Board of Directors are 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.

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.

The scope of my audit does not include, nor 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

Delegate of the Auditor-General for New South Wales

29 September 2022
SYDNEY

Statement of comprehensive income

for the year ended 30 June 2022

	Notes	2022 $'000	2021 $'000
Revenue			
Fees and Levies	2.1	605,948	573,306
Investment revenue	3.1	(388,495)	1,022,047
Other revenue	5.1	2,281	3,072
Total Revenue		219,734	1,598,425
Expenses			
Scheme costs	2.2	(300,887)	1,066,408
Service fee	5.2	52,076	60,609
Other operating expenses		739	503
Total Expenses		**(248,072)**	**1,127,520**
Net result		**467,806**	**470,905**
Other comprehensive income			
Items that will not be reclassified to the net result			
Net increase/(decrease) in property, plant and equipment revaluation reserve		4,986	597
Total other comprehensive income		**4,986**	**597**
TOTAL COMPREHENSIVE INCOME / (LOSS)		**472,792**	**471,502**

The accompanying notes form part of these financial statements

Statement of financial position

as at 30 June 2022

	Notes	2022 $'000	2021 $'000
ASSETS			
Cash and cash equivalents	5.3	84,374	80,990
Investments	3.2	8,204,187	8,229,357
Receivables	2.3.5	91,036	85,485
Property, plant and equipment	5.4	13,820	9,147
Intangibles	1.2.7	4,633	699
Total Assets		**8,398,050**	**8,405,678**
LIABILITIES			
Payables	2.3.6	12,276	13,002
Investments	3.2	58,699	13,175
Outstanding claims	2.3.1	7,680,735	8,205,953
Total Liabilities		**7,751,710**	**8,232,130**
Net Assets		**646,340**	**173,548**
EQUITY			
Asset revaluation reserve		5,583	597
Accumulated funds		640,757	172,951
Total Equity		**646,340**	**173,548**

The accompanying notes form part of these financial statements

Statement of changes in equity

for the year ended 30 June 2022

	Accumulated Funds $'000	Asset Revaluation Surplus $'000	Total $'000
Balance at 1 July 2021	**172,951**	**597**	**173,548**
Net result for the year	**467,806**	**-**	**467,806**
Other comprehensive income			
Net increase in property, plant and equipment revaluation reserve	**-**	**4,986**	**4,986**
Total other comprehensive income	**-**	**4,986**	**4,986**
Total comprehensive income for the year	**467,806**	**4,986**	**472,792**
Balance at 30 June 2022	**640,757**	**5,583**	**646,340**
Balance at 1 July 2020	(297,954)	-	(297,954)
Net result for the year	470,905	-	470,905
Other comprehensive income			
Net increase in property, plant and equipment revaluation reserve	-	597	597
Total other comprehensive income	-	597	597
Total comprehensive income for the year	470,905	597	471,502
Balance at 30 June 2021	172,951	597	173,548

The accompanying notes form part of these financial statements

Statement of cash flows

for the year ended 30 June 2022

	Notes	2022 $'000	2021 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Fees and levies received		602,591	570,591
Compensation payments		(223,854)	(214,461)
Net Cash Flows from Scheme Activities		**378,737**	**356,130**
Receipts			
Interest received		35	39
Other		1,621	878
Total Receipts Excluding Scheme Activities		**1,656**	**917**
Payments			
Purchases of investments		(308,673)	(372,690)
Service Fees		(61,720)	(50,736)
Other		(2,256)	(6,009)
Total Payments Excluding Scheme Activities		**(372,649)**	**(429,435)**
NET CASH FLOWS FROM OPERATING ACTIVITIES	5.3	**7,744**	**(72,388)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of intangible assets		(4,360)	(442)
NET CASH FLOWS FROM INVESTING ACTIVITIES		**(4,360)**	**(442)**
NET INCREASE/(DECREASE) IN CASH		**3,384**	**(72,830)**
Opening cash and cash equivalents		**80,990**	**153,820**
CLOSING CASH AND CASH EQUIVALENTS	5.3	**84,374**	**80,990**

The accompanying notes form part of these financial statements

Notes to the financial statements

for the year ended 30 June 2022

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 2022 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 26 September 2022.

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 net result 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.

Notes to the financial statements

for the year ended 30 June 2022

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 *Government Sector Finance Act 2018* , the *Government Sector Finance Regulation 2018* and the NSW Treasurer's Directions.

These financial statements have been presented on a liquidity basis following receipt of an exemption from TPG 22-07 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. Going concern basis

These financial statements have been prepared on a going concern basis. Refer to Note 5.9 for more information on the Authority's Target Operating Zone for capital management.

1.2.4. 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. Actual results may differ from these estimates

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.

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 – Investing Activities and Risk Management; and
- Note 2.3 – Net Outstanding Claims liability

1.2.5. 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.

Notes to the financial statements

for the year ended 30 June 2022

1.2.6. Equity and reserves

Asset revaluation reserve

The revaluation reserve 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 5.4.

Accumulated funds

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

1.2.7. Intangibles

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 one hundered thousand dollars 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.

1.2.8. 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 ended 30 June 2022. The following are new Australian Accounting Standards or ammendments which have been issued but are not yet effective and are not expected to have a material impact on the financial performance or position of the Authority:

- AASB 2020-3 Amendments to Australian Accounting Standards – Annual Improvements 2018–2020 and Other Amendments
- AASB 2021-2 Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates

1.2.9. Coronavirus (COVID-19) pandemic

As a consequence of COVID-19 and in preparing these financial statements, management:

- re-evaluated whether there were any additional areas of judgement or estimation uncertainty;
- assessed the carrying values of its assets and liabilities and determined any impact that may occur as a result of market inputs and variables impacted by COVID-19;
- considered the impact of COVID-19 on the Authority's financial statement disclosures.

Notes to the financial statements

for the year ended 30 June 2022

1.2.9. Coronavirus (COVID-19) pandemic (continued)

Accounting Estimates and judgement:

The ongoing COVID-19 pandemic has increased the estimation uncertainty in the preparation of these financial statements. The Authority has developed various accounting estimates in these financial statements based on forecasts of economic conditions which reflect expectations and assumptions as at 30 June 2022 about future events that we believe are reasonable in the circumstances. There is a considerable degree of judgement involved in preparing these forecasts. The underlying assumptions are also subject to uncertainties which are often outside the control of the Authority. Accordingly, actual economic conditions may be different from those forecast since anticipated events may not occur as expected, and the effect of those differences may significantly impact accounting estimates included in these financial statements.

The significant accounting estimates particularly impacted by these associated uncertainties are predominantly related to the valuation of outstanding claims liabilities and the fair value measurement of investments.

The impact of the COVID-19 pandemic on each of these accounting estimates is discussed further below. Readers should carefully consider these disclosures considering the inherent uncertainty described above.

- Net Outstanding claims liability – please refer to note 2.3
- Fair value measurement of investments – please refer note 3.

The Authority's investments are designated at fair value through profit and loss, and for the vast majority of the investments, the fair value is determined based on observable market data. This measurement basis has not changed as a result of COVID-19.

The investments which are subject to valuation using unobservable inputs are disclosed in note 3.3.

Risk Management

The financial and social impacts of COVID-19 continue to emerge and will further develop over the coming year. Their extent and duration are difficult to forecast and remain dependent on many factors. These include the extent to which the virus persists, the efficacy of government and central bank responses (both locally and globally) and the impact prolonged uncertainty has on consumer and business sentiment.

The immediate impacts on the Authority have been from market volatility impacting investment returns and increases in insurance liabilities. As the impacts of the virus and associated responses evolve, so too will the associated risks.

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).

Notes to the financial statements

for the year ended 30 June 2022

1.3. Fund information (continued)

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 on NSW roads, 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 treatment and care, which was previously paid as part of the lump sum paid to claimants who could establish the fault of a third party.

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 long term compensation under the CTP scheme, although they would be entitled to up to six months worth of benefits.

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.

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 (MAITC Act). Under the MAITC Act there is established a Motor Accident Injuries Treatment and Care Benefits Fund, belonging to and vested in the Lifetime Care and Support Authority.

For injured persons who are not mostly at fault and do not have soft tissue or minor psychological injuries, reasonable treatment and care costs will be payable for life, if needed. CTP Insurers will be responsible for clients treatment 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 to transfer treatment and care during the first 5 years after an incident to the Authority. Where an insurer enters into such agreements they must pay the Authority the amounts determined to cover the treatment and care costs as they arise.

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

Notes to the financial statements

for the year ended 30 June 2022

1.3. Fund information (continued)

Disaggregated Financial Statements

Statement of Comprehensive Income - June 2022

	LTCS $'000	MAITC $'000	2022 $'000
Revenue			
Fees and Levies	511,689	94,259	605,948
Investment revenue	(368,318)	(20,177)	(388,495)
Other revenue	1,231	1,050	2,281
Total Revenue	**144,602**	**75,132**	**219,734**
Expenses excluding losses			
Scheme costs	(406,685)	105,798	(300,887)
Service fee	43,580	8,496	52,076
Other operating expenses	534	205	739
Total Expenses excluding losses	**(362,571)**	**114,499**	**(248,072)**
Net result	**507,173**	**(39,367)**	**467,806**
Other comprehensive income			
Items that will not be reclassified to the net result			
Net increase in property, plant and equipment revaluation reserve	4,986	-	4,986
Total other comprehensive income	**4,986**	**-**	**4,986**
TOTAL COMPREHENSIVE INCOME	**512,159**	**(39,367)**	**472,792**

Notes to the financial statements

for the year ended 30 June 2022

1.3. Fund information (continued)

Statement of Comprehensive Income - June 2021

	LTCS $'000	MAITC $'000	2021 $'000
Revenue			
Fees and Levies	499,257	74,049	573,306
Investment revenue	1,005,594	16,453	1,022,047
Other revenue	815	2,257	3,072
Total Revenue	**1,505,666**	**92,759**	**1,598,425**
Expenses excluding losses			
Scheme costs	961,860	104,548	1,066,408
Service fee	52,122	8,487	60,609
Other operating expenses	502	1	503
Total Expenses excluding losses	**1,014,484**	**113,036**	**1,127,520**
Net result	**491,182**	**(20,277)**	**470,905**
Other comprehensive income			
Items that will not be reclassified to the net result			
Net increase in property, plant and equipment revaluation reserve	597	-	597
Total other comprehensive income	**597**	**-**	**597**
TOTAL COMPREHENSIVE INCOME	**491,779**	**(20,277)**	**471,502**

Notes to the financial statements

for the year ended 30 June 2022

1.3. Fund information (continued)

Statement of Financial Position - June 2022

	LTCS $'000	MAITC $'000	2022 $'000
ASSETS			
Cash and cash equivalents	83,367	1,007	84,374
Investments	7,906,004	298,183	8,204,187
Receivables	78,461	12,575	91,036
Property, plant and equipment	13,820	-	13,820
Intangible assets	37	4,596	4,633
Total Assets	**8,081,689**	**316,361**	**8,398,050**
LIABILITIES			
Payables	9,827	2,449	12,276
Investments	58,699	-	58,699
Outstanding claims	7,252,421	428,314	7,680,735
Total Liabilities	**7,320,947**	**430,763**	**7,751,710**
Net Assets	**760,742**	**(114,402)**	**646,340**
EQUITY			
Reserves	5,583	-	5,583
Accumulated funds	755,159	(114,402)	640,757
Total Equity	**760,742**	**(114,402)**	**646,340**

Notes to the financial statements

for the year ended 30 June 2022

1.3. Fund information (continued)

Statement of Financial Position - June 2021

	LTCS $'000	MAITC $'000	2021 $'000
ASSETS			
Cash and cash equivalents	79,027	1,963	80,990
Investments	7,991,990	237,367	8,229,357
Receivables	75,739	9,746	85,485
Property, plant and equipment	9,147	-	9,147
Intangible assets	257	442	699
Total Assets	**8,156,160**	**249,518**	**8,405,678**
LIABILITIES			
Payables	11,337	1,665	13,002
Investments	13,175	-	13,175
Outstanding claims	7,883,065	322,888	8,205,953
Total Liabilities	**7,907,577**	**324,553**	**8,232,130**
Net Assets	**248,583**	**(75,035)**	**173,548**
EQUITY			
Reserves	597	-	597
Accumulated funds	247,986	(75,035)	172,951
Total Equity	**248,583**	**(75,035)**	**173,548**

Notes to the financial statements

for the year ended 30 June 2022

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 and collected by the State Insurance Regulatory Authority (SIRA). CTP levy revenue is recognised when it falls due and receivable by the Authority.

	2022 $'000	2021 $'000
Fees and Levies		
CTP premium levy	605,948	573,306
	605,948	**573,306**

2.2. Scheme costs

Overview

The largest expense for the Authority is Scheme costs, which is the sum of

- the movement in the net outstanding claims liability (Note 2.3) which is the difference between the net outstanding claims liability at the beginning and the end of the financial year; plus
- the cost of participant care and support expenses made during the financial year

Notes to the financial statements

for the year ended 30 June 2022

2.2 Scheme costs (continued)

	2022 $'000	2021 $'000
Participants' care and support expenses		
- Attendant care	132,471	119,864
- Equipment	14,355	14,955
- Home modifications	6,813	8,230
- Hospital	12,633	15,027
- Medical	8,256	8,323
- Rehabilitation	31,434	32,097
- Other	14,124	13,002
Total Participants' care and support expenses	**220,086**	**211,498**
Movement in provision for future participant care and support services	(524,189)	834,938
Finance costs – unwinding of discount rate (refer Note 2.3.1)	(1,029)	16,896
Bulk billing fees – Ambulance Service of NSW	65	64
Bulk billing fees – NSW Ministry of Health	4,180	3,012
Total Scheme costs	**(300,887)**	**1,066,408**

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 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

As LTCS and MAITC do not issue insurance contracts, the Authority's 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 2022

2.3.1. Net Outstanding claims liability

Overview

The overall outstanding claims liability for the Authority is calculated by the consulting actuary using a range of recognised, actuarial methods, appropriate for the characteristics of the various types of claim liability under scrutiny.

	2022 $'000	2021 $'000
Claims liabilities		
Expected future gross claims payments	17,911,656	14,317,558
Gross claims handling	2,010,538	1,488,966
Gross outstanding claims liabilities	19,922,194	15,806,524
Discount on central estimate	(11,007,388)	(6,884,576)
Discount on claims handling expenses	(1,234,071)	(715,995)
Total discount on claims liabilities	(12,241,459)	(7,600,571)
Net outstanding claims	7,680,735	8,205,953
Gross claims recoveries	3,028	2,225
Discount on claims recoveries	(174)	(30)
Claims recoveries	2,854	2,195
Net claims liabilities at 30 June	**7,677,881**	**8,203,758**

Notes to the financial statements

for the year ended 30 June 2022

2.3.1 Net Outstanding claims liability (continued)

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

	2022 $'000	2021 $'000
Opening balance	8,203,758	7,354,119
Discount unwind	(1,029)	16,896
Expected claim payments (prior years only)	(217,125)	(189,780)
Claims handling expense on expected claim payments (prior years only)	(22,581)	(17,725)
Adjustment arising from change in (prior years only):		
- Actuarial assumptions*	597,442	33,347
- Discount/inflation rates	(1,472,810)	175,498
Net outstanding claims in current year	590,226	831,403
Net outstanding claims	**7,677,881**	**8,203,758**
Breakdown of Actuarial assumptions*		
Change in experience	14,468	36,652
Attendant Care AvE inflation	63,896	(71,983)
Change in actuarial assumptions	465,331	(984)
Change in CHE	53,747	69,662
	597,442	**33,347**

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 2022

2.3.2. Economic assumptions

Overview

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

	MAITC 2022	MAITC 2021	LTCS 2022	LTCS 2021
Discount rate 12 months or less	1.52%-2.90%	-0.06%-0.04%	1.52%-2.90%	-0.06%-0.04%
Discount rate greater than 12 months	3.10%-4.17%	-0.05%-4.00%	3.10%-4.17%	-0.05%-4.00%
Inflation rate 12 months or less	2.90%-3.40%	1.06%-1.12%	2.90%-3.40%	1.06%-1.12%
Inflation rate greater than 12 months	2.50%-3.40%	1.13%-2.50%	2.50%-3.40%	1.13%-2.50%
Weighted mean term (years)				
Uninflated, undiscounted	24.3	26.3	23.7	24.0
Inflated, discounted	21.4	24.3	19.9	21.3

2.3.3. Claims liability maturity

Overview

The maturity profile is the Authority's expectation of the period over which the net outstanding claims 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.

	2022 $'000	2021 $'000
Discounted net outstanding claims maturing		
Within 1 year	265,170	239,721
2 to 5 years	1,047,526	957,186
More than 5 years	6,365,185	7,006,851
Total	**7,677,881**	**8,203,758**

Notes to the financial statements

for the year ended 30 June 2022

2.3.4. 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 consulting actuaries on each variable to measure the change in outstanding claims liability estimate that would result from a change in the assumptions whilst holding all other variables constant.

Uncertainty exists due to the long-term nature of liabilities and volatility around the number of Scheme participants and their injury severity

A sensitivity analysis of the key assumption changes and their impact on the net central estimate is shown in the following tables.

	30 June Liability $M	Effect on 30 June Liability $M	Percentage Effect %
Central estimate of LTCSA Scheme	7,252.4		
All valuation assumptions used			
Different long term gap assumptions:			
(a) One per cent per annum lower inflation for all future years	6,060.7	(1,192)	-16%
(b) One per cent per annum higher inflation for all future years	8,869.5	1,617	22%
(c) One percent increase in the discount rate	6,056.9	(1,196)	-16%
(d) One percent decrease in the discount rate	8,902.7	1,650	23%
Discount rate held at flat 6% and inflation rate held at flat 4% + superimposed inflation	6,097.0	(1,155)	-16%
Discount rate used in the expected return on investments			

Notes to the financial statements

for the year ended 30 June 2022

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 MAITC Scheme	425.5		
Economic assumptions			
(a) One per cent per annum lower inflation for all future years	348.5	(77)	-18%
(b) One per cent per annum higher inflation for all future years	528.2	103	24%
(c) One percent increase in the discount rate	349.9	(76)	-18%
(d) One percent decrease in the discount rate	528.0	103	24%
Inflation first 5 years is WPI+SI. Thereafter flat 2.5% + SI. Discount rate flat 4%	410.6	(15)	-4%
Discount rate used in the expected return on investments			

Notes to the financial statements

for the year ended 30 June 2022

2.3.5. Receivables

Overview

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They include trade and other receivables and are recognised at their amortised cost less impairment losses, which approximates fair value.

Receivables are recognised at amortised cost using the effective interest method, less any allowance for expected credit losses. The Authority has applied a simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, receivables have been grouped based on days overdue.

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 (2021: $nil).

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

	2022 $'000	2021 $'000
Recoveries receivable	2,854	2,195
Fees and levies	60,490	56,993
Service fee receivable	6,876	895
GST receivable	539	547
Receivables from participants	450	450
Other	7,072	7,262
Investment receivables (refer note 3.2)	12,755	17,143
	91,036	**85,485**

Notes to the financial statements

for the year ended 30 June 2022

2.3.6. Payables

Overview

Payables 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 and subsequently at amortised cost. Short-term payables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial.

	2022 $'000	2021 $'000
Service fee	7,899	11,562
Accrued expenses	4,377	1,440
	12,276	**13,002**

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.

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.

Notes to the financial statements

for the year ended 30 June 2022

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 9 Financial Instruments. 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.

	2022 $'000	2021 $'000
Interest revenue from bank interest and TCorpIM Cash Fund	65	122
Other investment facilities	32,017	27,857
Realised Gains on investments	3,461	580,949
Unrealised (Loss)/Gains on investments	(548,561)	176,992
Distributions	129,435	241,187
Total Investment revenue	**(383,583)**	**1,027,107**
Investment management expense	(4,912)	(5,060)
Net Investment revenue	**(388,495)**	**1,022,047**

3.2. Investments

	2022 $'000	2021 $'000
Investment assets		
TCorp Managed Trusts	7,046,490	6,634,855
TCorp Fixed/Variable Interest discrete portfolio	844,955	1,341,922
TCorp IM Funds	298,183	237,366
Derivatives	14,559	15,214
Total Investment assets	**8,204,187**	**8,229,357**
Investment receivables		
Investments receivable (refer note 2.3.5)	12,755	17,143
Total Investment assets including receivables	**8,216,942**	**8,246,500**
Investment liabilities		
Investment liabilities	58,699	13,175
Net Investments	**8,158,243**	**8,233,325**

Notes to the financial statements

for the year ended 30 June 2022

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 Authority seeks to manage exposure to investment risk so that it can generate sufficient returns to meet the Authority'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.

Notes to the financial statements

for the year ended 30 June 2022

3.3 Fair value estimation (continued)

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.

	2022				2021			
	Level 1 $'000	Level 2 $'000	Level 3 $'000	TOTAL $'000	Level 1 $'000	Level 2 $'000	Level 3 $'000	TOTAL $'000
Financial assets								
Indexed and interest bearing securities	-	844,955	-	844,955	-	1,341,922	-	1,341,922
TCorp Trusts and Funds	-	5,946,012	1,398,661	7,344,673	-	5,699,897	1,172,324	6,872,221
Derivatives	540	14,019	-	14,559	1,704	13,510	-	15,214
	540	**6,804,986**	**1,398,661**	**8,204,187**	**1,704**	**7,055,329**	**1,172,324**	**8,229,357**
Financial liabilities								
Derivatives	**(327)**	**(57,891)**	**-**	**(58,218)**	**(131)**	**(13,044)**	**-**	**(13,175)**

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 tables presents the movement in level 3 instruments for the year ended 30 June and information about significant unobservable inputs used at year end in measuring financial instruments categorised as Level 3 in the fair value hierarchy.

	2022 $'000	2021 $'000
Opening balance	1,172,324	1,055,067
Purchases of securities	74,132	329,218
Sale of Securities	-	(248,073)
Gain/(Loss) in Profit & Loss (investment income)	152,205	36,112
Closing balance	**1,398,661**	**1,172,324**
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)	152,205	36,112

Notes to the financial statements

for the year ended 30 June 2022

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	2022: $0.14 - $1.75 2021: $1.00 - $1.54	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	2022: $1.43 2021: $1.29	An increase in published redemption prices would result in a higher fair value.
Unit Trusts	Units in unlisted trust investing in the opportunistic asset class	Adjusted net asset value	Published redemption prices	2022 $1.05 2021: $1.00	An increase in published redemption prices would result in a higher fair value.

Notes to the financial statements

for the year ended 30 June 2022

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 Board of icare NSW.

Notes to the financial statements

for the year ended 30 June 2022

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 offer document; 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 2022 $'000	Net Market Value as at 30 June 2021 $'000
Property	691,553	584,264
Fixed Income	300,299	-
Equity - Unlisted	3,343,834	3,254,008
Cash	373,274	374,669
Infrastructure	579,224	507,226
Debt	787,038	877,616
Emerging Market	386,573	430,372
Alternatives	584,695	606,699
Unit trust (Medium term growth)	298,183	237,367
Total	**7,344,673**	**6,872,221**

These unconsolidated structured entities are included under TCorp Managed Trusts and IM Funds in Note 3.2. The maximum exposure or loss is limited to the market value of the investment strategy as at 30 June 2022. The 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.

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for the year ended 30 June 2022

4. Risk Management

Overview

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

The icare Board is ultimately accountable for identifying and managing risk including, financial risk. This is done through the establishment of holistic strategies and policies where risk management has been considered.

Key aspects of icare's Risk Management Framework 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.

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 Organisational Performance 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, in addition to TCorp's role as prime advisor to icare.

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 to the financial statements

for the year ended 30 June 2022

4. Risk Management (continued)

Financial instrument categories

		Category	Carrying Amount 2022 $'000	Carrying Amount 2021 $'000
Financial Assets				
Class:				
Cash and cash equivalents	5.3	Amortised Cost	84,374	80,990
Receivables[1]	2.3.5	Amortised Cost	27,153	25,750
Investments	3.2	At fair value through profit or loss	8,204,187	8,229,357
Financial Liabilities				
Class:				
Payables[2]	2.3.6	Amortised Cost	12,276	13,002
Investments	3.2	At fair value through profit or loss	58,699	13,175

[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 2022

4.1. Market risk

Overview

Market risk is the variability in the value of an investment or the assessed fair value of a financial instrument because of changes in market prices. Market risk is a systemic risk that reflects factors affecting all similar investments or financial instruments traded in the market.

The Authority is exposed to market as a result of holding various investments and financial instruments that support the operation of its business.

The Authority seeks to manage exposure to market risk so as to maximise the long term return of its financial assets in order to meet the Authority's current and future liabilities. The management of market risk also serves to mitigate the likelihood that the Authority's investments will be insufficient to meet such liabilities. The Authority's portfolio of investments is implemented in accordance with its investment strategy and the associated asset allocation. The purpose of the investment strategy is to align a portfolio construction to the Authority's investment objectives, including achieving a return in excess of the target return specified by icare (above which the investment assets would contribute to long term sufficiency), while reducing the probability of large negative investment returns. The investment strategy and resulting portfolio asset allocation is reviewed by the Board on an annual basis.

The realised asset allocations can deviate from the targeted asset allocation due to:

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

Dynamic asset allocation refers to shorter term shifts away from the targeted asset allocation which are designed to mitigate the impact of market risk mispricing so as to benefit longer term portfolio risk adjusted return. TCorp is responsible for determining and implementing such dynamic asset allocation positions, within pre-approved ranges set by the Board.

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

Based on the asset allocation set by the icare Board TCorp appoints investment managers in each asset class, be it directly, or through unit Trusts where TCorp is the Trustee. Management of the Authority's assets is allocated to TCorp directly, or through unit Trusts where TCorp is the Trustee, and the subsequently underlying appointed investment managers. Each investment manager, be they TCorp directly or a manager appointed by TCorp within a trust structure, 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 all investment managers are compliant with their mandates and relevant agreements.

All investment managers are responsible for managing security-specific risk using its distinct management style. All investment managers are 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.

Notes to the financial statements

for the year ended 30 June 2022

4.1. Market risk (continued)

A risk budgeting framework is used to inform the investment strategy and determine an appropriate asset allocation for the Authority. This framework incorporates the underlying risk and return characteristics of the different asset classes the portfolio is invested in and the risks posed by additional factors such as inflation and changing 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 Conditional Value-at-Risk (CVaR) 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.

The risk budgeting analysis is based on certain simplifying assumptions such as statistical characteristics of asset class returns, volatilities and correlations that may differ from 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 CVaR risk measure seeks to estimate the potential investment loss over a given holding period at a specified confidence level. The CVaR 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 CVaR 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 CVaR at the 95th percentile confidence level over a 12 month time period. This represents the average of the worst 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 CVaR 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 CVaR analysis performed by TCorp was conducted in July 2022 based on the June 2022 financial instruments and is computed via forward looking simulation using a 95 per cent confidence interval and a 1-year holding period.

Given the Authority's financial instruments at 30 June 2022, the minimum potential loss expected over a one year period is $621.0 million (June 2021: $741.0 million), with a 5 per cent probability that this minimum may be exceeded.

Notes to the financial statements

for the year ended 30 June 2022

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 investment portfolio allocation and mandate objective setting. At 30 June 2022 the Authority had a 4.0 per cent (2021: 5.0 per cent) allocation to Australian Commonwealth and state government bonds and other interest bearing securities to partially mitigate interest rate risk of Authority liabilities. Additionally, at 30 June 2022, the Authority had a 11.0 per cent (2021: 13.0 per cent) allocation to Australian Commonwealth and state government inflation linked bonds to partially mitigate inflation risk of Authority liabilities.

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.

Notes to the financial statements

for the year ended 30 June 2022

4.2.3. Quantitative analysis of exposure (continued)

		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
2022						
Cash	84,374	-	-	-	-	84,374
Indexed and interest-bearing securities	818,386	-	-	-	26,569	844,955
Futures IR	-	540	-	-	-	540
Swaps IR	-	-	3,844	-	2,021	5,865
Swaps FFX	8,154	-	-	-	-	8,154
Assets	**910,914**	**540**	**3,844**	**-**	**28,590**	**943,888**
Futures IR	-	(327)	-	-	-	(327)
Swaps IR	-	-	-	(8,967)	(1,745)	(10,712)
Swaps FFX	(47,179)	-	-	-	-	(47,179)
Liabilities	**(47,179)**	**(327)**	**-**	**(8,967)**	**(1,745)**	**(58,218)**
2021						
Cash	80,990	-	-	-	-	80,990
Indexed and interest-bearing securities	973,111	-	-	5,908	362,903	1,341,922
Futures IR	-	1,703	-	-	-	1,703
Swaps IR	-	-	-	1,566	3,763	5,329
Swaps FFX	8,182	-	-	-	-	8,182
Assets	**1,062,283**	**1,703**	**.**	**7,474**	**366,666**	**1,438,126**
Futures IR	-	(132)	-	-	-	(132)
Swaps IR	-	-	(204)	(162)	(3,962)	(4,328)
Swaps FFX	(8,715)	-	-	-	-	(8,715)
Liabilities	**(8,715)**	**(132)**	**(204)**	**(162)**	**(3,962)**	**(13,175)**

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 2022

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.

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 2.3.5) and investments in over-the-counter or thinly traded investments and principally unlisted property trusts. These investments are categorized as level 3 on the fair value heirarchy.

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.

TCorp directly, or through unit Trusts where TCorp is the Trustee, is responsible for cashflow management of the assets. That is, TCorp directly, or underlying managers within the TCorp Trusts, are 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 2021.

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.

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 2022

4.3.3. Quantitative analysis of exposure (continued)

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
2022								
Financial liabilities	N/A	70,975	-	-	70,975	60,262	8,967	1,746
2021		.						
Financial liabilities	N/A	26,177	-	-	26,177	26,177	-	-

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.

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 TCorp directly, or investment managers in unit Trusts where TCorp is the Trustee, 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.

Notes to the financial statements

for the year ended 30 June 2022

4.4.2. Risk management objective, policies and processes

A Credit and Risk Policy has 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.

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.

Notes to the financial statements

for the year ended 30 June 2022

4.4.4. Derivatives (continued)

	Assets $'000	Liabilities $'000	Notional amount $'000
2022			
Futures:			
Interest rate futures	540	(327)	11,485
Interest rate swaps	5,865	(10,712)	702,020
Swaps FFX	8,154	(47,179)	1,909,051
	14,559	**(58,218)**	**2,622,556**
2021			
Futures:			
Interest rate futures	1,703	(132)	(357,285)
Interest rate swaps	5,329	(4,328)	246,900
Swaps FFX	8,182	(8,715)	666,742
	15,214	**(13,175)**	**556,357**

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:

	2022 $'000	2022 %	2021 $'000	2021 %
Rating				
AAA/aaa	701,708	83	1,157,606	86
AA/Aa	113,853	13	148,241	11
Other	29,394	3	36,075	3
Total	**844,955**	**100**	**1,341,922**	**100**

Notes to the financial statements

for the year ended 30 June 2022

4.4.6. Cash and cash equivalents

Cash comprises 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 at the monthly average TCorp 11am unofficial cash rate, adjusted for a management fee to NSW Treasury.

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. Receivables 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 have been determined as impaired (2021: nil).

5. Other

Overview

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

5.1. Other revenue

	2022 $'000	2021 $'000
Scheme recoveries	1,371	2,252
Services provided to ACT Scheme	751	502
Sundry revenue	159	318
Total other revenue	**2,281**	**3,072**

Notes to the financial statements

for the year ended 30 June 2022

5.2. 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 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.

Audit fees for the audit of the financial statements were paid by icare and are included as part of the service fee. The amount incurred was $172,822. (2021: $170,268)

Internal case management services are provided by icare staff and charged to the Authority. These costs are treated as scheme expenses rather than service fee expenses.

5.3. Cash and cash equivalents

Overview

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

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

	2022 $'000	2021 $'000
Cash at bank and on hand	10,963	15,907
Short-term deposits:		
- Cash – Other Deposits at TCorp	7,500	-
- Cash – Other	65,911	65,083
Total cash and cash equivalents	**84,374**	**80,990**

Cash at bank of $1 million relating to MAITC is included within the cash balance (2021: $2 million).

The cashflow statement reflects actual cashflow movements in the fund and not the movements in the underlying investment portfolios within the fund.

Notes to the financial statements

for the year ended 30 June 2022

5.3. Cash and cash equivalents (continued)

	2022 $'000	2021 $'000
Reconciliation of Net Cash Flows from Operating Activities to Net Result		
Net cash provided by/(used on) operating activities	7,744	(72,388)
Depreciation and amortisation	(739)	(502)
Increase/(Decrease) in investments	(25,169)	1,420,251
Change in assets and liabilities		
Increase/(decrease) in receivables	5,550	(9,541)
(Increase)/decrease in payables	(44,798)	(15,081)
(Increase) in Outstanding claims	525,218	(851,834)
Net result	**467,806**	**470,905**

5.4. 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 five thousand dollars individually are capitalised.

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

Physical non-current assets are valued in accordance with the '*Valuation of Physical Non-Current Assets at Fair Value*' Policy and Guidelines Paper (TPP 21-09). 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 not 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 March 2022 and was based on an independent assessment.

Notes to the financial statements

for the year ended 30 June 2022

5.4. Property, plant and equipment (continued)

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	Motor Vehicles $'000	Total $'000
At 1 July 2021 – fair value			
Gross carrying amount	8,957	372	9,329
Accumulated depreciation and impairment	(46)	(136)	(182)
Net carrying amount	**8,911**	**236**	**9,147**
At 30 June 2022 – fair value			
Gross carrying amount	13,760	372	14,132
Accumulated depreciation and impairment	(83)	(229)	(312)
Net carrying amount	**13,677**	**143**	**13,820**

Reconciliation

A reconciliation of the carrying amount of each class of property, plant and equipment at the beginning and end of the current and prior reporting periods is set out below:

	Land and Buildings $'000	Motor Vehicles $'000	Total $'000
Year ended 30 June 2021			
Net carrying amount at start of financial year	8,503	329	8,832
Net revaluation increment less revaluation decrements	597	-	597
Depreciation expense	(189)	(93)	(282)
Net carrying amount at end of financial year	**8,911**	**236**	**9,147**

	Land and Buildings $'000	Motor Vehicles $'000	Total $'000
Year ended 30 June 2022			
Net carrying amount at start of financial year	8,911	236	9,147
Net revaluation increment less revaluation decrements	4,986	-	4,986
Depreciation expense	(220)	(93)	(313)
Net carrying amount at end of financial year	**13,677**	**143**	**13,820**

Notes to the financial statements

for the year ended 30 June 2022

5.4.1. 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

5.5. 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
2022				
Property, plant and equipment (Note 5.5)				
Land and buildings	-	6,997	6,680	13,677
	-	**6,997**	**6,680**	**13,677**
2021				
Property, plant and equipment (Note 5.5)				
Land and buildings	-	5,714	3,197	8,911
	-	**5,714**	**3,197**	**8,911**

There were no transfers between Level 1 ,Level 2 and Level 3 during the year ended 30 June 2022 (2021: nil)

Notes to the financial statements

for the year ended 30 June 2022

5.5.1. Valuation techniques, inputs and processes

Land at Collaroy (the Sargood Foundation building) is measured using the market approach discounted after taking into account restrictions on its use due 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 21-09 *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.

5.5.2. Reconciliation of recurring Level 3 fair value measurements

	2022		2021	
	Land and buildings $'000	Total Recurring Level 3 Fair value $'000	Land and buildings $'000	Total Recurring Level 3 Fair value $'000
Fair value at 1 July	3,197	3,197	3,268	3,268
Depreciation	(30)	(30)	(44)	(44)
Revaluation	3,513	3,513	(27)	(27)
Fair value at 30 June	**6,680**	**6,680**	**3,197**	**3,197**

5.6. 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 (2021: nil)

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for the year ended 30 June 2022

5.7. 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.5.7.

Notes to the financial statements

for the year ended 30 June 2022

5.7. Administered assets and liabilities (continued)

	2022 $'000	2021 $'000
Revenue		
Funding provided by ACT government to meet participant scheme costs	4,662	3,813
	4,662	**3,813**
Expenses excluding losses		
Participant scheme costs	4,662	3,813
	4,662	**3,813**
Net result	**-**	**-**
Assets		
Cash and cash equivalents	841	165
Receivable – from ACT government	394	76
	1,235	**241**
Liabilities		
Creditors	13	-
Income received in Advance	1,222	241
	1,235	**241**
Net Assets	**-**	**-**

5.8. 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.

5.9. Capital management LTCS

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.

Notes to the financial statements

for the year ended 30 June 2022

5.9. Capital management LTCS (continued)

icare's Capital Management Policy has been reviewed and updated. The capital management policy has changed from a single measure using the Accounting Funding Ratio to a composite of measures that include the Insurance Ratio. The Insurance Ratio is the ratio of scheme assets to scheme liabilities, where the scheme liabilities allow for the time value of money that is reflective of the scheme's investments. The Insurance ratio is the same as the "Economic Funding Ratio" recommended by the McDougall Review for icare to adopt for capital management as it is "a more realistic appraisal" of the financial sustainability. icare has renamed the ratio to Insurance Ratio to avoid confusion with the Accounting Funding Ratio. In addition to the Insurance Ratio, the Accounting Funding Ratio and operational Cashflows as well as their trajectory over future years is considered under the Capital Management Policy.

The Board of icare set a Capital Management Policy measure that defines a Target Zone of the Insurance Ratio for the Authority.

To determine the Authority's Target Zone, consideration was given to the following:

- The unique nature of the business from various perspectives- internal (financial and operational) and external (economic and political);
- There is no explicit Government guarantee to cover any funding shortfall;
- The Authority's strategic objectives and the risks of not achieving them; and
- The underlying uncertainty of the financials of the Authority and a capital position that ensured a higher than 96.7% probability of coverage in a hypothetical runoff portfolio.

The Board of icare has set the Target Operating Zone to achieve this probability of coverage as an Insurance Ratio higher than 140%. The Insurance Ratio as at June 2022 is 131% and below the Target Operating Zone.

The Capital Management policy details actions required when the Insurance Ratio falls outside of the Target Operating Zone. The Capital Management Framework is reviewed annually by Management or as directed by the Board or Audit Committee. Any recommendations for change are endorsed by the Audit Committee and approved by the Board.

MAITC

Capital management is an integral part of icare's risk management framework. One of the key objectives of the Scheme is to have sufficient capital to meet its obligations to its participants, even under adverse conditions. MAITC is a relatively new scheme and is due to begin receiving claims in December 2022.

Management is executing the business actions to bring the Scheme's Insurance Ratio above 100%.

5.10. Post balance date events

The Authority has not identified any subsequent events that would require the financial statements or other disclosures to be adjusted.

- End of Audited Financial Statements -

Workers Compensation (Dust Diseases) Authority

Dust Diseases Care Financial statements

for the year ended 30 June 2022

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Notes to the financial statements

WORKERS COMPENSATION DUST DISEASES AUTHORITY OF NSW

Actuarial Certificate
Outstanding claims liabilities at 30 June 2022

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 2022.

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 and awarded ("Known Claims"), and for claims which have not yet been awarded but for which the exposure to dust has already occurred and a disease will eventually emerge ("Future Claims").

Our central estimate also includes an allowance for the regulation changes which will add five new dust diseases to Schedule 1 of the Workers' Compensation (Dust Diseases) Act 1942. This is made on the basis that it is highly probable that the regulation will come into effect in the immediate future.

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 2022 is **$1,977.0 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	912.7
Future Claims	1,064.3
Total Liability *	**1,977.0**

*Due to rounding, the numbers shown in the table above may not add up to the total.

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

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 preparing our liability estimates, we have concluded that no explicit adjustment for the impact of COVID-19 is required.

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 7 September 2022.

Relevant Standards

Our estimates and reports were prepared in compliance with the Actuaries Institute's Professional Standard 302, 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
07 September 2022

Gavin Moore
FIAA
07 September 2022

Statement by the board of directors

for the year ended 30 June 2022

Workers Compensation (Dust Diseases) Authority

Statement under Section 7.6 Government Sector Finance Act 2018.

Pursuant to section 7.6(4) of the *Government Sector Finance Act 2018* (“the Act”), In the opinion of the Board of Directors we state that these financial statements:

- have been prepared in accordance with the Australian Accounting Standards and the applicable requirements of the Act, the *Government Sector Finance Regulation 2018,* and the Treasurer’s directions and
- present fairly the Workers Compensation (Dust Diseases) Authority’s financial position, financial performance and cash flows.

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

John Robertson
Chairman
Insurance and Care NSW
26 September 2022

Richard Harding
Chief Executive Officer and Managing Director
Workers Compensation (Dust Diseases) Authority
and Insurance and Care NSW
26 September 2022

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 comprises the statement by the board of directors, the statement of comprehensive income for the year ended 30 June 2022, the statement of financial position as at 30 June 2022, the statement of changes in equity and the statement of cash flows, for the year then ended, and notes to the financial statements.

In my opinion, the financial statements:

- have been prepared in accordance with Australian Accounting Standards and the applicable financial reporting requirements of the *Government Sector Finance Act 2018* (GSF Act), the Government Sector Finance Regulation 2018 (GSF Regulation) and the Treasurer's Directions
- presents fairly the Authority 's financial position, financial performance and cash flows.

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 (including Independence Standards)' (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.

The Board's Responsibilities for the Financial Statements

The Board of Directors of Insurance and Care NSW, acting for the Authority, are responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards, the GSF Act, GSF Regulations and Treasurer's Directions. The Board of Directors' responsibility also includes such internal control as the Board of Directors 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 Board of Directors are 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.

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.

The scope of my audit does not include, nor 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.

David Daniels
Director, Financial Audit

Delegate of the Auditor-General for New South Wales

29 September 2022
SYDNEY

Statement of comprehensive income

for the year ended 30 June 2022

	Notes	2022 $'000	2021 $'000
Revenue			
Fees and levies	2.1	72,799	66,331
Net investment revenue	3.1	(41,121)	139,988
Other revenue	5.1	(1,171)	149
Total Revenue		**30,507**	**206,468**
Expenses excluding losses			
Scheme costs	2.2	(10,308)	157,614
Service fees	5.2	27,418	35,819
Other operating expenses		5,912	5,519
Grants and subsidies		7,527	7,513
Total expenses excluding losses		**30,549**	**206,465**
Movement in allowance for impairment of financial assets	2.3.5	(55)	3
Loss on disposal of assets		13	-
Net result		**-**	**-**
Other Comprehensive Income			
Items that will not be reclassified to the net result		-	-
Total Other comprehensive income		**-**	**-**
Total Comprehensive Income		**-**	**-**

The accompanying notes form part of these financial statements

Statement of financial position

as at 30 June 2022

	Notes	2022 $'000	2021 $'000
ASSETS			
Cash and cash equivalents	5.3	32,064	27,837
Investments	3.2	1,047,437	1,217,134
Receivables	2.3.5	969,242	1,011,927
Property, plant and equipment	1.2.6	309	1,906
Intangibles	1.2.7	2,460	5,826
Right of use asset	5.5	202	562
Total Assets		**2,051,714**	**2,265,192**
LIABILITIES			
Payables	2.3.6	8,454	15,680
Investments payable	3.2	7,492	712
Lease liabilities	5.5	277	916
Restoration Provision		80	80
Outstanding claims	2.3.1	2,035,411	2,247,804
Total Liabilities		**2,051,714**	**2,265,192**
Net Assets		**-**	**-**
EQUITY		-	-
Accumulated funds		-	-
Total Equity		**-**	**-**

The accompanying notes form part of these financial statements

Statement of changes in equity

for the year ended 30 June 2022

	2022 $'000	2021 $'000
Accumulated funds		
Balance at the beginning of financial year	-	-
Net Result for the year	-	-
Other Comprehensive Income	-	-
Total other comprehensive income	**-**	**-**
Total comprehensive income for the year	**-**	**-**
Balance at the end of the financial year	**-**	**-**

The accompanying notes form part of these financial statements

Statement of cash flows

for the year ended 30 June 2022

	Notes	2022 $'000	2021 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Fees and levies received		70,795	65,029
Compensation payments		(167,344)	(120,237)
Net Cash Flows from Scheme Activities		**(96,549)**	**(55,208)**
Receipts			
Proceeds from sale of investments		139,848	90,000
Distributions/interest investments income		60	10,423
Other		2,259	3,121
Total Receipts Excluding Scheme Activities		**142,167**	**103,544**
Payments			
Service fees		(33,419)	(28,300)
Other operating expenses		(445)	(1,042)
Grants and subsidies		(7,527)	(7,513)
Total Payments Excluding Scheme Activities		**(41,391)**	**(36,855)**
NET CASH FLOWS FROM OPERATING ACTIVITIES	**5.3**	**4,227**	**11,481**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of plant and equipment		-	(4,675)
NET CASH FLOWS FROM INVESTING ACTIVITIES		-	(4,675)
NET INCREASE/(DECREASE) IN CASH & CASH EQUIVALENTS		**4,227**	**6,806**
Opening cash and cash equivalents		27,837	21,031
CLOSING CASH AND CASH EQUIVALENTS	**5.3**	**32,064**	**27,837**

The accompanying notes form part of these financial statements

Notes to the financial statements

for the year ended 30 June 2022

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 2022 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 26 September 2022.

1.2. About this report

The Financial Report includes the four primary statements, namely the statement of comprehensive income (which comprises net result 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:

- **Overview** contains information that impacts the Financial Report as a whole.
- **Scheme activities** brings together results and Statement of financial position disclosures relevant to the Authority's scheme activities.
- **Investment activities** includes results and Statement of financial position disclosures relevant to the Authority's investments.
- **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.
- **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.

Notes to the financial statements

for the year ended 30 June 2022

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 *Government Sector Finance Act 2018*, the *Government Sector Finance Regulation 2018*; and NSW Treasurer's directions

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 TPG22-07 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. Going concern basis

The Authority's financial statements have been prepared on a going concern basis.

1.2.4. 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. Actual results may differ from these estimates

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.

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 – Investing Activities and Risk Management
- Note 2.3 – Net Outstanding Claims liability, and
- Note 2.3.5 – Receivables

1.2.5. 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.

Notes to the financial statements

for the year ended 30 June 2022

1.2.6. Property, plant and equipment

Property, 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 five thousand dollars individually are capitalised.

1.2.6.1. Fair value

Physical assets are valued in accordance with the '*Valuation of Physical Non-Current Assets at Fair Value*' Policy and Guidelines Paper (TPP 21-09). 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.

1.2.6.2. Revaluation of property, plant and equipment

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

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.

1.2.6.3. 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 assets 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	2022 %	2021 %
	per annum	per annum
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

1.2.7. Intangibles

The capitalisation threshold for intangible assets is one hundred thousand dollars 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 3 years.

Notes to the financial statements

for the year ended 30 June 2022

1.2.7. Intangibles

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 testing 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.

1.2.8. 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 reclassified to conform to changes in presentation in the current year.

1.2.9. 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 ended 30 June 2022. The following are new Australian Accounting Standards or amendments which have been issued but are not yet effective and are not expected to have a material impact on the financial performance or position of the Authority:

- AASB 2020-3 *Amendments to Australian Accounting Standards – Annual Improvements 2018–2020 and Other Amendments*
- AASB 2021-2 *Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates*

1.2.10. Coronavirus (COVID-19) pandemic

As a consequence of COVID-19 and in preparing these financial statements, management:

- re-evaluated whether there were any additional areas of judgement or estimation uncertainty;
- assessed the carrying values of its assets and liabilities and determined any impact that may occur as a result of market inputs and variables impacted by COVID-19;
- considered the impact of COVID-19 on the Authority's financial statement disclosures.

Accounting Estimates and judgement:

The ongoing COVID-19 pandemic has increased the estimation uncertainty in the preparation of these financial statements. The Authority has developed various accounting estimates in these financial statements based on forecasts of economic conditions which reflect expectations and assumptions as at 30 June 2022 about future events that we believe are reasonable in the circumstances. There is a considerable degree of judgement involved in preparing these forecasts. The underlying assumptions are also subject to uncertainties which are often outside the control of the Authority. Accordingly, actual economic conditions may be different from those forecast since anticipated events may not occur as expected, and the effect of those differences may significantly impact accounting estimates included in these financial statements.

The significant accounting estimates particularly impacted by these associated uncertainties are predominantly related to the valuation of outstanding claims liabilities, fair value measurement of investments and the valuation of right of use lease assets.

Notes to the financial statements

for the year ended 30 June 2022

The impact of the COVID-19 pandemic on each of these accounting estimates is discussed further below. Readers should carefully consider these disclosures considering the inherent uncertainty described above.

- Net Outstanding claims liability – please refer to note 2.3
- Fair value measurement of investments- please refer to note 3.3

The Authority's investments are designated at fair value through profit and loss, and for the vast majority of the investments, the fair value is determined based on observable market data. This measurement basis has not changed as a result of COVID-19.

The investments which are subject to valuation using unobservable inputs are disclosed in note 3.3.

- Right of use lease asset – please refer to note 5.5

Risk Management

The financial and social impacts of COVID-19 continue to emerge and will further develop over the coming year. Their extent and duration are difficult to forecast and remain dependent on many factors. These include the extent to which the virus persists, the efficacy of government and central bank responses (both locally and globally) and the impact prolonged uncertainty has on consumer and business sentiment.

As the impacts of the virus and associated responses evolve, so too will the associated risks.

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 at the earlier of when it is received or falls due and receivable by the Authority.

	2022 $'000	2021 $'000
Levy contributions		
- NSW Self Insurance Corporation	5,018	4,207
- Specialised insurer and other self insurers	9,865	7,573
- NSW Workers Insurance Scheme	57,916	54,551
Total fees and levies	**72,799**	**66,331**

2.2. Scheme costs

Overview

The largest expense for the Authority is Scheme costs or compensation expenses, which is the sum of

- the movement in the net outstanding claims liability (Note 2.3) which is the difference between the net outstanding claims liability at the beginning and the end of the financial year; plus
- any compensation expenses made during the financial year

This comprises of what is estimated by the consulting actuary as at 30 June 2022 as being the movement in the amount require to meet the cost of compensation expenses reported but not yet paid and compensation expenses incurred but which have not yet been reported.

Notes to the financial statements

for the year ended 30 June 2022

2.2. Scheme costs (continued)

	2022 $'000	2021 $'000
(i) Compensation payments made during the year		
Compensation to workers	63,888	25,775
Compensation to dependents	45,942	41,947
Lump sum awards to dependents	35,388	28,144
Healthcare services and funeral benefits	21,394	22,908
	166,612	**118,774**
(ii) Medical examination of workers		
Medical fees and other related supplies	721	1,529
Workers travelling expenses	55	9
	776	**1,538**
(iii) Movement in provision for compensation (Refer note 2.3.1)		
Finance costs	(267)	4,420
Movement in provision for compensation - known claims	(67,110)	84,520
Movement in provision for compensation - estimated future	(145,016)	75,343
Total net movement during the year	**(212,393)**	**164,283**
Total Scheme costs	**(45,005)**	**284,595**
(Increase)/Decrease in contributions from insurers yet to be levied (Note 2.3.5)	34,697	(126,981)
Total Scheme costs including movement in contribution receivable	**(10,308)**	**157,614**

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 2022

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.

As the Authority does not issue insurance contracts, the Authority's claims liabilities are accounted for in accordance with AASB 137 "*Provisions, Contingent Liabilities 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;
- 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 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 Assessment Panel;
- 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. Discounted outstanding claims

Overview

The overall outstanding claims liability of the Scheme is calculated by the consulting actuary using a range of recognised, actuarial methods, appropriate for the characteristics of the various types of claim liability under scrutiny.

The valuation does not include an explicit risk margin but the calculation inherently considers risk in the valuation.

Notes to the financial statements

for the year ended 30 June 2022

2.3.1. Outstanding claims liability (continued)

	2022 $'000	2021 $'000
Expected future gross claims payments	2,699,731	2,325,612
Gross claims handling	492,660	412,585
Gross outstanding claims liabilities	3,192,391	2,738,197
Discount on central estimate	(969,076)	(409,015)
Discount on claims handling expenses	(187,904)	(81,378)
Total discount on claims liabilities	(1,156,980)	(490,393)
Claims liabilities	**2,035,411**	**2,247,804**
Gross claims recoveries	88,503	73,824
Discount on claims recoveries	(30,117)	(11,954)
Recoveries	**58,386**	**61,870**
Net outstanding claims	**1,977,025**	**2,185,934**

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

	2022 $'000	2021 $'000
Claims provisions		
Provision for compensation - known claims	912,748	980,904
Provision for compensation - estimated future claims	1,064,277	1,205,030
Total claims provisions	**1,977,025**	**2,185,934**

Notes to the financial statements

for the year ended 30 June 2022

2.3.1. Outstanding claims liability (continued)

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

	2022 $'000	2021 $'000
Carrying amount at start of financial year	2,185,934	2,018,818
Changes in actuarial assumptions	375,575	411,545
Less: Service Fees - refer Note 5.2	(27,418)	(35,819)
Other operating expenses (excluding depreciation and amortisation)	(605)	(65)
Compensation payments made during the year - refer note 2.2(i)	(166,612)	(118,774)
Medical examination costs of workers - refer note 2.2(ii)	(776)	(1,538)
Add: Compensation recoveries - refer note 5.1	2,007	2,542
Change in discount rate	(390,813)	(95,195)
Finance cost (unwinding of discount - refer note 2.2(iii)	(267)	4,420
Net outstanding claims	**1,977,025**	**2,185,934**

The Authority includes in its provision an estimate for compensation payable for claims yet to be made of $1.064m (2021: $1.205m). 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 2022

2.3.2. Economic assumptions

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.

	2022 %	2021 %
Compensation expected to be paid		
Discount rate 12 months or less	2.38%	-0.01%
Discount rate greater than 12 months	3.34%-4.16%	0.06%-4.00%
Inflation rate 12 months or less	3.15%	1.10%
Inflation rate greater than 12 months	2.50%-2.96%	1.19%-2.50%
Weighted mean term (years)		
Uninflated, undiscounted	11.84	11.78
Inflated, discounted	10.65	11.32

2.3.3. Net claims liability maturity

Overview

The maturity profile is the Authority's expectation of the period over which the net outstanding claims 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;

	2022 $'000	2021 $'000
Not later than one year	149,669	176,714
Later than one year but not later than five years	513,909	503,072
Later than five years	1,313,447	1,506,148
	1,977,025	**2,185,934**

Notes to the financial statements

for the year ended 30 June 2022

2.3.4. 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 consulting actuaries on each variable to measure the change in outstanding claims liability estimate that would result from a change in the assumptions whilst holding all other variables constant. 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:

- Inflation and discount rates;

The actuaries, in the valuation of liability report 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.

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.

	30 June 2022 Liability $'000	Effect On 30 June 2022 Liability $'000	Percentage Effect %
Central estimate of the Authority's liability	1,977,025		
All valuation assumptions used			
Economic assumptions			
Increase inflation rate by 1% but with long-term gap of 1.5%	2,080,496	103,471	5
Decrease inflation rate by 1% but with long-term gap of 1.5%	1,878,859	(98,166)	(5)
Decrease discount rate by 1% but with long-term gap of 1.5%	2,083,399	106,374	5
Increase discount rate by 1% but with long-term gap of 1.5%	1,878,150	(98,875)	(5)

The long term gap refers to maintaining a 1.5% gap between inflation and discount rate after 5 years.

Notes to the financial statements

for the year ended 30 June 2022

2.3.5. Receivables

Overview

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They include trade and other receivables and are recognised at their amortised cost less impairment losses, which approximates fair value.

Receivables are recognised at amortised cost using the effective interest method, less any allowance for expected credit losses. The Authority has applied a simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, receivables have been grouped based on days overdue.

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 the unfunded 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 2022

2.3.5. Receivables (continued)

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

	2022 $'000	2021 $'000
Statutory receivables relating to contributions from insurers	897,010	931,707
Recoveries receivable	58,386	61,870
Other receivables	13,036	12,122
less: Allowance for impairment	(1,450)	(1,505)
Dust Diseases levy hindsight	1,137	-
GST receivable	83	136
Service fees	317	3,258
Investment receivables (as per note 3.2)	668	4,288
Prepayments & other assets	55	51
Total Receivables	**969,242**	**1,011,927**
Movement in the allowance for impairment		
Balance at 1 July	1,505	1,502
Increase/(Decrease) in allowance recognised in profit or loss	(55)	3
Balance at 30 June	**1,450**	**1,505**

2.3.6. Payables

Overview

Payables 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.

	2022 $'000	2021 $'000
Service fees	3,340	12,282
Accrued expenses and other creditors	5,114	3,398
Total Payables	**8,454**	**15,680**

Notes to the financial statements

for the year ended 30 June 2022

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 at fair value through profit and loss. Accordingly, all the Authority's financial assets and financial liabilities are held at fair value through profit or loss.

The Authority's investments are, in the majority, held in Unit Trusts where TCorp is the Trustee.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 accrual basis. Interest revenue is recognised using the effective interest method as set out in AASB 9 *Financial Instruments*. 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.

	2022 $'000	2021 $'000
Interest revenue from bank interest and TCorpIM Cash fund	67	30
Other investment facilities	4,457	5,306
Distribution	16,294	40,063
Realised Gains/(Losses) on investments	(540)	94,359
Unrealised Gains/(Losses) on investments	(60,448)	1,133
Total Investment revenue	**(40,170)**	**140,891**
Investment management fees	(951)	(903)
Net investment revenue	**(41,121)**	**139,988**

Notes to the financial statements

for the year ended 30 June 2022

3.2. Investments

	2022 $'000	2021 $'000
TCorp Managed Funds	1,046,241	984,240
TCorp Fixed/Variable interest discrete portfolio	-	232,188
Derivatives	1,196	706
Total investment assets	**1,047,437**	**1,217,134**
Investment receivables		
Investment receivables (refer note 2.3.5)	668	4,288
Total investment assets including receivables	**1,048,105**	**1,221,422**
Investments payable		
Investments payable	7,492	712
Net Investments	**1,040,613**	**1,220,710**

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 Authority seeks to manage exposure to investment risk so that it can generate sufficient return to meet the Authority'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'.

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for the year ended 30 June 2022

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 2022

3.3. Fair value estimation (continued)

	2022				2021			
	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	-	-	-	-	-	232,188	-	232,188
Unit Trusts	-	830,711	215,530	1,046,241	-	796,321	187,919	984,240
Derivatives	202	994	-	1,196	423	283	-	706
	202	**831,705**	**215,530**	**1,047,437**	**423**	**1,028,792**	**187,919**	**1,217,134**
Other financial liabilities								
Derivatives	**4**	**7,488**	**-**	**7,492**	**90**	**622**	**-**	**712**

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.

	2022 $'000	2021 $'000
Opening balance	187,919	178,274
Purchases of securities	2,999	1,550
Gain / (loss) in Profit & Loss (investment income)	24,612	8,095
Closing balance	**215,530**	**187,919**
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)	**24,612**	**8,095**

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for the year ended 30 June 2022

3.3.1. Transfer between levels (continued)

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.

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	2022: $0.14-$1.75 2021: $1.54	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	2022: $1.43 2021: $1.29	An increase in published redemption prices would result in a higher fair value.
Unit Trusts	Units in unlisted opportunistic asset class	Adjusted net asset value	Published redemption prices	2022: $1.05 2021: $1.00	An increase in published redemption prices would result in a higher fair value.

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.

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for the year ended 30 June 2022

3.3.2. 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 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 Board of Insurance and Care NSW.

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.

Investment Strategy	Net Market Value as at 30 June 2022 $'000	Net Market Value as at 30 June 2021 $'000
Equity- Unlisted	301,624	428,963
Property	144,830	121,427
Alternatives	85,112	64,572
Emerging Markets	49,572	68,613
Infrastructure	74,184	64,963
Debt	144,683	127,135
Cash	56,555	108,567
Fixed Income	189,681	-
Total	**1,046,241**	**984,240**

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for the year ended 30 June 2022

3.3.3. Involvement with unconsolidated structured entities (continued)

These unconsolidated structured entities are included under TCorpIM Funds in Note 3.2. The maximum exposure or loss is limited to the market value of the investment as at 30 June 2022. The 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 relevant TCorpIM Offer Document and investment mandates with respective underlying investment managers. The investment decisions in 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 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 Framework (RMF), which is approved annually by the Board, and the icare Investment Strategy, which is approved by the Board.

The icare Board is ultimately accountable for identifying and managing risk, including financial risk. This is done through the establishment of holistic strategies and policies where risk management has been considered.

Key aspects of icare's risk management framework 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).

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.

NSW Treasury Corporation (TCorp) has been appointed to provide investment management, advisory and administrative 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 Organisational Performance team. Ministerial Orders that were introduced in December 2016, outline the key responsibilities of TCorp including, but not limited to, the appointment of investment managers and service providers such as the custodian, in addition to TCorp's role as primary advisor to icare.

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4. Risk Management (continued)

Financial instrument categories

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

		Category	Carrying Amount 2021 $'000	Carrying Amount 2020 $'000
Financial Assets				
Class:				
Cash and cash equivalents	5.3	Amortised Cost	32,064	27,837
Receivables[1]	2.3.5	Amortised Cost	985	7,546
Investments	3.2	Fair value through profit or loss	1,047,437	1,217,134
Financial Liabilities				
Class:				
Payables[2]	2.3.6	Amortised Cost	8,454	15,680
Investments payable	3.2	Fair value through profit or loss	7,492	712

Notes:

[1] Excludes statutory receivables, prepayments (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).

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4.1. Market risk

Overview

Market risk is the variability in the value of an investment or the assessed fair value of a financial instrument because of changes in market prices. Market risk is a systemic risk that reflects factors affecting all similar investments or financial instruments traded in the market.

The Authority is exposed to market as a result of holding various investments and financial instruments that support the operation of its business.

The Authority seeks to manage exposure to market risk so as to maximise the long term return of its financial assets in order to meet the Authority's current and future liabilities. The management of market risk also serves to mitigate the likelihood that the Authority's investments will be insufficient to meet such liabilities. The Authority's portfolio of investments is implemented in accordance with its investment strategy and the associated asset allocation. The purpose of the investment strategy is to align a portfolio construction to the Authority's investment objectives, including achieving a return in excess of the target return specified by icare (above which the investment assets would contribute to long term sufficiency), while reducing the probability of large negative investment returns. The investment strategy and resulting portfolio asset allocation is reviewed by the Board on an annual basis.

The realised asset allocations can deviate from the targeted asset allocation due to:

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

Dynamic asset allocation refers to shorter term shifts away from the targeted asset allocation which are designed to mitigate the impact of market risk mispricing so as to benefit longer term portfolio risk adjusted return. TCorp is responsible for determining and implementing such dynamic asset allocation positions, within pre-approved ranges set by the Board.

The deviations in actual asset allocation relative to target 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 invests the Authority's assets either via TCorpIM funds (pooled funds where TCorp is the Trustee) or direct mandates, following consultation with icare. Management of the Authority's assets is allocated by TCorp to the appointed investment managers within the Trusts. 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 daily to ensure that investment managers are compliant with their mandates and relevant agreements.

As Trustee or a direct investment manager, TCorp is responsible for ensuring that each investment manager is managing security specific risk using its distinct management style. TCorp is responsible for ensuring that each investment manager also constructs 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 inform the investment strategy and determine an appropriate asset allocation for the Authority. This framework incorporates the underlying risk and return characteristics of the different asset classes the portfolio is invested in and the risks posed by additional factors such as inflation and changing 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 Conditional Value-at-Risk (CVaR) analysis.

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for the year ended 30 June 2022

4.1. Market risk (continued)

The risk budgeting analysis is conducted by TCorp (supported by 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.

The risk budgeting analysis is based on certain simplifying assumptions such as statistical characteristics of asset class returns, volatilities and correlations that may differ from 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 CVaR risk measure seeks to estimate the potential investment loss over a given holding period at a specified confidence level.

The CVaR methodology is a statisticallydefined, 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 CVaR 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 CVaR at the 95th percentile confidence level over a 12- month period. This represents the average of the worst 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 CVaR 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 CVaR analysis performed by TCorp was conducted in July 2022 based on the June 2022 financial instruments and is computed via forward looking simulation using a 95% confidence level and a 1 year holding period.

The Authority uses a CVaR model to measure the market risk exposures to its invested assets in the statement of financial position. CVaR 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 2022, the minimum potential loss expected over a one year period is $54.2 million (June 2021: $86.4 million), with a 5 per cent probability that this minimum may be exceeded.

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for the year ended 30 June 2022

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 investment portfolio asset allocation and mandate objective setting. At 30 June 2022 the Authority had an 18.4 per cent (2021: 19 per cent) allocation to Australian Commonwealth and state government bonds and other interest-bearing securities to partially mitigate interest rate risk of the Authority's liabilities and diversify the risk of growth assets.

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.

Notes to the financial statements

for the year ended 30 June 2022

4.2.3. Quantitative analysis of exposure (continued)

	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	
2022						
Cash	32,064	-	-	-	-	32,064
Derivative assets	994	202	-	-	-	1,196
Derivative liabilities	(7,488)	(4)	-	-	-	(7,492)
Assets	**25,570**	**198**	**-**	**-**	**-**	**25,768**
2021						
Cash	27,837	-	-	-	-	27,837
Indexed and interest- bearing securities	21,693	-	-	3,690	206,805	232,188
Derivative assets	283	423	-	-	-	706
Derivative liabilities	(253)	(90)	(315)	(54)	-	(712)
Assets	**49,560**	**333**	**(315)**	**3,636**	**206,805**	**260,019**

The Authority's exposure to interest rate price risk is considered a component of market price risk and is quantified as part of the CVaR 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.

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.

Notes to the financial statements

for the year ended 30 June 2022

4.3. Liquidity risk (continued)

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.

As Trustee or direct investment manager, TCorp is responsible for ensuring that each investment manager is allowing for adequate 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 2021.

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 2022

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
2022								
Financial liabilities	N/A	15,946	-	-	15,946	15,946	-	-
2021								
Financial liabilities	N/A	16,392	-	-	16,392	16,392	-	-

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

A Credit and Risk Policy has been determined to ensure the Authority has controlled levels of credit concentration. These guidelines are at a total Fund level, with further asset class specific restrictions in the TCorpIM underlying 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 underlying individual managers' compliance and at a total Fund 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.

Notes to the financial statements

for the year ended 30 June 2022

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

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 Trusts for 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

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 $'000 AUD	Euro $'000 AUD	Japanese Yen $'000 AUD	Other Currencies $'000 AUD	Total $'000
2022					
Cash	475	-	-	-	475
Unit Trust - Property Unlisted	1,140	-	-	-	1,140
Derivative Assets – Swaps	502	116	218	158	994
Derivative Assets - Futures	133	-	13	8	154
Derivative Liabilities – Swaps	(6,419)	(413)	(62)	(594)	(7,488)
Derivative Liabilities – Futures	-	(1)	-	(3)	(4)
Foreign exchange exposure position	**(4,169)**	**(298)**	**169**	**(431)**	**(4,729)**
2021					
Cash	27	-	-	21	48
Derivatives Assets – Swaps	252	5	20	6	283
Derivatives Assets - Futures	88	-	-	3	91
Derivatives Liabilities – Swaps	(240)	(1)	(8)	(4)	(253)
Derivative Liabilities – Futures	-	(22)	(5)	(7)	(34)
Foreign exchange exposure position	**127**	**(18)**	**7**	**19**	**135**

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

Notes to the financial statements

for the year ended 30 June 2022

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 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

A Credit and Risk Policy has been determined to ensure the Authority has controlled levels of credit concentration. These guidelines are at a total fund level, with further asset class specific restrictions in investment 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 underlying 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.

Notes to the financial statements

for the year ended 30 June 2022

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.

	Assets $'000	Liabilities $'000	Notional amount $'000
2022 Options			
Options on Fixed Income	202	(4)	7,371
Forward foreign exchange contracts	994	(7,488)	289,596
	1,196	**(7,492)**	**296,967**
2021 Options			
Options on Fixed Income	283	(622)	24,960
Forward foreign exchange contracts	423	(90)	(53,709)
	706	**(712)**	**(28,749)**

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:

	2022 $'000	2022 %	2021 $'000	2021 %
AAA/aaa	-	-	216,948	93
AA/Aa	-	-	15,240	7
Total	**-**	**-**	**232,188**	**100**

Notes to the financial statements

for the year ended 30 June 2022

4.5.6. Cash and cash equivalents

Cash comprises 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 at the monthly average TCorp 11am unofficial cash rate, adjusted for a management fee to NSW Treasury.

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.

The Authority has applied a simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, receivables have been grouped based on days overdue.

There are no debtors whose terms have been renegotiated.

5. Other

Overview

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

5.1. Other revenue

	2022 $'000	2021 $'000
Compensation recoveries under Section 8E of the Act	2,007	2,542
Scheme recoveries	(3,483)	(2,833)
Rendering of services - Occupational respiratory health assessments	260	409
Solicitor's production fees	45	31
Total other revenue	**(1,171)**	**149**

Notes to the financial statements

for the year ended 30 June 2022

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.

Audit fees for the audit of the financial statements were paid by icare in 2022 and are included as part of the service fee. The amount incurred was $193,000. (2021: $191,000)

5.3. Cash and cash equivalents

Overview

Cash and cash equivalents include cash at bank and short-term deposits of less than 3 months duration.

	2022 $'000	2021 $'000
Cash at bank and on hand	20,988	2,609
Cash - Other	11,076	25,228
Total cash and cash equivalents	**32,064**	**27,837**

For the purposes of the statement of cash flows, cash and cash equivalents includes cash at bank, cash on hand and term deposits of less than 3 months duration.

The cashflow statement reflects actual cashflow movements in the fund and not the movements in the underlying investment portfolios within the fund.

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:

	2022 $'000	2021 $'000
Cash and cash equivalent assets (per Statement of financial position)	32,064	27,837
Closing cash and cash equivalents (per Statement of cash flows)	**32,064**	**27,837**

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

Notes to the financial statements

for the year ended 30 June 2022

5.3 Cash and cash equivalents (continued)

	2022 $'000	2021 $'000
Reconciliation of Net Cash Flows from Operating Activities to net result		
Net cash provided by/ (used in) operating activities	4,227	11,481
Depreciation and amortisation	(5,309)	(5,455)
Loss on disposal of fixed assets	(13)	-
Net cashflows from investment operating activities	(169,696)	40,146
Change in assets and liabilities		
(Decrease) in receivables	(42,686)	129,602
Decrease/(Increase) in payable	445	(12,094)
Increase in claims provisions	212,393	(164,283)
Increase in net Right of use asset and liability	639	603
Net result	**-**	**-**

5.4. 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.

All of the Authority's assets that are not specialised are also measured using the market approach. NSW Treasury Policy paper 21-09 *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.

Notes to the financial statements

for the year ended 30 June 2022

5.5. Leases

The Authority has applied AASB 16 to properties it leases

Under this standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised at the commencement of the lease in the Statement of Financial Position. The only exceptions are short-term and low-value leases. If the Authority has any of these leases they will be expensed directly into the Statement of Comprehensive Income over the period of the lease.

The right-of-use assets are also subject to impairment. The Authority assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, The Authority estimates the asset's recoverable amount. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. After an impairment loss has been recognised, it is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the net result.

Right-of-use assets under leases

	At 30 June 2022 - fair value $'000	At 30 June 2021 - fair value $'000
Right of use asset		
Cost (gross carrying amount)	1,780	1,780
Accumulated depreciation	(1,578)	(1,218)
Total right of use asset	**202**	**562**

Reconciliation

A reconciliation of the carrying amount of the right of use lease asset at the beginning and end of the current reporting periods is set out below:

	2022 $'000	2021 $'000
Balance at 1 July	562	1,171
Depreciation	(360)	(609)
Balance at 30 June	**202**	**562**

Notes to the financial statements

for the year ended 30 June 2022

5.5 Leases (continued)

Lease liabilities

The following table presents liabilities under leases:

	2022 $'000	2021 $'000
Balance at 1 July	916	1,519
Interest expenses	14	29
Payments	(653)	(632)
Balance at 30 June	**277**	**916**

The maturity profile of the Authority's future minimum lease payments under non-cancellable leases at 30 June are shown in the following table:

	2022 $'000	2021 $'000
Outstanding lease liability		
Not later than one year	305	721
Later than one year but not later than five years	**-**	**305**
Total (including GST)	**305**	**1,026**
Less: GST recoverable from Australian Tax Office	(28)	(93)
Total (excluding GST)	**277**	**933**

The reconciliation between the total future minimum lease payments for finance leases and their present value as shown in the statement of financial position follows:

	2022 $'000	2021 $'000
Total minimum finance lease payments	278	931
Less: future finance charges	(1)	(15)
Present value of minimum lease payments as per Statement of financial position	**277**	**916**

Notes to the financial statements

for the year ended 30 June 2022

5.6. 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 (2021: nil).

5.7. Budget review

5.7.1. Statement of comprehensive income

	Actual 2022 $'000	Budget 2022 $'000
Revenue		
Levies	72,799	69,998
Investment Revenue	(41,121)	64,869
Other revenue	(1,171)	619
Total Revenue	**30,507**	**135,486**
Expenses excluding losses		
Scheme costs	(10,308)	80,161
Service fees	27,418	32,599
Other operating expenses	5,912	13,009
Grants and subsidies	7,527	9,467
Total expenses excluding losses	**30,549**	**135,236**
Movement in allowance for impairment	(55)	250
Impairment of right of use asset	13	-
Loss on disposal of asset		-
Net result	**-**	**-**
Other comprehensive income		
Items that will not be reclassified to the net result		
Net decrease in property, plant and equipment revaluation reserve	-	-
Total other comprehensive income	**-**	**-**
TOTAL COMPREHENSIVE INCOME	-	-

Notes to the financial statements

for the year ended 30 June 2022

5.7. Budget review (continued)

Comment

Investment revenue is $106 million unfavourable compared to budget driven by continued volatility in global markets.

Expenses are favourable compared to budget predominantly due to:

- Net positive impact of changes in economic assumptions from the June 2022 actuarial valuation offset by strengthening of outstanding claims to reflect the increasing cost of claims based on claims experience
- Service fees, other operating expenses and grants are favourable compared to budget driven by operational efficiencies of new operating model and timing of projects due to Covid 19.

5.7.2. Statement of financial position

	Actual 2022 $'000	Budget 2022 $'000
ASSETS		
Cash and cash equivalents	32,064	79,097
Investments	1,047,437	1,099,525
Receivables	969,242	677,237
Property, plant and equipment	309	1,691
Intangibles	2,460	12,133
Right of use asset	202	165
Total Assets	**2,051,714**	**1,869,848**
LIABILITIES		
Payables	8,454	3,538
Investments payable	7,492	-
Lease liability	277	908
Restoration Provision	80	-
Outstanding claims	2,035,411	1,865,402
Total Liabilities	**2,051,714**	**1,869,848**
Net Assets	**-**	**-**
EQUITY		
Accumulated funds	-	
Total Equity	**-**	**-**

Comment

Total assets were $182 million favourable compared to budget driven by higher contribution receivables (an increase in outstanding contributions from insurers due to an increase in the outstanding claims provision and lower investment income)

Total liabilities were $182 million unfavourable to budget mainly due to the increases in the provision for outstanding claims liabilities attributable to underling claims experience in actuarial valuation assumptions offset by movements in economic assumptions.

Notes to the financial statements

for the year ended 30 June 2022

Budget review (continued)

5.7.3. Statement of Cash flows

		Actual 2022 $'000	Budget 2022 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Levies received		70,795	161,762
Compensation payments		(167,344)	(203,169)
Net Cash Flows from Scheme Activities		**(96,549)**	**(41,407)**
Receipts			
Proceeds from sale of investments		139,848	75,000
Interest received		60	60,326
Other		2,259	369
Total Receipts		**142,167**	**135,695**
Payments			
Purchase of investments		-	(2,723)
Service fees		(33,419)	(32,599)
Other operating expenses		(445)	(7,013)
Grants and subsidies		(7,527)	(9,467)
Total Payments		**(41,391)**	**(51,802)**
NET CASH FLOWS FROM OPERATING ACTIVITIES		**4,227**	**42,486**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of plant and equipment		-	(8,940)
NET CASH FLOWS FROM INVESTING ACTIVITIES		**-**	**(8,940)**
NET INCREASE/(DECREASE) IN CASH		**4,227**	**33,546**
Opening cash and cash equivalents		27,837	45,551
CLOSING CASH AND CASH EQUIVALENTS		**32,064**	**79,097**

Comment

Cash and Cash Equivalents held as at 30 June 2022 are $47 million lower than budget driven mainly by lower levies received due to DDC contribution cap and lower interest received offset by higher proceeds from sale of investments and lower compensation payments.

Notes to the financial statements

for the year ended 30 June 2022

5.8. Post balance date events

The Authority has not identified any subsequent events that would require the financial statements or other disclosures to be adjusted, nor has the Authority identified any material non-adjusting subsequent events requiring additional disclosure to the financial statements.

- End of Audited Financial Statements -

Sporting Injuries Compensation Authority

Sporting Injuries Financial statements

for the year ended 30 June 2022

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SPORTING INJURIES SCHEME

Actuarial Certificate
Outstanding claims liabilities at 30 June 2022

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 2022 of the Sporting Injuries Scheme.

Data

PwC has 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:

- Time value of money; and
- 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 2022.

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 2022 for the Main Scheme is $1.46 million. For the Supplementary Scheme, the estimated outstanding claims liabilities as at 30 June 2022 is $0.15 million.

The following table summarises the outstanding claims liabilities.

	Main Scheme	Supplementary Scheme	Total
	$000	$000	$000
Central estimate	756	119	875
Expenses	227	36	262
Risk margin	476	Not Included	476
Outstanding claims liability	1,459	154	1,613

It is a decision for SICA 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 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 preparing our liability estimates, we have not made any adjustment for the impact of COVID-19 to the claim assumptions or risk margin which form part of the outstanding claims liability valuation. We note that there is still a degree of uncertainty on how the pandemic may impact claim outcomes.

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 7 September 2022.

Relevant Standards

Our estimates and reports were prepared in compliance with the Actuaries Institute's Professional Standard 302, 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
7 September 2022

Gavin Moore
FIAA
7 September 2022

Statement by the board of directors

for the year ended 30 June 2022

Sporting Injuries Compensation Authority

Statement under Section 7.6 Government Sector Finance Act 2018.

Pursuant to section 7.6(4) of the *Government Sector Finance Act 2018* ("the Act"), In the opinion of the Board of Directors we state that these financial statements:

- have been prepared in accordance with the Australian Accounting Standards and the applicable requirements of the Act, the *Government Sector Finance Regulation 2018,* and the Treasurer's directions. and
- present fairly the Sporting Injuries Compensation Authority's financial position, financial performance and cash flows.

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

John Robertson
Chairman
Insurance and Care NSW
26 September 2022

Richard Harding
Chief Executive Officer and Managing Director
Sporting Injuries Compensation Authority & Insurance and Care NSW
26 September 2022

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 comprises the statement by the board of directors, the statement of comprehensive income for the year ended 30 June 2022, the statement of financial position as at 30 June 2022, the statement of changes in equity and the statement of cash flows, for the year then ended, and notes to the financial statements.

In my opinion, the financial statements:

- have been prepared in accordance with Australian Accounting Standards and the applicable financial reporting requirements of the *Government Sector Finance Act 2018* (GSF Act), the Government Sector Finance Regulation 2018 (GSF Regulation) and the Treasurer's Directions
- presents fairly the Authority's financial position, financial performance and cash flows.

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 (including Independence Standards)' (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.

The Board's Responsibilities for the Financial Statements

The Board of Directors of Insurance and Care NSW, acting for the Authority, are responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards, the GSF Act, GSF Regulations and Treasurer's Directions. The Board of Directors' responsibility also includes such internal control as the Board of Directors determine are 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 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.

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.

The scope of my audit does not include, nor 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

Delegate of the Auditor-General for New South Wales

29 September 2022
SYDNEY

Statement of comprehensive income

for the year ended 30 June 2022

	Notes	2022 $'000	2021 $'000
Gross Written Premium		818	733
Unearned premium movement		(19)	(156)
Gross earned premium		**799**	**577**
Hindsight adjustments		(105)	(5)
Net Earned premiums (a)		**694**	**572**
Claims expense	2.2	(433)	(157)
Unexpired risk liability expense	2.3.6.2	90	(42)
Net claims expense (b)		**(343)**	**(199)**
Underwriting and other expenses (c)		(229)	(193)
Underwriting result (a+b+c)		**122**	**180**
Investment Revenue	3.1	(371)	237
Investment management expenses	3.1	-	(11)
Net investment revenue		(371)	226
Levies revenue		24	23
Net Result		**(225)**	**429**
Other Comprehensive Income			
Items that will not be reclassified to net result		-	-
Total Other comprehensive income		**-**	**-**
Total Comprehensive Income		**(225)**	**429**

The accompanying notes form part of these financial statements

Statement of financial position

as at 30 June 2022

	Notes	2022 $'000	2021 $'000
Assets			
Cash and cash equivalents	5.1	377	765
Investments	3.2	5,351	5,273
Receivables	2.3.7	658	253
Total assets		**6,386**	**6,291**
Liabilities			
Payables	2.3.8	97	111
Unearned premiums	2.3.6.1	515	496
Outstanding claims liabilities	2.3.1	1,459	1,054
Unexpired risk	2.3.6.2	-	90
Total liabilities		**2,071**	**1,751**
Net assets		**4,315**	**4,540**
Equity			
Accumulated funds		4,315	4,540
Total Equity		**4,315**	**4,540**

The accompanying notes form part of these financial statements

Statement of changes in equity

for the year ended 30 June 2022

	2022 $'000	2021 $'000
Accumulated funds		
Balance at the beginning of financial year	4,540	4,111
Net Result for the year	(225)	429
Other Comprehensive Income	-	-
Total other comprehensive income	**-**	**-**
Total comprehensive income for the year	**(225)**	**429**
Balance at the end of the financial year	**4,315**	**4,540**

The accompanying notes form part of these financial statements

Statement of cash flows

for the year ended 30 June 2022

	Notes	2022 $'000	2021 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Premiums received		298	972
Claims paid		(28)	(169)
Net Cash Flow from Insurance Activities		**270**	**803**
Receipts			
Levies received		24	15
Interest received		1	1
Receipts Excluding Insurance Activities		**25**	**16**
Payments			
Purchases of Investments		(450)	(300)
Service fees		(233)	(176)
Other payments		-	(27)
Payments Excluding Insurance Activities		**(683)**	**(503)**
NET CASH FLOWS (USED IN)/FROM OPERATING ACTIVITIES	5.1	**(388)**	**316**
Opening cash and cash equivalents		765	449
CLOSING CASH AND CASH EQUIVALENTS	5.1	**377**	**765**

The accompanying notes form part of these financial statements

Notes to the financial statements

for the year ended 30 June 2022

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 Authority covers registered participants of sporting organisations for injury while engaged in specific activities or events. The Authority 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 2022 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 26 September 2022.

1.2. About this report

The Financial Report includes the four primary statements, namely the statement of comprehensive income (which comprises net result 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.

Notes to the financial statements

for the year ended 30 June 2022

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 Authority.

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 *Government Sector Finance Act 2018* and the *Government Sector Finance Regulation 2018*;
- 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 TPG 22-07 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. Going concern basis

These financial statements have been prepared on a going concern basis

1.2.4. 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. Actual results may differ from these estimates.

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.

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 – Investment Activities and Risk Management;
- Note 2.3 – Net Outstanding Claims liability; and
- Note 2.3.6 - Unearned premiums and unexpired risk liability.

1.2.5. 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 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.

Notes to the financial statements

for the year ended 30 June 2022

1.2.5. Taxation (continued)

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.

1.2.6. 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 reclassified to conform to changes in presentation in the current year.

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 ended 30 June 2022. The following are new Australian Accounting Standards or amendments which have been issued but are not yet effective and are not expected to have a material impact on the financial performance or position of the Authority:

- AASB 2020-3 *Amendments to Australian Accounting Standards – Annual Improvements 2018–2020 and Other Amendments*
- AASB 2021-2 *Amendments to Australian Accounting Standards - Disclosure of Accounting Policies and Definition of Accounting Estimates*

The Authority has commenced the AASB 17 implementation project with a view to being compliant with the public sector equivalent of AASB 17 *Insurance Contracts* by FY 2025/26. The public sector equivalent is expected to be released in December 2022.

1.2.8. Coronavirus (COVID-19) pandemic

As a consequence of COVID-19 and in preparing these financial statements, management:

- re-evaluated whether there were any additional areas of judgement or estimation uncertainty;
- assessed the carrying values of its assets and liabilities and determined any impact that may occur as a result of market inputs and variables impacted by COVID-19;
- considered the impact of COVID-19 on the Authority's financial statement disclosures.

Accounting Estimates and judgement:

The ongoing COVID-19 pandemic has increased the estimation uncertainty in the preparation of these financial statements. The Authority has developed various accounting estimates in these financial statements based on forecasts of economic conditions which reflect expectations and assumptions as at 30 June 2022 about future events that we believe are reasonable in the circumstances. There is a considerable degree of judgement involved in preparing these forecasts. The underlying assumptions are also subject to uncertainties which are often outside the control of the Authority. Accordingly, actual economic conditions may be different from those forecast since anticipated events may not occur as expected, and the effect of those differences may significantly impact accounting estimates included in these financial statements.

The significant accounting estimates particularly impacted by these associated uncertainties are predominantly related to the valuation of outstanding claims liabilities - please refer to note 2.3.

Notes to the financial statements

for the year ended 30 June 2022

1.2.8. Coronavirus (COVID-19) pandemic (continued)

Risk Management

The financial and social impacts of COVID-19 continue to emerge and will further develop over the coming year. Their extent and duration are difficult to forecast and remain dependent on many factors. These include the extent to which the virus persists, the efficacy of government and central bank responses (both locally and globally) and the impact prolonged uncertainty has on consumer and business sentiment.

As the impacts of the virus and associated responses evolve, so too will the associated risks.

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. Premiums

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.

2.2. Net Claims expense

Overview

The largest expense for the Authority is net claims, which is the sum of

- the movement in the net outstanding claims liability (Note 2.3) which is the difference between the net outstanding claims liability at the beginning and the end of the financial year; plus
- any claim payments made during the financial year; plus
- the movement in the unexpired risk liability (Note 2.3.6); plus
- any compensation expenses made during the financial year

This comprises of what is estimated by the consulting actuary as at 30 June 2022 as being the movement in the amount require to meet the cost of claims reported but not yet paid and claims incurred but which have not yet been reported.

Notes to the financial statements

for the year ended 30 June 2022

2.2. Net Claims expense (continued)

The Sporting Injuries Insurance Scheme does not have any recoveries.

	2022 $'000	2021 $'000
Claims paid	28	173
Finance costs	-	2
Other movements in claims liabilities	405	(18)
Net claims expense	**433**	**157**

	2022			2021
	Current Year $'000	Prior Years $'000	Total $'000	Total $'000
Direct business				
Gross claims incurred and related expenses – undiscounted	641	(142)	499	160
Discount and discount movement – gross claims incurred	(27)	(39)	(66)	(3)
Net claims incurred	**614**	**(181)**	**433**	**157**

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. 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.

Notes to the financial statements

for the year ended 30 June 2022

2.3.1. Discounted net outstanding claims

Overview

The overall outstanding claims liability of the Authority is calculated by the consulting 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 the settling of claims (including claims handling expenses), which is affected by factors arising during the period to settlement.

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

	2022 $'000	2021 $'000
Opening balance	1,054	1,069
Discount unwind	-	2
Expected claim payments (prior years only)	(247)	(262)
CHE on expected claim payments (prior years only)	(62)	(59)
Release of Risk Margin on claim payments (prior years only)	(144)	(135)
Adjustment arising from change in (prior years only):	-	-
- Actuarial assumptions*	270	104
- Discount/inflation rates	(37)	(1)
- Risk margins	11	23
Net outstanding claims in current year	614	313
Net outstanding claims	**1,459**	**1,054**
*** Breakdown of Actuarial assumptions**		
Actual vs Expected Payments	219	89
Change in experience	5	14
Change in actuarial assumptions	12	(14)
Change in CHE	34	15
	270	104
CHE = Claims handling expenses		

Notes to the financial statements

for the year ended 30 June 2022

2.3.2. Risk Margin

Overview

A risk margin is adopted by the Board based on advice from the consulting 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, 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 outstanding claim liability is expected to be adequate seven and a half years in 10.

The assumptions regarding uncertainty were applied to the central estimates and claims handling expenses 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 48.4 per cent (2021 46.5 per cent).

2.3.3. Economic assumptions

Overview

The variables used in determining the scheme's outstanding claim liabilities were:

	2022	2021
Claims handling expense ratio	30%	25%
Discount rate	5.37%	1.14%
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.
- Discount rates are derived from market yields on Commonwealth Government securities.
- 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
- 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.

Notes to the financial statements

for the year ended 30 June 2022

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

Overview

Sensitivity analysis is conducted by the consulting actuaries on each key underlying variable to measure the change in outstanding claims liability estimate that would result from a change in the assumptions whilst holding all other variables constant.

The impact of changes in key variables is summarised in the table below.

	Movement in variable	2022 Impact on Net Result $'000	2022 Impact on Liabilities $'000
Expenses	5%	(56)	56
Expenses	(5%)	56	(56)
Discount rate	1%	23	(23)
Discount rate	(1%)	(24)	24

	Movement in variable	2021 Impact on Net Result $'000	2021 Impact on Liabilities $'000
Expenses	5%	(42)	42
Expenses	(5%)	42	(42)
Discount rate	1%	21	(21)
Discount rate	(1%)	(22)	22

The weighted average expected term to settlement from the reporting date of the outstanding claims is estimated to be 1.67 years for the Authority (2021: 2.08 years).

Notes to the financial statements

for the year ended 30 June 2022

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 estimate of ultimate claim costs may vary over time due to new available claim information or external factors such as economic environment and legislative changes. The following table shows the development of the ultimate claim cost estimates for the most recent accident years for the Authority.

Accident year	2013 & prior $'000	2014 $'000	2015 $'000	2016 $'000	2017 $'000	2018 $'000	2019 $'000	2020 $'000	2021 $'000	2022 $'000	Total $'000
Estimate of ultimate claims cost											
At end of accident year	-	712	731	504	736	298	420	159	172	332	4,064
One year later	-	755	852	556	741	404	401	99	144		3,952
Two years later	-	679	753	375	658	314	456	171			3,406
Three years later	-	570	766	298	591	341	380				2,946
Four years later	-	545	709	269	538	293					2,354
Five years later	14,053	526	692	300	522						16,093
Six years later	14,023	515	683	291							15,512
Seven years later	14,004	506	674								15,184
Eight years later	13,985	497									14,482
Nine years later	14,001										14,001
Ten years and later											-
Current estimate of cumulative claims cost	14,001	497	674	291	522	293	380	171	144	332	17,305
Cumulative payments	13,977	489	658	267	489	250	331	19	28	-	16,508
Outstanding claims – undiscounted											797
Discount											(41)
Claims handling expenses											227
Net Outstanding claims excluding risk margin											983
Risk Margin											476
Outstanding claims liability											1,459

Notes to the financial statements

for the year ended 30 June 2022

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 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 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. An additional risk margin is included to take into account the inherent uncertainty in the central estimate.

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

	2022 $'000	2021 $'000
Unearned premium income	515	496
Unexpired risk liability	-	90
Premium liability	**515**	**586**

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.

	2022 $'000	2021 $'000
As at 1 July		
Net carrying amount at start of year	496	341
Deferral of premiums written in current year	713	727
Premiums earned during the year	(694)	(572)
As at 30 June	**515**	**496**

Notes to the financial statements

for the year ended 30 June 2022

2.3.6.2. Reconciliation of unexpired risk liability

	2022 $'000	2021 $'000
As at 1 July	90	48
Recognition of additional/(reversal of) unexpired risk liability in the year	(90)	42
As at 30 June	**-**	**90**

	2022 $'000	2021 $'000
Unearned premium liability relating to contracts issued under the Sporting Injuries Insurance Scheme (A)	515	496
Central estimate of the present value of expected future cash flows arising from future claims on contracts issued under the Sporting Injuries Insurance Scheme	311	391
Risk Margin (75 per cent Probability of Sufficiency)	155	195
Premium liability(B)	**466**	**586**
Unexpired risk liability (B)-(A) (zero minimum)	**-**	**90**

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. 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. They include trade and other receivables and are recognised at their amortised cost less impairment losses, which approximates fair value.

Receivables are recognised at amortised cost using the effective interest method, less any allowance for expected credit losses. The Authority has applied a simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, receivables have been grouped based on days overdue.

Notes to the financial statements

for the year ended 30 June 2022

2.3.7. Trade and other receivables (continued)

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.

All receivables are due in less than 12 months.

	2022 $'000	2021 $'000
Premiums receivable	657	247
Other	1	6
Total Receivables	**658**	**253**

2.3.8. 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.

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 which approximates fair value. 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.

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

	2022 $'000	2021 $'000
Unearned Injury Prevention levies	2	2
Service fees payable	37	45
GST payable	58	64
Total Payables	**97**	**111**

Notes to the financial statements

for the year ended 30 June 2022

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 SICA 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 their 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 the investment 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.

	2022 $'000	2021 $'000
Distributions	131	306
Interest Income other	1	1
Realised gains /(losses) other	-	11
Unrealised gains /(losses) TCorp	(503)	(81)
Total Investment income	**(371)**	**237**
Investment management expense	-	(11)
Net Investment income	**(371)**	**226**

Notes to the financial statements

for the year ended 30 June 2022

3.2. Investment assets and liabilities

	2022 $'000	2021 $'000
TCorp IM Funds	5,351	5,273
Total financial assets at fair value	**5,351**	**5,273**

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.

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).

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
2022				
Financial assets at fair value				
TCorpIM Funds	-	5,351	-	5,351
Total	-	5,351	-	5,351
2021				
Financial assets at fair value				
TCorpIM Funds	-	5,273	-	5,273
Total	-	5,273	-	5,273

The tables above include only financial assets, as no financial liabilities were measured at fair value in the statement of financial position.

Notes to the financial statements

for the year ended 30 June 2022

3.3. Fair value estimation (continued)

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 2022 (Nil- 2021).

4. Risk Management

Overview

The Authority applies a consistent and integrated approach to enterprise risk management. 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 (RMF) is approved annually by the Board.

The icare Board is ultimately accountable for identifying and managing risk, including financial risk. This is done through the establishment of holistic strategies and policies where risk management is considered.

Key aspects of icare's risk management framework 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.

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).

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 Organisational Performance 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, in addition to TCorp's role as prime advisor to icare 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.

Notes to the financial statements

for the year ended 30 June 2022

4. Risk Management (continued)

Financial instrument categories

	Note	Category	2022 $'000	2021 $'000
Cash and cash equivalents	5.1	Amortised cost	377	765
Receivables[1]	2.3.7	Amortised cost	658	253
Investments	3.2	At fair value through profit or loss	5,351	5,273
Financial Liabilities				
Payables[2]	2.3.8	Amortised cost	37	45

[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).

4.1. Insur4ance 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- underwriting, reserving and insurance claims.

4.2. Market risk

Overview

Market risk is the variability in the value of an investment or the assessed fair value of a financial instrument because of changes in market prices. Market risk is a systemic risk that reflects factors affecting all similar investments or financial instruments traded in the market.

The Authority is exposed to market as a result of holding various investments and financial instruments that support the operation of its business.

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 Notes 4.3 & 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).

Notes to the financial statements

for the year ended 30 June 2022

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
2022					
Cash and cash equivalents	377	(4)	(4)	4	4
2021					
Cash and cash equivalents	765	(8)	(8)	8	8

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 Fund:

TCorpIM Fund	Investment Section	Investment Horizon	2022 $'000	2021 $'000
TCorpIM Medium term Growth Fund	Cash (Domestic and International), Australian shares, Australian Bond, Emerging Markets Debt, Bank Loans, Inflation Linked Bonds, Core Alternatives, Global Credit, High Yield, Developed Market Equities, Defensive Alternatives.	3-7 years	5,351	5,273

Notes to the financial statements

for the year ended 30 June 2022

4.4. Other price risk (continued)

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 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 Funds in accordance with the trust deeds. As trustee, TCorp has appointed external managers to manage the performance and risks of each Fund in accordance with a mandate agreed by the parties. TCorp has also leveraged off internal expertise to manage certain fixed income assets for the TCorpIM funds. A significant portion of the administration of the facilities 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.

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 investment funds, using historically based volatility information collected over a ten-year period, quoted at two standard deviations (i.e. 95 per cent 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.

TCorpIM Fund		Change in Unit Price 2022%	Impact on Net Result 2022 $'000	Change in Unit Price 2021%	Impact on Net Result 2021 $'000
Cash	+/-	10	535	10	527

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.

Notes to the financial statements

for the year ended 30 June 2022

4.5. Liquidity risk (continued)

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		
	%	$'000	Fixed Rate $'000	Variable Rate $'000	Non-Interest Bearing $'000	< 1 year $'000	1-5 years $'000	> 5 years $'000
2022								
Payables	N/A	37	-	-	37	37	-	-
2021								
Payables	N/A	45	-	-	45	45	-	-

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.

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 and 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 at the monthly average TCorp 11am unofficial cash rate, adjusted for a management fee to NSW Treasury.

Notes to the financial statements

for the year ended 30 June 2022

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.

There were no debtors past due or considered impaired at 30 June 2022 (30 June 2021- 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.

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, term deposits with a maturity of less than 3 months and highly liquid investments.

The cashflow statement reflects actual cashflow movements in the fund and not the movements in the underlying investment portfolios within the fund.

	2022 $'000	2021 $'000
Cash at bank	377	765
	377	**765**

Notes to the financial statements

for the year ended 30 June 2022

5.1. Cash and cash equivalents (continued)

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:

	2022 $'000	2021 $'000
Cash and cash equivalent assets (per Statement of financial position)	377	765
Closing cash and cash equivalents (per Statement of cash flows)	**377**	**765**

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

	2022 $'000	2021 $'000
Net cashflows from operating activities	(388)	316
Net cashflows from investment operating activities	78	536
Increase/(Decrease) in receivables	405	(178)
Decrease/(Increase) in payables	14	(63)
Decrease/(increase) in unearned premium income	(19)	(156)
(Increase) in unexpired risk	90	(42)
Decrease/ (Increase) in provisions for outstanding claims	(405)	16
Net result	**(225)**	**429**

5.2. Contingent liabilities and contingent assets

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

5.3. Post balance date events

The Authority has not identified any subsequent events that would require the financial statements or other disclosures to be adjusted.

- End of Audited Financial Statements -

Building Insurers' Guarantee Corporation

BIG Corp
Financial statements

for the year ended 30 June 2022

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Statement by the board of directors

for the year ended 30 June 2022

Building Insurers' Guarantee Corporation

Statement under Section 7.6 of the Government Sector Finance Act 2018.

Pursuant to section 7.6(4) of the *Government Sector Finance Act 2018 (*'the Act"), In the opinion of the Board of Directors we state that these financial statements:

- have been prepared in accordance with the Australian Accounting Standards and the applicable requirements of the Act, the *Government Sector Finance Regulation 2018,* and the Treasurer's directions and
- present fairly the Building Insurers' Guarantee Corporation's financial position, financial performance and cash flows.

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

John Robertson
Chairman
Insurance and Care NSW
26 September 2022

Richard Harding
Chief Executive Officer and
Chief Executive Officer Building Insurers' Guarantee Corporation and Self Insurance Corporation and
Managing Director
Insurance and Care NSW
26 September 2022

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 comprises the statement by the board of directors, the statement of comprehensive income for the year ended 30 June 2022, the statement of financial position as at 30 June 2022, the statement of changes in equity and the statement of cash flows, for the year then ended, and notes to the financial statements.

In my opinion, the financial statements:

- have been prepared in accordance with Australian Accounting Standards and the applicable financial reporting requirements of the *Government Sector Finance Act 2018* (GSF Act), the Government Sector Finance Regulation 2018 (GSF Regulation) and the Treasurer's Directions
- presents fairly the Corporation's financial position, financial performance and cash flows.

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 (including Independence Standards)' (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.

The Board's Responsibilities for the Financial Statements

The Board of Directors of Insurance and Care NSW, acting for the Corporation, are responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards, the GSF Act, GSF Regulations and Treasurer's Directions. The Board of Directors' responsibility also includes such internal control as the Board of Directors 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 Board of Directors are 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.

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.

The scope of my audit does not include, nor 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 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

Delegate of the Auditor-General for New South Wales

29 September 2022
SYDNEY

Statement of comprehensive income

for the year ended 30 June 2022

	2022 $'000	2021 $'000
Revenue		
Recoveries	-	7,045
Interest income	80	76
Total Revenue	**80**	**7,121**
Expenses excluding losses		
Claims expense	-	2,104
Service fees	-	214
Other operating expenses	-	500
Refund of surplus funds	80	52,717
Total expenses excluding losses	**80**	**55,535**
Net result	**-**	**(48,414)**
Other comprehensive income		
Items that will not be reclassified to net result	-	-
Total other comprehensive income	**-**	**-**
Total comprehensive income/loss)	**-**	**(48,414)**

The accompanying notes form part of these financial statements

Statement of financial position

as at 30 June 2022

	Notes	2022 $'000	2021 $'000
Assets			
Cash and cash equivalents	4.1	23	46,386
Receivables		-	7,045
Total Assets		**23**	**53,431**
Liabilities			
Payables	4.2	23	52,931
Provision	4.3	-	500
Total Liabilities		**23**	**53,431**
Net Assets		**-**	**-**
Equity			
Accumulated funds		**-**	**-**

The accompanying notes form part of these financial statements

Statement of changes in equity

for the year ended 30 June 2022

	2022 $'000	2021 $'000
Accumulated funds		
Balance at the beginning of financial year	-	48,414
Net result for the year	-	(48,414)
Other comprehensive income	-	-
Total other comprehensive income	**-**	**-**
Total comprehensive income for the year	**-**	**(48,414)**
Balance at the end of the financial year	**-**	**-**

The accompanying notes form part of these financial statements

Statement of cash flows

for the year ended 30 June 2022

	Notes	2022 $'000	2021 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Recoveries		7,045	-
Claims paid		-	(6,261)
Net Cash Flows from Scheme Activities		**7,045**	**(6,261)**
Interest received		80	76
Service fees paid		(214)	(23)
Refund of surplus	4.2	(53,274)	-
Net Cash Flow used in Operating Activities	4.1	**(46,363)**	**(6,208)**
Net increase/(decrease) in cash and cash equivalents		**(46,363)**	**(6,208)**
Opening cash and cash equivalents		**46,386**	**52,594**
Closing cash and cash equivalents	4.1	**23**	**46,386**

The accompanying notes form part of these financial statements

Notes to the financial statements

for the year ended 30 June 2022

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.

Insurance and Care 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 Corporation is one such scheme.

It is anticipated that the Building Insurers' Guarantee Fund will be closed in 2022/23 after which final accounts for the Building Insurers Guarantee Corporation will be prepared. (Refer Note 4.2)

The financial statements for the year ended 30 June 2022 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 26 September 2022.

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 net result 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.

Notes to the financial statements

for the year ended 30 June 2022

1.2.1. Basis of preparation

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

- applicable Australian Accounting Standards (which include Australian Accounting Interpretations); and
- the requirements of the *Government Sector Finance Act 2018*, the *Government Sector Finance Regulation 2018* and the NSW Treasurer's Directions.

These financial statements have been presented on a liquidity basis following receipt of an exemption from TPG 22-07 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. Going concern basis

These financial statements have been prepared on a going concern basis. Legislation is being prepared to formally close down the Corporation as claims have been settled and surplus funds have been returned to NSW Treasury. However, until such legislation is passed the accounts will continue to be prepared on a going concern basis.

Refer to Note 4.2 for details concerning the Corporations activities in 2021/22.

1.2.4. 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.

Actual results may differ from these estimates.

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.

1.2.5. 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.

1.2.6. 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 2022

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. Claims expense

Overview

Claims released is the sum of:

- the movement in the net outstanding claims liability (Note 2.2.1) which is the difference between the net outstanding claims liability at the beginning and the end of the financial year; plus
- any net claim payments made during the financial year

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.

	2022 $'000	2021 $'000
Claims expenses	-	6,248
Claims handling	-	13
Movement in outstanding claims provision	-	(4,157)
Finance cost	-	-
	-	**2,104**

The Corporation paid its final claim on 14 December 2020.

3. Risk Management

Overview

The Corporation applies a consistent and integrated approach to enterprise risk management. The Corporation operates within icare's risk management framework which sets out the approach to managing key risks and meeting strategic objectives. The documented Risk Management Framework (RMF) is approved annually by the Board.

The icare Board is ultimately accountable for identifying and managing risk, including financial risk. This is done through the establishment of holistic strategies and policies where risk management has been considered.

Key aspects of icare's risk management framework 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); 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 2022

3. Risk Management (continued)

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.

Financial instrument categories

	Note	Category	Carrying Amount 2022 $'000	Carrying Amount 2021 $'000
Financial Assets				
Cash and cash equivalents	4.1	Amortised cost	23	46,386
Receivables *		Amortised cost	-	7,045
Financial Liabilities				
Payables **		Amortised cost	23	52,931

* Excludes statutory receivables and prepayments (i.e. not within the scope of AASB 7)

** Excludes statutory payables (i.e. not within the scope of AASB 7)

3.1. Market risk

Overview

Market risk is the variability in the value of an investment or the assessed fair value of a financial instrument because of changes in market prices. Market risk is a systemic risk that reflects factors affecting all similar investments or 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.

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.

Notes to the financial statements

for the year ended 30 June 2022

3.2. Interest rate risk (continued)

	Carrying amount $'000	-1% Net Result $'000	-1% Equity $'000	+1% Net Result $'000	+1% Equity $'000
2022					
Cash and cash equivalents	23	-	-	-	-
2021					
Cash and cash equivalents	46,386	(464)	(464)	464	464

3.3. Credit risk

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 Corporation, which comprise cash and cash equivalents and receivables. The Corporation'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.

3.3.1. Cash

Cash comprises cash on hand and bank balances within the NSW Treasury Banking System Interest is earned on daily bank balances at the monthly average TCorp 11am unofficial cash rate, adjusted for a management fee to NSW Treasury.

3.3.2. Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They include trade and other receivables and are recognised at their amortised cost less impairment losses, which approximates fair value.

Receivables are recognised at amortised cost using the effective interest method, less any allowance for expected credit losses. The Corporation has applied a simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, receivables have been grouped based on days overdue.

The Corporation does not receive any collateral for receivables.

Notes to the financial statements

for the year ended 30 June 2022

4. Other

Overview

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

4.1. Cash and Cash Equivalents

Overview

Cash and cash equivalents include cash at bank 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.

	2022 $'000	2021 $'000
Cash at bank	23	46,386

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:

	2022 $'000	2021 $'000
Cash and cash equivalent assets (per Statement of financial position)	23	46,386
Closing cash and cash equivalents (per Statement of cash flows)	**23**	**46,386**

Reconciliation of Cash Flows from Operating Activities to Net Result

	2022 $'000	2021 $'000
Net cash flow used in Operating Activities	**(46,363)**	**(6,208)**
Decrease in provisions	500	3,658
(Decrease)/increase in receivables	(7,045)	7,042
Decrease/(increase) in payables	52,908	(52,906)
Net Result	**-**	**(48,414)**

4.2. Refund of Surplus funds

In accordance with Section 16F of the *Insurance Protection Tax Act 2001* any funds in Building Insurers' Guarantee Fund that are not needed have been paid from that fund into the Policyholders Protection Fund. Surplus funds of $53.3m were transferred to NSW Treasury in June 2022.

4.3. Provision

A provision was created in 2020/21 for expected costs that will be incurred in 2021/22 in relation to the winding up of the Corporation. This provision has been extinguished in 2021/22 and any unused portion is now included as part of the surplus funds that were returned to NSW Treasury as outlined in Note 4.2.

Notes to the financial statements

for the year ended 30 June 2022

4.4. Budget Review

Statement of Comprehensive Income

	Notes	Actual 2022 $'000	Budget 2022 $'000
Revenue			
Recoveries		-	-
Interest income		80	-
Total Revenue		**80**	**-**
Expenses excluding losses			
Claims expense	2.1	-	-
Service fees		-	-
Other operating expenses		-	-
Refund of surplus funds	4.2	80	-
Total expenses excluding losses		**80**	**-**
Net result		**-**	**-**
Other Comprehensive Income			
Items that will not be reclassified to net result		-	-
Total Other comprehensive income		**-**	**-**
Total Comprehensive Income/(Loss)		**-**	**-**

Commentary

The Corporation was expected to have finalised financial activities by 30 June 2021. On this basis no budget was prepared for the 2022 financial year. This did not occur with limited transactions occurring in the 2022 financial year.

Notes to the financial statements

for the year ended 30 June 2022

4.4. Budget Review (continued)

Statement of Financial Position

	Notes	Actual 2022 $'000	Budget 2022 $'000
Assets			
Cash and cash equivalents	4.1	23	-
Receivables		-	-
Total Assets		**23**	**-**
Liabilities			
Payables	4.2	23	-
Provision	4.3	-	-
Total Liabilities		**23**	**-**
Net Assets		**-**	**-**
Equity			
Accumulated funds		**-**	**-**

Commentary

The Corporation was expected to have finalised financial activities by 30 June 2021. On this basis no budget was prepared for the 2022 financial year. This did not occur with limited transactions occurring in the 2022 financial year.

Notes to the financial statements

for the year ended 30 June 2022

4.4. Budget Review (continued)

Statement of Cash Flows

	Notes	Actual 2022 $'000	Budget 2022 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Recoveries		7,045	-
Claims paid		-	-
Total Scheme		**7,045**	**-**
Interest received		80	-
Service fees paid		(214)	-
Refund of surplus	4.2	(53,274)	-
Net Cash used in Operating Activities	4.1	**(46,363)**	**-**
Net increase in cash and cash equivalents		**(46,363)**	**-**
Opening cash and cash equivalents		**46,386**	**-**
Closing cash and cash equivalents	4.1	**23**	**-**

Commentary

The Corporation was expected to have finalised financial activities by 30 June 2021. On this basis no budget was prepared for the 2022 financial year. The Corporation conducted limited financial transaction in the 2022 financial year with the main one being the return of surplus funds to NSW Treasury in June 2022 (refer Note 4.2).

4.5. Post balance date events

The Corporation has not identified any subsequent events that would require the financial statements or other disclosures to be adjusted.

- End of Audited Financial Statements -

Access

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*A copy of this report is available at icare.nsw.gov.au