icare™

Insurance and Care NSW

Financial Statements 2015 – 16

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icare™

Insurance and Care NSW

icare financial statements
for the period ended 30 June 2016

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statement by the chairman and chief executive officer

for the period ended 30 June 2016

Insurance and Care NSW

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

In the opinion of the directors of Insurance and Care NSW:

1. the financial statements of Insurance and Care NSW have been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2015* and the Treasurer's Directions. They have also been prepared in accordance with Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board.
2. the financial statements for the period ended 30 June 2016 exhibit a true and fair view of the position and transactions of Insurance and Care NSW and;
3. the directors are not aware of any circumstances as at the date of this certificate which would render any particulars included in the financial statements misleading or inaccurate.

Signed on behalf of the Board of Directors:

Michael Carapiet
Chairman
Insurance and Care NSW
26 September 2016

Vivek Bhatia
Chief Executive Officer
Insurance and Care NSW
26 September 2016

AUDITOR-GENERAL
NEW SOUTH WALES

INDEPENDENT AUDITOR'S REPORT

Insurance and Care New South Wales

To Members of the New South Wales Parliament

Opinion

I have audited the accompanying financial statements of Insurance and Care New South Wales (icare), which comprise the statement of financial position as at 30 June 2016, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the period 1 September 2015 to 30 June 2016, notes comprising a summary of significant accounting policies and other explanatory information.

In my opinion, the financial statements:

- give a true and fair view of the financial position of icare as at 30 June 2016, and of its financial performance and its cash flows for the period 1 September 2015 to 30 June 2016 in accordance with Australian Accounting Standards
- are in accordance with section 41B of the *Public Finance and Audit Act 1983* (PF&A Act) and the Public Finance and Audit Regulation 2015.

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

Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under those standards are further 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 auditor independence requirements of:

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

I have also fulfilled my other ethical responsibilities in accordance with the Code.

The PF&A Act further 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, but precluding the provision of non-audit services.

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

The Directors' Responsibility for the Financial Statements

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

In preparing the financial statements, the Board of Directors must assess icare's ability to continue as a going concern unless icare will be dissolved by an Act of Parliament or otherwise cease operations. The assessment must include, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

Auditor's Responsibility 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, and
- 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 further description of my responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/Home.aspx.
The description forms part of my auditor's report.

My opinion does *not* provide assurance:

- that icare carried out its activities effectively, efficiently and economically
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented.

A Oyetunji
Director, Financial Audit Services

30 September 2016
SYDNEY

statement of comprehensive income

for the period ended 30 June 2016

	Notes	2016 $'000
Revenue		
Service fee	2(a)	575,528
Interest revenue	2(b)	142
Other revenue	2(c)	238
Total Revenue		**575,908**
Expenses excluding losses		
Operating expenses		
Employee related	3(a)	63,646
Other operating expenses	3(b)	509,562
Grants and subsidies	3(c)	2,700
Total Expenses excluding losses		**575,908**
Net result		**-**
TOTAL COMPREHENSIVE INCOME		**-**

The accompanying notes form part of these statements.

statement of financial position

as at 30 June 2016

	Notes	2016 $'000
ASSETS		
Current Assets		
Cash and cash equivalents	4	26,080
Receivables and prepayments	5	132,861
Total Current Assets		**158,941**
Non-Current Assets		
Property, plant and equipment	6	4,937
Intangible assets	7	635
Total Non-Current Assets		**5,572**
Total Assets		**164,513**
LIABILITIES		
Current Liabilities		
Payables	8	130,389
Provisions	9	18,888
Total Current Liabilities		**149,277**
Non-Current Liabilities		
Provisions	9	2,157
Total Non-current Liabilities		**2,157**
Total Liabilities		**151,434**
Net Assets		**13,079**
EQUITY		
Accumulated funds		13,079
Total Equity		**13,079**

The accompanying notes form part of these statements.

statement of changes in equity

for the period ended 30 June 2016

	Notes	Accumulated Funds $'000
Balance at 1 September 2015		**-**
Net result for the period		**-**
Total comprehensive income for the period		**-**
Transactions with owners in their capacity as owners		
Increase in net assets as a result of equity transfer	12	13,079
Balance at 30 June 2016		**13,079**

The accompanying notes form part of these statements.

statement of cash flows

for the period ended 30 June 2016

	Notes	2016 $'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts		
Service fees		517,462
Interest received		62
Other receipts		50
Total Receipts		**517,574**
Payments		
Agent remuneration		(388,677)
Employee related		(45,656)
Grants		(2,705)
Other payments		(64,322)
Total Payments		**(501,360)**
NET CASH FLOWS FROM OPERATING ACTIVITIES	4	**16,214**
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property, plant and equipment		-
Purchases of property, plant and equipment and intangibles		(5,910)
NET CASH FLOWS FROM INVESTING ACTIVITIES		**(5,910)**
NET INCREASE IN CASH		**10,304**
Opening cash and cash equivalents		-
Cash transferred in as a result of administrative restructure	12	15,776
CLOSING CASH AND CASH EQUIVALENTS	**4**	**26,080**

The accompanying notes form part of these statements.

notes to the financial statements

for the period ended 30 June 2016

1. Summary of significant accounting policies

(a) Reporting entity

Insurance and Care NSW (icare) is a NSW government entity. 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 from 1 September 2015 in accordance with the *State Insurance and Care Governance Act 2015.* As a result these financial statements cover the 10 month period to 30 June 2016.These financial statements for the period ended 30 June 2016 have been authorised by the Chairman of the board and the Chief Executive Officer on behalf of the board on 26 September 2016.

(b) Basis of preparation

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

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

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

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.

(c) Statement of compliance

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

(d) Accounting for the Goods and Services Tax (GST)

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.

(e) The following new standards will not have any direct impact on the financial performance or position of icare.

The following new Australian Accounting Standards have not been applied and are not yet effective:

- AASB 7, AASB 9 AASB 132 AASB 139 and AASB 2014-7 regarding financial instruments
- AASB 13 regarding fair value
- AASB 15, AASB 2014-5 and AASB 2015-8 regarding Revenue from Contracts with Customers.
- AASB 16 regarding leases
- AASB 1057, AASB 2015-9 Application of Australian Accounting Standards.
- AASB 2014-4 regarding acceptable methods of depreciation and amortisation.
- AASB 2015-1 regarding annual improvements to Australian Accounting Standards 2012-2014 cycle.
- AASB 2015-2 regarding amendments to AASB 101 disclosure initiatives
- AASB 2015-6 Amendments to Australian Accounting Standards - Extending Related Party Disclosures to Not-for-Profit Public Sector Entities
- AASB 2015-7 Amendments to Australian Accounting Standards - Fair Value Disclosures of Not-for-Profit Public Sector Entities

AASB 9 Financial Instruments and its associated amending standards specify new recognition and measurement requirements for financial assets and financial liabilities within the scope of AASB 139 Financial Instruments: Recognition and Measurement.

icare values its financial assets and financial liabilities at fair value through profit or loss. Therefore when applied, the only material impact of these standards will be on the presentation of the financial statements and disclosures in the notes.

The remaining standards relate to disclosure requirements and will have no direct impact on icare's financial results.

notes to the financial statements

for the period ended 30 June 2016

2. Revenue

(a) Service fees

	2016 $'000
Lifetime Care and Support Authority of NSW	22,902
New South Wales Self Insurance Corporation	164,163
NSW Workers Insurance Scheme	380,698
Sporting Injuries Compensation Authority	324
Workers Compensation Dust Diseases Authority	7,441
	575,528

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

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

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

(b) Investment revenue

	2016 $'000
Interest revenue from bank interest	142
	142

Investment revenue is brought to account on an accruals basis.

(c) Other revenue

	2016 $'000
Other Revenue	
Workers Compensation Insurance	187
Fees for events held	48
Other	3
	238

Other revenue is recognised when the service is provided.

notes to the financial statements
for the period ended 30 June 2016

3. Expenses excluding losses

(a) Employee related

	2016 $'000
Salaries and wages (including recreation leave)	42,643
Agency short-term staff	10,084
Long service leave	5,076
Superannuation	2,978
Payroll tax and fringe benefit tax	2,449
Allowances	312
Workers' compensation insurance	104
	63,646

notes to the financial statements

for the period ended 30 June 2016

(b) Other operating expenses include the following

	2016 $'000
Advertising, promotion and publicity	914
Agent remuneration	446,344
Auditor's remuneration	
Audit Office of NSW – audit of financial statements	
- icare	395
- Lifetime Care and Support Authority of NSW	77
- New South Wales Self Insurance Corporation	220
- NSW Workers Insurance Scheme	125
- Sporting Injuries Compensation Authority	15
- Workers Compensation Dust Diseases Authority	78
Other external audits	894
Internal audit and reviews	539
Building maintenance, repairs and management	403
Board and Committee fees	838
Consultants – Actuarial fees	11,987
Consultants – Other	1,435
Contractors	20,345
Communication expenses	328
Depreciation and amortisation expense	569
Insurance	331
Legal Fees	1,677
Other miscellaneous	1,887
Operating lease rental expense	
- minimum lease payments	5,335
- other related expenses	999
Other repairs and maintenance	188
Printing	534
Risk Consulting Services	6,454
Service Fees	1,500
Software Licences	2,892
Stores	1,697
Training	300
Travel and vehicle expenses	262
	509,562

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

Risk consulting services are provided to Treasury Managed Fund clients and include advisory and risk management services.

notes to the financial statements
for the period ended 30 June 2016

(c) Grants and subsidies

	2016 $'000
Grants	2,700
	2,700

icare administers a number of grant programs including the Community Participation Grants Program and Sporting Injuries Research Grants. The Community Participation grants are provided to Arts and Community organisations and aim to improve social inclusion for people with disabilities. Sporting injuries research grants provides funding to support sporting organisations and research institutions to increase safer participation in sport and recreational activities.

4. Cash and cash equivalents

	2016 $'000
Cash at bank and on hand	26,080
	26,080

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

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

	2016 $'000
Cash and cash equivalent assets (per statement of financial position)	26,080
Closing cash and cash equivalents (per statement of cash flows)	**26,080**

Refer to Note 13 for further information regarding credit risk, liquidity risk and market risk arising from financial instruments.

Reconciliation of cash flows from operating activities to Net Result

	2016 $'000
Net cash flow from operating activities	16,214
Depreciation and amortisation	(569)
Transfer out of Intangible assets	(138)
Change in assets and liabilities	
Increase/(Decrease) in receivables: current	132,078
Decrease/(Increase) in payables: current	(130,217)
Decrease/(Increase) in provisions: current	(15,305)
Decrease/(Increase) in provisions: non current	(2,063)
Net result per Statement of Comprehensive Income	**-**

notes to the financial statements

for the period ended 30 June 2016

5. Receivables and prepayments

	2016 $'000
Service fees receivable from relevant entities	
Lifetime Care and Support Authority of NSW	4,960
New South Wales Self Insurance Corporation	7,976
NSW Workers Insurance Scheme	56,095
Sporting Injuries Compensation Authority	122
Workers Compensation Dust Diseases Authority	1,899
Prepayments	57,935
Receivables - other	3,162
GST receivable	630
Interest receivable	82
	132,861

Receivables represent amounts due from the agencies that icare provides support and services to including Lifetime Care and Support Authority of NSW, New South Wales Self Insurance Corporation, NSW Workers Insurance Scheme Sporting Injuries Compensation Authority and Workers Compensation Dust Diseases Authority.

Prepayments primarily relate to agent remuneration paid in advance for the September 2016 quarter in relation to the insurance activities of icare.

Refer to Note 13 for further information regarding credit risk, liquidity risk and market risk arising from receivables.

notes to the financial statements

for the period ended 30 June 2016

6. Property, plant and equipment

	Capital Work in Progress $'000	Leasehold Improvements $'000	Office Machines and Equipment $'000	Computer Hardware $'000	Total $'000
At 1 September 2015 fair value					
Gross carrying amount	-	-	-	-	-
Accumulated depreciation and impairment	-	-	-	-	-
Net carrying amount	**-**	**-**	**-**	**-**	**-**
At 30 June 2016 fair value					
Gross carrying amount	4,449	607	323	102	5,481
Accumulated depreciation and impairment	-	(454)	(27)	(63)	(544)
Net carrying amount	**4,449**	**153**	**296**	**39**	**4,937**

Reconciliation

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

	Capital Work in Progress $'000	Leasehold Improvements $'000	Office Machines and Equipment $'000	Computer Hardware $'000	Total $'000
At 1 September 2015					
Net carrying amount at start of the period	-	-	-	-	-
Additions	4,449	607	311	12	5,379
Acquisitions through administrative restructures	-	-	12	35	47
Depreciation expense	-	(454)	(27)	(8)	(489)
Net carrying amount at end of the period	**4,449**	**153**	**296**	**39**	**4,937**

Assets are initially recognised at cost. 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 in accordance with the requirements of other Australian Accounting Standards. Assets acquired at no cost, or for nominal consideration, are initially recognised at their fair value at the date of acquisition. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at measurement date.

Property, plant and equipment over $5,000 are capitalised.

Revaluation of property, plant and equipment

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

icare revalue 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.

Depreciation is provided for on a straight line basis.

notes to the financial statements

for the period ended 30 June 2016

The rates applied are:

Categories	2016 %
Office furniture and equipment	20.0–100.0
Computer hardware	20.0–33.3

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 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.

7. Intangible assets

	Software WIP $'000	Software $'000	Total $'000
At 1 September 2015 – fair value			
Cost (gross carrying amount)	-	-	-
Accumulated amortisation and impairment	-	-	-
Net carrying amount	**-**	**-**	**-**
At 30 June 2016 – fair value			
Cost (gross carrying amount)	90	622	712
Accumulated amortisation and impairment	-	(77)	(77)
Net carrying amount	**90**	**545**	**635**

Reconciliation

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

	Software WIP $'000	Software $'000	Total $'000
Period ended 30 June 2016			
Net carrying amount at start of the period	-	-	-
Additions	90	437	527
Acquisitions through administrative restructures	-	323	323
Amortisation expense	-	(77)	(77)
Transfers out[1]	-	(138)	(138)
Net carrying amount at end of the period	**90**	**545**	**635**

[1] Transfers out refers to assets transferred to the Workers Compensation Dust Diseases Authority.

notes to the financial statements

for the period ended 30 June 2016

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.

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.

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

Categories	2016 %
Computer Software	33

8. Current – Payables

	2016 $'000
Current	
Creditors	69,405
Income received in advance	57,812
Accrued salaries, wages and on-costs (Refer Note 9)	3,135
Fringe benefit tax	37
Total Payables	**130,389**

This amount represents liabilities for goods and services provided to icare.

Income in advance relates to service fees paid to icare from the NSW Workers Insurance Scheme for the September quarter 2016.

Refer to Note 13 for further information regarding credit risk, liquidity risk and market risk arising from payables.

notes to the financial statements

for the period ended 30 June 2016

9. Current/Non-current liabilities – Provisions

	2016 $'000
Current	
Employee benefits and related on costs	
Annual leave entitlements including oncosts	5,237
Long service leave entitlements including oncosts	13,651
	18,888
Non Current	
Employee benefits and related on costs	
Long service leave entitlements including oncosts	1,549
Other provisions	
Restoration provision	608
	2,157
Total Provisions	**21,045**
Aggregate employee benefits and related on-costs	
Provisions – Current	18,888
Provisions – Non-current	1,549
Accrued salaries, wages and on-costs	3,135
	23,572

AASB 101 *Presentation of Financial Statements* stipulates that liabilities must be classified as current where the agency does not have an unconditional right to defer the settlement of the liability for at least 12 months after the reporting date. The entitlement to long service leave once 7 years service has been reached by employees is unconditional and accordingly all of this leave and associated on-costs have been classified as current. Long service leave is recognised after 5 years and as the taking of this leave is conditional until 7 years service is reached this leave and associated on-costs have been classified as non-current.

Employee Benefits and Other Provisions

(i) 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 12 months after the end of the period in which the employees render the service are recognised and measured at the undiscounted amounts of the benefits.

Annual leave is not expected to be settled wholly before twelve months after the end of the annual reporting period 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*. Actuarial advice confirmed using a nominal approach plus the annual leave on-costs on the annual leave liability (using 2.4% of the nominal value of annual leave) to present value of the annual leave liability. icare has assessed actuarial advice and 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.

(ii) 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.

notes to the financial statements

for the period ended 30 June 2016

(iii) 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.

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

	2016 $'000
Expected to be settled no more than twelve months	
Annual leave and related on-costs	5,237
Long service leave and related on-costs	1,004
	6,241
Expected to be settled after more than twelve months	
Long service leave and related on-costs	**12,647**

(iv) Other provisions

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

10. Commitments for expenditure

	2016 $'000
Operating lease commitments	
Future non-cancellable operating lease rentals not provided for and payable:	
Not later than one year	1,215
Later than one year but not later than five years	1,261
Later than five years	-
Total (including GST)	**2,476**

Expenditure commitments for Insurance and Care NSW include input tax credits of $0.2m which are expected to be recoverable from the Australian Taxation Office. icare has a lease commitments with Government Property NSW for occupancy of its accommodation.

11. Contingent liabilities and contingent assets

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

12. Increase in net assets as a result of equity transfer

The *State Insurance and Care Governance Act 2015* (the Act) abolished the WorkCover Authority and transferred the assets, rights and liabilities of the WorkCover Authority to either Insurance and Care NSW, Sporting Injuries Compensation Authority, State Insurance and Regulatory Authority, NSW Self Insurance Corporation or SafeWork New South Wales. This Act was effective from 1 September 2015.

The transfer of net assets between the WorkCover Authority and Insurance and Care NSW as a result of the Act are designated or required by Accounting Standards to be treated as contributions by owners and recognised as an adjustment to 'Accumulated Funds.' This treatment is consistent with AASB 1004 Contributions and Australian Interpretation 1038 Contributions by owners made to wholly-owned Public Sector Entities.

Transfers arising from an administrative restructure involving not-for-profit government entities are recognised at the amount at which the assets and liabilities were recognised by the transferor immediately prior to the restructure.

notes to the financial statements

for the period ended 30 June 2016

Subject to below, in most instances this will approximate fair value.

All other equity transfers are recognised at fair value, except for intangibles. Where an intangible has been recognised at (amortised) cost by the transferor because there is no active market, the entity recognises the asset at the transferor's carrying amount. Internally generated intangibles have not been recognised.

Details of assets and liabilities transferred from the WorkCover Authority to Insurance and Care NSW as at 1 September 2015

	2016 $'000
ASSETS	
Current Assets	
Cash and cash equivalents	15,776
Receivables	783
Total Current Assets	**16,559**
Non-Current Assets	
Property, plant and equipment	47
Intangible assets	323
Total Non-Current Assets	**370**
Total Assets	**16,929**
LIABILITIES	
Current Liabilities	
Payables	172
Provisions	3,583
Total Current Liabilities	**3,755**
Non-Current Liabilities	
Provisions	95
Total Non-current Liabilities	**95**
Total Liabilities	**3,850**
Increase in Net Assets from Equity Transfers	**13,079**

notes to the financial statements

for the period ended 30 June 2016

13. Financial instruments

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

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

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

(a) Financial instrument categories

	Notes	Category	Carrying Amount 2016 $’000
Financial Assets			
Class:			
Cash and cash equivalents	4	N/A	26,080
Receivables[1]	5	Loans and Receivables – at fair value	74,296
Financial Liabilities			
Class:			
Payables[2]	8	Financial liabilities – at fair value	72,540

Notes:

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

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

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

(b) Liquidity risk

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

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

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

Interest rate exposure of financial liabilities

	Nominal Amount	Interest Rate Exposure		
	$’000	Fixed Rate $’000	Variable Rate $’000	Non-Interest Bearing $’000
2016				
Payables	72,540	-	-	72,540

notes to the financial statements

for the period ended 30 June 2016

Maturity Analysis of financial liabilities

	Maturity Dates		
	< 1 year $'000	1-5 years $'000	> 5 years $'000
2016			
Payables	72,540	-	-

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

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

(c) 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 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.

(i) 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 NSW Treasury Corporation (TCorp) 11am unofficial cash rate, adjusted for a management fee to NSW Treasury.

(ii) 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 to government agencies and the credit terms are monitored by management. No interest is earned on trade debtors.

(d) Market risk

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

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

(e) Interest rate risk

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

(i) Exposure

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

notes to the financial statements

for the period ended 30 June 2016

(ii) Quantitative analysis of exposure

	Floating Interest Rate	Fixed Interest Rates		
		< 1 year $'000	1-5 years $'000	> 5 years $'000
Class				
Cash	26,080	-	-	-
Assets	**26,080**	**-**	**-**	**-**

(f) Fair value estimation

The carrying amounts of Insurance and Care NSW 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 or were short term in nature.

END OF AUDITED FINANCIAL STATEMENTS

dust diseases care

Workers Compensation (Dust Diseases) Authority

dust diseases care financial statements

for the year ended 30 June 2016

Notes to the Financial Statements

APPENDIX E

WORKERS COMPENSATION DUST DISEASES Authority of NSW
Actuarial Certificate
Outstanding Claims Liabilities as at 30 June 2016

Taylor Fry Consulting Actuaries has been engaged by Insurance and Care NSW ("icare", formerly known as NSW WorkCover before 1 September 2015) and the Workers' Compensation Dust Diseases Authority of NSW ("DDA", which replaced the former Dust Diseases Board ("DDB") with effect from 1 September 2015) to estimate the outstanding claims liabilities of the DDA under the *Workers Compensation (Dust Diseases) Act* as at 30 June 2016.

Data

The valuation of outstanding claims liabilities as at 30 June 2016 is based on data provided to us by the DDA, as at 31 May 2016. We have not independently verified the data provided to us but have reviewed it for reasonableness and internal consistency. We are of the opinion that it is adequate for the purpose of estimating the claims liabilities.

Basis of our estimates

The outstanding claims liabilities below are central estimates in that they contain no deliberate bias towards either over or under estimation. The estimate is inflated and discounted, and includes an allowance for future expenses associated with paying the claims liabilities. Our valuation has separately considered expected payments for claims which have already been reported ("known claims") and for claims which have not yet been reported but for which the exposure to dust has already occurred and a disease will eventually emerge ("future claims").

Valuation results

Our central estimate of the outstanding claims liability for known and future claims as at 30 June 2016 is **$1,739.0m**. The breakdown of the result between known and future claims is as follows:

Component	Net central estimate ($m)
Known claims	814.9
Future claims	924.1
Total liability	**1,739.0**

There is a significant degree of uncertainty associated with estimation of future claim payments. 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 the general lack of knowledge and understanding as to the most appropriate models to use to project future claims.

Taylor Fry

In our opinion, we have used models and assumptions which are appropriate, and the conclusions presented in this report are reasonable, given the information currently available and based on the current claims environment. To the extent that these trends vary due to changes in the emergence of dust diseases, advancements in medical technology, changes in legislation and so forth, the claims outcomes can be expected to differ, perhaps materially, from our estimates of claims liability.

Report

The valuation of outstanding claims as at 30 June 2016 has been documented in our report dated 9 August 2016. This report contains details on data, methodology, assumptions, results and sensitivities to key assumptions. This report constitutes Actuarial Advice as defined in the Code of Professional Conduct (the Code) issued by the Institute of Actuaries of Australia and our advice complies with the Code in this respect.

Relevant Standards

Our report complies with the Actuaries Institute's Professional Standard PS300 titled *Valuations of General Insurance Claims* dated March 2013. The central estimate of the liabilities documented in our report has been prepared in accordance with the requirements of Accounting Standard AASB137 titled *Provisions, Contingent Liabilities and Contingent Assets*.

A.M. Gould

Adrian Gould

Danielle Ling

Fellows of the Institute of Actuaries of Australia

statement by the chairman and chief executive officer

for the year ended 30 June 2016

Workers Compensation (Dust Diseases) Authority

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

In the opinion of the directors of Insurance and Care NSW:

1. the financial statements of Workers Compensation (Dust Diseases) Authority have been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2015* and the Treasurer's Directions. They have also been prepared in accordance with Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board.
2. the financial statements for the year ended 30 June 2016 exhibit a true and fair view of the position and transactions of Workers Compensation (Dust Diseases) Authority; and
3. the directors are not aware of any circumstances as at the date of this certificate which would render any particulars included in the financial statements misleading or inaccurate.

Signed on behalf of the Board of Directors:

Michael Carapiet
Chairman/Director
Insurance and Care NSW
26 September 2016

Vivek Bhatia
Chief Executive Officer
Workers Compensation (Dust Diseases) Authority and Insurance and Care NSW
26 September 2016

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 Workers' Compensation (Dust Diseases) Authority (the Authority), which comprise the statement of financial position as at 30 June 2016, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information.

In my opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 30 June 2016, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards
- are in accordance with section 41B of the *Public Finance and Audit Act 1983* (PF&A Act) and the Public Finance and Audit Regulation 2015.

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

Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under those standards are further 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 auditor independence requirements of:

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

I have also fulfilled my other ethical responsibilities in accordance with the Code.

The PF&A Act further 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, but precluding the provision of non-audit services.

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

The Chief Executive's Responsibility for the Financial Statements

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

In preparing the financial statements, the Chief Executive Officer must assess the Authority's ability to continue as a going concern unless the Authority will be dissolved by an Act of Parliament or otherwise cease operations. The assessment must include, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

Auditor's Responsibility 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 further description of my responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/Home.aspx.

The description forms part of my auditor's report.

My opinion does *not* provide assurance:

- that the Authority carried out its activities effectively, efficiently and economically
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented.

A Oyetunji
Director, Financial Audit Services

30 September 2016
SYDNEY

statement of comprehensive income

for the year ended 30 June 2016

	Notes	2016 $'000	2015 $'000
Revenue			
Levies	2(a)	107,224	105,303
Investment revenue	2(b)	48,206	99,262
Other revenue	2(c)	2,131	2,581
Total Revenue		**157,561**	**207,146**
Expenses excluding losses			
Scheme costs including movement in contribution receivable	3(a)	138,187	190,467
Service fees	3(b)	7,640	1,392
Other operating expenses	3(c)	4,117	7,548
Grants and subsidies	3(d)	5,392	5,332
Total expenses excluding losses		**155,336**	**204,739**
Impairment of software no longer in use	8	(1,844)	(26)
Increase in impairment losses on receivables	6	(236)	(62)
Net result		**145**	**2,319**
Other comprehensive income			
Items that will not be reclassified to net result			
Net increase in property, plant and equipment revaluation	7	1,333	-
Total other comprehensive income		**1,333**	**-**
TOTAL COMPREHENSIVE INCOME		1,478	2,319

The accompanying notes form part of these statements.

statement of financial position

as at 30 June 2016

	Notes	2016 $'000	2015 $'000
ASSETS			
Current Assets			
Cash and cash equivalents	4	34,500	66,751
Investments	5	1,037,328	962,520
Receivables	6	110,166	95,980
Total Current Assets		**1,181,994**	**1,125,251**
Non-Current Assets			
Receivables	6	586,043	740,649
Property, plant and equipment	7	5,824	4,670
Intangible assets	8	-	1,705
Total Non-Current Assets		**591,867**	**747,024**
Total Assets		**1,773,861**	**1,872,275**
LIABILITIES			
Current Liabilities			
Payables	10	22,915	14,713
Borrowings	11	-	135
Claims and Other Provisions	12	105,400	105,325
Total Current Liabilities		**128,315**	**120,173**
Non-Current Liabilities			
Claims and Other Provisions	12	1,633,600	1,742,533
Total Non-Current Liabilities		**1,633,600**	**1,742,533**
Total Liabilities		**1,761,915**	**1,862,706**
Net Assets		**11,946**	**9,569**
EQUITY			
Reserves		2,598	1,265
Accumulated funds		9,348	8,304
Total Equity		**11,946**	**9,569**

The accompanying notes form part of these statements.

statement of changes in equity

for the year ended 30 June 2016

	Notes	Accumulated Funds $'000	Asset Revaluation Surplus $'000	Total $'000
Balance at 1 July 2015		**8,304**	**1,265**	**9,569**
Net result for the year		**145**	**-**	**145**
Other comprehensive income				
Net increase in property, plant and equipment revaluation surplus	7	-	1,333	1,333
Total other comprehensive income		**-**	**1,333**	**1,333**
Total comprehensive income for the year		**145**	**1,333**	**1,478**
Defined benefit superannuation liability transfer	**14**	**899**	**-**	**899**
Balance at 30 June 2016		**9,348**	**2,598**	**11,946**
Balance at 1 July 2014		**5,985**	**1,265**	**7,250**
Net result for the year		**2,319**	**-**	**2,319**
Total other comprehensive income		**-**	**-**	**-**
Total comprehensive income for the year		**2,319**	**-**	**2,319**
Balance at 30 June 2015		**8,304**	**1,265**	**9,569**

The accompanying notes form part of these statements.

statement of cash flows

for the year ended 30 June 2016

	Notes	2016 $'000	2015 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Levies received		108,673	106,178
Compensation payments		(91,581)	(91,203)
Net Cash Flows from Scheme Activities		**17,092**	**14,975**
Receipts			
Proceeds from sale of investments		578,710	393,506
Interest received		21,887	11,212
Other		2,286	(416)
Total Receipts Excluding Scheme Activities		**602,883**	**404,302**
Payments			
Purchases of investments		(634,949)	(374,334)
Service fees		(7,640)	(1,392)
Other operating		(4,084)	(8,791)
Grants and subsidies		(5,390)	(5,274)
Dependants benefits		-	(51,237)
Total Payments Excluding Scheme Activities		**(652,063)**	**(441,028)**
NET CASH FLOWS FROM OPERATING ACTIVITIES		**(32,088)**	**(21,751)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of plant and equipment		(28)	(10)
Purchases of intangible assets		-	(1,705)
NET CASH FLOWS FROM INVESTING ACTIVITIES		**(28)**	**(1,715)**
NET INCREASE/(DECREASE) IN CASH		**(32,116)**	**(23,466)**
Opening cash and cash equivalents		**66,616**	**90,082**
CLOSING CASH AND CASH EQUIVALENTS	**4**	**34,500**	**66,616**

The accompanying notes form part of these statements.

notes to the financial statements

for the year ended 30 June 2016

1. Summary of significant accounting policies

(a) Reporting entity

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.

Effective from 1 September 2015 in accordance with the "State Insurance and Care Governance Act" the Workers' Compensation (Dust Diseases) Board was renamed the Workers' Compensation (Dust Diseases) Authority.

These financial statements for the year ended 30 June 2016 have been authorised for issue by the Chairman of the Board and the Chief Executive Officer on 26 September 2016.

(b) 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) and
- the requirements of the *Public Finance and Audit Act 1983* and Public Finance and Audit Regulation 2015.
- NSW Treasurer's directions

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

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

Tables may not add in all instances due to rounding.

(c) Statement of compliance

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

(d) Judgements, key assumptions and estimations

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.

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

(e) Accounting for the Goods and Services Tax (GST)

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 2016

(f) Equity and reserves

Asset Revaluation surplus

The revaluation surplus is used to record increments and decrements on the revaluation of property, plant and equipment. This accords with the Authority's policy on the revaluation of property, plant and equipment as discussed in note 7.

Accumulated funds

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

(g) Changes in accounting policy, including new or revised Australian Accounting Standards.

The following new Standards will not have any direct impact on the financial performance or position of the Authority.

The following new Australian Accounting Standards have not been applied and are not yet effective:

- AASB 7, AASB 9, AASB 132, AASB 139 and AASB 2014-7 regarding financial instruments
- AASB 13 regarding fair values
- AASB 15, AASB 2014-5 and AASB 2015-8 regarding Revenue from Contracts with Customers
- AASB 1057 and AASB 2015-9 Application of Australian Accounting Standards
- AASB 2014-4 regarding acceptable methods of depreciation and amortization
- AASB 2015-1 regarding annual improvements to Australian Accounting Standards 2012-2014 cycle
- AASB 2015-2 regarding amendments to AASB 101 disclosure initiatives
- AASB 2015-6 Amendments to Australian Accounting Standards - Extending Related Party Disclosures to Not-for-Profit Public Sector Entities
- AASB 2015-7 Amendments to Australian Accounting Standards - Fair Value Disclosures of Not-for-Profit Public Sector Entities.
- AASB 9 Financial Instruments and its associated amending standards specify new recognition and measurement requirements for financial assets and financial liabilities within the scope of AASB 139 Financial Instruments: Recognition and Measurement.

The Authority already values its financial assets and financial liabilities at fair value through profit or loss. Therefore when applied, the only material impact of these standards will be on the presentation of the financial statements and disclosures in the notes.

The remaining standards relate to disclosure requirements and will have no direct impact on the Authority's financial results.

notes to the financial statements

for the year ended 30 June 2016

2. Revenue

(a) Fees and levies

	2016 $'000	2015 $'000
Levy contributions		
- Self-insurer – NSW Self Insurance Corporation	11,921	11,416
- Specialised insurer and other self insurers	11,834	13,142
- NSW Workers Insurance Scheme	83,469	80,745
Total levy contributions	**107,224**	**105,303**
Total fees and levies	**107,224**	**105,303**

The Authority's funds are generated from dust diseases levies collected from NSW Workers Insurance Scheme, Specialised and Self-insurers, under the *Workers' Compensation (Dust Diseases) Act 1942* (the Act). The levy revenue is recognised when it falls due and receivable by the Authority. The levies were used to meet the expenses of the Authority's operations under the Act. Funds are kept in interest bearing investment accounts in accordance with the Act and the Public Authorities (Financial Arrangements) Act 1987.

(b) Investment revenue

	2016 $'000	2015 $'000
Interest revenue from bank interest and TCorp Hour Glass cash facility	397	977
Tcorp Investment facilities	31,674	28,145
Other investment facilities	8,078	10,267
Realised Gains/(Losses) on investments	7,059	43,153
Unrealised Gains/(Losses) on investments	998	16,720
Total investment revenue	**48,206**	**99,262**

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

notes to the financial statements

for the year ended 30 June 2016

(c) Other revenue

	2016 $'000	2015 $'000
Compensation recoveries under Section 8E of the Act	1,657	2,055
Rendering of services – Occupational respiratory health assessments	447	496
Solicitors' production fees	27	30
Total other revenue	**2,131**	**2,581**

notes to the financial statements

for the year ended 30 June 2016

3. Expenses

(a) Scheme costs

	2016 $'000	2015 $'000
(i) Compensation payments made during the year		
Compensation to workers	19,161	18,698
Compensation to dependants	34,965	34,865
Lump sum awards to dependants	26,580	27,656
Healthcare services and funeral benefits	8,525	9,050
	89,231	**90,269**
(ii) Medical examination of workers		
Medical fees and other related supplies	735	912
Workers travelling expenses	15	23
	750	**935**
(iii) Movement in provision for compensation (Refer note 12)		
Finance costs	34,700	40,800
Movement in provision for compensation – known claims	27,400	(96,600)
Movement in provision for compensation – estimated future claims	(168,500)	(148,700)
Total net movement during the year	**(106,400)**	**(204,500)**
Total Scheme costs	**(16,419)**	**(113,296)**
Movement in contributions from insurers yet to be levied (Note 6)	154,606	303,763
Total Scheme costs including movement in contribution receivable	**138,187**	**190,467**

Finance costs relate to movement in the carrying amount of the outstanding liability that reflects the passage of time associated with the use of discount rate determining the value of the outstanding claims liability (Refer Note 12).

Finance costs have been reclassified to Scheme costs in 2015-16 as part of a program to improve the presentation of the financial statements.

The movement in Outstanding contributions from insurers yet to be levied have been reclassified to Scheme costs in 2015-2016 as part of a program to improve the presentation of the financial statements.

(b) Service fees

	2016 $'000	2015 $'000
Service fees	**7,640**	**1,392**

notes to the financial statements

for the year ended 30 June 2016

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 and recovered at cost from the Authority. These services include the provision of staff, claims handling, facilities, general business expenses and governance services.

Included in the service fee paid to icare is $77,900 for the audit of the financial statements performed by the Audit Office of NSW.

(c) Other operating expenses

	2016 $'000	2015 $'000
Personnel services		
Salaries and wages (including annual leave)	654	3,176
Long service leave	242	78
Agency short-term staff	111	240
Superannuation – defined contribution plans	51	298
Payroll tax and fringe benefits tax	34	157
Superannuation – defined benefit plans (including actuarial (gains)/losses)	-	50
Workers' compensation insurance	15	17
Total Personnel Services	**1,107**	**4,016**
Refer Note 3(b) Service fees for these expenses from 1 September 2015.		
Depreciation and amortisation (refer note 7)	**208**	**249**
Other operating expenses		
Investment management fees	2,425	1,578
Other	243	800
Contractors	44	227
Buildings maintenance, repairs and management	32	118
Insurance	21	21
Legal fees	19	87
Board members' fees and allowances	12	90
Auditor's remuneration – audit of the financial statements	5	70
Bad debts	1	31
Consultants – actuarial	-	153
Consultants – other	-	90
Operating lease: minimum lease payments	-	18
Total Other operating expenses	**4,117**	**7,548**

Service fees have been reclassified to their own category in 2015–16 as part of a program to improve the presentation of the financial statements.

Depreciation and amortisation has been reclassified to Other operating expenses in 2015–16 as part of a program to improve the presentation of the financial statements.

notes to the financial statements

for the year ended 30 June 2016

Insurance

The Authority's insurance activities are conducted through the NSW Treasury Managed Fund Scheme of Self Insurance for Government entities. The expense (premium) is determined by the Fund Manager based on past claim experience.

(d) Grants and subsidies

	2016 $'000	2015 $'000
Dust Diseases Tribunal funding	5,208	5,258
Research projects and provision of advice	184	74
	5,392	**5,332**

4. Current assets – Cash and cash equivalents

	2016 $'000	2015 $'000
Cash at bank and on hand	7,461	2
Short-term deposits:		
TCorp Hour-Glass investment – Cash facility	6,608	18,698
Cash – Other Deposits at TCorp	11,830	41,029
Cash – Other	8,601	7,022
	34,500	**66,751**

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

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

	2016 $'000	2015 $'000
Cash and cash equivalent assets (per Statement of financial position)	34,500	66,751
Bank Overdraft (per Statement of financial position)	-	(135)
Closing cash and cash equivalents (per Statement of cash flows)	**34,500**	**66,616**

Refer to Note 15 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 2016

	2016 $'000	2015 $'000
Reconciliation of Net Cash Flows from Operating Activities to Net Result		
Net cash used in operating activities	(32,088)	(21,751)
Assets written off/impaired	(1,844)	-
Depreciation and amortisation	(208)	(249)
Loss on disposal	-	(26)
Net investment purchases/sales	56,239	(19,172)
Net cashflows from investment operating activities	26,319	88,050
Defined Benefit Superannuation transfer	(899)	-
Change in assets and liabilities		
Increase/(Decrease) in receivables: Current	(190)	(19,738)
Increase/(Decrease) in receivables: Non-current	(154,606)	(283,740)
Decrease/(Increase) in payables: Current	(1,435)	54,417
Decrease/(Increase) in claims and other provisions: Current	(75)	(841)
Decrease/(Increase) in claims and other provisions: Non-current	108,932	205,369
Net result	**145**	**2,319**

5. Current assets – Investments

	2016 $'000	2015 $'000
TCorp Hour-Glass Facilities	326,230	278,768
TCorp Fixed/Variable Interest discrete portfolio	432,024	391,188
Australian and International Equities	236,144	241,861
Derivatives	1,708	8,198
Other Investments	41,222	42,505
Total Financial Assets at Fair Value	**1,037,328**	**962,520**

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

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

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

Derivatives

Derivatives include interest swap swaps and futures, credit default swaps, cross currency swaps and forward foreign currency contracts and options on interest rates, foreign currencies and equities. Derivates 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-measured at fair value.

notes to the financial statements

for the year ended 30 June 2016

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently marked to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Authority designates certain derivatives as either; (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or (2) hedges of the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges).

Hedging strategies are determined by the Investment & Asset Committee, within the investment strategy for the Authority. Hedging is conducted at two levels:

- At the overall fund level, where TCorp decides on instruments and transaction parameters. Transactions are implemented in bond options by TCorp and in equity options by SSGM.
- In underlying portfolio's, by appointed investment managers who have discretion to implement hedges within manadate boundaries.

The fair values of any derivative financial instruments used for hedging purposes, if any, are disclosed in Note 15.

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

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

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 2016

6. Current/Non-current assets – Receivables

	2016 $'000	2015 $'000
CURRENT		
Contributions from insurers	87,110	87,110
Investments receivable	18,451	4,075
Other receivables	4,780	4,309
less: Allowance for impairment	(580)	(344)
Occupational respiratory health assessments	109	114
Fees and levies	81	-
GST receivable	73	107
Debtors – workers and dependants	60	60
Interest receivable	80	336
Prepayments	2	213
	110,166	**95,980**
NON-CURRENT		
Contributions from insurers yet to be levied*	586,043	740,649
Total Receivables	**696,209**	**836,629**
Movement in the allowance for impairment		
Balance at 1 July	344	282
Increase/(decrease) in allowance recognised in profit or loss	236	62
Balance at 30 June	**580**	**344**

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

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

notes to the financial statements

for the year ended 30 June 2016

7. Non-current assets – Property, plant and equipment

	Buildings $'000	Motor Vehicles $'000	Office Equipment $'000	Scientific and Medical Equipment $'000	Total $'000
At 1 July 2015 – fair value					
Gross carrying amount	4,432	661	20	95	5,208
Accumulated depreciation and impairment	(161)	(364)	(11)	(2)	(538)
Net carrying amount	**4,271**	**297**	**9**	**93**	**4,670**
At 30 June 2016 – fair value					
Gross carrying amount	5,500	661	20	124	6,305
Accumulated depreciation and impairment	(24)	(430)	(13)	(14)	(481)
Net carrying amount	**5,476**	**231**	**7**	**110**	**5,824**
Reconciliation					
Year ended 30 June 2016					
Net carrying amount at start of financial year	4,271	297	9	93	4,670
Additions	-	-	-	29	29
Net revaluation increment	1,333	-	-	-	1,333
Depreciation expense	(128)	(66)	(2)	(12)	(208)
Net carrying amount at end of financial year	**5,476**	**231**	**7**	**110**	**5,824**
At 1 July 2014 – fair value					
Gross carrying amount	4,432	661	10	972	6,075
Accumulated depreciation and impairment	(24)	(297)	(10)	(809)	(1,140)
Net carrying amount	**4,408**	**364**	**-**	**163**	**4,935**
At 30 June 2015 – fair value					
Gross carrying amount	4,432	661	20	95	5,208
Accumulated depreciation and impairment	(161)	(364)	(11)	(2)	(538)
Net carrying amount	**4,271**	**297**	**9**	**93**	**4,670**
Reconciliation					
Year ended 30 June 2015					
Net carrying amount at start of financial year	4,408	364	-	163	4,935
Additions	-	-	10	-	10
Net revaluation decrement	-	-	-	(26)	(26)
Depreciation expense	(137)	(67)	(1)	(44)	(249)
Net carrying amount at end of financial year	**4,271**	**297**	**9**	**93**	**4,670**

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

notes to the financial statements

for the year ended 30 June 2016

Fair value

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

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

Revaluation of property, plant and equipment

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

The last revaluation of the Authority's building was completed on 31 March 2016 and Scientific and Medical Equipment on 6 February 2015. Both valuations were based on an independent assessment.

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

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

Depreciation of property plant and equipment

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

The following depreciation rates were used:

Categories	2016 %
Buildings	3
Motor vehicles: passenger cars	20
Motor vehicles: mobile respiratory unit	10
Office equipment	20
Scientific and medical equipment	5-12.5

notes to the financial statements

for the year ended 30 June 2016

8. Non-current assets – Intangible assets

	Computer Software $'000	Software WIP $'000	Total $'000
Current year			
At 1 July 2015			
Cost (gross carrying amount)	516	1,705	2,221
Accumulated amortisation and impairment	(516)	-	(516)
Net carrying amount	**-**	**1,705**	**1,705**
At 30 June 2016			
Cost (gross carrying amount)	516	-	516
Accumulated amortisation and impairment	(516)	-	(516)
Net carrying amount	**-**	**-**	**-**
Reconciliation			
Year ended 30 June 2016			
Net carrying amount at start of financial year	-	1,705	1,705
Additions	-	139	139
Impairment losses	-	(1,844)	(1,844)
Net carrying amount at end of financial year	**-**	**-**	**-**
Prior year			
At 1 July 2014			
Cost (gross carrying amount)	516	-	516
Accumulated amortisation and impairment	(516)	-	(516)
Net carrying amount	**-**	**-**	**-**
At 30 June 2015			
Cost (gross carrying amount)	516	1,705	2,221
Accumulated amortisation and impairment	(516)	-	(516)
Net carrying amount	**-**	**1,705**	**1,705**
Reconciliation			
Year ended 30 June 2015			
Net carrying amount at start of financial year	-	-	-
Additions	-	1,705	1,705
Net carrying amount at end of financial year	**-**	**1,705**	**1,705**

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

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

The useful lives of intangible assets are assessed to be finite. The Authority charges amortisation on intangible assets using the straight-line method over a period of 4 years.

notes to the financial statements

for the year ended 30 June 2016

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.

The impairment in the current year relates to software no longer in use.

9. Fair value measurement of non-financial assets

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 15 for further disclosures regarding fair value measurements of financial assets.

(a) Fair value hierarchy

2016 – Property, plant and equipment

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total Fair value $'000
Property, plant and equipment (Note 7)				
Buildings	-	5,476	-	5,476
Scientific and medical equipment	-	110	-	110
	-	**5,586**	**-**	**5,586**

2015 – Property, plant and equipment

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total Fair value $'000
Property, plant and equipment (Note 7)				
Buildings	-	4,271	-	4,271
Scientific and medical equipment	-	93	-	93
	-	**4,364**	**-**	**4,364**

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

(b) Valuation techniques, inputs and processes

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

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

notes to the financial statements

for the year ended 30 June 2016

10. Current liabilities – Payables

	2016 $'000	2015 $'000
Creditors	487	78
Dust Diseases levy creditors	1,531	-
Accrued expenses and other creditors – operational	3,604	4,012
Accrued expenses and other creditors – capital	139	-
Accrued salaries, wages and on-costs	-	97
Investments payable	17,154	10,526
	22,915	**14,713**

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

Refer to Note 15 for further information regarding credit risk, liquidity risk, and market risk, including a maturity analysis of the above payables.

11. Current liabilities – Borrowings

	2016 $'000	2015 $'000
Bank Overdraft	-	135
	-	**135**

Refer to Note 15 for further information regarding credit risk, liquidity risk and market risk, including a maturity analysis of the above payables.

notes to the financial statements

for the year ended 30 June 2016

12. Current/Non-current liabilities – Claims and other provisions

	2016 $'000	2015 $'000
CURRENT		
Claims provisions		
Provision for compensation – known claims	85,700	82,800
Provision for compensation – estimated future claims	19,700	21,000
Total current claims provisions	**105,400**	**103,800**
Personnel services and related on-costs		
Annual leave	-	257
Long service leave	-	1,268
Total current personnel services and related on-costs	**-**	**1,525**
Total current provisions	**105,400**	**105,325**
Expected to be settled no more than twelve months		
Annual leave and related on-costs	-	257
Long service leave and related on-costs	-	60
	-	**317**
Expected to be settled after more than twelve months		
Long service leave and related on-costs	-	1,208
NON-CURRENT		
Claims provisions		
Provision for compensation – known claims	729,200	690,400
Provision for compensation – estimated future claims	904,400	1,051,200
Total non-current claims provisions	**1,633,600**	**1,741,600**
Personnel services and related on-costs		
Long service leave	-	32
Superannuation	-	899
Total non-current personnel services and related on-costs	**-**	**931**
Other provisions		
Restoration cost	-	2
Total Non-Current provisions	**1,633,600**	**1,742,533**
Total Provisions	**1,739,000**	**1,847,858**

notes to the financial statements

for the year ended 30 June 2016

Personnel services and related costs

In accordance with the *State Insurance and Care Governance Act* the Authority from 1 September 2015 receives claims handling services (including staff and facilities) from Insurance and Care NSW (icare).

As icare is responsible for the provision of these services all personnel service related liabilities are the responsibility of icare and the Authority is charged a management service fee that includes a component for these expenses. Consequently the Authority no longer has any personnel service and related on-cost provisions. (Refer note 3(b)).

Aggregate employee benefits and related on-costs

	2016 $'000	2015 $'000
Provisions – Current	-	1,525
Provisions – Non-Current	-	931
Accrued salaries, wages and on-costs (Note 10)	-	97
	-	**2,553**

Claims provision

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. At 30 June 2016, liabilities for compensation payments and estimated compensation for future claims were valued by the actuaries Taylor Fry Proprietary Limited.

Provision for compensation payments and estimated compensation for future claims

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
- cost of personnel services obtained by the Authority from the Department of Finance, Services and Innovation up until 31 August 2015
- fees payable to the Medical Authority
- costs involved in reimbursing workers under section 9A – travel expenses associated with medical examinations
- costs of operation of the District Court relating to appeals under section 8I
- costs of administering the Act and any other money that the Authority is required to pay under the Act
- costs relating to medical or related treatment or hospital treatment or occupational rehabilitation service or ambulance service as under section 8.2(d) and reasonable funeral expenses under section 8(2A)
- 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 3(a) for more details.

notes to the financial statements

for the year ended 30 June 2016

The liability for compensation payments and estimated compensation for future claims are measured as the present value of the expected future payments. The present values after discounting are as follows:

	2016 $'000	2015 $'000
Not later than one year	105,400	103,800
Later than one year but not later than five years	384,200	381,400
Later than five years	1,249,400	1,360,200
	1,739,000	**1,845,400**

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

The Authority includes in its provision an estimate for compensation payable for claims yet to be made of $924,100 Thousand (2015: $1,072,200 Thousand). This figure is shown in the Statement of Financial Position as a liability with the corresponding outstanding contributions receivable asset (net of cumulative surplus or deficit to date) representing the right to levy employers for these outstanding claims.

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

	2016 $'000	2015 $'000
Movements in the provision for compensation during the financial year are set out below:		
Carrying amount at start of financial year	1,845,400	2,049,900
Addition/ (Reduction) in provision	(178,027)	(178,860)
Less: Service fees – refer note 3(b)	(7,640)	(1,392)
Other operating expenses (excluding depreciation & amortisation) – refer note 3(c)	(3,909)	(7,299)
Compensation payments made during the year – refer note 3(a)(i)	(89,231)	(90,269)
Medical examination costs of workers – refer note 3(a)(ii)	(750)	(935)
Add: Compensation recoveries – refer note 2(c)	1,657	2,055
Change in discount rate	136,800	31,400
Finance cost (unwinding of discount – refer note 3(a)(iii))	34,700	40,800
Carrying amount at end of financial year	**1,739,000**	**1,845,400**

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

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

notes to the financial statements

for the year ended 30 June 2016

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

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

The actuaries, Taylor Fry Proprietary Limited, in the valuation of liability report dated 9 August 2016 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.

The following inflation rates and discount rates were used in measuring the provision for compensation payable:

	2016 %	2015 %
Compensation expected to be paid		
Not later than one year		
Wages inflation rate	2.50	3.00
Discount rate	1.63	1.96
Later than one year		
Wages inflation rate *	2.32	2.80
Discount rate *	2.27	3.45

*weighted average

Sensitivity analysis for the valuation as at 30 June 2016

The liability represents the best estimate and is based on standard actuarial assessment methodologies. The table below shows sensitivities to the valuation to changes in a number of key assumptions. If the Authority was required to adopt a risk margin (similar to insurers) to increase the probability of adequacy of the outstanding claims valuation liability to 75% the outstanding claims liability would increase by $385.4m to $2,124.4m.

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for the year ended 30 June 2016

	30 June 2016 Liability $'000	Effect On 30 June 2016 Liability $'000	Percentage Effect %
Central estimate of the Authority's liability	1,739	-	-
All valuation assumptions used			
Increase inflation by 1% at each year	1,963	223	13
Decrease discount rate by 1% at each year	1,965	225	13
Decrease discount rate by 1% but with long-term gap of 1.8%	1,797	58	3
Increase discount rate by 1% but with long-term gap of 1.8%	1,615	(124)	(7)
Increase superimposed inflation on medical benefits by 2%	1,770	31	2
Reduce superimposed inflation on medical benefits by 2%	1,717	(22)	(1)
Increase expected average lifetime disability by 5%	1,748	9	1
Decrease expected average lifetime disability by 5%	1,722	(18)	(1)
Increase the proportion of married workers by 5%	1,795	56	3
Decrease the proportion of married workers by 5%	1,683	(56)	(3)
Increase average age difference between workers and spouses to 6 years	1,783	44	3
Decrease average age difference between workers and spouses to 2 years	1,694	(45)	(3)
Change expected mortality to be based on rate of improvement over last 125 years	1,711	(28)	(2)
Change spouse mortality & withdrawal rate to be based on DDA actual experience only	1,720	(19)	(1)
Increase number of future asbestosis claims by 20%	1,756	17	1
Increase number of future mesothelioma claims by 20%	1,898	159	9
Increase number of future other dust diseases claims by 20%	1,743	4	-

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.

notes to the financial statements

for the year ended 30 June 2016

13. Contingent liabilities and contingent assets

The Authority has no contingent assets or liabilities (2015:nil).

14. Increase in net assets from equity transfers

	2016 $'000	2015 $'000
Defined Benefit Superannuation Liability transfer	899	-
	899	**-**

The defined benefit superannuation liability for the Authority has been assumed by NSW Treasury in 2015-16. As a result the Authority had an equity injection in 2015-16 that eliminated its defined benefit superannuation liability.

15. Financial instruments

The Authority's principle 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 the risk. Further quantitative and qualitative disclosures are included throughout these financial statements.

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

In May 2015, NSW Treasury Corporation (TCorp) was appointed to supply investment management and administration services to icare managed investment funds. TCorp is engaged through a Master Financial Services Agreement (MFSA) which details, amongst other things, the service and reporting provisions. Service levels and compliance to the MFSA are monitored through icare's Finance & Services team.

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for the year ended 30 June 2016

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.

(a) Financial instrument categories

	Notes	Category	Carrying Amount 2016 $'000	Carrying Amount 2015 $'000
Financial Assets				
Class:				
Cash and cash equivalents	4	N/A	34,500	66,751
Receivables[1]	6	Loans and receivables (at amortised cost)	18,640	4,525
Investments	5	Fair value through profit or loss	1,037,328	962,520
Financial Liabilities				
Class:				
Payables[2]	10	Financial liabilities (at amortised cost)	21,384	14,713
Borrowings	11	N/A	-	135

Notes:

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

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

(b) Credit risk

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.

(i) Exposure:

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

Credit risk also arises from the Authority's receivables. Disclosures relating to the Authority's receivables are included in Note 6.

notes to the financial statements

for the year ended 30 June 2016

(ii) Risk management objective, policies and processes:

Credit Guidelines have been determined to ensure the Authority has controlled levels of credit concentration. These guidelines are at a total Authority level, with further asset class specific restrictions in investment manager's 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.

(iii) 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.

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
2016 Options			
Options on Fixed Income	1,667	-	175,000
Foreign forward exchange contracts	41	3	2,541
	1,708	**3**	**177,541**
2015 Options			
Options on Fixed Income	1,055	-	400,000
	1,055	**-**	**400,000**

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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:

	2016 %	2015 %
Rating		
AAA/aaa	68	71
AA/Aa	30	27
A/A	2	2
Total	**100**	**100**

Cash and cash equivalents

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

Receivable – trade debtors

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

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

	Total[1,2] $'000	Past Due but not impaired[1,2] $'000	Considered impaired[1,2] $'000
2016			
< 3 months overdue	48	48	-
3 months – 6 months overdue	-	-	-
> 6 months overdue	99	99	-
2015			
< 3 months overdue	2	2	-
3 months – 6 months overdue	18	18	-
> 6 months overdue	31	31	-

Notes:

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

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

notes to the financial statements

for the year ended 30 June 2016

(c) Liquidity risk

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

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

The liabilities are recognised for amounts due to be paid in the future for goods or services received, whether or not invoiced. Amounts owing to suppliers (which are unsecured) are settled in accordance with the policy set out in NSW Treasury Circular NSWTC 11/12. There were no late penalty interest payments made in 2015/16.

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.

(i) Exposure:

The financial assets of the Authority that may not be readily convertible to cash are largely receivables (refer Note 6) and investments in over-the-counter or thinly traded investments, principally unlisted property trusts.

(ii) Risk management objective, policies and processes:

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

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

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

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

(iii) 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 2015.

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 12 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 2016

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
2016								
Payables	N/A	21,384	-	-	21,384	21,384	-	-
Borrowings	N/A	-	-	-	-	-	-	-
2015								
Payables	N/A	14,713	-	-	14,713	14,713	-	-
Borrowings	N/A	135	-	-	135	135	-	-

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.

(d) Market risk

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

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

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

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

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

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

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

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

notes to the financial statements

for the year ended 30 June 2016

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

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

TCorp in conjunction with it's 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, alternative assets)
- Assumptions regarding the duration of inflation-linked and other liabilities consistent with those used by the 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 investment returns, volatilities and correlations, that may not represent actual outcomes. It is also important to note that the analysis only allows for some economic factors such as inflation and bond yields, which affect the value of the Authority's liabilities. It does not allow for other factors such as the claim loss ratio, claims incidence and necessary rates, which also affect the value of the Authority's liabilities. As such, the analysis may not be accurate in its assessment of the liability.

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

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

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

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

The most recent VaR analysis was conducted in July 2016 based on the June 2016 financial instruments and is computed via forward looking simulation using a 95% confidence level and a 1 year holding period.

The Authority uses a Value at Risk (VaR) model to measure the market risk exposures to its invested assets in the balance sheet. VaR is calculated using simulated forward looking expected returns at the 95th percentile confidence level over a 12 month time period. The VaR methodology allows risks to be measured consistently across all markets and financial instruments and to be aggregated into a single number.

Given the Authority's financial instruments at 30 June 2016, the minimum potential loss expected over a one year period is $51.7 million (June 2015: $46.3 million), with a 5 per cent probability that this minimum may be exceeded.

notes to the financial statements

for the year ended 30 June 2016

(e) Interest rate risk

Interest rate risk rate 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.

(i) 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.

(ii) Risk management objective, policies and processes:

The interest risk of the Authority is managed primarily through its strategic asset allocation and mandate objective setting. At 30 June 2016 the Authority had a 36 per cent (2015: 21 per cent) allocation to Australian Commonwealth and state government bonds to mitigate interest rate risk of Authority liabilities.

(iii) Quantitative analysis of exposure:

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

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

	Floating Interest Rate	Fixed Interest Rate Maturing In				
	$'000	< 3 months $'000	4-12 months $'000	1-5 years $'000	Over 5 years $'000	Total $'000
2016						
Class						
Cash	27,039	-	-	-	-	27,039
Indexed and interest bearing securities	276,085	(204)	-	-	156,143	432,024
Unit Trusts	367,453	-	-	-	-	367,453
Derivatives assets	-	237	1,471	-	-	1,708
Derivatives liabilities	-	(3)	-	-	-	(3)
Assets	**670,577**	**30**	**1,471**	**-**	**156,143**	**828,221**
2015						
Class						
Cash	66,751	-	-	-	-	66,751
Indexed and interest bearing securities	252,141	-	-	-	139,047	391,188
Unit Trusts	335,634	-	-	-	-	335,634
Derivatives	-	238	819	-	-	1,057
Assets	**654,526**	**238**	**819**	**-**	**139,047**	**794,630**

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

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

notes to the financial statements

for the year ended 30 June 2016

(f) Foreign exchange risk

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.

(i) 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.

(ii) Risk management objective, policies and processes:

Independent investment managers appointed by the Insurance and Care NSW Board manage foreign exchange risk. The investment grade credit (developed markets) managers fully hedge portfolio foreign currency exposures. An independent 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 Authority's custodian, State Street Bank and Trust Company, under a Service Level Agreement and reporting is provided both daily and monthly by the custodian to management for monitoring.

(iii) Quantitate analysis of exposure:

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

	US Dollars AUD $'000	Euro AUD $'000	British Pounds AUD $'000	Other Currencies AUD $'000	Total AUD $'000
2016					
Cash	5,819	-	-	41	5,860
Indexed and interest bearing securities	-	-	-	-	-
Unit Trusts	1,342	-	-	-	1,342
Equities	85,143	17,148	6,325	40,354	148,970
Foreign Exchange Exposure Position	**92,304**	**17,148**	**6,325**	**40,395**	**156,172**
2015					
Cash	6,491	-	-	-	6,491
Indexed and interest bearing securities	-	-	-	-	-
Unit Trusts	2,027	-	-	634	2,661
Equities	85,779	19,974	5,280	38,471	149,504
Foreign Exchange Exposure Position	**94,297**	**19,974**	**5,280**	**39,105**	**158,656**

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

notes to the financial statements

for the year ended 30 June 2016

(g) Fair valuation estimation

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.

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
2016				
Financial assets at fair value				
Indexed and interest bearing securities	287,758	144,470	-	432,228
Unit Trusts	8,991	358,462	-	367,453
Equities	236,143	-	-	236,143
Derivatives assets	-	1,708	-	1,708
Derivatives liabilities	(204)	(3)	-	(207)
	532,688	**504,637**	**-**	**1,037,325**
2015				
Financial assets at fair value				
Indexed and interest bearing securities	280,152	111,036	-	391,188
Unit Trusts	7,220	328,414	-	335,634
Equities	234,641	-	-	234,641
Derivatives	2	1,055	-	1,057
	522,015	**440,505**	**-**	**962,520**

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 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.

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. There were no transfers during the the year ended 30 June 2016 (2015 $nil).

notes to the financial statements

for the year ended 30 June 2016

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;
- 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;
- Where a number of quotes for the same financial instrument have been obtained, how fair value has been determined using those quotes.

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

Involvement with unconsolidated structure 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 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 2016 $'000	Exposure as at 30 June 2016 %	Net Market Value as at 30 June 2015 $'000	Exposure as at 30 June 2015 %
Property	111,242	31%	95,440	29%
Shares	192,701	54%	179,233	55%
Strategic	4,198	1%	4,094	1%
Infrastructure	18,088	5%	-	0%
Other	32,233	9%	49,646	15%
Total	**358,462**	**100%**	**328,413**	**100%**

notes to the financial statements

for the year ended 30 June 2016

The above table lists the net market value and the Authority's percentage exposure to each investment strategy as at 30 June. These unconsolidated structured entities are included under unit trusts. The maximum exposure or loss is limited to the net market value of the investment strategy as at 30 June 2016. The net market value of the exposure will change on a daily basis throughout the period and in the subsequent periods will cease once the investments are disposed.

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

16. Budget review

Statement of comprehensive income

	Actual 2016 $'000	Budget 2016 $'000
Revenue		
Levies	107,224	105,145
Investment revenue	48,206	67,824
Other revenue	2,131	2,007
Total Revenue	**157,561**	**174,976**
Expenses excluding losses		
Scheme costs	138,187	50,900
Service fees	7,640	2,652
Other operating expenses	4,117	8,889
Grants and subsidies	5,392	5,800
Other expenses	-	106,485
Total expenses excluding losses	**155,336**	**174,726**
Loss on disposal	(1,844)	-
Other gains / (losses)	(236)	(250)
Net result	**145**	**-**

notes to the financial statements

for the year ended 30 June 2016

Statement of financial position as at 30 June 2016

	Actual 2016 $'000	Budget 2016 $'000
ASSETS		
Current Assets		
Cash and cash equivalents	34,500	66,867
Receivables	110,166	109,686
Investments	1,037,328	1,094,024
Total Current Assets	**1,181,994**	**1,270,577**
Non-Current Assets		
Receivables	586,043	690,581
Property, plant and equipment	5,824	4,330
Total Non-Current Assets	**591,867**	**694,911**
Total Assets	**1,773,861**	**1,965,488**
LIABILITIES		
Current Liabilities		
Payables	22,915	7,367
Claims and Other Provisions	105,400	103,873
Total Current Liabilities	**128,315**	**111,240**
Non-Current Liabilities		
Claims and Other Provisions	1,633,600	1,851,286
Total Non-Current Liabilities	**1,633,600**	**1,851,286**
Total Liabilities	**1,761,915**	**1,962,526**
Net Assets	**11,946**	**2,962**
EQUITY		
Reserves	2,598	1,239
Accumulated funds	9,348	1,723
Total Equity	**11,946**	**2,962**

Total assets were $191.6m unfavourable to budget while total liabilities were $200.6m favourable to budget as the decrease in outstanding contributions from insurers and decrease in investments is offset by the change in actuarially determined future claims costs. The claims costs have decreased as a result of lower projected mesothelioma claims and older future claimants. The decrease in investments was driven by investment return experience and asset mix.

notes to the financial statements

for the year ended 30 June 2016

Cash flows from other operating activities

	Notes	Actual 2016 $'000	Budget 2016 $'000
Levies received		108,673	105,144
Compensation payments		(91,581)	(103,100)
		17,092	**2,044**
Receipts			
Proceeds from sale of investments		578,710	15,049
Interest received		21,887	18,559
Other		2,286	2,283
Total Receipts		**602,883**	**35,891**
Payments			
Purchases of investments		634,949	(17,880)
Service fees		(7,640)	(2,652)
Other operating		(4,084)	(7,687)
Grants and subsidies		(5,390)	(7,058)
Total Payments		**652,063**	**(35,277)**
NET CASH FLOWS FROM OTHER OPERATING ACTIVITIES		**(32,088)**	**2,658**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of plant and equipment		(28)	(40)
Purchases of intangible assets		-	-
NET CASH FLOWS FROM INVESTING ACTIVITIES		**(28)**	**(40)**
NET INCREASE/(DECREASE) IN CASH		**(32,116)**	**2,618**
Opening cash and cash equivalents		66,616	64,249
CLOSING CASH AND CASH EQUIVALENTS	4	**34,500**	**66,867**

Total cash flows are $34.7m unfavourable to budget due to increased investment sales and purchases to align the strategic asset allocation and lower than expected compensation payments.

END OF AUDITED FINANCIAL STATEMENTS

lifetime care

Lifetime Care and Support Authority

lifetime care financial statements

for the year ended 30 June 2016

Notes to the Financial Statements

LIFETIME CARE AND SUPPORT SCHEME

Actuarial Certificate
Outstanding claims liabilities at 30 June 2016

PricewaterhouseCoopers (PwC) has been contracted by the Lifetime Care and Support Authority (now part of Insurance & Care NSW (icare)) to make estimates of the outstanding claims liabilities as at 30 June 2016 of the Lifetime Care and Support Scheme.

Data

PwC has relied on historical data and other quantitative and qualitative information supplied by the Lifetime Care and Support Authority 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 investment return;
- Future mortality and injury severity improvements of participants; and
- Includes a loading for future operating expenses to meet the cost of managing the scheme for incurred participants at 30 June 2016, including for participants incurred but yet to be reported.

The estimates do not include any allowance for a risk margin.

Valuation Results

The PwC estimated liability for the Lifetime Care and Support Scheme as at 30 June 2016 is $2,939 million.

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

Uncertainty

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

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

pwc

Reports

Full details of data, methodology, assumptions and results are set out in our valuation report dated 5 August 2016.

Relevant Standards

Our estimates and reports for the Lifetime Care and Support Authority are prepared in accordance with Australian Accounting Standard AASB137 and the Institute of Actuaries of Australia's Professional Standard 300, which relates to estimation of outstanding claims liabilities.

John Walsh AM
FIAA
13 October 2016

Peter Hardy
FIAA
13 October 2016

Bill Sun
FIAA
13 October 2016

statement by the chairman and chief executive officer

for the year ended 30 June 2016

Lifetime Care and Support Authority of NSW

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

In the opinion of the directors of Insurance and Care NSW:

1. the financial statements of Lifetime Care and Support Authority of NSW have been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2015* and the Treasurer's Directions. They have also been prepared in accordance with Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board.
2. the financial statements for the year ended 30 June 2016 exhibit a true and fair view of the position and transactions of the Lifetime Care and Support Authority and;
3. the directors are not aware of any circumstances as at the date of this certificate which would render any particulars included in the financial statements misleading or inaccurate.

Signed on behalf of the Board of Directors:

Michael Carapiet
Chairman/Director
Insurance and Care NSW
26 September 2016

Vivek Bhatia
Chief Executive Officer
Lifetime Care and Support Authority of NSW and Insurance and Care NSW
26 September 2016

INDEPENDENT AUDITOR'S REPORT

Lifetime Care and Support Authority of NSW

To Members of the New South Wales Parliament

Opinion

I have audited the accompanying financial statements of Lifetime Care and Support Authority of NSW (the Authority), which comprise the statement of financial position as at 30 June 2016, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information.

In my opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 30 June 2016, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards
- are in accordance with section 41B of the *Public Finance and Audit Act 1983* (PF&A Act) and the Public Finance and Audit Regulation 2015.

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

Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under those standards are further 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 auditor independence requirements of:

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

I have also fulfilled my other ethical responsibilities in accordance with the Code.

The PF&A Act further 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, but precluding the provision of non-audit services.

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

Emphasis of matter paragraph

I draw attention to the provision for participants' care and support services disclosed in Note 13. The note describes the significant uncertainty associated with the measurement of the $2.9 billion provision and related expenses. The uncertainty arises because of the long term nature of the provision and limited participants' experience to date. My opinion is not modified in respect of this matter.

The Chief Executive's Responsibility for the Financial Statements

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

In preparing the financial statements, the Chief Executive Officer must assess the Authority's ability to continue as a going concern unless the Authority will be dissolved by an Act of Parliament or otherwise cease operations. The assessment must include, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

Auditor's Responsibility 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 further description of my responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/Home.aspx.
The description forms part of my auditor's report.

My opinion does *not* provide assurance:

- that the Authority carried out its activities effectively, efficiently and economically
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented.

A Oyetunji
Director, Financial Audit Services

30 September 2016
SYDNEY

statement of comprehensive income

for the year ended 30 June 2016

	Notes	2016 $'000	2015 $'000
Revenue			
Levies	2(a)	437,078	411,793
Investment revenue	2(b)	128,807	397,594
Share of the profit or loss of associates	2(c)	49	4
Other revenue	2(d)	489	389
Total Revenue		**566,423**	**809,780**
Expenses excluding losses			
Scheme costs	3(a)	315,672	445,170
Service fee	3(b)	23,410	2,900
Other operating expenses	3(c)	5,717	16,812
Grants and subsidies	3(d)	1,760	3,269
Total Expenses excluding losses		**346,559**	**468,151**
Impairment of software on transfer into use		(46)	-
Loss on disposal of assets		(165)	-
Net result		**219,653**	**341,629**
Other comprehensive income			
Items that will not be reclassified to the net result			
Net increase in property, plant and equipment revaluation surplus	7	433	533
Total other comprehensive income		**433**	**533**
TOTAL COMPREHENSIVE INCOME		**220,086**	**342,162**

The accompanying notes form part of these statements.

statement of financial position

as at 30 June 2016

	Notes	2016 $'000	2015 $'000
ASSETS			
Current Assets			
Cash and cash equivalents	4	281,019	449,501
Receivables	5	99,795	58,801
Investments	6	4,088,628	3,504,826
Total Current Assets		**4,469,442**	**4,013,128**
Non-Current Assets			
Receivables	5	1,446	1,578
Property, plant and equipment	7	10,910	7,781
Intangible assets	8	653	1,222
Investments accounted for using the Equity Method	11 & 19	1,807	1,758
Total Non-Current Assets		**14,816**	**12,339**
Total Assets		**4,484,258**	**4,025,467**
LIABILITIES			
Current Liabilities			
Payables	12	49,136	8,091
Provisions	13	126,626	120,667
Total Current Liabilities		**175,762**	**128,758**
Non-Current Liabilities			
Provisions	13	2,812,481	2,620,648
Total Non-current Liabilities		**2,812,481**	**2,620,648**
Total Liabilities		**2,988,243**	**2,749,406**
Net Assets		**1,496,015**	**1,276,061**
EQUITY			
Reserves		966	533
Accumulated funds		1,495,049	1,275,528
Total Equity		**1,496,015**	**1,276,061**

The accompanying notes form part of these statements.

statement of changes in equity

for the year ended 30 June 2016

	Notes	Accumulated Funds $'000	Asset Revaluation Surplus $'000	Total $'000
Balance at 1 July 2015		**1,275,528**	**533**	**1,276,061**
Net result for the year		**219,653**	**-**	**219,653**
Other comprehensive income				
Net increase in property, plant and equipment revaluation surplus	7	-	433	433
Total other comprehensive income		**-**	**433**	**433**
Total comprehensive income for the year		**219,653**	**433**	**220,086**
Transactions with owners in their capacity as owners				
(Decrease) in net assets from equity transfers	16	(132)	-	(132)
Balance at 30 June 2016		**1,495,049**	**966**	**1,496,015**
Balance at 1 July 2014		**933,899**	**-**	**933,899**
Net result for the year		**341,629**	**-**	**341,629**
Other comprehensive income				
Net increase in property, plant and equipment revaluation surplus	7	-	533	533
Total other comprehensive income		**-**	**533**	**533**
Total comprehensive income for the year		**341,629**	**533**	**342,162**
Transactions with owners in their capacity as owners		**-**	**-**	**-**
Balance at 30 June 2015		**1,275,528**	**533**	**1,276,061**

The accompanying notes form part of these statements.

statement of cash flows

for the year ended 30 June 2016

	Notes	2016 $'000	2015 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Levies received		434,262	409,142
Compensation payments		(110,246)	(100,339)
Net Cash Flows from Scheme Activities		**324,016**	**308,803**
Receipts			
Proceeds from sale of investments		1,975,253	1,446,931
Interest received		73,106	34,921
Other		226	468
Total Receipts Excluding Scheme Activities		**2,048,585**	**1,482,320**
Payments			
Purchases of investments		(2,503,327)	(1,522,168)
Service Fees		(23,410)	(2,900)
Grants and subsidies		(1,760)	(3,279)
Other		(9,393)	(17,172)
Total Payments Excluding Scheme Activities		**(2,537,890)**	**(1,545,519)**
NET CASH FLOWS FROM OPERATING ACTIVITIES	4	**(165,289)**	**245,604**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		27	-
Purchases of property, plant and equipment		(3,226)	(1,259)
Purchases of intangible assets		6	(491)
NET CASH FLOWS FROM INVESTING ACTIVITIES		**(3,193)**	**(1,750)**
NET INCREASE/(DECREASE) IN CASH		**(168,482)**	**243,854**
Opening cash and cash equivalents		**449,501**	**205,647**
CLOSING CASH AND CASH EQUIVALENTS	4	**281,019**	**449,501**

The accompanying notes form part of these statements.

notes to the financial statements

for the year ended 30 June 2016

1. Summary of significant accounting policies

(a) Reporting entity

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.

These financial statements for the year ended 30 June 2016 have been authorised for issue by the Chairman of the board and the Chief Executive Officer on behalf of the board on 26 September 2016.

(b) Basis of preparation

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

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

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

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

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

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

- Note 13 – Current / Non-current liabilities – provisions
- Note 18 – Financial instruments

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.

(c) Statement of compliance

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

(d) Accounting for the Goods and Services Tax (GST)

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 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.

(e) Equity and reserves

Asset Revaluation surplus

The revaluation surplus is used to record increments and decrements on the revaluation of property, plant and equipment. This accords with the Authority's policy on the revaluation of property, plant and equipment as discussed in note 7.

Accumulated funds

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

notes to the financial statements

for the year ended 30 June 2016

(f) 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. Comparative data has been reclassified when necessary to enhance comparability in respect of changes in the current year.

(g) 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 period ending 30 June 2016. The following new Standards will not have any direct impact on the financial performance or position of the Authority.

- AASB 7, AASB 9, AASB 132, AASB 139 and AASB 2014-7 regarding financial instruments
- AASB 13 regarding fair values
- AASB 15, AASB 2014-5 and AASB 2015-8 regarding Revenue from Contracts with Customers
- AASB 1057 and AASB 2015-9 Application of Australian Accounting Standards
- AASB 2014-4 regarding acceptable methods of depreciation and amortisation
- AASB 2015-1 regarding annual improvements to Australian Accounting Standards 2012–2014 cycle
- AASB 2015-2 regarding amendments to AASB 101 disclosure initiatives
- AASB 2015-6 Amendments to Australian Accounting Standards – Extending Related Party Disclosures to Not-for-Profit Public Sector Entities
- AASB 2015-7 Amendments to Australian Accounting Standards – Fair Value Disclosures of Not-for-Profit Public Sector Entities

AASB 9 Financial Instruments and its associated amending standards specify new recognition and measurement requirements for financial assets and financial liabilities within the scope of AASB 139 Financial Instruments: Recognition and Measurement.

The Authority already values its financial assets and financial liabilities at fair value through profit or loss. Therefore when applied, the only material impact of these standards will be on the presentation of the financial statements and disclosures in the notes.

notes to the financial statements

for the year ended 30 June 2016

2. Revenue

(a) Fees and levies

	2016 $'000	2015 $'000
Fees and levies		
CTP premium levy	437,078	411,793
	437,078	**411,793**

The Authority's funds are generated from levies on Compulsory Third Party (CTP) insurance premiums collected by licensed insurers in accordance with Section 50(5) of the *Motor Accidents (Lifetime Care and Support) Act 2006*. The levy rates are set according to vehicle class and region. CTP levy revenue is recognised when it falls due and receivable by the Authority.

(b) Investment revenue

	2016 $'000	2015 $'000
Interest revenue from bank interest and TCorp Hour Glass cash facility	4,081	2,588
TCorp investment facilities	224,922	256,273
Other investment facilities	5,906	5,303
Realised Gains/(Losses) on investments	76,737	160,536
Unrealised Gains/(Losses) on investments	(182,839)	(27,106)
	128,807	**397,594**

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

(c) Share of the profit or (loss) of associates

	2016 $'000	2015 $'000
Sargood Centre	49	4

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

notes to the financial statements

for the year ended 30 June 2016

When the Authority transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Authority's financial statements only to the extent of interests in the associate that are not related to the Authority. Refer to Note 19 for more details.

(d) Other revenue

	2016 $'000	2015 $'000
Grants	280	71
Scheme recoveries	170	284
Rental	39	34
	489	**389**

Rental revenue from operating leases is recognised in accordance with AASB 117 *Leases* on a straight line basis over the lease term.

notes to the financial statements

for the year ended 30 June 2016

3. Expenses excluding losses

(a) Scheme costs

	2016 $'000	2015 $'000
Participants' care and support expenses		
- Attendant care	47,811	39,629
- Equipment	8,318	7,677
- Home modifications	7,423	3,392
- Hospital	16,586	14,682
- Medical	5,989	6,451
- Rehabilitation	17,826	15,751
- Other	6,234	6,096
	110,187	**93,678**
Movement in provision for future participant care and support services (refer Note 13)	40,286	205,665
Finance costs – unwinding of discount rate (refer Note 13)	160,498	140,331
Bulk billing fees – Ambulance Service of NSW	58	56
Bulk billing fees – NSW Ministry of Health	4,643	5,440
	315,672	**445,170**

Participants care and support expense is the amount incurred during the year plus the amount, which the consulting actuary has estimated as at 30 June 2016 as being the movement in the amount required to meet the cost of participants care and support expenses reported but not yet paid, participant care and support expenses incurred which are yet to be reported and the escalation in reported and reopened participants care and support expenses. The liability for the outstanding participants care and support expenses is estimated as the inflated and discounted values of the expected future payments, reflecting the fact that these payments will be spread over future years. The expected future payments are estimated on the basis of the ultimate cost of participants care and support expenses which is affected by factors arising during the period to settlement. The provision includes an allowance for managing the care and support.

(b) Service fees

	2016 $'000	2015 $'000
Service fees	23,410	2,900

Service partnership agreement 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.

notes to the financial statements

for the year ended 30 June 2016

Prior to 1 September 2015 the Authority received limited shared services from the WorkCover Authority of NSW.

Included in the Service fee paid to icare is $77,000 for the audit of the financial statements performed by the Audit Office of NSW.

(c) Other operating expenses include the following:

	2016 $'000	2015 $'000
Personnel services		
Salaries and wages (including annual leave)	1,449	7,881
Superannuation – defined contribution plans	127	656
Superannuation – defined benefit plans (including actuarial (gains)/losses)	(2)	(5)
Long service leave	171	477
Workers' compensation insurance	47	65
Payroll tax and fringe benefit tax	91	433
Agency short-term staff	57	289
Total Personnel services	**1,940**	**9,796**
Depreciation		
- Buildings	93	50
- Leasehold improvements	201	468
- Motor vehicles	45	47
	339	**565**
Amortisation		
- Computer software	515	349
Total depreciation and amortisation	**854**	**914**
Financial assets management fees	2,607	1,540
Operating lease rental expense		
- minimum lease payments	152	902
- other related expenses	56	388
Information, communication and technology	146	462
Other miscellaneous	79	597
Legal fees	48	381
Insurance	18	15
Contractors	15	642
Consultants – other	-	137
Maintenance	(198)	45
Consultants – actuarial	-	858
Auditor's remuneration		
- audit of the financial statements	-	66
- internal audit and reviews	-	68
Advertising, promotion and publicity	-	1
Total Other operating expenses	**5,717**	**16,812**

Refer Note 3(b) Service partnership agreement fees for details about these expenses from 1 September 2015.

notes to the financial statements

for the year ended 30 June 2016

Leased assets

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

Insurance

The Authority's insurance activities are conducted through the NSW Treasury Managed Fund Scheme of Self Insurance for government entities. The expense (premium) is determined by the Fund Manager based on past claims experience.

(d) Grants and subsidies

	2016 $'000	2015 $'000
Injury management and injury prevention	1,760	3,269
	1,760	**3,269**

notes to the financial statements

for the year ended 30 June 2016

4. Current assets – Cash and cash equivalents

	2016 $'000	2015 $'000
Cash at bank and on hand	9,473	5,682
Short-term deposits:		
- TCorp Hour-Glass investment – Cash facility	51,294	164,083
- Cash – Other Deposits at TCorp	13,980	61,742
- Cash – Other	206,272	217,994
	281,019	**449,501**

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

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:

	2016 $'000	2015 $'000
Cash and cash equivalent assets (per Statement of financial position)	281,019	449,501
Closing cash and cash equivalents (per Statement of cash flows)	**281,019**	**449,501**

Refer to Note 18 for further information regarding credit risk, liquidity risk and market risk arising from financial instruments.

	2016 $'000	2015 $'000
Reconciliation of Net Cash Flows from Operating Activities to Net Result		
Net cash used on operating activities	(165,289)	245,604
Depreciation and amortisation	(854)	(914)
Impairment of software on transfer into use	(46)	-
Loss on disposal of assets	(165)	-
Increase/(Decrease) in investments in Sargood	49	4
Net investment purchases	528,073	362,587
Net cashflows from investment operating activities	55,604	75,237
Defined Benefit Superannuation transfer	132	-
Change in assets and liabilities		
Increase/(Decrease) in receivables: current	3,186	2,876
Increase/(Decrease) in receivables: non-current	(132)	987
(Increase)/Decrease in payables: current	(3,113)	1,813
(Increase)/Decrease in provisions: current	(5,959)	(15,728)
(Increase) in provisions: non-current	(191,833)	(330,837)
Net result	**219,653**	**341,629**

notes to the financial statements

for the year ended 30 June 2016

5. Current/Non-current assets – Receivables

	2016 $'000	2015 $'000
CURRENT		
Fees and levies	44,448	41,632
Prepayments	243	208
GST receivable	593	1,063
Interest receivable	183	86
Investments receivable	53,620	15,812
Other	708	-
	99,795	**58,801**
NON-CURRENT		
Superannuation	-	132
Receivables from participants	1,446	1,446
	1,446	**1,578**

Receivables from participants

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

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

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 (2015 $nil).

notes to the financial statements

for the year ended 30 June 2016

6. Current assets – Investments

	2016 $'000	2015 $'000
Current Assets – held for trading		
TCorp Hour-Glass Facilities	2,814,251	2,212,400
TCorp Fixed/Variable Interest discrete portfolio	1,266,743	1,292,426
Other Investments	7,634	-
Total Financial assets	**4,088,628**	**3,504,826**

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

Investments are held primarily for the purpose of being traded and are classified as current assets.

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

Refer to Note 18 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 2016

7. Non-current assets – Property, plant and equipment

	Capital Works in Progress $'000	Land and Buildings $'000	Leasehold Improve-ments $'000	Motor Vehicles $'000	Total $'000
At 1 July 2015 – fair value					
Gross carrying amount	1,442	5,870	2,799	185	10,296
Accumulated depreciation and impairment	-	(23)	(2,413)	(79)	(2,515)
Net carrying amount	**1,442**	**5,847**	**386**	**106**	**7,781**
At 30 June 2016 – fair value					
Gross carrying amount	4,655	6,210	771	155	11,791
Accumulated depreciation and impairment	-	(23)	(751)	(107)	(881)
Net carrying amount	**4,655**	**6,187**	**20**	**48**	**10,910**

Reconciliation

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

	Capital Works in Progress $'000	Land and Buildings $'000	Leasehold Improve-ments $'000	Motor Vehicles $'000	Total $'000
Year ended 30 June 2016					
Net carrying amount at start of financial year	1,442	5,847	386	106	7,781
Additions	3,213	-	-	-	3,213
Disposals	-	-	(165)	(13)	(178)
Net revaluation increment less revaluation decrements	-	433	-	-	433
Depreciation expense	-	(93)	(201)	(45)	(339)
Net carrying amount at end of financial year	**4,655**	**6,187**	**20**	**48**	**10,910**
At 1 July 2014 - fair value					
Gross carrying amount	1,428	4,170	2,799	185	8,582
Accumulated depreciation and impairment	-	(51)	(1,945)	(32)	(2,028)
Net carrying amount	**1,428**	**4,119**	**854**	**153**	**6,554**
At 30 June 2015 - fair value					
Gross carrying amount	1,442	5,870	2,799	185	10,296
Accumulated depreciation and impairment	-	(23)	(2,413)	(79)	(2,515)
Net carrying amount	**1,442**	**5,847**	**386**	**106**	**7,781**

notes to the financial statements
for the year ended 30 June 2016

Reconciliation

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

	Capital Works in Progress $'000	Land and Buildings $'000	Leasehold Improve-ments $'000	Motor Vehicles $'000	Total $'000
Year ended 30 June 2015					
Net carrying amount at start of financial year	1,428	4,119	854	153	6,554
Additions	1,229	30	-	-	1,259
Net revaluation increment less revaluation decrements	-	533	-	-	533
Transfers	(1,215)	1,215	-	-	-
Depreciation expense	-	(50)	(468)	(47)	(565)
Net carrying amount at end of financial year	**1,442**	**5,847**	**386**	**106**	**7,781**

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

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

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

The Authority revalues each class of property, plant and equipment at least every three years to ensure that the carrying amount of each asset in the class does not differ materially from its fair value at reporting date. The last revaluation was completed on 31 March 2016 and was based on an independent assessment.

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

Depreciation of property, plant and equipment

Depreciation is provided for on a straight line basis for all depreciable assets purchased so as to write-off the depreciable amount of each asset as it is consumed over its useful life to the Authority.

All material separately identifiable components of assets are depreciated over their useful lives. The following depreciation rates were used:

Categories	%
Building premises	4
Leasehold improvements	Over lease term
Motor vehicles	25

notes to the financial statements

for the year ended 30 June 2016

8. Intangible assets

	Computer Software $'000	Software WIP $'000	Total $'000
At 1 July 2015			
Cost (gross carrying amount)	3,741	1,173	4,914
Accumulated amortisation and impairment	(3,692)	-	(3,692)
Net carrying amount	**49**	**1,173**	**1,222**
At 30 June 2016			
Cost (gross carrying amount)	4,861	-	4,861
Accumulated amortisation and impairment	(4,208)	-	(4,208)
Net carrying amount	**653**	**-**	**653**

Reconciliation

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

	Computer Software $'000	Software WIP $'000	Total $'000
Year ended 30 June 2016			
Net carrying amount at start of financial year	49	1,173	1,222
Additions – internal development	-	(8)	(8)
Disposals	-	(46)	(46)
Transfers	1,119	(1,119)	-
Amortisation expense	(515)	-	(515)
Net carrying amount at end of financial year	**653**	**-**	**653**
At 1 July 2014			
Cost (gross carrying amount)	3,741	682	4,423
Accumulated amortisation and impairment	(3,343)	-	(3,343)
Net carrying amount	**398**	**682**	**1,080**
At 30 June 2015			
Cost (gross carrying amount)	3,741	1,173	4,914
Accumulated amortisation and impairment	(3,692)	-	(3,692)
Net carrying amount	**49**	**1,173**	**1,222**

notes to the financial statements

for the year ended 30 June 2016

Reconciliation

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

	Computer Software $'000	Software WIP $'000	Total $'000
Year ended 30 June 2015			
Net carrying amount at start of financial year	398	682	1,080
Additions	-	491	491
Amortisation expense	(349)	-	(349)
Net carrying amount at end of financial year	**49**	**1,173**	**1,222**

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

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

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

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

The Authority reviews its amortisation rate and method on an annual basis.

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

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

notes to the financial statements

for the year ended 30 June 2016

9. Fair value measurement of non-financial assets

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 18 for further disclosures regarding fair value measurements of financial assets.

(a) Fair value hierarchy

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total Fair value $'000
2016				
Property, plant and equipment (Note 7)				
Land and buildings (including WIP)	-	5,837	5,005	10,842
	-	**5,837**	**5,005**	**10,842**
2015				
Property, plant and equipment (Note 7)				
Land and buildings (including WIP)	-	5,577	1,712	7,289
	-	**5,577**	**1,712**	**7,289**

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

(b) Valuation techniques, inputs and processes

Land at Collaroy is measured using the income approach as it is subject to a long term lease. This lease is for a period of 30 years with an option for a further 30 year term at the discretion of the leasee, 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. A building at Coffs Harbour is currently being constructed to provide multi dwelling accommodation for people with disabilities. It is measured using the cost approach. The remainder of the Authority's buildings have been valued using a market approach.

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

(c) Reconciliation of recurring Level 3 fair value measurements

	2016		2015	
	Land and buildings including WIP $'000	Total Recurring Level 3 Fair value $'000	Land and buildings including WIP $'000	Total Recurring Level 3 Fair value $'000
Fair value at 1 July 2015	1,712	1,712	1,628	1,628
Additions	3,213	3,213	1,229	1,229
Transfers	-	-	(1,215)	(1,215)
Revaluation	80	80	70	70
Fair value at 30 June	**5,005**	**5,005**	**1,712**	**1,712**

Additions relate to a special purpose building being constructed at Coffs Harbour.

notes to the financial statements

for the year ended 30 June 2016

10. Restricted assets

NSW Workers Insurance Scheme – Workers Care

These restricted Assets are new in 2015/2016. The Authority is holding funds that have been advanced by the NSW Workers Insurance Scheme to meet the costs of seriously injured workers who have services provided by the Authority. These funds are viewed as being "restricted" as the funds can not be utilised by the Authority for any other purpose that meeting the costs of seriously injured workers on behalf of the NSW Workers Insurance Scheme.

Once costs have been incurred by the Authority, an invoice is raised to the NSW Workers Insurance Scheme to restore the amount advanced back to the original amount advanced.

	2016 $'000	2015 $'000
Assets		
Cash and cash equivalents – Advance held by Authority	710	-
Receivable – from NSW Workers Insurance Scheme	290	-
	1,000	**-**
Liabilities		
Creditor – held in trust for NSW Workers Insurance Scheme	1,000	-
	1,000	**-**
Net Assets	**-**	**-**

11. Investments accounted for using the equity method

	2016 $'000	2015 $'000
Share of equity in Sargood Centre	**1,807**	**1,758**

Refer to Note 19 for more details.

notes to the financial statements

for the year ended 30 June 2016

12. Current liabilities – Payables

	2016 $'000	2015 $'000
CURRENT		
Investments Payable	38,341	409
Accrued expenses	10,795	6,707
Creditors	-	688
Payroll tax and fringe benefits tax	-	36
Accrued salaries, wages and on-costs	-	251
	49,136	**8,091**

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

Details regarding credit risk, liquidity risk, and market risk, including a maturity analysis of the above payables are disclosed in Note 18.

notes to the financial statements

for the year ended 30 June 2016

13. Current/Non-current liabilities – Provisions

	2016 $'000	2015 $'000
CURRENT		
Claims provisions		
Provision for participant care and support services	**126,626**	**117,987**
Personnel services and related on-costs		
Annual leave	-	756
Long service leave	-	1,924
	-	**2,680**
Total current provisions	**126,626**	**120,667**

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

	2016 $'000	2015 $'000
Expected to be settled no more than twelve months		
Annual leave and related on-costs	-	756
Long service leave and related on-costs	-	63
	-	**819**
Expected to be settled after more than twelve months		
Long service leave and related on-costs	**-**	**1,861**
NON-CURRENT		
Claims provisions		
Provision for participant care and support services	2,812,380	2,620,235
	2,812,380	**2,620,235**
Personnel services and related on-costs		
Long service leave	-	113
Superannuation	-	-
	-	**113**
Other provisions		
Restoration costs	**101**	**300**
	2,812,481	**2,620,648**
Total Provisions	**2,939,107**	**2,741,315**

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

notes to the financial statements
for the year ended 30 June 2016

Personnel services and related costs

In accordance with the *State Insurance and Care Governance Act* the Authority from 1 September 2015 receives services (including staff and facilities) from icare.

As icare is responsible for the provision of these services all personnel service related liabilities are the responsibility of icare and the Authority is charged a service fee that includes a component for these expenses. Consequently the Authority no longer has any personnel service and related on-cost provisions. (Refer note 3(b)).

Aggregate employee benefits and related on-costs

	2016 $'000	2015 $'000
Provisions – Current	-	2,680
Provisions – Non-current	-	113
Accrued salaries, wages and on-costs (Note 12)	-	251
	-	**3,044**

Movements in the provisions (other than employee benefits)

Movements in each class of provision during the financial year, other than employee benefits, are set out below:

	Participant care and support services $'000	Restoration costs $'000	Total $'000
2016			
Carrying amount at the beginning of financial year	2,738,222	300	2,738,522
Additional provisions recognised	157,674	-	157,674
Amount used	(117,388)	(199)	(117,587)
Unwinding / change in the discount rate	160,498	-	160,498
Carrying amount at end of financial year	**2,939,006**	**101**	**2,939,107**

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.

Provision for participants' care and support services

Under the *Motor Accidents (Lifetime Care and Support) Act 2006*, the Authority meets participant care and support services for severely injured persons from motor accidents. Entitlement to these services commenced for children under 16 years of age from 1 October 2006 and for adults from 1 October 2007. At 30 June, the liabilities for all claims incurred up to this date to the scheme were valued by actuaries at PricewaterhouseCoopers Actuarial.

The liability for participants' care and support services are measured as the present value of the expected future payments. The present values after discounting are as follows:

	2016 $'000	2015 $'000
Not later than one year	126,626	117,987
Later than one year but not later than five years	421,452	422,100
Later than five years	2,390,928	2,198,135
Total	**2,939,006**	**2,738,222**

notes to the financial statements

for the year ended 30 June 2016

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

The inflation and discount factors used in measuring the liability for outstanding participants care and support costs are based on investment return rates of 2% (2015 2%) higher than the inflation rate of participant care costs.

	2016 Years	2015 Years
Weighted mean term		
Uninflated, undiscounted	25.1	22.9
Inflated, discounted	19.7	18.2

Sensitivity analysis for the valuation as at 30 June 2016

The liability represents the central estimate and is based on standard actuarial assessment. The table below shows the sensitivity of the valuation to changes in some of the key assumptions. Uncertainty exists due to the long-term nature of liabilities and volatility around the number of Scheme participants and their injury severity. If the Lifetime Care and Support Scheme was an insurer (which it is not), then under Australian Accounting Standard AASB 1023 it would be required to add a risk margin to its liabilities. Based on the minimum level required by APRA of a 75% probability of Sufficiency/Adequacy this would result in the Authority's liabilities increasing by $440.9 million (2015: $410.7 million) and reducing its accumulated surplus to $1,055.1 million (2015: $865.4 million).

		30 June Liability $M	Effect on 30 June Liability $M	Percentage Effect %
Central estimate of LTCSA Scheme		2,939.0		
All valuation assumptions used				
Change in number of participants eligible:				
(a)	Assuming current interim participants are deemed not lifetime	2,898.0	(41.0)	(1)
Different long term gap assumptions:				
(a)	One per cent per annum lower for all future years	3,590.7	651.7	22
(b)	One per cent per annum higher for all future years	2,458.0	(481.0)	(16)
Change in standard mortality ratio (SMR) assumptions:				
(a)	Fifteen per cent decrease in SMR for all severities	3,105.0	166.0	6
(b)	Fifteen per cent increase in SMR for all severities	2,801.3	(137.7)	(5)
Change in participant age distributions:				
(a)	Assume the actual age distribution for the past 12 months for TBI and SCI	2,931.3	(7.7)	-
No future increases in Attendant Care award rate beyond inflation		2,855.3	(83.7)	(3)
No average payment cost changes beyond 5 years post injury for:				
(a)	Attendant Care	2,391.0	(548.0)	(19)
(b)	Rehabilitation	2,983.1	44.1	2
Different levels of improvement in brain injury severity:				
(a)	Expected level of Care and Needs Scale (CANS) improvement from previous analysis	2,931.9	(7.1)	-
(b)	Half the amount of CANS improvements assumed	3,074.7	135.7	5
Using risk free yield curve for the next fifteen years instead of constant six percent discount rate:				
(a)	Constant from year fifteen onwards	5,421.5	2,482.5	84
(b)	Real gap of two percent from year fifteen onwards	4,301.9	1,362.9	46

notes to the financial statements

for the year ended 30 June 2016

14. Commitments for expenditure

	2016 $'000	2015 $'000
Operating lease commitments		
Future non-cancellable operating lease rentals not provided for and payable:		
Not later than one year	563	1,139
Later than one year but not later than five years	1,920	1,575
Later than five years	1,696	-
Total (including GST)	**4,179**	**2,714**

The Authority leases offices and motor vehicles under non-cancellable operating leases expiring within three years. The leases have varying terms, escalation clauses and renewal rights.

Expenditure commitments for the Authority include input tax credits of $0.4M (2015: $0.2M) which are expected to be recoverable from the Australian Taxation Office.

15. Contingent liabilities and contingent assets

The Authority does not have any contingent asset or liability at reporting date (2015: nil).

16. Decrease in net assets from equity transfers

	2016 $'000	2015 $'000
Defined Benefit Superannuation Asset transfer	(132)	-
	(132)	**-**

The defined benefit superannuation asset for the Authority has been assumed by NSW Treasury in 2015–16. As a result the Authority made a transfer back to the Crown in 2015-16 that eliminated its defined benefit superannuation asset.

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17. Administered assets and liabilities

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 to establish an agreed framework of commitments for this Agreement.

	Actual 2016 $'000
Revenue	
Funding provided by ACT government to meet participant scheme costs	318
	318
Expenses excluding losses	
Participant scheme costs	318
	318
Net result	**-**
Assets	
Cash and cash equivalents	290
Receivable – from ACT government	224
	514
Liabilities	
Creditors	189
Income received in Advance	325
	514
Net Assets	**-**

notes to the financial statements

for the year ended 30 June 2016

18. Financial instruments

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

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

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

In May 2015, NSW Treasury Corporation (TCorp) was appointed to supply investment management and administration services to icare managed investment funds. TCorp is engaged through a Master Financial Services Agreement (MFSA) which details, amongst other things, the service and reporting provisions. Service levels and compliance to the MFSA are monitored through icare's Finance & Services team.

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.

(a) Financial instrument categories

	Notes	Category	Carrying Amount 2016 $'000	Carrying Amount 2015 $'000
Financial Assets				
Class:				
Cash and cash equivalents	4	N/A	281,019	449,501
Receivables[1]	5	Loans and receivables (at amortised cost)	55,957	17,344
Investments	6	At fair value through profit or loss – designated as such upon initial recognition	4,088,628	3,504,826
Financial Liabilities				
Class:				
Payables[2]	12	Financial liabilities (at amortised cost)	49,136	8,055

[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).

(b) Credit risk

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.

notes to the financial statements

for the year ended 30 June 2016

(i) Exposure:

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

Credit risk also arises from the Authority's receivables. Disclosures relating to the Authority's receivables are included in Note 5.

(ii) Risk management objective, policies and processes:

Credit Guidelines have been determined to ensure the Authority has controlled levels of credit concentration. These guidelines are at a total Authority level, with further asset class specific restrictions in investment manager's 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.

(iii) 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.

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.

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for the year ended 30 June 2016

	Assets $'000	Liabilities $'000	Notional amount $'000
2016			
Futures:			
Interest rate futures	3	668	45,550
Option	7,634	-	650,000
	7,637	**668**	**695,550**
2015			
Futures:			
Interest rate futures	108	-	47,512
	108	**-**	**47,512**

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:

	2016 %	2015 %
Rating		
AAA/aaa	90	86
AA/Aa	10	14
Total	**100**	**100**

notes to the financial statements

for the year ended 30 June 2016

Cash and cash equivalents

Cash comprises cash on hand, balances held at private financial institutions, term deposits with a maturity of less than 12 months and bank balances within the NSW Treasury Banking System. Interest is earned on daily bank balances on funds in the NSW Treasury Banking System at the Reserve Bank of Australia's prevailing cash rate.

Receivable – trade debtors

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

The Authority is not materially exposed to concentrations of credit risk to a single trade debtor or group of debtors. At balance date, no debtors are past due nor are they determined as impaired (2015: nil).

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for the year ended 30 June 2016

(c) Liquidity risk

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

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

The liabilities are recognised for amounts due to be paid in the future for goods or services received, whether or not invoiced. Amounts owing to suppliers (which are unsecured) are settled in accordance with the policy set out in NSW Treasury Circular NSWTC 11/12. There were no late penalty payments in 2015/16.

The Authority's exposure to liquidity risk for payables is deemed insignificant based on prior period's data and current assessment of risk.

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.

(i) Exposure:

The financial assets of the Authority that may not be readily convertible to cash are largely receivables (refer Note 5) and investments in over-the-counter or thinly traded investments and principally unlisted property trusts.

(ii) Risk management objective, policies and processes:

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

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

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

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

(iii) 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 2015.

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 13 or are related to Authority operations and have a maturity of less than 12 months.

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for the year ended 30 June 2016

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
2016								
Payables	N/A	49,136	-	-	49,136	49,136	-	-
2015								
Payables	N/A	8,055	-	-	8,055	8,055	-	-

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.

(d) Market risk

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

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

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

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

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

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

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

Based on the asset allocation the Investment Committee, typically with advice from the Authority's asset consultant, appoints investment managers in each asset class. Management of the Authority's assets is allocated to the appointed investment managers. Each investment manager is subject to restrictions in relation to the types of assets in which it may invest, and in relation to the composition of investments within certain asset types. These restrictions are expressed in formalised mandates typically contained in individually negotiated Investment Management Agreements or as described in Information Memoranda (or similar documents) issued by the relevant investment manager where the investment is via a pooled fund. The investment mandates are monitored 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.

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

The Authority's 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, alternative assets)
- 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 investment returns, volatilities and correlations, that may not represent actual outcomes. It is also important to note that the analysis only allows for some economic factors such as inflation and bond yields, which affect the value of the Authority liabilities. It does not allow for other factors such as the claims loss ratio, claims incidence and recovery rates, which also affect the value of the Authority liabilities. As such, the analysis may not be accurate in its assessment of the liability.

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

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

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

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

The most recent VaR analysis performed by asset consultant Mercer Investments (Australia) limited was conducted in July 2016 based on the June 2016 financial instruments and is computed via forward looking simulation using a 95 per cent confidence interval and a 1-year holding period.

The Authority uses a Value at Risk (VaR) model to measure the market risk exposures to its invested assets in the balance sheet. VaR is calculated using simulated forward looking expected returns at the 95th percentile confidence level over a 12 month time period. The VaR methodology allows risks to be measured consistently across all markets and financial instruments and to be aggregated into a single risk number.

Given the Authority's financial instruments at 30 June 2016, the minimum potential loss expected over a one year period is $224.4 million (June 2015: $186.1 million), with a 5 per cent probability that this minimum may be exceeded.

notes to the financial statements

for the year ended 30 June 2016

(e) 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 the Authority's liabilities is also affected by interest rate fluctuations.

(i) 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.

(ii) Risk management objective, policies and processes:

The interest rate risk of the Authority is managed primarily through its strategic asset allocation and mandate objective setting. At 30 June 2016 the Authority had a 25 per cent (2015: 28 per cent) allocation to Australian Commonwealth and state government bonds to mitigate interest rate risk of Authority liabilities. Of that allocation, 10 per cent (2015: 13 per cent) are an allocation to Australian Commonwealth and state government inflation linked bonds to mitigate inflation risk of Authority liabilities.

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

(iii) Quantitative analysis of exposure:

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

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

		Fixed interest rate maturing in:				
	Floating interest rate $'000	3 months or less $'000	4 to 12 months $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
2016						
Class						
Cash	80,330	-	-	-	-	80,330
Money market deposits	-	46,456	154,233	-	-	200,689
Unit Trusts	2,814,251	-	-	-	-	2,814,251
Indexed and interest bearing securities	870,825	-	-	176,197	220,386	1,267,408
Interest rate futures	-	(665)	-	-	-	(665)
Options	-	-	7,634	-	-	7,634
Assets	**3,765,406**	**45,791**	**161,867**	**176,197**	**220,386**	**4,369,647**
2015						
Class						
Cash	232,140	-	-	-	-	232,140
Money market deposits	-	116,271	101,090	-	-	217,361
Unit Trusts	2,212,400	-	-	-	-	2,212,400
Indexed and interest bearing securities	1,010,595	-	3,964	88,663	189,095	1,292,317
Interest rate futures	-	108	-	-	-	108
Assets	**3,455,135**	**116,379**	**105,054**	**88,663**	**189,095**	**3,954,326**

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.

notes to the financial statements

for the year ended 30 June 2016

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.

(f) Fair value estimation

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

	2016				2015			
	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	1,101,034	166,374	-	1,267,408	1,048,945	243,372	-	1,292,317
Unit Trusts	-	2,814,251	-	2,814,251	-	2,212,400	-	2,212,400
Derivatives	3	7,634	-	7,637	108	-	-	108
	1,101,037	**2,988,259**	**-**	**4,089,296**	**1,049,053**	**2,455,772**	**-**	**3,504,825**
Other Financial liabilities								
Derivatives	668	-	-	668	-	-	-	-
	668	**-**	**-**	**668**	**-**	**-**	**-**	**-**

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 2016

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. There were no transfers during the year ended 30 June 2016 (2015 $nil).

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;
- 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;
- 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's Audit and Risk Committee.

Involvement with unconsolidated structured entities

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

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

notes to the financial statements

for the year ended 30 June 2016

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.

	2016		2015	
	Net Market Value as at 30 June 2016 $'000	**Exposure**	**Net Market Value as at 30 June 2015 $'000**	**Exposure**
Property	427,906	15%	353,398	16%
Shares	2,078,795	74%	1,828,183	83%
Strategic	81,000	3%	30,819	1%
Multi asset	128,996	5%	0	0%
Infrastructure	97,554	3%	0	0%
Total	**2,814,251**	**100%**	**2,212,400**	**100%**

The above table lists the net market value and the Authority's percentage exposure to each investment strategy as at 30 June. These unconsolidated structured entities are included under unit trusts in Note 6. The maximum exposure or loss is limited to the net market value of the investment strategy as at 30 June 2016. The net market value of the exposure will change on a daily basis throughout the period and in the subsequent periods will cease once the investments are disposed.

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

notes to the financial statements

for the year ended 30 June 2016

19. Investments accounted for using the equity method

The Authority has one-third member interests in the Sargood Centre (the Centre), a not-for-profit company limited by guarantee. The Authority is not entitled to any distribution of funds from the Centre. The Authority's member interests is recognised in these accounts in accordance with AASB 128 *Investments in Associates* using the equity method of accounting as mandated by NSW Treasury Circular TC 16/02.

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

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

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

Under the agreement with other members, the Authority has committed to take up 2 beds in the Sargood facility for 2 years from when the Centre opens.

(a) Summarised financial information of Sargood Centre based on unaudited financials

	2016 $'000	2015 $'000
Total revenue	344	423
Total expenses excluding losses	(198)	(412)
Net result	**146**	**11**
Other comprehensive income	-	-
Total comprehensive income	**146**	**11**
Total assets	16,336	16,264
Total liabilities	(956)	(1,030)
Net assets	**15,380**	**15,234**
Total equity	**15,380**	**15,234**

Should there be any unexpended funds (including accumulated interest revenue) at the time the current funding agreement ends or is terminated, the Centre is not required to pay back the amount to the Authority but rather it must ensure that funding is then applied towards further development or improvement or operation of the Centre.

The Centre has granted to the Authority the second fixed and floating charge after ERF Industries Proprietary Limited over its assets.

END OF AUDITED FINANCIAL STATEMENTS

self insurance

NSW Self Insurance Corporation

self insurance financial statements

for the year ended 30 June 2016

Notes to the Financial Statements

pwc

ICARE SELF INSURANCE

Actuarial Certificate
Outstanding claims liabilities at 30 June 2016

PricewaterhouseCoopers (PwC) has been contracted by the NSW Self Insurance Corporation (now part of Insurance & Care NSW or icare) to make estimates of the workers' compensation outstanding claims liabilities as at 30 June 2016 of the following funds that icare operates:

- The Treasury Managed Fund ("TMF")
- The run off liabilities of the State Rail Authority and Rail Infrastructure Corporation, (collectively "Rail" Schemes) for claims incurred prior to 1 October 2009
- The Governmental Workers' Compensation Account ("GWC") of NSW Treasury
- The Electricity Assets Ministerial Holding Corporation ("EAMHC")
- The Electricity Transmission Ministerial Holding Corporation ("ETMHC")

PwC has also been contracted by icare to make estimates of the workers' compensation outstanding claims liabilities as at 30 June 2016 of the following funds that it operates:

- 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, and other parties 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;
- Future investment return at a rate of 1.77% per annum for dust disease claims in EAMHC and 4.75% per annum for all other liabilities of the Funds, based on advice by icare and NSW Treasury; and
- Future expected recoveries.

PwC has adopted a nil risk margin in the estimation of the outstanding claims liabilities based on advice from icare.

Valuation Results

The PwC estimated liabilities as at 30 June 2016, net of recoveries, including claims handing expenses are summarised in the following table:

Table 1 - icare Self Insurance Outstanding Claims Liability at 30 June 2016 ($M)	TMF	Rail	GWC	EAMHC	ETMHC	BFFCF	ERWCF
Gross Outstanding Claims	3,664	89	79	17	10	15	17
Less Anticipated Recoveries	83	18	3	0	7	1	0
Net Outstanding Claims	3,582	71	76	17	3	14	17

The gross outstanding claims liabilities include allowances for expenses to meet the cost of management of claims outstanding (including claims incurred but yet to be reported) as at 30 June 2016. The allowances are summarised in the following table:

Table 2 - icare Self Insurance Claims Handling Expense at 30 June 2016	TMF	Rail	GWC	EAMHC	ETMHC	BFFCF	ERWCF
Claims Handling Expense Allowance ($M)*	240	0	0	2	1	2	2
Claims Handling Expense Allowance (%)**	7.0%	0.0%	0.0%	15.4%	8.0%	18.3%	17.2%

* Claims Handling expense allowance for the TMF includes estimates of the claims management costs for Rail and GWC as well

** Claims handling expense allowance expressed as a percentage of gross outstanding claims liabilities

It is a decision for icare, acting as operator for the Funds, as to the amount adopted in the accounts.

Uncertainty

There is a limitation upon the accuracy of the estimates in this certificate in that there is an inherent uncertainty in any estimate of outstanding claim liabilities. This is due to the fact that the ultimate liability for claims is subject to the outcome of events yet to occur. These include, but are not limited to, the likelihood of injured workers lodging claims, the amount of compensation paid and the attitudes of claimants towards settlement of their claims and uncertainty surrounding the impact of the various reforms to the workers' compensation scheme design and operation which have occurred.

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

pwc

Reports

Full details of data, method, assumptions and results are set out in our reports for the relevant Funds, dated:

Fund	Date of Report
TMF	5 August 2016
Rail	5 August 2016
GWC	5 August 2016
EAMHC	9 August 2016
ETMHC	30 August 2016
BFFCF	5 August 2016
ERWCF	5 August 2016

Relevant Standards

Our estimates and reports for the Funds are prepared in accordance with the Australian Accounting Standard AASB137, and the Institute of Actuaries of Australia's Professional Standard 300 which relates to estimation of outstanding claims liabilities.

Andrew Smith
FIAA
14 October 2016

Insurance & Care NSW
Actuarial Certificate

General Lines outstanding claims and premium liabilities at 30 June 2016

Ernst & Young ('EY', 'we') has been contracted by Insurance & Care NSW ('icare') to estimate the outstanding claims and premium liabilities for the following General Lines portfolios:

- NSW Treasury Managed Fund ('TMF')
- Transport Accident Compensation Fund ('TAC Fund')
- Construction Risk Insurance Fund ('CRIF')
- Generators Fund – Public Liability ('Generators Fund')
- Solvency Fund (liability excludes incurred but not reported claims).

Data

EY has relied on historical data and other quantitative and qualitative information supplied by icare. We have reviewed this information for reasonableness and internal consistency, but have not audited or independently verified the accuracy of the data. The accuracy of our results is dependent upon the accuracy and completeness of the underlying data.

Basis of our estimates for each portfolio

For TMF, TAC Fund, Generators Fund and CRIF we have selected the central estimate of the liability which, in our opinion, is equally likely to be above or below the ultimate claims outcome. As requested, the Solvency Fund estimation basis does not include an allowance for incurred but not reported ('IBNR') claims. Our estimates include allowances for inflation and investment return, claims handling expenses and expected recoveries. The basis of our estimates for each fund are described below:

- TMF, TAC Fund and Generators Fund

For these funds, our contract specifies that icare reports under AASB 137 and the discount rate used is based on the NSW Treasury forecast of long term returns for the TMF asset portfolio. We have not made an explicit assessment as to whether or not the discount rates forecast by NSW Treasury and advised to us by icare are appropriate for use under AASB 137. Also, the adoption of AASB 137 results in no application of a risk margin. Lastly, it is noted that the premium liabilities are nil at the valuation date given the common renewal date of 1 July 2016 for TMF policies and that the TAC Fund and Generators Fund have been closed.

- CRIF

The CRIF is assessed under AASB 1023 and therefore includes an assessment of the risk margin and premium liabilities. The discount rate used for CRIF is based on estimates of the future annual risk free rates of return which have been derived from the yield curve of Australian Government Bonds at the valuation date. In addition, icare targets a probability of adequacy of 75% which results in a risk margin loading on the liability.

- Solvency Fund

The Solvency Fund liability comprises the case estimates for reported claims and an allowance for further increase in those case estimates to their final settlement amount. As requested, we have excluded allowances for both IBNR claims and risk margins. Further, we have adopted the discount rate prescribed by NSW Treasury.

EY
Building a better working world

Valuation results

The EY estimate of liabilities for the General Lines portfolios are shown in the table below:

Fund	Net outstanding claims ($m)	Premium liabilities ($m) [3]
TMF	2,438.4	0.0
CRIF[1]	2.0	5.1
TAC	308.6	0.0
Generator	28.0	0.0
Solvency Fund[2]	86.9	0.0
Total	**2,863.9**	**5.1**

[1] CRIF is based on AASB1023
[2] Solvency Fund does not contain any IBNR claims
[3] Premium liabilities are zero for TMF because there is a common renewal date of 1 July 2016 and the premium liabilities are zero for the TAC Fund, Generators Fund and Solvency Fund because these funds are closed and no longer providing cover for new periods of exposure.

Uncertainty

There is inherent uncertainty in any estimate of outstanding claims liabilities that limits its accuracy. The cost of total claims which are ultimately paid is affected by events which are yet to occur and their impact cannot be predicted with certainty. The actual claims outcomes are likely to differ from our estimates of the liabilities in this Actuarial Certificate.

Based upon the information available and the models and assumptions we have adopted, we believe that the conclusions shown in this Actuarial Certificate are reasonable.

Reports

Full details of the data, methodology, assumptions and results adopted and derived for the General Lines portfolios and the Solvency Fund are documented in the following reports, all dated 8th August 2016:

- Outstanding claims liabilities of the NSW TMF General Lines as at 30 June 2016
- Outstanding claims liabilities of the Transport Accidents Compensation Fund as at 30 June 2016
- Outstanding claims liabilities of the Construction Risks Insurance Fund as at 30 June 2016
- Outstanding claims liabilities of the Generators Fund – Public Liability as at 30 June 2016
- Solvency Fund outstanding claims liability as at 30 June 2016.

Relevant standards

Subject to the caveats discussed above, our estimates and reports are prepared in accordance with the Australian Accounting Standards AASB137, AASB1023 and the Actuaries Institute's Professional Standard 300.

Yours sincerely,

Warrick Gard
FIAA
Partner
17 October 2016

Richard Yee
FIAA
Partner
17 October 2016

statement by the chairman and chief executive officer

for the year ended 30 June 2016

New South Wales Self Insurance Corporation

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

In the opinion of the directors of Insurance & Care NSW:

1. the financial report of New South Wales Self Insurance Corporation have been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2015* and the Treasurer's Directions. They have also been prepared in accordance with Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board.
2. the financial report for the year ended 30 June 2016 exhibit a true and fair view of the position and transactions of New South Wales Self Insurance Corporation; and
3. the directors are not aware of any circumstances as at the date of this certificate which would render any particulars included in the financial report misleading or inaccurate.

Signed on behalf of the Board of Directors:

Michael Carapiet
Chairman
Insurance and Care NSW
26 September 2016

Vivek Bhatia
Chief Executive Officer
NSW Self Insurance Corporation and Insurance and Care NSW
26 September 2016

INDEPENDENT AUDITOR'S REPORT

New South Wales Self Insurance Corporation

To Members of the New South Wales Parliament

Opinion

I have audited the accompanying financial statements of the New South Wales Self Insurance Corporation (the Corporation), which comprise the statement of financial position as at 30 June 2016, the statement of comprehensive income, statement of changes in equity and statement of cash flows, for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information.

In my opinion, the financial statements:

- give a true and fair view of the financial position of the Corporation as at 30 June 2016, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards
- are in accordance with section 41B of the *Public Finance and Audit Act 1983* (PF&A Act) and the Public Finance and Audit Regulation 2015

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

Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under those standards are further 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 auditor independence requirements of:

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

I have also fulfilled my other ethical responsibilities in accordance with the Code.

The PF&A Act further 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, but precluding the provision of non-audit services.

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

The Chief Executive's Responsibility for the Financial Statements

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

In preparing the financial statements, the Chief Executive must assess the Corporation's ability to continue as a going concern unless the Corporation will be dissolved by an Act of Parliament or otherwise cease operations. The assessment must include, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

Auditor's Responsibility 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 further description of my responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/Home.aspx.
The description forms part of my auditor's report.

My opinion does *not* provide assurance:

- that the Corporation carried out its activities effectively, efficiently and economically
- about the assumptions used in formulating the budget figures disclosed in the financial statements
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented.

A Oyetunji
Director, Financial Audit Services

30 September 2016
SYDNEY

statement of comprehensive income

for the year ended 30 June 2016

	Notes	2016 $'000	2015 $'000
REVENUE			
Net premiums and contributions	2(b), 14	1,171,404	1,209,624
Hindsight adjustments	2(b), 14	(182,752)	105,020
Investment revenue	2(c), 14	171,325	915,539
Grants from the Crown	3(e), 14	105,000	25,000
Other revenue		190	303
Total Revenue		**1,265,167**	**2,255,486**
EXPENSES			
Operating Expenses			
Claims expenses	3(a), 14	1,295,888	1,086,887
Outwards insurance expense		38,567	44,391
Unexpired risk liability expense	13(c)	21,355	33,333
Other operating expenses	3(b), 14	235,337	218,302
Personnel services fees		984	5,313
Depreciation and amortisation	3(d), 14	792	113
Grants to the Crown	3(e), 14	185,000	380,000
Total Expenses		**1,777,923**	**1,768,340**
Net Result		**(512,756)**	**487,146**
Other comprehensive income		-	-
Total comprehensive income		**(512,756)**	**487,146**

The accompanying notes form part of these statements.

statement of financial position

as at 30 June 2016

	Notes	2016 $'000	2015 $'000
ASSETS			
Current Assets			
Cash and cash equivalents	4	274,443	282,666
Receivables	5	119,391	180,419
Total Current Assets		**393,834**	**463,085**
Non-Current Assets			
Receivables	5	189,016	194,819
Investments	6	7,734,331	7,856,995
Plant and equipment	8	7	248
Intangible assets	9	3,253	2,973
Other	10	-	4
Total Non-Current Assets		**7,926,607**	**8,055,039**
Total Assets		**8,320,441**	**8,518,124**
LIABILITIES			
Current Liabilities			
Payables	11	205,918	164,677
Outstanding claims provision	12	1,022,439	944,123
Unearned premiums	13	55,728	47,335
Total Current Liabilities		**1,284,085**	**1,156,134**
Non-Current Liabilities			
Outstanding claims provision	12	5,938,185	5,797,813
Unearned premiums & unexpired risk liability	13	293,417	246,667
Total Non-Current Liabilities		**6,231,602**	**6,044,480**
Total Liabilities		**7,515,687**	**7,200,614**
Net Assets		**804,754**	**1,317,510**
EQUITY			
Accumulated funds		804,754	1,317,510
Total Equity		**804,754**	**1,317,510**

The accompanying notes form part of these statements.

statement of changes in equity

for the year ended 30 June 2016

	Notes	2016 Accumulated Funds $'000	2015 Accumulated Funds $'000
Balance at beginning of year		**1,317,510**	**830,364**
Net Result for the year		(512,756)	487,146
Other comprehensive income		-	-
Total comprehensive income for the year		**(512,756)**	**487,146**
Transfers with owners in their capacity as owners		-	-
Balance at 30 June		**804,754**	**1,317,510**

The accompanying notes form part of these statements.

statement of cash flows

for the year ended 30 June 2016

	Notes	2016 $'000	2015 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Premiums received		1,089,396	1,342,046
Claims paid	12	(1,112,893)	(973,211)
Total Scheme		**(23,497)**	**368,835**
Receipts			
Interest received	2(c)	13,990	20,488
Investment income	2(c)	471,721	954,902
Grants from the Crown	3(e)	105,000	25,000
Proceeds from sale of investment		380,000	379,843
Total Receipts		**970,711**	**1,380,232**
Payments			
Personnel services fees		(984)	(5,313)
Grants to the Crown	3(e)	(185,000)	(380,000)
Purchases of investments		(571,721)	(1,132,017)
Other		(196,901)	(268,505)
Total Payments		**(954,606)**	**(1,785,835)**
Total cash flows from operating activities		**(7,392)**	**(36,768)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of plant and equipment	8	-	(256)
Sale of plant and equipment	8	186	-
Purchases of intangibles/software	9	(1,017)	(2,955)
Total cash flows from investing activities		**(831)**	**(3,211)**
NET DECREASE IN CASH		**(8,223)**	**(39,979)**
Opening cash and cash equivalents		**282,666**	**322,645**
CLOSING CASH AND CASH EQUIVALENTS	**4**	**274,443**	**282,666**

The accompanying notes form part of these statements.

notes to the financial statements

for the year ended 30 June 2016

1. Summary of significant accounting policies

(a) Constitutions and functions of the New South Wales Self Insurance Corporation

The NSW Self Insurance Corporation (SI) operates under the *NSW Self Insurance Corporation Act 2004*, the *Public Finance and Audit Act 1983*, the Public Finance and Audit Regulation 2015 and the Treasurer's Directions. The reporting entity is consolidated as part of the NSW Total State Sector Accounts.

It is a not-for-profit entity with responsibility for the direction, control and management of a range of funds as outlined below.

(b) Reporting entity

SI is a statutory entity that provides self-insurance coverage for most of the general government sector and a number of state owned corporations that have elected to join the scheme. SI also provides home warranty insurance outside the NSW public sector and principal arranged insurance for major capital projects undertaken by or on behalf of the State.

The financial statements for the year ended 30 June 2016 have been authorised for issue by the Chairman of the Board and the Chief Executive on behalf of the Board of Directors on 26 September 2016.

SI has responsibility for the following Funds:

- NSW Treasury Managed Fund
- Home Building Compensation Fund (formerly the Home Warranty Insurance Fund)
- Construction Risk Insurance Fund
- Transport Accidents Compensation Fund
- Pre-Managed Fund Reserve
- Governmental Workers Compensation Account
- Residual Workers Compensation Liabilities of the Crown
- Bush Fire Fighters Compensation Fund
- Emergency and Rescue Workers Compensation Fund
- Supplementary Sporting Injuries Fund

NSW Treasury Managed Fund (TMF)

The TMF is the Government's main self-insurance scheme that safeguards the insurable assets and exposures of:

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

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).

Construction Risk Insurance Fund (CRIF)

Treasury Circular 12/11 'Mandatory principal arranged insurance (PAI) for all major capital works projects' requires all government agencies, other than State Owned Corporations (SOC) to undertake Principal Arranged Insurance through SI for all major capital works projects with a contract value greater than $10 million. This is to provide cost savings for the government capital works projects as well as to ensure that adequate insurance is in place with a reputable insurer and that the contractor's insurance arrangement remain current. The *NSW Self Insurance Corporation Act 2004* was amended to extend cover to non-government entities for the purpose of principal arranged insurance for major infrastructure projects where a NSW government entity is the Principal. The NSW Self Insurance Corporation Amendment Bill 2013 was assented by the Parliament on 25 June 2013. The CRIF scheme was setup for operation in 2013-14.

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.

notes to the financial statements

for the year ended 30 June 2016

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.

The PMF is not separately identified in the financial statements, but it is aggregated into the TMF due to its small size.

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.

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.

Bush Fire Fighters Compensation Fund (BFFF)

The BFFF compensates voluntary fire fighters for personal injury and damage to fire fighters' personal property and equipment.

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.

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 NSW Sport and Recreation.

(c) Management of claims and insurance underwriting business

SI primarily uses an outsourced model for the management of claims and insurance underwriting business. The claims and underwriting management contracts were awarded to the service providers following a public tender. For the TMF, the contract commenced on 1 July 2010 for a six-year period up to 30 June 2016. The contract for HBCF commenced on 1 July 2010 and expired on 30 September 2015. Both contracts have been extended for a period of 2 years. The claims and underwriting management arrangement of SI is shared between:

- GIO General Limited
- Allianz Insurance Australia
- Employers Mutual Limited
- Residential Builders Underwriting Agency
- QBE Insurance (Australia) Limited

The claims managers and insurance agents receive a management fee which includes an incentive structure for their services.

(d) 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)
- the requirements of the *Public Finance and Audit Act 1983* (PFAA) and *Public Finance and Audit Regulation 2015*.

The Financial reporting Directions published in the Financial Reporting Code for NSW General Government Sector Entities or issued by the Treasurer have not been applied as SI was granted an exception from complying on 12 April 2016.

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.

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

(e) Statement of compliance

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

notes to the financial statements

for the year ended 30 June 2016

(f) Judgements, key assumptions and estimations

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

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

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

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

- Note 7 – Financial instruments
- Note 12 – Outstanding Claims Provision.

(g) 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.

(h) Comparative information

Except when an Australian Accounting Standard permits or requires otherwise, comparative information is disclosed in respect of the previous reporting period 30 June 2015 for all amounts reported in the financial statements.

(i) Changes in accounting policy, including new or revised Australian Accounting Standards

Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the reporting year ending 30 June 2016. The following new Standards will not have any direct impact on the financial performance or position of the schemes.

- AASB 7, AASB 9, AASB 132, AASB 139 and AASB 2014-7 regarding financial instruments
- AASB 4 regarding latest version of Insurance contracts
- AASB 13 regarding latest version of fair value measurement
- AASB 15, AASB 2014-5 and AASB 2015-8 regarding Revenue from Contracts with Customers
- AASB 16 regarding leases
- AASB 1057 and AASB 2015-9 Application of Australian Accounting Standards
- AASB 2014-4 regarding acceptable methods of depreciation and amortisation
- AASB 2015-1 regarding annual improvements to Australian Accounting Standards 2012-2014 cycle
- AASB 2015-2 regarding amendments to AASB 101 disclosure initiatives
- AASB 2015-6 Amendments to Australian Accounting Standards – Extending Related Party Disclosures to Not-for-Profit Public Sector Entities
- AASB 2015-7 Amendments to Australian Accounting Standards – Fair Value Disclosures of Not-for-Profit Public Sector Entities

AASB 9 Financial Instruments and its associated amending standards specify new recognition and measurement requirements for financial assets and financial liabilities within the scope of AASB 139 Financial Instruments: Recognition and Measurement.

SI already values its financial assets and financial liabilities at fair value through profit or loss. Therefore when applied, the only material impact of these standards will be on the presentation of the financial statements and disclosures in the notes.

The proposed amendments to AASB 4 Insurance Contracts specify the financial reporting for insurance contracts. The changes will not impact the financial statements based on the current proposal. However, SI will conduct a full impact assessment of implementing the Standard before 1 January 2018.

The remaining standards relate to disclosure requirements and will have no direct impact on SI's financial results.

notes to the financial statements

for the year ended 30 June 2016

2. Revenue

(a) Income recognition

Income is measured at the fair value of the consideration received or receivable.

(i) Premium revenue

Premiums are recognised as income on a straight line basis over the period of the insured risk. Premiums are exclusive of taxes and duties levied.

TMF revenue is received from member agencies for 12 months insurance cover from 1 July each year.

HBCF Premium provides insurance cover for periods up to 7 years commencing from the date of the insurance 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 from the date of the insurance contract.

(ii) Hindsight adjustments

TMF uses an incentive-based scheme to encourage agencies to improve their claims performance. Claims costs and premium for agencies are established at the start of a fund year. After sufficient time has passed for claims development, the scheme applies a hindsight adjustment, calculated at 3 years (Interim) and 5 years (Final), based on actual claims experience. Agencies receive or pay the difference between the annual premium and hindsight adjustment.

Hindsight adjustments are recognised as revenue when they can be reliably measured.

(iii) Insurance and Other Recoveries Revenue

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
- salvage and subrogation.

notes to the financial statements
for the year ended 30 June 2016

(b) Underwriting result

		2016 $'000	2015 $'000
Premium and contribution revenue		1,136,990	1,141,854
Insurance and other recoveries revenue			
Recoveries received	3(c)	42,228	48,333
Movement in outstanding recoveries[1]	3(c)	(7,814)	19,437
Net premium and contribution revenue		**1,171,404**	**1,209,624**
Hindsight adjustments[2]		**(182,752)**	**105,020**
Claims expense[3]			
Movement in outstanding claims provision	3(c)	(182,994)	(113,015)
Claims paid	3(c)	(1,112,893)	(973,211)
Outwards insurance expense		(38,568)	(44,391)
Acquisition costs	10	(33,040)	(31,971)
Unexpired risk liability expense	13(b)	(21,355)	(33,334)
Net Claims expense		**(1,388,850)**	**(1,195,921)**
Total underwriting result		**(400,198)**	**118,723**

1 Movement in outstanding recoveries represents the increase/(decrease) in the actuarially assessed level of insurance and other recoveries receivable at reporting date.

2 Hindsight adjustments for 2015-16 include workers compensation final hindsight adjustments for 2010-11 and interim hindsight adjustments for 2012-13. Hindsight adjustments for 2014-15 include workers compensation final hindsight adjustments for 2009-10 and interim hindsight adjustments for 2011-12.

3 Claims expense for purposes of calculating Total Underwriting Result, include finance cost.

(c) Investment revenue

	2016 $'000	2015 $'000
Return on investment		
Revenue from financial assets held at fair value	471,721	954,902
Gains/(losses) from financial assets held at fair value	(314,385)	(59,850)
Interest on bank accounts	13,990	20,488
	171,325	**915,539**

Interest revenue is recognised on an accrual basis. Investment revenue includes interest income.

Realised and unrealised gains or losses are recognised on a change in fair value basis.

notes to the financial statements

for the year ended 30 June 2016

3. Expenses

(i) Outwards insurance expense

Premiums ceded to insurers are recognised as an expense at the earlier of when they are paid or become payable.

(ii) Employee arrangements

SI has no employees. Work was performed by staff from the Department of Finance, Services and Innovation until 31 August 2015 and by staff from Insurance and Care NSW (icare) from 1 September 2015. SI reimburses the respective agencies for the staff costs. Staff costs incurred until 31 August 2015 are recognised as Personnel Service Cost under Statement of Comprehensive Income, while staff costs incurred from 1 September 2015 are recognised as part of Service fees to icare (Note 3(b)).

(a) Claim expenses

	2016 $'000	2015 $'000
New claims incurred	923,651	1,007,215
Adjustments to existing outstanding claims	82,306	(238,610)
Unwinding of discounts on provision for outstanding claims	289,931	318,282
Claims expenses	**1,295,888**	**1,086,887**

Claims expenses are recognised as expenses when incurred. Included in claims expenses are actuarially determined revisions to the outstanding claims provisions.

In total, the impact of the 2015 reforms on claims incurred to 30 June 2016 was to increase the outstanding claims liability by $162 million for the TMF.

	2016 $'000	2015 $'000
Unwinding of discounts on provision for outstanding claims		
NSW Treasury Managed Fund (TMF)	267,900	298,659
Governmental Workers Compensation Account (GWC)	3,732	3,726
Home Building Compensation Fund (HBCF)	182	-
Transport Accidents Compensation Fund (TAC)	13,481	11,460
Residual Workers Compensation Liabilities of the Crown (SRA/RIC)	4,025	4,437
Bush Fire Fighters Compensation Fund (BFFF)	296	-
Emergency and Rescue Workers Compensation Fund (ERWF)	303	-
Supplementary Sporting Injuries Fund (SSIF)	12	-
	289,931	**318,282**

notes to the financial statements
for the year ended 30 June 2016

(b) Other operating expenses

	2016 $'000	2015 $'000
Scheme Agents remuneration	25,083	162,781
Service fees to icare[1]	163,924	-
Levies paid to:		
Former WorkCover Authority of NSW	16,981	16,321
Dust Diseases Authority	11,921	11,416
Risk consulting fees	9	1,841
Actuarial expenses	1,015	4,464
Brokerage fees	12,898	11,274
Storage costs	71	412
Maintenance	67	1,093
Audit fees - audit of financial statements	-	193
Consultants	84	2,734
Contractors	1,766	1,704
Insurer administration fees	85	1,410
Operating lease rental expenses	87	496
Other expenses	1,346	2,163
	235,337	**218,302**

[1] 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. Included in the service fee paid to icare is $220,000 for the audit of the financial statements performed by the Audit Office of NSW.

notes to the financial statements

for the year ended 30 June 2016

(c) Net claims incurred

	2016 $'000	2015 $'000
Claims paid	1,112,893	973,211
Recoveries received	(42,228)	(48,333)
Gross claims movement – undiscounted[1]	157,447	(75,825)
Reinsurance and other recoveries movement – undiscounted[2]	11,605	(11,554)
Net claims movement – undiscounted	**169,052**	**(87,379)**
Discount movement – gross claims incurred[1]	25,547	188,844
Discount movement – reinsurance and other recoveries[2]	(3,791)	(7,883)
Net discount movement	**21,756**	**180,961**
Net claims incurred	**1,261,474**	**1,018,460**

An analysis of the net claims incurred for the TMF (SI's main scheme) showing separately the amount relating to risks borne in the current period and the amount relating to a reassessment of risks borne in all previous periods is presented below.

(i) TMF Workers Compensation

	12 Months to 30 June 2016			12 Months to 30 June 2015		
	Current year $'000	Prior Years $'000	Total $'000	Current year $'000	Prior Years $'000	Total $'000
Gross Claims Expense[3]						
Gross claims incurred – undiscounted	737,621	71,979	809,600	736,593	(207,622)	528,971
Discount movement	(204,652)	59,040	(145,612)	(201,977)	311,844	109,867
	532,970	**131,018**	**663,988**	**534,616**	**104,222**	**638,838**
Reinsurance and other recoveries revenue						
Reinsurance and other recoveries revenue – undiscounted	(14,403)	3,989	(10,414)	(13,833)	3,252	(10,582)
Discount movement	3,194	(3,637)	(444)	3,016	(5,377)	(2,361)
	(11,210)	**352**	**(10,858)**	**(10,817)**	**(2,126)**	**(12,943)**
Total Net Claims Incurred	**521,760**	**131,370**	**653,130**	**523,799**	**102,097**	**625,895**

1 Movement in the undiscounted and discounted gross claims represents the increase/(decrease) in the outstanding claims provision at the reporting date.

2 Movement in the undiscounted and discounted reinsurance and other recoveries represents the increase/(decrease) in the insurance and other recoveries receivable at the reporting date.

3 Includes an estimate for claims handling expenses.

notes to the financial statements

for the year ended 30 June 2016

(ii) TMF General Lines

	12 Months to 30 June 2016			12 Months to 30 June 2015		
	Current year $'000	Prior Years $'000	Total $'000	Current year $'000	Prior Years $'000	Total $'000
Gross Claims Expense[1]						
Gross claims incurred – undiscounted	670,123	(422,393)	247,730	716,747	(484,036)	232,711
Discount movement	(153,139)	387,859	234,720	(191,804)	271,661	79,857
	516,984	**(34,534)**	**482,450**	**524,943**	**(212,375)**	**312,568**
Reinsurance and other recoveries revenue						
Reinsurance and other recoveries revenue – undiscounted	(40,007)	21,468	(18,538)	(37,895)	(10,549)	(48,444)
Discount movement	7,632	(11,646)	(4,014)	7,632	(12,791)	(5,159)
	(32,375)	**9,823**	**(22,552)**	**(30,263)**	**(23,340)**	**(53,603)**
Total Net Claims Incurred	**484,609**	**(24,712)**	**459,898**	**494,680**	**(235,715)**	**258,965**

[1] Includes an estimate for claims handling expenses.

(d) Depreciation and amortisation expenses

	2016 $'000	2015 $'000
Depreciation		
Furniture and fittings	55	70
Amortisation		
Computer software	737	44

(e) Grant and subsidies

	2016 $'000	2015 $'000
Grant to the Crown Entity [expense]	(185,000)	(380,000)
Grant from the Crown Entity [revenue]	105,000	25,000
Net grant expense	**(80,000)**	**(355,000)**

notes to the financial statements

for the year ended 30 June 2016

The annual funding adequacy assessment as at 31 December 2015 based on assets at 115% of liabilities (31 December 2014: 110%) has been approved and the funds transferred to the Consolidated Fund.

Pursuant to the Net Assets Holding Level Policy (NAHLP), SI makes payments to or receives funding from the Crown Entity to maintain the required level of net assets.

The policy, introduced in March 2006 and revised in May 2013, requires SI to maintain financial assets for each insurance scheme (except the HBCF, CRIF, BFFF, ERWF and SSIF) at between 105% and 115% of liabilities. The adequacy of the net assets level is reviewed at least annually based on the financial results as at 31 December with an option of more frequent reviews to consider any emerging issues and trends in outstanding claims liabilities and investments. The assessment takes into consideration:

- the probability of adequacy of the net central estimate
- probability of poor investment returns and/or deterioration in claims experience
- impact of a major claim, either not covered by the TMF reinsurance protection or exhausting the TMF reinsured retention level
- absence of premium income and reinsurance cover for residual schemes.

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

The payments are recognised as expenses at the earlier of when they are paid or payable. Grants are recognised as revenues at the earlier of when they are received or due to be received.

notes to the financial statements
for the year ended 30 June 2016

4. Cash and cash equivalents

	2016 $'000	2015 $'000
Cash at bank	274,443	282,666

For the purposes of the statement of cash flows, cash and cash equivalents include cash at bank and short term money market investments held at TCorp.

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:

	2016 $'000	2015 $'000
Cash and cash equivalents (per statement of financial position)	274,443	282,666
Closing cash and cash equivalents (per statement of cash flows)	274,443	282,666

Refer to Note 7 for details regarding credit risk, liquidity risk and market risk arising from financial instruments.

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

	2016 $'000	2015 $'000
Net cash flows from operating activities	**(7,392)**	**(36,768)**
Adjustments for:		
Depreciation and amortisation	(792)	(113)
(Decrease)/Increase in investments	(122,664)	692,324
Increase in outstanding claims	(218,688)	(53,855)
Increase in unearned premiums	(55,143)	(59,160)
Decrease in payables	(41,241)	(77,216)
(Decrease)/increase in receivables	(66,831)	21,944
Decrease in other assets	(4)	(9)
Net Result	**(512,756)**	**487,146**

notes to the financial statements

for the year ended 30 June 2016

5. Receivables

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

The collection of receivables is reviewed on an ongoing basis. An allowance for impairment is established when there is objective evidence that not all amounts due will be collectable. Bad debts are written off when there is objective evidence that the chance of collecting an amount is unlikely.

	2016 $'000	2015 $'000
Current		
Premium and contribution receivable	49,457	120,199
Insurance and other recoveries receivable	42,056	45,413
Receivable from the Crown	4,506	-
GST receivable	18,830	-
Prepayments	4,542	14,808
	119,391	**180,419**
Non-Current		
Insurance and other recoveries receivable	189,016	194,819
	189,016	**194,819**

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

Insurance and other recoveries receivables are discounted to present value.

SI purchases reinsurance for losses above their predetermined retention levels of financial losses associated with large claims or incidents. The retention level is set by management and reviewed annually as part of the renewal process. The current retentions are determined based on price, availability of cover, and risk tolerances. When the claims cost exceeds the excess level, the cost is recoverable from SI's reinsurers and recognised as insurance and other recoveries receivable.

The amount of insurance and other recoveries receivable is equal to the estimated gross incurred cost less the retention limit and insurance recoveries received to date. The receivable is recognised when recovery is virtually certain to take place when the corresponding obligation is settled. The measurement of these receivables is affected by factors such as normal inflation and the discount rate used for discounting of future expected receipts. The rates applied are consistent with those used in the valuation of provisions for outstanding claims (see Note 12).

	2016 $'000	2015 $'000
Present value of insurance and other recoveries		
Expected future recoveries (undiscounted)	307,857	320,808
Discount to present value	(76,785)	(80,576)
	231,072	**240,232**

notes to the financial statements

for the year ended 30 June 2016

6. Investments

	2016 $'000	2015 $'000
Tcorp Hour-Glass Funds	7,734,331	7,856,995
	7,734,331	**7,856,995**

Investments in New South Wales Treasury Corporation's (TCorp) Hour-Glass Funds and the managed asset portfolio are designated as fair value through profit or loss. The investments within the Hour-Glass Funds are unit holdings. The value of the Hour-Glass 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 Hour-Glass Funds are valued at redemption price.

The fair value quoted market price for similar instruments and the underlying value are provided by Portfolio manager, TCorp.

The movement in the fair value of the Hour-Glass 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.

The financial assets held with TCorp are classified as non-current assets as management does not intend to realise them within 12 months after the reporting period. SI ordinarily receives premiums from the member agencies early in the financial year which adequately cover the current liabilities.

Refer to Note 7 for further information regarding fair value measurement, credit risk, liquidity risk and market risk arising from financial assets at fair value.

notes to the financial statements

for the year ended 30 June 2016

7. Financial and insurance risk management

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.

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

Following the *State Insurance and Care Governance Act 2015* overall responsibility for the establishment and oversight of risk management, risk reviews, policy setting and for managing each of these risks moved to NSW Treasury. The risk management policies in place prior to the Act remain in place with the purpose of establishing frameworks and processes that identify and analyse the risks faced by SI investment funds, set risk limits and controls, and monitor risks. The risk monitoring responsibility resides with NSW Treasury Corporation (TCorp) and they are responsible for reporting on these to NSW Treasury.

NSW Treasury and icare have been in consultation to develop a Memorandum of Understanding (MoU) between the two agencies for the ongoing management of the SI investment funds. It is envisaged that the MoU will be in place by the end of the 2016 calendar year.

The main purpose of these financial instruments is to derive income and investment gains which are used to fund insurance liabilities.

Financial instrument categories

	Note	Category	2016 $'000	2015 $'000
Financial assets				
Cash and cash equivalents	4	N/A	274,443	282,666
Investments	6	At fair value through profit and loss (designated as such upon initial recognition)	7,734,331	7,856,995
Receivables (i)	5	Receivables measured at amortised cost	49,457	120,199
Financial liabilities				
Payables (ii)	11	Payables measured at amortised cost	204,288	65,683

(i) Excludes insurance and recoveries receivable, statutory receivables and prepayments (i.e. not within scope of AASB 7)

(ii) Excludes outstanding claims provision, unexpired risk liability, statutory payables and unearned revenue (i.e. not within scope of AASB 7)

Financial risk management

The activities of SI expose it to a variety of financial risks. These include:

- Market risks
    - i) interest rate risk
    - ii) currency risk
    - iii) other price risk
- Credit risk
- Liquidity risk

SI contracts TCorp, the State's central financing authority which has recognised expertise in the management of financial risks to actively manage these risks in line with the Memorandum of Understanding (MoU) between it and SI.

The MoU is updated annually to include changes in market conditions and/or management's direction and clearly sets out investment management objectives, restrictions and establish performance benchmarks.

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for the year ended 30 June 2016

Insurance Risk Management

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, Compliance and Audit Committee (RCAC) has oversight of risk management and reports to the icare Board. Internal Audit helps identify, monitor and evaluate risks and gives assurance to the RCAC on higher risk activities.

The risk and compliance management framework to identify and mitigate risks is outlined below:

- Use and maintenance of information systems to provide up-to-date and reliable data on the risks to which the entity is exposed
- Independent actuarial assessment, using data from the information systems and robust actuarial modelling, are used to assess the adequacy of pricing and premiums and to monitor claims patterns based on past experience and emerging trends
- Detailed risk and compliance registers that identify key risks and controls, residual risk exposures, and risk treatment and owner. Compliance attestations are performed on a quarterly basis and material exceptions are reported to the icare Board
- Detailed underwriting procedures are in place and strictly followed for accepting risks and regular reviews and audits are performed on the underwriting function of brokers and insurance agents of the HBCF
- Premiums received by the largest fund (TMF) are paid by member agencies through funding from the NSW Treasury
- Most premiums are paid within payment terms. The outstanding debtors are managed by outsourced service providers who actively monitor and review the portfolios
- Under the NALHP SI maintains the required level of net assets for each scheme (except HBCF, CRIF, BFFF, ERWF and SSIF) through fund transfers to/from the Consolidated Fund.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. SI's exposures to market risk are primarily through price risks associated with the movement in the unit price of the Hour-Glass Funds.

The effects on SI's operating result due to reasonably possible changes in risk variables are outlined in the information below, for interest rate risk and other price risk. A reasonably possible change in each risk variable has been determined after taking into account the economic environment in which SI operates and the time frame for the assessment (i.e. until the end of the next annual reporting period). The sensitivity analysis is based on risk exposures in existence at the reporting date. The analysis was performed on the same basis as 2015. The analysis assumes that all other variables remain constant.

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

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

The following table provides the sensitivity analysis of interest rate risk affecting applicable financial assets on the operating result and equity of SI. A reasonably possible change of +/- 0.5% is used, consistent with current trends in interest rates. The basis will be reviewed annually and amended where there is a structural change in the level of interest rate volatility.

notes to the financial statements

for the year ended 30 June 2016

	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
2016					
Cash and cash equivalents	274,443	(1,372)	-	1,372	-
2015					
Cash and cash equivalents	282,666	(1,413)	-	1,413	-

(ii) Currency risk

SI has some foreign currency risk exposure from its investments in the TCorp Hour-Glass Funds. The Hour-Glass 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 and Multi-Asset Class 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 2016 SI has no transactional or structural currency exposures (2015: Nil).

(iii) Other price risk

Exposure to "other price risk" primarily arises through the investment in the TCorp Hour-Glass Funds which are held for strategic rather than trading purposes. SI has no direct equity investments. SI holds units in the following Hour-Glass Funds.

Facility	Investment sectors	Investment horizon	2016 $'000	2015 $'000
Treasury Managed Fund Investment Portfolio	Cash, money market instruments, Australian Bonds, Listed and Unlisted Property, Australian, International and Emerging Markets shares, and Unlisted Infrastructure	Long term	7,239,088	7,364,549
Hour-Glass Long term growth Fund	Cash, money market instruments, Australian Bonds, Listed Property, Australian, International and Emerging Markets shares, Multi-assets	7 years and over	495,243	492,446

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for the year ended 30 June 2016

The unit price of each Fund is equal to the total fair value of the net assets held by the Fund divided by the total number of units on issue for the Fund. Unit prices are calculated and published daily. The unit prices used to value the balances on the monthly Hour-Glass statements are redemption prices.

TCorp acts as trustee for each of the above Funds and is required to act in the best interest of the unit holders and to administer the Funds in accordance with the trust deeds. TCorp has appointed specialist investment managers to manage the performance and risks of each Fund in accordance with a mandate agreed by the parties. A significant portion of the administration of the facilities is outsourced to an external custodian. TCorp has also leveraged off internal expertise to manage certain fixed income assets for the Hour Glass Funds.

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

The TCorp Hour-Glass Funds are designated at fair value through profit or loss and therefore any change in unit price impacts directly on profit (rather than equity). TCorp provides sensitivity analysis information for each of the Funds using historically based volatility information collected over a ten year period, quoted at two standard deviations (i.e. 95% probability). A reasonably possible change is based on the percentage change in unit price multiplied by the redemption price as at 30 June each year for each Fund.

Hour-Glass Investment facility	Change in unit price		Impact on surplus/(deficit)	
	2016 %	2015 %	2016 $'000	2015 $'000
Treasury Managed Fund Investment Portfolio	+/- 18.0	+/- 18.0	+/- $1,303,036	+/- $1,325,619
Long Term Growth Fund	+/- 15.0	+/- 15.0	+/- $74,286	+/- $73,867

SI has no exposure to commodity price risk.

Credit risk

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.

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.

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for the year ended 30 June 2016

The receivables that are past due or considered impaired are included in the table below.

	Total	Past due but not impaired $'000			Considered impaired
	$'000	< 3 months	3 – 6 months	> 6 months	$'000
2016					
Receivables	953	704	-	249	-
2015					
Receivables	1,615	387	-	1,228	-

The ageing analysis excludes insurance and other recoveries receivables, statutory receivables and prepayments, as these are not within the scope of AASB 7.

Financial assets at fair value

Financial assets at fair value include investments in TCorp's Hour-Glass Funds and the managed assets portfolio. The investments within the Hour-Glass Funds are unit holdings, and as such, do not give rise to credit risk. Credit risk within the Hour-Glass 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.

Liquidity risk

The liquidity of SI's investments is assured by the liquid nature of the fixed interest investments within the TCorp Hour-Glass Funds. All Hour-Glass 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 only account for 8.56 per cent and 4.02 per cent of the Treasury Managed Fund Hour-Glass 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. Treasury Circular 11/12 allows the Minister to award interest for late payment. There has been no interest awarded for late payment to date.

The table below summarises the maturity profile of SI's financial liabilities.

	Weighted average effective interest rate	Nominal amount	Interest rate exposure			Maturity dates		
			Fixed Interest rate	Variable interest rate	Non-interest bearing	< 1 Year	1–5 Years	> 5 Years
	%	$'000	$'000	$'000	$'000	$'000	$'000	$'000
2016								
Payables	-	204,288	-	-	204,288	204,288	-	-
2015								
Payables	-	65,683	-	-	65,683	65,683	-	-

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for the year ended 30 June 2016

Fair value recognised in the Statement of Financial Position

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
- 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
2015–16				
Financial assets at fair value				
TCorp Hour-Glass Funds	-	7,734,331	-	7,734,331
	-	**7,734,331**	**-**	**7,734,331**
2014–15				
Financial assets at fair value				
TCorp Hour-Glass Funds	-	7,856,995	-	7,856,995
	-	**7,856,995**	**-**	**7,856,995**

There were no transfers between the levels during the period ended 30 June 2016 (2015: Nil). The value of the Hour-Glass Funds is based on SI's share of the value of the underlying assets of the facility, based on the market value. All of the Hour-Glass facilities are valued using redemption pricing.

8. Plant and equipment

Plant and equipment are recorded at cost on acquisition.

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

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

No revaluation is undertaken on these assets as the difference between fair value in continued use and carrying value is immaterial.

Depreciation is provided for on a straight line basis for all depreciable assets so as to write off the depreciable amount of each asset as it is consumed over its useful life. The depreciation rates used for the financial year 2015-16 for each class of assets are based on the following useful lives:

- office equipment: 7 years
- furniture and fittings: 5 to 10 years.

notes to the financial statements

for the year ended 30 June 2016

	2016 $'000	2015 $'000
Gross carrying amount	13	1,432
Accumulated depreciation and impairment	(6)	(1,183)
Net carrying amount at end of year	**7**	**248**

Reconciliation

A reconciliation of the carrying amount of plant and equipment at the beginning and end of the reporting periods is set out below.

Year ended 30 June		
Net carrying amount at start of year	248	62
Additions	-	256
Disposals	(186)	-
Depreciation expense	(55)	(70)
Net carrying amount at end of year	**7**	**248**

9. Intangible assets

Intangible assets include capitalised expenditures for system development costs and computer software.

Following initial recognition at cost, intangible assets are carried at cost less any accumulated amortisation and impairment which is the fair value in the absence of an active market. Computer software costs are amortised on a straight line basis over 5 years.

	2016 $'000	2015 $'000
Gross carrying amount	8,884	7,867
Accumulated amortisation and impairment	(5,631)	(4,894)
Net carrying amount at end of year	**3,253**	**2,973**

Reconciliation

A reconciliation of the carrying amount of intangible assets at the beginning and end of the reporting periods is set out below.

Year ended 30 June		
Net carrying amount at start of year	2,973	62
Additions	1,017	2,955
Amortisation expense	(737)	(44)
Net carrying amount at end of year	**3,253**	**2,973**

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10. Non-current assets – Other

Deferred Acquisition Cost (HBCF)

Costs directly attributable to the acquisition of the HBCF premium revenue are deferred by recognising them as an asset in the Statement of Financial Position when they can be reliably measured. Deferred acquisition costs are amortised systematically over the life of the insurance policy in line with the expected pattern of the incidence of risk. This corresponds to the earning pattern of premium revenue.

	2016 $'000	2015 $'000
Non-current		
Deferred acquisition costs [1]	-	-
Deferred restoration costs	-	1
Other	-	3
	-	**4**

[1] Movements of deferred acquisition cost of the HBCF

	2016 $'000	2015 $'000
Acquisition costs incurred during the year	33,040	31,971
Acquisition costs amortised during the year	(2,105)	(2,114)
Net deficiency write down [1]	(30,935)	(29,857)
At year ended 30 June	**-**	**-**

[1] Refer to Note 13(c) for details.

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for the year ended 30 June 2016

11. Payables

Payables are recognised initially at fair value, usually based on the transaction cost or face value. Short-term payables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial.

Payables are liabilities for goods and services provided to SI, are non-interest bearing and generally on 30 day terms.

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.

Under the NSW TC 11/12 'Payment of Accounts' agencies are required to pay small business suppliers with turnover of less than $2 million within 30 days upon receipt of invoice and pay interest on overdue amounts. No interest was paid during the year for late payment.

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.

	2016 $'000	2015 $'000
GST payable	-	98,252
Management fees	61,300	54,343
Commission and transition fee	5,956	4,472
icare service fees	7,976	-
Hindsight premium payments	111,540	-
Claims	2,560	4,086
Statutory fees	1,630	741
Other	14,956	2,782
	205,918	**164,677**

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12. Outstanding claims provisions

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.

(a) Outstanding claims provision

The provision 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 factors such as trends in court awards, for example increases in the level and period of compensation for injury or above inflation increases in the cost of obtaining medical services.

The expected future payments (excluding CRIF and HBCF) are then discounted to a present value at the reporting date using discount rates based on the estimated long term fair value of the ten year NSW Government bond yields as recommended by TCorp.

The liability for outstanding claims includes:

- claims incurred and reported but not yet paid
- claims incurred but not yet reported (IBNR)
- claims incurred but not enough reported (IBNER)
- expected claims handling costs.

For HBCF and CRIF, the outstanding claims liability estimate includes a risk margin of 15 and 25 per cent respectively (2015: 15 and 25 per cent) to cover the inherent uncertainty in the net central estimate. The risk margins have been set at a level that results in an overall probability of sufficiency in the outstanding claims liability of 75 per cent (2015: 75 per cent).

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 to allow for the inherent uncertainty in the central estimate.

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.

No risk margin is included in the outstanding claims liability for the TMF. The overall probability of sufficiency of the liability was 53 per cent at 30 June 2016 (2015: 55 per cent).

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 to allow for the inherent uncertainty in the central estimate.

Where there is a material effect due to the time value of money, the provisions are discounted. The increase in the provision resulting from the passage of time is recognised in the finance costs.

	2016 $'000	2015 $'000
Current		
Provision for outstanding claims	1,022,439	944,123
Non-Current		
Provision for outstanding claims	5,938,185	5,797,813
	6,960,624	**6,741,936**

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	TMF $'000	CRIF $'000	GWC $'000	TAC $'000	SRA/RIC $'000	HBCF $'000	BFFF $'000	ERWF $'000	SSIF $'000	2016 Total $'000	2015 Total $'000
Net carrying amount at start of year	6,191,334	1,662	82,089	283,819	90,483	92,550	-	-	-	**6,741,936**	6,628,921
Portfolio transfer in	-	-	-	-	-	-	17,035	18,014	630	**35,679**	-
Additions	857,299	1,940	-	-	-	59,485	1,977	2,965	-	**923,665**	1,006,553
Payments	(1,061,132)	(143)	(4,168)	(6,431)	(9,030)	(25,133)	(3,047)	(3,793)	(17)	**(1,112,893)**	(973,211)
Actuarial (gain)/loss	60,029	(534)	(3,046)	18,618	3,385	7,397	(2,369)	(861)	(314)	**82,306**	(238,609)
Unwinding of discounts	267,900	-	3,732	13,481	4,025	182	296	303	12	**289,931**	318,282
Closing balance	**6,315,430**	**2,925**	**78,607**	**309,487**	**88,863**	**134,481**	**13,892**	**16,628**	**311**	**6,960,624**	**6,741,936**

The weighted average expected term to settlement from the balance date of the outstanding claims is estimated to be 5 years for TMF (2015: 6.75 years), 2.12 years for the CRIF (2015: 2 years), 11.4 years for GWC (2015: 10.9 years), 22 years for TAC (2015: 22.6 years), 9 years for SRA/RIC (2015: 8.9 years) and 2.3 years for HBCF (2015: 2.3 years). The risk margin for the HBCF was $17.5 million (2015: $12 million) and for the CRIF $0.4 million (2015: $0.2 million). No risk margin was included in the TMF (2015: nil).

The average inflation and discount rates below were used in measuring the outstanding claims liability:

	TMF %		CRIF %		GWC %		TAC %		SRA/RIC %		HBCF %	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Next 12 months												
Inflation rate	2.5	2.5-3.0	(1.75)	2.5	2.5-3.0	3-3.5	3.0	2.5	2.5-3.0	3.0-3.5	2.7	3.6
Discount rate1	4.75	4.75	1.7	1.9	4.75	4.75	4.75	4.75	4.75	4.75	1.6	2.0
Superimposed inflation	2.0-4.0	0-5.0	0	0	0-1.5	0-1.5	3.5	3.5	0-1.7	0-1.7	2.3	1.4
Later than 12 months												
Inflation rate	2.5-4.0	2.5-3.8	2.25-2.5	2.5 - 2.75	2.8-4.0	3.0-4.0	3.25-4.0	2.5-3.8	2.75-4.0	3.0-4.0	3-3.6	3.6
Discount rate	4.75	4.75	1.5	2.0-4.2	4.75	4.75	4.75	4.75	4.75	4.75	1.5-3.4	2.0-4.5
Superimposed inflation	2.0-4.0	0-5.0	0	0	0-1.5	0-1.5	3.5	1.7	0-1.7	1.7	1.4-2.0	1.4

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Sensitivity Analysis

The outstanding claims liabilities are central estimates derived from actuarial assumptions regarding future experience. Sensitivity analysis can be used to measure the change in the outstanding claims liability estimate that would result from a change in the assumptions. TMF is SI's main insurance scheme which represents 92% (2015: 92%) of the outstanding claims. A sensitivity analysis of the key assumption changes for the TMF and their impact is shown in the following tables.

(i) TMF Non-Workers Compensation (Including Liability – Health)

Variable	Movement in variable %	Net Central Estimate $'000	Impact of Change $'000	Impact %
Net Central Estimate[1]		2,438,436		
Risk free rate		2,780,873	342,437	14.0%
Discount rate	+1	2,329,669	(108,767)	(4.5%)
	-1	2,561,911	123,475	5.1%
Inflation rate	+1	2,569,641	131,205	5.4%
	-1	2,320,185	(118,251)	(4.8%)
Superimposed inflation rate	+1	2,583,434	144,998	5.9%
	-1	2,307,492	(130,944)	(5.4%)

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

(ii) Liability (Health)

Variable	Movement in variable %	Net Central Estimate $'000	Impact of Change $'000	Impact %
Net Central Estimate		1,711,460		
Risk free rate		1,957,667	246,207	14.4%
Discount rate	+1	1,633,376	(78,084)	(4.6%)
	-1	1,800,056	88,596	5.2%
Inflation rate	+1	1,805,650	94,189	5.5%
	-1	1,634,046	(77,414)	(4.5%)
Superimposed inflation rate	+1	1,826,416	114,956	6.7%
	-1	1,607,948	(103,513)	(6.0%)

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(iii) TMF Workers Compensation

Variable	Movement in variable %	Net Central Estimate $'000	Impact of Change $'000	Impact %
Net Central Estimate[1]		3,581,664		
Risk free rate		4,168,047	586,383	16.4%
Discount rate	+1	3,336,389	(245,275)	(6.8%)
	-1	3,867,701	286,037	8.0%
Inflation rate	+1	3,878,312	296,648	8.3%
	-1	3,323,233	(258,431)	(7.2%)
Superimposed inflation rate[2]	+1	3,618,709	37,045	1.0%
	-1	3,546,576	(35,088)	(1.0%)

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

[2] It includes impact on non-emergency medical and rehabilitation costs and scheme common law costs.

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Additional Scenarios:

Variable	Movement in Variable %	Net Central Estimate $'000	Impact of Change $'000	Impact %
Net Central Estimate – Outstanding Workers Compensation Claims		3,581,664		
Non-Emergency Services – Weekly slippage[1]	Remove	3,562,287	(19,377)	(0.5%)
Non-Emergency Services – Weekly Average Claim Size[5]	Increase 10%	3,632,059	50,395	1.4%
Non-Emergency Services – Weekly Average Claim Size[5]	Decrease 10%	3,531,269	(50,395)	(1.4%)
Non-Emergency Services – Common Law intimations[6]	Increase 20%	3,759,224	177,560	5.0%
Emergency Services – Ultimate Number of Medically Discharged Claims[2,7]	Increase 10%	3,663,722	82,058	2.3%
Emergency Services – Ultimate Number of Medically Discharged Claims[2,7]	Decrease 10%	3,499,606	(82,058)	(2.3%)
Emergency Services – Cont. Rates for Non-MD Claims[3]	Increase 0.5%	3,649,116	67,452	1.9%
NSW Police – Common Law Claim Filed by Medically Discharge Claimants[4,8]	Decrease 10%	3,579,063	(2,601)	(0.1%)
NSW Police – Common Law Claim Filed by Medically Discharge Claimants[4,8]	Increase 10%	3,585,208	3,544	0.1%

1 Slippage is an additional 0.25% added to the Weekly continuance rate for Whole Person Impairment (WPI) 0-30% claims.
2 Sensitivity tested the impact of a 10% variance in the ultimate number of medical discharge claims for Emergency Services across all payment types.
3 Sensitivity tested by increasing the proportion of claimants continuing to receive weekly and medical payments 6 years after injury.
4 Includes offsetting impact of weekly benefits.
5 Non-Emergency Services – Weekly Average Claim Size – base scenario of $9,610
6 Non-Emergency Services – Common Law intimations – base scenario of $2,926
7 Emergency Services – Ultimate Number of Medically Discharged Claims – base scenario of $3,406
8 NSW Poilce – Common Law Claim Filed – base scenario of $1,105

2015 Workers Compensation legislative reforms

The Workers Compensation Amendment Bill 2015 (2015 reforms) was enacted in August 2015. The amendments introduced some wind backs of the 2012 reforms as well as some new benefit entitlements. The key changes in the 2015 reforms package are summarised below.

- Extensions of benefits on claims made on or after 1 October 2012. (For claims made before 1 October 2012, these extensions were already in place from the 2014 regulations)
  - Entitlement to medical benefits for life for all workers with Whole Person Impairment (WPI) assessed between 21% and 30%.
  - Access to medical aid payments for life for all workers.
  - Restored entitlement for weekly payments until one year after retirement age (noting that claims with WPI between 0% and 20% are still subject to a five-year cap under the 2012 reforms).
  - Continued eligibility for weekly benefits for all workers until a disputed work capacity assessment and/or decision is resolved.

notes to the financial statements

for the year ended 30 June 2016

- Additional benefits
  - Removal of the requirement for injured workers with work capacity and a WPI between 21% and 30% to work at least 15 hours per week beyond 130 weeks.
  - A minimum weekly payment of $788.32 (as at August 2015) for those injured workers with more than 30% WPI. The minimum amount is to be indexed half yearly on each 1 April and 1 October in accordance with CPI.
  - Extension of the 12 month limitation period on medical benefits to two years for claims with a WPI up to 10%; and five years for claims with a WPI from 11% to 20%.
  - Increase in the amount of permanent impairment (Section 66) compensation available to injured workers above 10% WPI (15% WPI for psychological injuries) injured on or after 5 August 2015. Compensation is to be indexed annually on each 1 July in line with CPI.
  - A job-ready payment of up to $1,000 for injured workers who return to work with a new employer.
  - An education or re-training payment of up to $8,000 for injured workers with more than 20% WPI who have been on weekly benefits for more than 78 weeks.
  - Increase in the maximum amount payable for funeral expenses to $15,000 applicable to deaths on or after 5 August 2015.
  - Increased the lump sum payment for death to $750,000 for deaths on or after 5 August 2015.
  - Payments to legal practitioners for advice provided to injured workers and insurers in relation to the review of work capacity assessments.
- Eligibility
  - These benefit changes apply to non-emergency services workers, including administrative staff within emergency service organisations (being NSW Police, Fire & Rescue NSW and Ambulance Service of Australia). With the exception of death and funeral benefits, the changes do not apply to police, paramedics and fire fighters within the emergency services.
- Impact of 2015 reforms
  - The outstanding claims liability as at 30 June 2016 includes estimates of the expected impact of the 2015 reforms listed above, with the exception of payments to legal practitioners for advice in relation to work capacity assessments as well as the continued eligibility for weekly benefits where work capacity assessments are disputed.
  - Details of the changes to legal payments were yet to be determined by regulation as at the date of the valuation, therefore it was not possible to allow for the financial impact in our estimate of the outstanding claims liability.
  - There is uncertainty around how experience may be impacted due to the change allowing continued eligibility to weekly benefits where work capacity assessments are disputed.
  - We intend to allow for these aspects in future valuations as more guidance or actual experience becomes available.
  - In total, the impact of the 2015 reforms on claims incurred to 30 June 2016 was to increase the outstanding claims liability by $162 million for the TMF.
- Uncertainty

  As noted above, we have not allowed for certain aspects of the 2015 reforms due to the level of uncertainty associated with how they would be applied in practice. We intend to allow for these aspects in future valuations as more guidance or actual experience becomes available. For the aspects of the 2015 reforms we have allowed for, we have estimated the impact on a central estimate basis, based on the information available to us at the time. It is important to note that actual experience may prove to be significantly different from these allowances. Key uncertainties include:

  i) Behavioural impacts – The reforms could lead to significant behavioural changes in claimants' pursuit of particular benefit types. It is not possible to incorporate these impacts with accuracy and hence no allowance for behavioural impacts has been made.

  ii) Honeymoon and slippage – Following most legislative reforms, there is usually a "honeymoon" period, where experience remains favourable over the short term as scheme participants take time to understand how the reforms work. However, as they have a better understanding of how the new reforms work, they will begin to fully utilise scheme benefits and experience may turn. We have not allowed for any impact of honeymoon and slippage in our estimate.

notes to the financial statements

for the year ended 30 June 2016

iii) Effectiveness of implementation – The ultimate financial impact of the reforms will depend heavily on how effectively the reforms are implemented. In particular, if there are changes in Whole Person Impairment outcomes as an indirect result of the reforms, the actual experience may differ from the allowance for the reforms that is included in the estimate. For aspects of the reforms we have allowed for, we have assumed the new rules are applied in a robust fashion.

iv) Model risk – there is always the risk that a model will not capture important aspects of reality. As only a short period of time has elapsed since the reforms and as yet many affected claimants have not been contacted to advise them of the changes to their benefits, there is little post-reform experience to analyse.

Claims development tables

With the exception of plant and equipment, all assets are held to back insurance liabilities. As part of its investment strategy SI actively manages its investment portfolio to ensure that investment liquidity is in accordance with the expected pattern of future cash flows arising from insurance liabilities.

(i) TMF Workers Compensation

Accident Year	2008 & prior $'000	2009 $'000	2010 $'000	2011 $'000	2012 $'000	2013 $'000	2014 $'000	2015 $'000	2016 $'000	Total $'000
Estimate of ultimate claims cost										
At the end of accident year		585,637	730,915	870,009	806,693	766,805	742,282	675,108	674,813	
One year later		703,180	766,477	848,001	792,706	679,304	638,548	653,422		
Two years later		675,406	787,762	887,271	837,704	612,288	611,692			
Three years later		654,425	829,677	1,003,611	760,115	591,531				
Four years later		650,330	924,591	992,280	717,572					
Five years later		684,252	905,802	979,591						
Six years later		680,841	897,546							
Seven years later		713,189								
Current estimate of cumulative claim costs	7,378,689	713,189	897,546	979,591	717,572	591,531	611,692	653,422	674,813	13,218,044
Cumulative net claim payments	5,831,345	388,133	464,144	453,200	335,037	207,562	172,272	154,586	74,576	8,080,856
Undiscounted central estimate	1,547,344	325,055	433,403	526,391	382,535	383,968	439,420	498,836	600,237	5,137,189
Effect of discounting										(1,795,568)
Claims handling expense										240,043
Risk margin										-
Outstanding claims liability at 30 June 2016										**3,581,664**

notes to the financial statements

for the year ended 30 June 2016

(ii) TMF Public Liability

Accident Year	2008 & prior $'000	2009 $'000	2010 $'000	2011 $'000	2012 $'000	2013 $'000	2014 $'000	2015 $'000	2016 $'000	Total $'000
Estimate of ultimate claims cost										
At the end of accident year		482,538	506,018	509,966	505,657	520,902	536,890	518,253	476,738	
One year later		485,568	487,891	478,286	483,945	493,576	403,173	445,591		
Two years later		516,597	471,566	441,402	463,759	428,957	421,239			
Three years later		477,776	410,711	427,210	447,649	424,772				
Four years later		498,732	443,536	442,177	415,983					
Five years later		503,334	450,003	373,907						
Six years later		460,285	394,443							
Seven years later		400,780								
Current estimate of cumulative claim costs	3,205,147	400,780	394,443	373,907	415,983	424,772	421,239	445,591	476,738	6,558,601
Cumulative net claim payments	2,817,949	269,017	218,557	162,134	113,375	61,195	39,541	12,832	2,476	3,697,075
Undiscounted central estimate	387,199	131,763	175,886	211,773	302,608	363,577	381,698	432,759	474,262	2,861,525
Effect of discounting										(698,244)
Claims handling expense										150,601
Risk margin										-
Outstanding claims liability at 30 June 2016										**2,313,883**

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.

13. Unearned premiums and unexpired risk liability

	2016 $'000	2015 $'000
Current		
Unearned premiums	55,728	47,335
	55,728	**47,335**
Non-Current		
Unearned premiums	190,452	164,936
Restoration provision	-	121
Unexpired risk liability	102,965	81,610
	293,417	**246,667**

notes to the financial statements

for the year ended 30 June 2016

(a) 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.

	2016 $'000	2015 $'000
Year ended 30 June		
Net carrying amount at start of year	212,270	162,924
Premiums received in advance	-	226
Deferral of premiums written in current year	83,720	88,056
Premiums earned during the year	(49,811)	(38,936)
Net carrying amount at end of year	**246,179**	**212,270**

(b) Reconciliation of restoration provision

A reconciliation of the carrying amount of restoration cost at the beginning and end of the reporting periods is set out below.

	2016 $'000	2015 $'000
Year ended 30 June		
Net carrying amount at start of year	121	121
Reversal of surplus provisions	(121)	(3)
Unwinding of discounts	-	3
Net carrying amount at end of year	**-**	**121**

SI occupied a property that had a provision requiring SI to restore the premises to its original condition at the conclusion of the lease. A restoration provision was recognised at the commencement of the lease. The lease was surrendered after staff relocated to new premises.

notes to the financial statements

for the year ended 30 June 2016

(c) Reconciliation of unexpired risk liability

At the reporting date, a liability adequacy test (LAT) is performed by the Fund Actuaries for the HBCF and CRIF.

At the balance date, SI recognises a liability in respect of outstanding claims and assesses the adequacy of its unearned premium liability. As required under AASB 1023 *General Insurance Contracts*, a 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. 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:

	2016 $'000	2015 $'000
At beginning of year	81,610	48,276
Recognition of additional unexpired risk liability in the year	21,355	33,334
At year ended 30 June	**102,965**	**81,610**

As at the reporting date, the LAT identified a deficit of $133.9 million (2015: $111.5 million) in the HBCF. The movement in the unexpired risk liability is recognised in the Statement of Comprehensive Income.

The net deficiency calculation is shown below:

	2016 $'000	2015 $'000
Unearned premium liability	235,990	197,546
Deferred acquisition costs[1]	(30,935)	(29,857)
	205,055	**167,689**
Central estimate of present value of expected		
future cash flows arising from future claims	294,744	242,744
Risk Margin	44,212	36,412
Premium liability provision	**338,956**	**279,156**
Net Deficiency	**133,901**	**111,467**

[1] Refer to Note 10 Other Non-current Assets – Deferred Acquisition Costs.

The premium liability provision represents the actuarial assessment of future claims payments and the expenses associated with settling them. The mean term to settlement of the undiscounted premium liability is 6.0 years (2015: 5.9 years).

notes to the financial statements

for the year ended 30 June 2016

	2016 $'000	2015 $'000
Gross movement in unexpired risk liability	(21,355)	(33,334)
Write down of deferred acquisition costs [1]	(30,935)	(29,857)
Total deficiency recognised in the Statement of Comprehensive Income	**(52,290)**	**(63,191)**

[1] Refer to Note 10 Other Non-current Assets – Deferred Acquisition Costs.

The probability of adequacy for HBCF was 75 per cent (2015: 75 per cent).

The actuarial assessment of the expected future cash flows relating to future claims arising from current general insurance contracts in the CRIF indicates that this estimate is lower than the current value of the unearned premium liability (net of deferred acquisition costs) and that there is therefore no deficiency in the unearned premium liability as at 30 June 2016 (30 June 2015: nil). The probability of adequacy for the CRIF was 75 per cent (2015: 75 per cent).

The TMF premiums cover the risk arising between 1 July and 30 June each year, therefore there is no unexpired risk and no unearned premium at 30 June. The liability adequacy test is only relevant to the pre-paid premiums for the 2016-17 insurance year. The outcome of the liability adequacy test for the TMF would be immaterial as the amount of pre-paid premiums at 30 June 2016 is negligible compared to the target for the 2016-17 insurance year. The probability of adequacy for the TMF was 53 per cent (2015: 55 per cent).

The risk margins have been determined by the Fund Actuaries based on the uncertainty of the outstanding claims estimates of each scheme. The uncertainty is determined on the basis that reflects the business of each fund. Regard is had to the robustness of the valuation models, reliability and volume of the available data, past experience and emerging trends, the characteristics of each scheme and the effect of reinsurance.

notes to the financial statements
for the year ended 30 June 2016

14. Disaggregated financial statements

Statement of comprehensive income

2016

	TMF $'000	HBCF $'000	CRIF $'000	GWC $'000	TAC $'000	SRA/RIC $'000	BFFF $'000	ERWF $'000	SSIF $'000	2016 Total $'000
Revenue										
Net premium and contribution	928,911	48,143	2,731	(23)	758	4,581	509	3,251	(209)	988,652
Investment revenue	166,170	1,470	727	538	1,649	771	-	-	-	171,325
Grants from Crown	55,000	-	-	-	50,000	-	-	-	-	105,000
Other revenue	190	-	-	-	-	-	-	-	-	190
Total Revenue	**1,150,271**	**49,613**	**3,457**	**514**	**52,407**	**5,353**	**509**	**3,251**	**(209)**	**1,265,167**
Expenses excluding losses										
Operating Expenses										
Other operating expenses	1,148,759	130,489	(98)	(2,996)	18,644	3,478	213	2,949	(221)	1,301,216
Personnel services fees	760	224	-	-	-	-	-	-	-	984
Depreciation and amortisation	64	728	-	-	-	-	-	-	-	792
Grants to Crown	185,000	-	-	-	-	-	-	-	-	185,000
Finance costs	267,900	182	-	3,732	13,481	4,025	296	303	12	289,931
Total Expenses excluding losses	**1,602,483**	**131,622**	**(98)**	**736**	**32,125**	**7,503**	**509**	**3,251**	**(209)**	**1,777,923**
Net Result	**(452,212)**	**(82,009)**	**3,555**	**(222)**	**20,282**	**(2,150)**	**-**	**-**	**-**	**(512,756)**
Other comprehensive income	-	-	-	-	-	-	-	-	-	-
Total comprehensive income	**(452,212)**	**(82,009)**	**3,555**	**(222)**	**20,282**	**(2,150)**	**-**	**-**	**-**	**(512,756)**

notes to the financial statements

for the year ended 30 June 2016

2015

	TMF $'000	HBCF $'000	CRIF $'000	GWC $'000	TAC $'000	SRA/RIC $'000	BFFF $'000	ERWF $'000	SSIF $'000	2015 Total $'000
Revenue										
Net premium and contribution	1,272,227	35,983	3,584	(215)	1,060	2,004	-	-	-	1,314,644
Investment revenue	858,031	1,813	779	9,014	30,358	15,545	-	-	-	915,539
Grants and contributions	-	-	-	10,000	15,000	-	-	-	-	25,000
Other revenue	303	-	-	-	-	-	-	-	-	303
Total Revenue	**2,130,561**	**37,796**	**4,363**	**18,799**	**46,418**	**17,549**	**-**	**-**	**-**	**2,255,486**
Expenses excluding losses										
Operating Expenses										
Other operating expenses	860,006	125,373	4,368	9,907	60,064	4,913	-	-	-	1,064,631
Personnel services fees	3,945	1,368	-	-	-	-	-	-	-	5,313
Depreciation and amortisation	113	-	-	-	-	-	-	-	-	113
Grants and subsidies	380,000	-	-	-	-	-	-	-	-	380,000
Finance costs	298,659	-	-	3,726	11,460	4,437	-	-	-	318,282
Total Expenses excluding losses	**1,542,724**	**126,741**	**4,368**	**13,633**	**71,524**	**9,350**	**-**	**-**	**-**	**1,768,340**
Net Result	**587,837**	**(88,945)**	**(4)**	**5,165**	**(25,107)**	**8,199**	**-**	**-**	**-**	**487,146**
Other comprehensive income	-	-	-	-	-	-	-	-	-	-
Total comprehensive income	**587,837**	**(88,945)**	**(4)**	**5,165**	**(25,107)**	**8,199**	**-**	**-**	**-**	**487,146**

notes to the financial statements

for the year ended 30 June 2016

Statement of financial position

2016

	TMF $'000	HBCF $'000	CRIF $'000	GWC $'000	TAC $'000	SRA/RIC $'000	BFFF $'000	ERWF $'000	SSIF $'000	2016 Total $'000
ASSETS										
Current Assets										
Cash and cash equivalents	115,001	99,584	46,943	2,300	2,362	2,485	2,704	3,063	-	274,443
Receivables	4,674	20,109	5,301	(1,295)	50,245	6,283	15,029	18,648	395	119,391
Total Current Assets	**119,675**	**119,693**	**52,244**	**1,005**	**52,607**	**8,768**	**17,733**	**21,711**	**395**	**393,834**
Non-Current Assets										
Receivables	168,904	-	428	2,353	907	16,424	-	-	-	189,016
Investments	7,239,088	-	-	85,747	282,726	126,769	-	-	-	7,734,331
Plant and Equipment	7	-	-	-	-	-	-	-	-	7
Intangible assets	12	3,241	-	-	-	-	-	-	-	3,253
Other	-	-	-	-	-	-	-	-	-	-
Total Non-Current Assets	**7,408,011**	**3,241**	**428**	**88,100**	**283,633**	**143,193**	**-**	**-**	**-**	**7,926,607**
Total Assets	**7,527,686**	**122,934**	**52,672**	**89,105**	**336,240**	**151,961**	**17,733**	**21,711**	**395**	**8,320,441**
LIABILITIES										
Current Liabilities										
Payables	153,667	25,313	132	2,248	5,425	10,123	3,842	5,083	85	205,918
Outstanding claims provisions	954,100	37,252	1,411	5,842	7,031	10,861	2,372	3,468	103	1,022,439
Other	-	53,718	2,010	-	-	-	-	-	-	55,728
Total Current Liabilities	**1,107,767**	**116,283**	**3,553**	**8,090**	**12,456**	**20,984**	**6,213**	**8,551**	**188**	**1,284,085**
Non-Current Liabilities										
Outstanding claims provisions	5,361,331	97,229	1,514	72,764	302,457	78,002	11,520	13,161	207	5,938,185
Other	-	285,238	8,179	-	-	-	-	-	-	293,417
Total Non-Current Liabilities	**5,361,331**	**382,467**	**9,693**	**72,764**	**302,457**	**78,002**	**11,520**	**13,161**	**207**	**6,231,602**
Total Liabilities	**6,469,098**	**498,751**	**13,246**	**80,854**	**314,913**	**98,986**	**17,733**	**21,711**	**395**	**7,515,687**
Net Assets	**1,058,590**	**(375,816)**	**39,426**	**8,252**	**21,327**	**52,975**	**-**	**-**	**-**	**804,754**
EQUITY										
Balance as at 1 July 2015	1,510,802	(293,806)	35,871	8,474	1,045	55,125	-	-	-	1,317,510
Net Result for the year	(452,212)	(82,009)	3,555	(222)	20,282	(2,150)	-	-	-	(512,756)
Accumulated funds	1,058,590	(375,816)	39,426	8,252	21,327	52,975	-	-	-	804,754
Total Equity	**1,058,590**	**(375,816)**	**39,426**	**8,252**	**21,327**	**52,975**	**-**	**-**	**-**	**804,754**

notes to the financial statements

for the year ended 30 June 2016

2015

	TMF $'000	HBCF $'000	CRIF $'000	GWC $'000	TAC $'000	SRA/RIC $'000	BFFF $'000	ERWF $'000	SSIS $'000	2015 Total $'000
ASSETS										
Current Assets										
Cash and cash equivalents	168,803	72,058	32,112	2,578	2,725	4,391	-	-	-	282,666
Receivables	152,798	11,137	15,088	239	39	1,118	-	-	-	180,419
Total Current Assets	**321,601**	**83,195**	**47,200**	**2,817**	**2,764**	**5,508**	**-**	**-**	**-**	**463,085**
Non-Current Assets										
Receivables	176,977	-	221	2,479	970	14,172	-	-	-	194,819
Financial assets at fair value	7,364,549	-	-	85,263	281,130	126,054	-	-	-	7,856,995
Plant and Equipment	248	-	-	-	-	-	-	-	-	248
Intangible assets	18	2,955	-	-	-	-	-	-	-	2,973
Other	4	-	-	-	-	-	-	-	-	4
Total Non-Current Assets	**7,541,795**	**2,955**	**221**	**87,742**	**282,100**	**140,226**	**-**	**-**	**-**	**8,055,039**
Total Assets	**7,863,397**	**86,150**	**47,421**	**90,559**	**284,864**	**145,734**	**-**	**-**	**-**	**8,518,124**
LIABILITIES										
Current Liabilities										
Payables	156,861	8,251	(555)	(2)	(1)	123	-	-	-	164,677
Outstanding claims provisions	889,171	29,259	924	6,882	6,663	11,224	-	-	-	944,123
Other	4,280	41,434	1,621	-	-	-	-	-	-	47,335
Total Current Liabilities	**1,050,311**	**78,944**	**1,990**	**6,880**	**6,662**	**11,347**	**-**	**-**	**-**	**1,156,134**
Non-Current Liabilities										
Outstanding claims provisions	5,302,163	63,291	738	75,206	277,156	79,259	-	-	-	5,797,813
Other	121	237,724	8,822	-	-	-	-	-	-	246,667
Total Non-Current Liabilities	**5,302,284**	**301,015**	**9,560**	**75,206**	**277,156**	**79,259**	**-**	**-**	**-**	**6,044,480**
Total Liabilities	**6,352,596**	**379,958**	**11,550**	**82,086**	**283,818**	**90,606**	**-**	**-**	**-**	**7,200,614**
Net Assets	**1,510,801**	**(293,806)**	**35,871**	**8,474**	**1,045**	**55,125**	**-**	**-**	**-**	**1,317,510**
EQUITY										
Balance as at 1 July 2014	922,964	(204,862)	35,876	3,308	26,152	46,926	-	-	-	830,364
Net Result for the year	587,837	(88,945)	(4)	5,165	(25,107)	8,199	-	-	-	487,146
Accumulated funds	1,510,801	(293,806)	35,871	8,474	1,045	55,125	-	-	-	1,317,510
Total Equity	**1,510,801**	**(293,806)**	**35,871**	**8,474**	**1,045**	**55,125**	**-**	**-**	**-**	**1,317,510**

notes to the financial statements

for the year ended 30 June 2016

15. Increase in assets and liabilities from fund transfers

The *State Insurance and Care Governance Act 2015* was proclaimed effective 1 September 2015 to implement structural changes to the NSW workers compensation system and related compensation agencies. The Act established four discrete agencies, Insurance & Care NSW, State Insurance Regulatory Authority (SIRA), SafeWork NSW and Sporting Injuries Compensation Authority.

Under the Act, the assets and liabilities of the Bush Fire Fighters Compensation Fund, Emergency and Rescue Workers Compensation Fund and Supplementary Sporting Injuries Fund were transferred from the Workcover Authority of NSW to SI.

Details of the assets and liabilities transferred at fair value are as follows:

Assets and liabilities transferred

	BFFF $'000	ERWF $'000	SSIF $'000	31 Aug 2015 Total $'000
ASSETS				
Current Assets				
Cash	2,704	3,063	-	5,767
Receivables	403	772	199	1,374
Total Current Assets	**3,107**	**3,835**	**199**	**7,141**
Non-Current Assets				
Receivables	14,117	14,625	431	29,173
Total Non-Current Assets	**14,117**	**14,625**	**431**	**29,173**
Total Assets	**17,224**	**18,460**	**630**	**36,314**
LIABILITIES				
Current Liabilities				
Payables	189	447	-	636
Provisions	2,557	4,183	199	6,939
Total Current Liabilities	**2,746**	**4,630**	**199**	**7,575**
Non-Current Liabilities				
Provisions	14,478	13,830	431	28,739
Total Non-Current Liabilities	**14,478**	**13,830**	**431**	**28,739**
Total Liabilities	**17,224**	**18,460**	**630**	**36,314**
Net Assets	**-**	**-**	**-**	**-**

notes to the financial statements

for the year ended 30 June 2016

Statements of Comprehensive Income of Funds transferred are as follows:

Bush Fire Fighters Compensation Fund

	1/7-31/8/15 $'000	1/9-30/6/16 $'000	2016 $'000	2015 $'000
Revenue				
Contribution revenue	1,186	509	1,695	576
Interest	-	-	-	2
Total Revenue	**1,186**	**509**	**1,695**	**578**
Expenses excluding losses				
Operating Expenses				
Claims expenses	1,022	(392)	630	(370)
Other operating expenses	112	605	717	495
Finance costs	52	296	348	453
Total Expenses excluding losses	**1,186**	**509**	**1,695**	**578**
Net Result	**-**	**-**	**-**	**-**
Total comprehensive income	**-**	**-**	**-**	**-**

Emergency and Rescue Workers Compensation Fund

	1/7-31/8/15 $'000	1/9-30/6/16 $'000	2016 $'000	2015 $'000
Revenue				
Contribution revenue	1,334	3,251	4,585	7,186
Total Revenue	**1,334**	**3,251**	**4,585**	**7,186**
Expenses excluding losses				
Operating Expenses				
Claims expenses	1,124	2,106	3,230	-
Other operating expenses	154	842	996	6,868
Finance costs	56	303	359	318
Total Expenses excluding losses	**1,334**	**3,251**	**4,585**	**7,186**
Net Result	**-**	**-**	**-**	**-**
Total comprehensive income	**-**	**-**	**-**	**-**

notes to the financial statements

for the year ended 30 June 2016

Supplementary Sporting Injuries Fund

	1/7-31/8/15 $'000	1/9-30/6/16 $'000	2016 $'000	2015 $'000
Revenue				
Contribution revenue	44	(209)	(165)	49
Total Revenue	**44**	**(209)**	**(165)**	**49**
Expenses excluding losses				
Operating Expenses				
Claims expenses	-	(314)	(314)	-
Other operating expenses	44	93	137	49
Finance costs	-	12	12	-
Total Expenses excluding losses	**44**	**(209)**	**(165)**	**49**
Net Result	**-**	**-**	**-**	**-**
Total comprehensive income	**-**	**-**	**-**	**-**

16. Commitments for expenditure – Operating lease commitments

SI had two commercial property leases. The leases were surrendered when staff moved to different premises.

Future minimum rentals payable under non-cancellable operating leases as at 30 June are as follows:

	2016 $'000	2015 $'000
Future non-cancellable operating lease rentals not provided for and payable:		
Not later than one year	-	587
Later than one year and not later than five years	-	504
Total (including GST)	**-**	**1,091**

Operating lease commitments are inclusive of GST. The total amount above includes input tax credits of $nil (2015: $99,000) that are expected to be recovered from the Australian Taxation Office.

notes to the financial statements

for the year ended 30 June 2016

17. Budget review

Statement of comprehensive income for the year ended 30 June 2016

	Notes	Actual 2016 $'000	Budget 2016 $'000
Revenue			
Sale of goods and services	2(b), 14	988,652	1,119,857
Investment revenue	2(c), 14	171,325	540,716
Grants and contributions	3(d), 14	105,000	10,000
Other revenue		190	10
Total Revenue		**1,265,167**	**1,670,583**
Expenses excluding losses			
Operating Expenses			
Claims expenses	3(a), 14	1,295,888	1,509,204
Outwards insurance expense		38,567	42,421
Unexpired risk liability expense	13(b)	21,355	23,046
Other operating expenses	3(b), 14	235,337	214,781
Personnel services fees		984	7,250
Depreciation and amortisation	3(c), 14	792	1,485
Grants and subsidies	3(d), 14	185,000	-
Total Expenses excluding losses		**1,777,923**	**1,798,187**
Net Result		**(512,756)**	**(127,604)**
Total comprehensive income		**(512,756)**	**(127,604)**

Net result

Actual net result for SI as at 30 June 2016 is a deficit of $513 million compared to the budgeted deficit of $128 million, an unfavourable variance of $382 million. This unfavourable result is mainly due to the following major items:

- Decrease in investment income of $369 million due to weaker investment market conditions of the TCorp TMF facility of 2.09% p.a. compared to a budget assumption of 6.5% for the same period.
- Adverse impact of $162 million in the outstanding claims liability attributable to the reforms to the workers compensation scheme introduced in September 2015 in New South Wales.
- Premium hindsight reimbursement to TMF member agencies of $101 million related to favourable claims experience for fund years 2010/11 and 2012/13.
- Net payment of $80 million to the Consolidated Fund related to the December 2015 Net Asset Holding Level assessment resulting in the transfer of assets exceeding the target funding ratio.
- The above unfavourable impacts were partially offset by the continued improvement in the actual claims experience mostly attributable to the reforms to the workers compensation scheme introduced in June 2012 in New South Wales and to changes in actuarial assumptions for the public liability portfolio.

notes to the financial statements

for the year ended 30 June 2016

Statement of financial position as at 30 June 2016

	Notes	Actual 2016 $'000	Budget 2016 $'000
ASSETS			
Current Assets			
Cash and cash equivalents	4	274,443	194,983
Receivables	5	119,391	167,440
Total Current Assets		**393,834**	**362,423**
Non-Current Assets			
Receivables	5	189,016	246,026
Investments	6	7,734,331	8,342,373
Plant and equipment	8	7	253
Intangible assets	9	3,253	9,114
Other	10	-	12
Total Non-Current Assets		**7,926,607**	**8,597,778**
Total Assets		**8,320,441**	**8,960,201**
LIABILITIES			
Current Liabilities			
Payables	11	205,918	170,240
Outstanding claims provision	12	1,022,439	1,029,874
Unearned premiums	13	55,728	65,639
Total Current Liabilities		**1,284,085**	**1,265,753**
Non-Current Liabilities			
Outstanding claims provision	12	5,938,185	6,469,046
Unearned premiums & unexpired risk liability	13	293,417	261,983
Total Non-Current Liabilities		**6,231,602**	**6,731,029**
Total Liabilities		**7,515,687**	**7,996,782**
Net Assets		**804,754**	**963,419**
EQUITY			
Accumulated funds		804,754	963,419
Total Equity		**804,754**	**963,419**

Assets and liabilities

SI's total assets as at 30 June 2016 were $8,320 million compared to the original budget of $8,960 million. The decrease is mainly due to lower than expected investment returns.

notes to the financial statements

for the year ended 30 June 2016

Total liabilities were $7,515 million which is lower than the original budget of $7,997 million mainly due to the decrease in the provision for outstanding claims liabilities attributable to improvements in claims experience and changes in actuarial assumptions for the workers compensation and liability portfolios. This reduction in the provision was partially offset by an increase in provision related to the reforms to the NSW workers compensation scheme introduced in September 2015.

Statement of cash flows for the year ended 30 June 2016

	Notes	Actual 2016 $'000	Budget 2016 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Premiums received		1,089,396	1,130,192
Claims paid		(1,112,893)	(1,127,627)
Total Scheme		**(23,497)**	**2,565**
CASH FLOWS FROM OTHER OPERATING ACTIVITIES			
Receipts			
Interest received	2(c)	13,990	12,720
Investment income	2(c)	471,721	296,140
Grants from the Crown	3(e)	105,000	10,000
Proceeds from sale of Investment		380,000	195,001
Other		-	179,066
Total Receipts		**970,711**	**692,927**
Payments			
Personnel services fees		(984)	(7,250)
Grants to the Crown	3(e)	(185,000)	-
Purchases of investments		(571,721)	(296,140)
Other		(196,901)	(438,359)
Total Payments		**(954,606)**	**(741,749)**
Total cash flows from other operating activities	**4**	**(7,392)**	**(46,257)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of plant and equipment	8	-	(110)
Sale of plant and equipment	8	186	-
Purchases of intangibles/software	9	(1,017)	(7,280)
Total cash flows from investing activities		**(831)**	**(7,390)**
NET INCREASE/(DECREASE) IN CASH		**(8,223)**	**(53,647)**
Opening cash and cash equivalents		**282,666**	**248,630**
CLOSING CASH AND CASH EQUIVALENTS	**4**	**274,443**	**194,983**

notes to the financial statements

for the year ended 30 June 2016

Cash flows

Cash and equivalents held as at 30 June 2016 are $79 million higher than budget mainly due to higher than expected sales of investments.

18. Contingent liabilities

There were no contingent liabilities as at the year ended 30 June 2016 (2015: nil).

19. Events after the reporting date

Subsequent to 30 June 2016 the NSW Government approved the reimbursement of losses realised by the HBCF due to the underpricing of insurance premiums written. HBCF is also able to apply for reimbursement in retrospect annually as unfunded expenses are incurred.

END OF AUDITED FINANCIAL STATEMENTS

hbcf

Home Building Compensation Fund

hbcf financial statements

for the year ended 30 June 2016

Notes to the Financial Statements

HOME BUILDING COMPENSATION FUND

Actuarial Certificate
Outstanding claims liabilities at 30 June 2016

PricewaterhouseCoopers (PwC) has been contracted by the NSW Self Insurance Corporation (now part of Insurance & Care NSW or icare) to make estimates of the outstanding claims liabilities as at 30 June 2016 of the Home Building Compensation Fund.

Data

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

Basis of Our Estimates

We have made central estimates of the outstanding claims liabilities, meaning that our assumptions have been selected to yield estimates that are 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 investment return;
- 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 2016, net of recoveries, including claims handing expenses and a risk margin of 15%, is $134.48 million. This amount is made up as follows:

Table 1 - Home Building Compensation Fund Outstanding Claims Liability at 30 June 2016	$m
Gross Outstanding Claims	136.31
Less Anticipated Recoveries	1.83
Net Outstanding Claims	134.48

The gross outstanding claims liability for the Home Building Compensation Fund includes an allowance for expenses of $10.63 million (excluding risk margins) to meet the cost of management of claims outstanding (including claims incurred but yet to be reported) as at 30 June 2016. The allowance for claim handling expenses included in the Home Building Compensation Fund liability equates to 10% of the net outstanding claims liability.

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

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, future movements in the building cycle, tail development of multi-unit claims, and changes to underwriting, claim management and builder eligibility guidelines.

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

Reports

Full details of data, methodology, assumptions and results are set out in our valuation report dated 9 August 2016.

Relevant Standards

Our estimates and reports for the Home Building Compensation Fund are prepared in accordance with the Australian Accounting Standard AASB1023, and the Institute of Actuaries of Australia's Professional Standard 300, which relates to estimation of outstanding claims liabilities.

Andrew Smith	Peter Hardy
FIAA	FIAA
14 October 2016	14 October 2016

statement by the chairman and chief executive officer

for the year ended 30 June 2016

Home Building Compensation Fund

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

In the opinion of the directors of Insurance & Care NSW:

1. The financial report of the Home Building Compensation Fund have been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit regulation 2015* and the Treasurers' Directions. They have also been prepared in accordance with Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board.
2. The financial report for the year ended 30 June 2016 exhibit a true and fair view of the position and transactions of the Home Building Compensation Fund; and
3. The directors are not aware of any circumstances as at the date of this certificate which would render any particulars included in the financial statements misleading or inaccurate.

Signed on behalf of the Board of Directors:

Michael Carapiet
Chairman
Insurance and Care NSW
26 September 2016

Vivek Bhatia
Chief Executive Officer
NSW Self Insurance Corporation and
Insurance and Care NSW
26 September 2016

AUDITOR-GENERAL
NEW SOUTH WALES

INDEPENDENT AUDITOR'S REPORT

Home Building Compensation Fund

To Members of the New South Wales Parliament

Opinion

I have audited the accompanying financial statements of the Home Building Compensation Fund (the Fund) which comprise the statement of financial position as at 30 June 2016, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information.

In my opinion, the financial statements:

- give a true and fair view of the financial position of the Fund as at 30 June 2016, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards
- are in accordance with section 41B of the *Public Finance and Audit Act 1983* (PF&A Act) and the Public Finance and Audit Regulation 2015.

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

Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under those standards are further 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 auditor independence requirements of:

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

I have also fulfilled my other ethical responsibilities in accordance with the Code.

The PF&A Act further 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, but precluding the provision of non-audit services.

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

Emphasis of Matter

Without modification to the opinion expressed above, I draw attention to the provision for outstanding claims of $134 million disclosed in Note 12. The note describes a significant uncertainty in the measurement of the provision for outstanding claims, which arises mainly due to limited claims experience to date. As disclosed in Note 1, the Fund commenced operations on 1 July 2010.

The Chief Executive's Responsibility for the Financial Statements

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

In preparing the financial statements, the Chief Executive must assess the Fund's ability to continue as a going concern unless the Fund will be dissolved by an Act of Parliament or otherwise cease operations. The assessment must include, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

Auditor's Responsibility 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 further description of my responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/Home.aspx.
The description forms part of my auditor's report.

My opinion does *not* provide assurance:

- that the Fund carried out its activities effectively, efficiently and economically
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented.

A Oyetunji
Director, Financial Audit Services

30 September 2016
SYDNEY

statement of comprehensive income

for the year ended 30 June 2016

	Notes	2016 $'000	2015 $'000
Income			
Net premium revenue	3	47,544	35,856
Investment income	4	1,470	1,813
Other income	3	599	127
Total Income		**49,613**	**37,796**
Expenses			
Claims expenses	3, 5	64,163	54,526
Acquisition costs	8	33,040	31,971
Unexpired risk liability expense	11	21,355	33,334
Other expenses	6	13,064	6,910
Total Expenses		**131,622**	**126,741**
Net Result		**(82,009)**	**(88,945)**
Other comprehensive income		**-**	**-**
Total Comprehensive Income		**(82,009)**	**(88,945)**

The accompanying notes form part of these statements.

statement of financial position

as at 30 June 2016

	Notes	2016 $'000	2015 $'000
Assets			
Current Assets			
Cash and cash equivalents	14	99,584	72,058
Receivables	7	12,525	13,985
Total Current Assets		**112,109**	**86,043**
Non-Current Assets			
Intangible Assets	9	3,241	2,954
Total Non-Current Assets		**3,241**	**2,954**
Total Assets		**115,350**	**88,997**
Liabilities			
Current Liabilities			
Payables	10	17,731	11,100
Unearned premiums	11	53,718	41,434
Provision for outstanding claims	12	37,252	29,259
Total Current Liabilities		**108,701**	**81,793**
Non-Current Liabilities			
Unearned premiums	11	182,273	156,112
Provision for outstanding claims	12	97,229	63,291
Unexpired risk liability.	11	102,965	81,610
Total Non-Current Liabilities		**382,467**	**301,013**
Total Liabilities		**491,168**	**382,806**
Net Assets		**(375,818)**	**(293,809)**
Equity			
Accumulated Deficit		(375,818)	(293,809)
Total Equity		**(375,818)**	**(293,809)**

The accompanying notes form part of these statements.

statement of changes in equity

for the year ended 30 June 2016

	Notes	Accumulated Funds $'000	Total Equity $'000
Balance at 1 July 2015		**(293,809)**	**(293,809)**
Deficit for the year		(82,009)	(82,009)
Other comprehensive income		-	-
Total comprehensive result for the year		**(375,818)**	**(375,818)**
Transactions with owners in their capacity as owners		-	-
Balance at 30 June 2016		**(375,818)**	**(375,818)**
Balance at 1 July 2014		(204,864)	(204,864)
Deficit for the year		(88,945)	(88,945)
Other comprehensive income		-	-
Total comprehensive result for the year		**(293,809)**	**(293,809)**
Transactions with owners in their capacity as owners		-	-
Balance at 30 June 2015		**(293,809)**	**(293,809)**

The accompanying notes form part of these statements.

statement of cash flows

for the year ended 30 June 2016

	Notes	2016 $'000	2015 $'000
Receipts			
Premiums received		95,251	76,479
Investment income		1,470	1,813
Other income		599	127
Total Receipts		**97,320**	**78,419**
Payments			
Claims and expenses paid		22,232	14,932
Management fees		36,344	35,451
GST paid		1,401	3,161
Other		8,803	4,484
Total Payments		**68,780**	**58,028**
Net cash from Operating Activities	14	**28,540**	**20,391**
Cash flow from Investing Activities			
Purchase of Intangible Assets		**1,014**	**2,061**
Net increase in cash and cash equivalents		27,526	18,330
Cash and cash equivalents at the beginning of the year		72,058	53,728
Cash and cash equivalents at the end of the period	14	**99,584**	**72,058**

The accompanying notes form part of these statements.

notes to the financial statements

for the year ended 30 June 2016

1. NSW Home Building Compensation Fund information

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 Corporations Act, 2004* (the SICorp Act).

The 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, QBE Insurance (Australia) Limited (QBE) and Residential Builders Underwriting Agency Pty Ltd (RBUA) formerly known as Calliden Insurance Limited (Calliden).

In accordance with s12A of the SICorp Act, HBCF may receive financial support by way of money advanced by the Minister or appropriated by the Parliament for the purposes of the HBCF.

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

notes to the financial statements

for the year ended 30 June 2016

2. Summary of significant accounting policies

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with the requirements of the:

- *Public Finance and Audit Act 1983*
- *Public Finance & Audit Regulation 2010*
- NSW Treasury Policy Papers and Treasury Circulars

The financial statements also comply with applicable Australian Accounting Standards which include Australian Accounting Interpretations. As the Home Building Compensation Fund (HBCF) is a general insurance fund, the financial statements have been prepared in accordance with AASB 1023 'General Insurance Contracts'.

The financial statements are presented in Australian dollars and all amounts are rounded to the nearest thousand dollars ($'000).

As HBCF is a fund established within SICorp under s8A of the SICorp Act, the financial statements are aggregated into SICorp's financial statements.

(b) 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 16 for more information on events that occurred after the Reporting Date which further supports this basis.

(c) Use of estimates and judgements

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances.

(d) 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.

(e) New standards and interpretations not yet effective

Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the reporting year ending 30 June 2016. The following new Standards will not have any direct impact on the financial performance or position of HBCF.

- AASB 7, AASB 9, AASB 132, AASB 139 and AASB 2014-7 regarding financial instruments
- AASB 4 regarding latest version of Insurance contracts
- AASB 13 regarding latest version of fair value measurement
- AASB 15, AASB 2014-5 and AASB 2015-8 regarding Revenue from Contracts with Customers
- AASB 16 regarding leases
- AASB 1057 and AASB 2015-9 Application of Australian Accounting Standards
- AASB 2014-4 regarding acceptable methods of depreciation and amortisation
- AASB 2015-1 regarding annual improvements to Australian Accounting Standards 2012-2014 cycle
- AASB 2015-2 regarding amendments to AASB 101 disclosure initiatives
- AASB 2015-6 Amendments to Australian Accounting Standards – Extending Related Party Disclosures to Not-for-Profit Public Sector Entities
- AASB 2015-7 Amendments to Australian Accounting Standards – Fair Value Disclosures of Not-for-Profit Public Sector Entities

AASB 9 Financial Instruments and its associated amending standards specify new recognition and measurement requirements for financial assets and financial liabilities within the scope of AASB 139 Financial Instruments: Recognition and Measurement.

HBCF already values its financial assets and financial liabilities at fair value through profit or loss. Therefore when applied, the only material impact of these standards will be on the presentation of the financial statements and disclosures in the notes.

The proposed amendments to AASB4 Insurance Contracts specify the financial reporting for insurance contracts. The changes will not impact the financial statements based on the current proposal. However, HBCF will conduct a full impact assessment of implementing the Standard before 1 January 2018.

notes to the financial statements

for the year ended 30 June 2016

HBCF has not early adopted any new standards and interpretations in compliance with NSW Treasury mandates per Treasury Circular NSW TC15/03.

(f) New, revised or amending standards and interpretations

HBCF has adopted all of the new, revised or amending Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are relevant and effective for the current reporting year.

Any significant impacts on the accounting policies of the HBCF from the adoption of these accounting standards and interpretations are disclosed in the relevant accounting policy.

(g) Goods and Service Taxes

Revenue, expenses and assets are recognised net of Goods and Services Tax (GST), except where the GST is either part of the cost of acquiring an asset, or part of an item of expense not recoverable from the Australian Tax Office.

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.

3. Underwriting result

(a) Premium revenue

Premiums are recognised as income earned on a straight line basis over the period of the insured risk (7 years). 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 an unearned premium liability.

	2016 $'000	2015 $'000
Premium revenue		
Gross written premiums	85,989	75,161
Movement in unearned premium	(38,445)	(39,305)
Net premium revenue	**47,544**	**35,856**
Recoveries income	599	127
Movement in outstanding claims provision	(41,931)	(39,594)
Claims paid	(22,232)	(14,932)
Acquisition costs	(33,040)	(31,971)
Unexpired risk liability	(21,355)	(33,334)
Total underwriting loss	**(70,415)**	**(83,848)**

notes to the financial statements

for the year ended 30 June 2016

4. Investment income

Investment income includes interest income and net realised and unrealised gains or losses from changes in the fair value of investments.

Interest revenue is recognised as interest accrues. Gains or losses arising from changes in the fair value of investments are recognised in the Statement of Comprehensive Income in the period in which they arise.

	2016 $'000	2015 $'000
Bank interest	1,470	913
Return on Hour Glass Facility		
Revenue from financial assets held at fair value	-	929
Gains/(losses) from financial assets held at fair value	-	(29)
	1,470	**1,813**

5. Claims expenses

Claims expenses are recognised when incurred. Included in claims expenses are actuarially determined revisions to the outstanding claims provisions.

	2016 $'000	2015 $'000
Claims paid	22,232	14,932
Net claims movement – undiscounted	36,644	35,775
Discount movement	(182)	(1,345)
Risk margin movement	5,469	5,164
Net claims incurred – discounted	**41,931**	**39,594**
Total claims expense	**64,163**	**54,526**

notes to the financial statements

for the year ended 30 June 2016

6. Other expenses

	2016 $'000	2015 $'000
Actuarial expenses	125	395
Service fees to Icare[1]	11,242	-
Bank charges	25	1
Consultancy	1,084	1,077
Audit fees - audit of financial statements	-	28
Personnel costs	224	1,369
Contractors	219	783
Agent fees	-	1,835
Administration costs	120	1,120
Other	25	302
	13,064	**6,910**

[1] 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. Included in the service fee paid to icare is the $56,000 audit fee for the financial statements performed by the Audit Office of NSW.

Employee arrangements

The HBCF has no employees. Its work was performed by staff from the NSW Department of Finance, Services and Innovation until 1 September 2015 and then by staff from Insurance & Care NSW (icare).

7. Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets, for example premium receivables, are of a short-term nature and are reported at the original invoice amount as the effect of discounting is immaterial.

The collection of trade 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 as incurred.

	2016 $'000	2015 $'000
Current		
Premiums receivable	11,657	10,714
Goods and Services Tax	-	2,848
Other	868	423
	12,525	**13,985**

Refer to note 15 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 2016

8. Acquisition costs

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 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.

	2016 $'000	2015 $'000
As at 1 July	-	-
Acquisition costs incurred during the year	33,040	31,971
Acquisition costs amortised during the year	(2,105)	(2,114)
Net deficiency write down*	(30,935)	(29,857)
As at 30 June	**-**	**-**
Acquisition costs recognised in the Statement of Comprehensive Income comprise:		
Acquisition costs amortised during the year	(2,105)	(2,114)
Net deficiency write down*	(30,935)	(29,857)
	(33,040)	**(31,971)**

* Refer to Note 11 Unearned Premium Liability. Due to the unearned premium liability deficiency as identified by the Liability Adequacy Test (LAT), deferred acquisition costs are written down.

9. Intangible assets

Intangible assets include capitalised expenditures for system development costs and computer software.

Intangibles are initially measured at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation. Computer software costs are amortised on a straight line basis over 5 years.

	2016 $'000	2015 $'000
As at 1 July	2,954	-
Additions	1,015	2,954
Accumulated amortisation and impairment	(728)	-
Net carrying amount at 30 June	**3,241**	**2,954**

Intangible Assets comprises development costs of an insurance computer system. The system went live in August 2015 and depreciation has been charged from the go live date.

notes to the financial statements

for the year ended 30 June 2016

10. Payables

Trade and other payables are carried at cost and are liabilities for goods and services provided, but not paid for as at the reporting date. This occurs when the HBCF becomes obliged to make future payments in respect of goods and services.

Trade and other payables are short-term payables with no stated interest rate and are measured at original invoice amount as the effect of discounting is immaterial.

Refer to note 15 for further information regarding credit risk, liquidity risk and market risk arising from financial instruments.

	2016 $'000	2015 $'000
Commission payable	7,749	5,644
Stamp duty payable	1,630	741
Accrued expenses	8,134	4,715
Goods and Services Tax	218	-
	17,731	**11,100**

Payables are non-interest bearing and are generally on 30 day terms

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 2016

11. Unearned premium liability

	2016 $'000	2015 $'000
As at 1 July	197,546	158,241
Gross written premiums	85,989	75,161
Premiums earned during the year	(47,544)	(35,856)
As at 30 June	**235,991**	**197,546**
Current	53,718	41,434
Non-current	182,273	156,112
	235,991	**197,546**

(a) Liability adequacy test (LAT)

At reporting date, a liability adequacy test (LAT) is performed by the Fund Actuary.

The LAT is an assessment as to whether the unearned premium liability (less any deferred acquisition costs) recognised in the Statement of Financial Position, is sufficient to meet the estimated present value of future cash flows relating to future claims. 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 $133.9 million (2015: $111.5 million). The deficit, after deducting the opening balance in the unexpired risk liability, is recognised in the Statement of Comprehensive Income.

notes to the financial statements

for the year ended 30 June 2016

	2016 $'000	2015 $'000
Unexpired risk liability		
Unexpired risk liability as at 1 July	81,610	48,276
Recognition of additional unexpired risk liability in the year	21,355	33,334
Unexpired risk liability as at 30 June	**102,965**	**81,610**
Deficiency recognised in the Statement of Comprehensive Income		
Gross movement in unexpired risk liability	(21,355)	(33,334)
Write down of deferred acquisition costs*	(30,935)	(29,857)
Total deficiency recognised in the Statement of Comprehensive Income	**(52,290)**	**(63,191)**
Calculation of deficiency		
Unearned premium liability	235,991	197,546
Acquisition costs*	(30,935)	(29,857)
	205,056	**167,689**
Central estimate of present value of expected future cashflows arising from future claims	294,744	242,744
Risk Margin	44,212	36,412
Premium liability provision	**338,956**	**279,156**
Net Deficiency	**133,900**	**111,467**

*Refer Note 8 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 6.1 years (2015: 5.9 years)

notes to the financial statements

for the year ended 30 June 2016

12. Provision for outstanding claims

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

The liability for claims includes:

- claims incurred but not yet paid
- incurred but not yet reported (IBNR)
- claims incurred but not enough reported (IBNER)
- expected claims handling costs

The provision for outstanding claims is determined by the Fund Actuary in conjunction with information supplied by the HBCF Insurance Agents. It is measured as the central estimate of the present value of the expected future payments required to settle the present obligation at the report date. It includes an additional risk margin to allow for the inherent uncertainty in the central estimate.

The uncertainty has been determined based on a basis that reflects the Home Building Compensation Fund's business. Regard is had to the robustness of the valuation models, the reliability and volume of the available data, past experience of the NSW home warranty insurance market and the characteristics of the business written.

The risk margin used provides an estimate at a 75% probability of adequacy.

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 takes account of non-economic inflationary factors, such as increases in court costs. 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.

	2016 $'000	2015 $'000
Current	37,252	29,259
Non current	97,229	63,291
	134,481	**92,550**
Case estimates	34,925	20,879
IBNR	75,504	56,238
Claims handling expenses	11,043	7,712
Discount to present value	(4,532)	(4,350)
Central estimate	**116,940**	**80,479**
Risk margin	17,541	12,071
	134,481	**92,550**
Discount rates and term to settlement		
Discount rates		
Not later than one year	1.6%	2.0%
Later than one year	1.6% - 3.4%	2.0% - 4.5%
Inflation rates	2.7%	3.6%
Superimposed inflation rates	2.3%	1.4%
Weighted average term to settlement	2.3 years	2.3 years

notes to the financial statements

for the year ended 30 June 2016

The discount rate is derived from market yields on Commonwealth government bonds at the reporting date that have similar duration to the liability cash flows.

	Gross $'000	Reinsurance $'000	Net $'000
As at 1 July 2015	92,550	-	92,550
Claims incurred during the year	64,163	-	64,163
Incurred claims recognised in the Statement of Comprehensive Income	**64,163**	**-**	**64,163**
Claims payments during the year	(22,232)	-	(22,232)
As at 30 June 2016	**134,481**	**-**	**134,481**
As at 1 July 2014	52,956	-	52,956
Claims incurred during the year	54,526	-	54,526
Incurred claims recognised in the Statement of Comprehensive Income	**54,526**	**-**	**54,526**
Claims payments during the year	(14,932)	-	(14,932)
As at 30 June 2015	**92,550**	**-**	**92,550**

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

	2016 $'000	2015 $'000
Outstanding claims maturity		
Estimate of net cash flows:		
Less than one year	34,154	23,358
1 to 2 years	27,422	18,276
2 to 5 years	37,008	26,815
Over 5 years	11,845	8,668
Current estimate of net cash flows	**110,429**	**77,117**
Discount	(4,532)	(4,350)
Claims handling expense	11,043	7,712
Risk margin	17,541	12,071
Total net outstanding claims liability	**134,481**	**92,550**
Current	37,252	29,259
Non-current	97,229	63,291
	134,481	**92,550**

notes to the financial statements

for the year ended 30 June 2016

Claims Development Table

Underwriting Year	2011 $'000	2012 $'000	2013 $'000	2014 $'000	2015 $'000	2016 $'000	Total $'000
Estimate of ultimate claims cost							
At the end of underwriting year	38,386	66,963	78,338	89,186	98,858	118,917	
One year later	85,728	77,575	67,677	82,364	88,800		
Two years later	87,257	70,492	72,070	80,577			
Three years later	79,862	77,698	70,668				
Four years later	83,291	74,853					
Five years later	81,368						
Six years later							
Current estimate of cumulative claim costs	81,368	74,853	70,668	80,577	88,800	118,917	515,183
Cumulative net claim payments	48,768	34,547	13,329	6,018	2,347	240	105,247
Net undiscounted central estimate	32,601	40,307	57,339	74,559	86,453	118,677	409,936
Effect of discounting	(1,466)	(2,387)	(3,641)	(6,778)	(9,343)	(15,631)	(39,246)
Claims handling expense	3,260	4,031	5,734	7,456	8,645	11,868	40,994
Risk margin	5,159	6,293	8,915	11,286	12,863	17,237	61,753
Total insurance liability at 30 June 2016	**39,554**	**48,243**	**68,347**	**86,523**	**98,618**	**132,152**	**473,436**
Premium Liability							338,955
Outstanding claims liability at 30 June 2016							**134,481**

The Claims Development Table above includes the effect of the premium liability provision calculated under the Liability Adequacy Test (LAT). Refer note 11.

notes to the financial statements

for the year ended 30 June 2016

(a) Sensitivity analysis

The impact that possible changes in key actuarial assumptions have on the financial results is shown in the following tables:

Variable	Movement in Variable	Financial Impact: 2016 Change in oustanding claims liability $'000	%	2016 Change in insurance liability $'000	%	Total Profit / Loss before tax* $'000	LAT Deficiency $'000
Base		**134,481**		**473,436**			**136,005**
Weighted average term to settlement (years)	+0.5 years	2,386	1.8%	8,163	1.7%	(8,163)	141,782
	-0.5 years	(2,344)	-1.7%	(8,025)	-1.7%	8,025	130,324
Inflation rate	+1	2,754	2.0%	20,725	4.4%	(20,725)	153,976
	-1	(2,724)	-2.0%	(20,041)	-4.2%	20,041	118,688
Discount rate	+1	(3,038)	-2.3%	(22,884)	-4.8%	22,884	116,159
	-1	3,139	2.3%	24,289	5.1%	(24,289)	157,155
Claims handling expense ratio	+1	1,223	0.9%	4,304	0.9%	(4,304)	139,086
	-1	(1,223)	-0.9%	(4,304)	-0.9%	4,304	132,923
Risk margin	+1	1,169	0.9%	4,117	0.9%	(4,117)	138,952
	-1	(1,169)	-0.9%	(4,117)	-0.9%	4,117	133,057
Loss ratio	+25%	24,411	18.2%	104,373	22.0%	(104,373)	215,967
	-25%	(24,411)	-18.2%	(104,373)	-22.0%	104,373	56,042
Event frequency	+100% (1 in 2.5 yrs)	-	0.0%	27,245	5.8%	(27,245)	163,250

*Note: Total Profit/(loss) before tax includes the estimated impact of a revised Liability Adequacy Test result.

notes to the financial statements

for the year ended 30 June 2016

Variable	Movement in Variable	Financial Impact					
		2015 Change in oustanding claims liability		2015 Change in insurance liability		Total Profit / Loss before tax	Net Result*
		$'000	%	$'000	%	$'000	$'000
Base		**92,550**		**371,706**			
Weighted average term to settlement (years)	+0.5 years	1,372	1.5%	4,925	1.3%	(4,925)	(4,925)
	-0.5 years	(1,352)	-1.5%	(4,861)	-1.3%	4,861	4,861
Inflation rate	+1	1,946	2.1%	16,537	4.4%	(16,537)	(16,537)
	-1	(1,924)	-2.1%	(15,980)	-4.3%	15,980	15,980
Discount rate	+1	(2,134)	-2.3%	(17,994)	-4.8%	17,994	17,994
	-1	2,206	2.4%	19,099	5.1%	(19,099)	(19,099)
Claims handling expense ratio	+1	841	0.9%	3,379	0.9%	(3,379)	(3,379)
	-1	(841)	-0.9%	(3,379)	-0.9%	3,379	3,379
Risk margin	+1	805	0.9%	3,232	0.9%	(3,232)	(3,232)
	-1	(805)	-0.9%	(3,232)	-0.9%	3,232	3,232
Loss ratio	+25%	16,816	18.2%	81,321	21.9%	(81,321)	(81,321)
	-25%	(16,816)	-18.2%	(81,321)	-21.9%	81,321	81,321
Event frequency	+100% (1 in 2.5 yrs)	-	0.0%	23,782	6.4%	(23,782)	(23,782)

* Net result includes the estimated impact of a revised Liability Adequacy Test result.

The outstanding claims liability represents the best estimate and is based on standard actuarial assessment. Significant uncertainty exists as to the long term nature of the liabilities.

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

- The amount of post reform (i.e. following 30 June 2002) claims experience is yet to fully mature and the modelling is based in part on benchmarking against pre-reform experience.
- The future building cycle is uncertain, especially the length and the severity of future economic downturns, and this will impact the emergence of future builder insolvencies and hence future claims costs.
- The new publicly underwritten arrangement will inevitably lead to a change in underwriting, claims management and builder eligibility guidelines compared to the private insurer arrangements, and this will likely have flow-on impacts or unintended consequences on future claims experience.
- There is particular uncertainty around how defect claims are likely to emerge and develop, especially in respect to multi-unit covers.
- 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.

notes to the financial statements

for the year ended 30 June 2016

13. Insurance risk management

The fund's financial condition and operating activities are affected by a number of key risks including insurance risk, credit risk and liquidity risk. The fund has implemented a general risk management framework to mitigate these insurance risks and these are outlined below;

1. The maintenance and use of management information systems that provide up-to-date, reliable data on the risks to which the fund is exposed.
2. 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.
3. Detailed underwriting procedures exist and are strictly followed for accepting risks.
4. Regular reviews and audits are performed on the underwriting function of brokers and insurance agents.
5. The majority of premiums are paid within payment terms. Outstanding debtors are managed by the Insurance Agents actively monitoring and reviewing the portfolio.
6. Investments are held in line with the expected claims risk profile to support reserves and accommodate significant claim payment obligations.

14. Notes to the statement of cashflows

(a) Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position comprise deposits held at call with banks.

	2016 $'000	2015 $'000
Cash and cash equivalents		
Cash at bank	99,584	72,058
	99,584	**72,058**
Reconciliation of net cash flows from operating activities to net surplus/(deficit) for the period		
Net Cash flows from operating activities	**28,540**	**20,391**
Adjustments for:		
Increase in outstanding claims	(41,930)	(39,594)
Increase in unearned premiums	(38,445)	(39,305)
Increase in payables	(6,631)	(4,194)
(Decrease)/Increase in receivables	(1,460)	6,198
Increase in unexpired risk liability	(21,355)	(33,334)
Adjustment for accrued intangible asset	-	893
Adjustment for amortisation	(728)	-
Net result for the year	**(82,009)**	**(88,945)**

notes to the financial statements

for the year ended 30 June 2016

15. Financial instruments

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

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

Management has overall responsibility for the establishment and oversight of risk management, and reviews and sets policies for managing each of these risks. Risk management policies are in place to establish frameworks and processes that identify and analyse the risks faced by HBCF, set risk limits and controls, and monitor risks.

The main purpose of these financial instruments is to derive income and investment gains which are used to fund insurance liabilities.

Note 2 details the key accounting policies and methods which include the recognition criteria, the basis of measurement and the income and expenses recognition for each class of financial instrument.

Financial instrument categories

	Notes	Category	2016 Carrying Amount $'000	2015 Carrying Amount $'000
Financial Assets				
Cash and cash equivalents	14	N/A	99,584	72,058
Receivables[1]	7	Receivables (measured at amortised cost)	12,525	11,137
Financial Liabilities				
Payables[2]	10	Payables (measured at amortised cost)	15,883	10,359

[1] Excludes statutory receivables of $zero (2015: $2,848,000).
[2] Excludes statutory payables of $1,848,000 (2015: $741,000).

Risk management

The activities of HBCF expose it to a variety of financial risks. These are:

- Market risks
  - interest rate risk
  - other price risk
- Credit risk
- Liquidity risk

(b) Market risks

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

The effects on HBCF's operating result due to reasonably possible changes in risk variables are outlined in the information below, for interest rate risk 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 assumes that all other variables remain constant.

notes to the financial statements

for the year ended 30 June 2016

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The following table provides the sensitivity analysis of interest rate risk affecting applicable financial assets on the operating result and equity of HBCF. A reasonably possible change of +/- 1% 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
2016					
Cash and cash equivalents	99,584	(996)	-	996	-
2015					
Cash and cash equivalents	72,058	(721)	-	721	-

Other price risk

HBCF has no exposure to price risk.

(c) Credit risk

Credit risk arises from the financial assets of HBCF, which comprise cash and cash equivalents, receivables and financial assets at fair value. 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 balance date.

Cash and cash equivalents

Cash comprises cash investment in banks. Interest is earned on daily bank balances.

Receivables

Receivables include premium receivables and related party 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 the entity 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.

notes to the financial statements

for the year ended 30 June 2016

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	
2016					
Receivables	1,549	151	439	958	-
2015					
Receivables	165	154	8	3	-

Concentration of credit risk

By Credit Rating	AAA $'000	AA+ $'000	AA $'000	AA- $'00	A+ $'000	A $'000	A- $'000	Other Ratings* $'000	Total $'000
2016									
Receivables	926	-	-	-	-	-	8,151	3,448	12,525
2015									
Receivables	3,271	-	-	-	-	-	6,726	3,988	13,985

*Short term ratings of A-2 or better, when counterparty has no long term rating or the long term rating is A or lower.

By classification of counterparty	Governments $'000	Commercial insurer $'000s	Other $'000	Total $'000
2016				
Receivables	-		12,525	12,525
2015				
Receivables	3,271	10,714	-	13,985

During the current year there were no defaults on receivables. HBCF's exposure to liquidity risk is deemed insignificant due to there being no requirement, to date, to write off bad debts.

notes to the financial statements

for the year ended 30 June 2016

(d) Liquidity risk

The table below summarises the maturity profile of HBCF's financial liabilities.

	Weighted average effective interest rate	Nominal amount $'000	Interest rate exposure $'000			Maturity dates $'000		
	%		Fixed interest rate	Variable interest rate	Non-interest bearing	< 1 year	1–5 years	>5 years
2016								
Payables	-	15,883	-	-	15,883	15,883	-	-
2015								
Payables	-	10,359	-	-	10,359	10,359	-	-

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.

16. Events after the reporting date

Subsequent to 30 June 2016 the NSW Government approved the reimbursement of losses realised by the HBCF due to the underpricing of insurance premiums written. HBCF is also able to apply for reimbursement in retrospect annually as unfunded expenses are incurred.

END OF AUDITED FINANCIAL STATEMENTS

workers insurance

Workers Compensation Nominal Insurer

workers insurance financial statements

for the year ended 30 June 2016

Notes to the Financial Statements

pwc

NSW WORKERS COMPENSATION
NOMINAL INSURER

Actuarial Certificate
Outstanding claims liabilities at 30 June 2016

PricewaterhouseCoopers (PwC) has been contracted by Insurance & Care NSW (icare), acting for the NSW Workers Compensation Nominal Insurer (Nominal Insurer), to make estimates of the outstanding claims liabilities as at 30 June 2016 of the NSW Workers Insurance Scheme.

Data

PwC has relied on historical data and other quantitative and qualitative information supplied by icare acting for the Nominal Insurer, and other parties 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. In addition to our central estimates, we have estimated the risk margin required in order to provide a probability of adequacy of 80%. Our estimates include allowances for:

- Future inflation and investment return;
- Future expected recoveries; and
- A risk margin of 15.6% of the net outstanding claims liability. This is intended to provide a probability of adequacy of 80%.

Valuation Results

The PwC estimated liability for the NSW Workers Insurance Scheme as at 30 June 2016, net of recoveries, including claims handing expenses and a risk margin of 15.6%, is $13,015 million. This amount is made up as follows:

Table 1 - NSW WorkCover Scheme Outstanding Claims Liability at 30 June 2016	$m
Gross Outstanding Claims	13,380
Less Anticipated Recoveries	365
Net Outstanding Claims	13,015

The gross outstanding claims liability for the NSW Workers Insurance Scheme includes an allowance for expenses of $1,021 million (excluding risk margins) to meet the cost of management of claims outstanding (including claims incurred but yet to be reported) as at 30 June 2016.

The allowance for claim handling expenses included in the NSW Workers Insurance Scheme liability equates to 9.7% of the gross outstanding claims liability.

It is a decision for icare acting for the Nominal Insurer 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 under the Scheme, 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 Scheme design and operation which have occurred.

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

Reports

Full details of data, method, assumptions and results for the NSW Workers Insurance Scheme are set out in our report dated 27 September 2016.

Relevant Standards

Our estimates and reports for the NSW Workers Insurance Scheme are prepared in accordance with the Australian Accounting Standard AASB1023, the Institute of Actuaries of Australia's Professional Standard 300, which relates to estimation of outstanding claims liabilities, and Accounting Guidance Release AAG13.

Michael Playford
FIAA
27 September 2016

Gavin Moore
FIAA
27 September 2016

statement by the chairman and chief executive officer

for the year ended 30 June 2016

NSW Workers Insurance Scheme
Financial Statements for the year ended 30 June 2016

In the opinion of the directors of Insurance and Care NSW:

(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 2016 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:

Michael Carapiet
Chairman/Director
Insurance and Care NSW
26 September 2016

Vivek Bhatia
Chief Executive Officer/Director
Insurance and Care
acting for the NSW Workers Insurance Scheme
26 September 2016

INDEPENDENT AUDITOR'S REPORT

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

To Members of the New South Wales Parliament

Opinion

I have audited the accompanying financial statements of the Workers Compensation Nominal Insurer (the Scheme), which comprise the statement of financial position as at 30 June 2016, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information.

In my opinion, the financial statements give a true and fair view of the financial position of the Scheme as at 30 June 2016, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards.

Basis for Opinion

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

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under those standards are further 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 auditor independence requirements of:

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

I have also fulfilled my other ethical responsibilities in accordance with the Code.

The PF&A Act further 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, but precluding the provision of non-audit services.

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

Emphasis of matter paragraph

I draw attention to the outstanding claims' liabilities in Note 16. The note describes the significant inherent uncertainty associated with measuring the Scheme's outstanding claims' liabilities of $13.4 billion as a result of the reforms to the Scheme. Whilst the liabilities are calculated using the standard actuarial approach, there is significant uncertainty regarding the estimate of the claims' liabilities because of limited experience available. My opinion is not modified in respect of this matter.

The Board's Responsibility for the Financial Statements

The Board of Directors of Insurance and Care NSW acting for the NSW Workers Insurance Scheme is responsible for preparing financial statements that give a true and fair view in accordance with Australian Accounting Standards and the PF&A Act, and for such internal control as the Board of Directors determine is necessary to enable the preparation of financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors must assess the Scheme's ability to continue as a going concern unless the Scheme will be dissolved by an Act of Parliament or otherwise cease operations. The assessment must include, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

Auditor's Responsibility 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 further description of my responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/Home.aspx.

The description forms part of my auditor's report.

My opinion does *not* provide assurance:

- that the Scheme carried out its activities effectively, efficiently and economically
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented.

A Oyetunji
Director, Financial Audit Services

30 September 2016
SYDNEY

statement of comprehensive income

for the year ended 30 June 2016

	Notes	2016 $'000	2015 $'000
Revenues			
Earned premiums	2	2,236,562	2,061,268
Recoveries	2	75,730	70,423
Investment income	3	1,038,137	1,416,087
Other income		8,394	8,109
Total Revenue		**3,358,823**	**3,555,887**
Expenses			
Claims incurred	2 & 4	2,993,945	1,159,114
Increase in unexpired risk premium		42,344	62,512
Service fees	5(a)	380,708	-
Other operating expenses	5(b)	267,382	608,135
Statutory levies	5(c)	312,913	292,719
Total Expenses		**3,997,292**	**2,122,480**
Net Result		**(638,469)**	**1,433,407**
Other Comprehensive Income			
Items that will not be reclassified to net result		-	-
Items that may be reclassified to net result		-	-
Total Comprehensive Income		**(638,469)**	**1,433,407**

The accompanying notes form part of these statements.

statement of financial position

as at 30 June 2016

	Notes	2016 $'000	2015 $'000
Current assets			
Cash and cash equivalents	6	718,951	776,490
Recoveries receivable	7	96,798	98,498
Trade and other receivables	8	750,367	640,714
Prepayments and other assets		121,005	104,467
Investments	9	15,943,041	15,175,948
Total current assets		**17,630,162**	**16,796,117**
Non-current assets			
Recoveries receivable	7	268,304	272,261
Trade and other receivables	8	129	702
Property, plant and equipment	10	54	-
Intangible assets	13	8,517	-
Total Non-current assets		**277,004**	**272,963**
Total assets		**17,907,166**	**17,069,080**
Current liabilities			
Bank overdraft	6	7,089	8,226
Trade and other payables	14	456,331	319,833
Unearned premiums	15	394,692	355,140
Outstanding claims	16	1,930,871	1,906,086
Unexpired risk premium	18	130,707	88,363
Security deposits	20	79,878	57,539
Derivative Liabilities	9	105,246	91,583
Total current liabilities		**3,104,814**	**2,826,770**
Non-current liabilities			
Outstanding claims	16	11,449,006	10,250,613
Restoration provisions	17	118	-
Total non-current liabilities		**11,449,124**	**10,250,613**
Total liabilities		**14,553,938**	**13,077,383**
Net assets		**3,353,228**	**3,991,697**
Equity			
Accumulated funds		**3,353,228**	**3,991,697**

The accompanying notes form part of these statements.

statement of changes in equity
for the year ended 30 June 2016

	2016 $'000	2015 $'000
Accumulated fund		
Balance at the beginning of financial year	3,991,697	2.558,290
Net Result for the year	(638,469)	1,433,407
Other Comprehensive Income	-	-
Total Comprehensive Income	**(638,469)**	**1,433,407**
Transactions with owners in their capacity as owners	**-**	**-**
Balance at the end of the financial year	**3,353,228**	**3,991,697**

The accompanying notes form part of these statements.

statement of cashflows

for the year ended 30 June 2016

	Notes	2016 Inflows (Outflows) $'000	2015 Inflows (Outflows) $'000
Cash flows from operating activities			
Premiums received		2,425,672	2,253,323
Claims paid		(1,798,128)	(1,794,806)
Total cash flows from underwriting activities		**627,544**	**458,517**
Receipts			
Proceeds from sale of investments		20,574,249	23,279,457
Recoveries received		80,178	84,914
Dividends received		121,408	99,788
Interest received		345,665	308,075
Security deposits received		92,499	27,707
Other receipts		37,266	22,252
Total Receipts		**21,251,265**	**23,822,193**
Payments			
Payments for investments		(20,720,153)	(23,258,465)
Scheme agent management fees paid		(7,254)	(371,437)
GST paid		(139,019)	(133,695)
Fund manager fees paid		(23,410)	(26,256)
Security deposits paid		(84,500)	(48,048)
Statutory levies paid		(314,439)	(293,056)
Service fees		(539,362)	-
Other payments		(102,738)	(55,680)
Total Payments		**(21,930,875)**	**(24,186,637)**
Net cash provided by/ (used in) operating activities	6	**(52,066)**	**94,073**
Cash flows from Investing activities			
Purchases of intangible assets		(4,336)	-
Net cash flows from investing activities		**(4,336)**	**-**
Net increase/(decrease) in cash and cash equivalents		**(56,402)**	**94,073**
Cash and cash equivalents at the beginning of the financial year		768,264	674,191
Cash and cash equivalents at the end of the financial year	6	**711,862**	**768,264**

The accompanying notes form part of these statements.

notes to the financial statements

for the year ended 30 June 2016

1. Summary of significant accounting policies

a) Constitution and functions

The Nominal Insurer is a not for profit entity that operates as a licensed workers compensation insurer and trades under the registered business name of "NSW Workers Insurance Scheme" (the Scheme). The Nominal Insurer is established under the *Workers Compensation Act 1987* and was created on 18 February 2005 by the *Workers Compensation Amendment (Insurance Reform) Act 2003*. It commenced operations on 1 July 2005. Under the *State Insurance & Care Governance Act 2015*, Insurance & Care NSW (icare) acts for the Nominal Insurer in accordance with section 154C of the *Workers Compensation Act 1987*.

The Scheme's financial statements include the Workers Compensation Insurance Fund (Insurance Fund) that holds premiums and all other funds received and is used to meet the Scheme's liabilities.

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.

b) Basis of preparation

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

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

c) Functional and presentation currency and rounding

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

Tables may not add in all instances due to rounding.

d) Use of estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

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

- Note 11 – Financial instruments
- Note 16 – Outstanding claims

e) 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.

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 2018.

notes to the financial statements

for the year ended 30 June 2016

f) Accounting Standards issued but not yet effective

Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the reporting period ending 30 June 2016. The following new Standards will not have any direct impact on the financial performance or position of the Scheme.

- AASB 7, AASB 9, AASB 132, AASB 139 and AASB 2014–7 regarding Financial Instruments
- AASB 4 regarding Insurance contracts
- AASB 13 regarding fair values
- AASB 15, AASB 2014–5 and AASB 2015–8 regarding Revenue from Contracts with Customers
- AASB 16 regarding leases
- AASB 1057 and AASB 2015–9 regarding Application of Australian Accounting Standards
- AASB 2014–4 regarding acceptable methods of depreciation and amortisation
- AASB 2015–1 regarding annual improvements to Australian Accounting Standards 2012–2014 cycle
- AASB 2015–2 regarding amendments to AASB 101 disclosure initiatives
- AASB 2015–6 Amendments to Australian Accounting Standards – Extending Related Party Disclosures to Not-for-Profit Public Sector Entities
- AASB 2015–7 Amendments to Australian Accounting Standards – Fair Value Disclosures of Not-for-Profit Public Sector Entities

AASB 9 Financial Instruments and its associated amending standards specify new recognition and measurement requirements for financial assets and financial liabilities within the scope of AASB 139 *Financial Instruments: Recognition and Measurement.*

The Scheme already values its financial assets and financial liabilities at fair value through profit or loss. Therefore when applied, the only material impact of these standards will be on the presentation of the financial statements and disclosures in the notes.

The proposed amendments to AASB4 Insurance Contracts specify the financial reporting for insurance contracts. The changes will not impact the financial statements based on the current proposal. However, we will conduct a full impact assessment of implementing the standard before 1 January 2018.

notes to the financial statements

for the year ended 30 June 2016

2. Underwriting result

	2016 $'000	2015 $'000
Earned premiums (i)	2,236,562	2,061,268
Less:		
Claims incurred (ii)	(2,993,945)	(1,159,114)
Recoveries revenue (iii)	75,730	70,423
Net claims incurred (Note 4)	**(2,918,215)**	**(1,088,691)**
Underwriting result	**(681,653)**	**972,577**

(i) The earned portion of premiums received and receivable, excluding unclosed business, is recognised as revenue. Premium is treated as earned 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. Unclosed business has not been included as revenue as the amount involved is not considered to be material.

(ii) Claims expense is:

- the amount incurred on claims by the Scheme during the year
- plus the amount, which the consulting actuary has estimated as at 30 June 2016 as being the movement in the amount required to meet the cost of claims reported but not yet paid,
- claims incurred which are yet to be reported; and
- the escalation in reported and reopened claims.

The liability for the outstanding claims is estimated as the inflated and discounted values of the expected future payments, reflecting the fact that these payments will be spread over future years. The expected future payments are estimated on the basis of the ultimate cost of settling claims (including claims handling allowances), which is affected by factors arising during the period to settlement. The provision includes an allowance for claims handling expenses and a risk margin (Note 16).

The impact of the 2015 reforms on claims incurred to 30 June 2016 is estimated to be $1,060 million (excluding risk margin). Refer to Note 16 for discussion of the 2015 reforms.

The Workers Compensation Legislation Amendment Act 2012 has resulted in claim payments being closely aligned to 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 16.

(iii) Recoveries revenue and claims incurred expenses are recognised as the movement of recoveries receivable (Note 7) and outstanding claims (Note 16), which are based on estimates provided by icare's consulting actuary, PricewaterhouseCoopers Actuarial Pty Ltd (PwC). Taylor Fry consulting actuaries, have peer reviewed these estimates and support the conclusions of PwC.

Recoveries receivable on paid claims, reported claims not yet paid and claims incurred but not yet reported are recognised as revenue. Recoveries receivable are estimated at the inflated and discounted values of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

notes to the financial statements

for the year ended 30 June 2016

3. Investment income

	2016 $'000	2015 $'000
Net Realised gain on sale of investments held for trading	209,566	771,787
Net Unrealised gain/ (loss) on investments held for trading	181,660	(116,076)
Dividends	205,707	328,738
Interest	437,865	428,215
Other income	3,339	3,423
Investment income	**1,038,137**	**1,416,087**

Dividends on quoted shares are deemed to accrue when the relevant shareholding becomes ex-dividend. Differences between the net market values of investments at the end of the reporting period and their net market values at the end of the previous reporting period (or cost of acquisition, if acquired during the reporting period) are recognised as revenue in the Statement of Comprehensive Income.

4. Net claims incurred

	Current year $M	Prior year $M	2016 Total $M	2015 Total $M
Gross claims incurred & related expenses – undiscounted	2,733	(779)	1,954	174
Reinsurance & other recoveries – undiscounted	85	(25)	59	57
Net claims incurred – undiscounted	**2,648**	**(754)**	**1,894**	**117**
Discount & discount movement – gross claims incurred	(381)	1,421	1,040	985
Discount & discount movement – reinsurance & other recoveries	(5)	21	16	13
Net discount movement	**(376)**	**1,400**	**1,024**	**972**
Net claims incurred (Note 2)	**2,272**	**646**	**2,918**	**1,089**

Explanation of movements in prior years

- Undiscounted gross claims incurred have continued to reduce to reflect better than expected experience.
- Undiscounted recoveries are expected to be lower due to a reduction in recoveries expected.
- The increase in discounting applied to prior year claims incurred is due to decreased government bond yields.
- The decrease in the yield curve resulted in lower discounting applied to the outstanding recoveries.
- The overall net impact on prior years has increased by $646m as a result of the offsets discussed above.

notes to the financial statements

for the year ended 30 June 2016

5. Expenses

(a) Service fees

	2016 $'000	2015 $'000
Service fees	**380,708**	**-**

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, general business expenses and governance services.

Included in the Service fee paid to icare is $125,000 for the audit of the financial statements performed by the Audit Office of NSW, and $894,000 for the audit of the Scheme Agent and Master Custodian financial statements performed by KPMG.

(b) Other operating expenses include the following:

	2016 $'000	2015 $'000
Actuarial fees	17	6,192
Auditor's remuneration	(3)	1,324
Bad debts written off	20,314	29,463
Debt collection fees	14,055	13,421
Fund manager remuneration	23,630	22,329
Impairment of trade and other receivables	8,590	(6,346)
Interest expense	105,385	110,256
Operating lease expenses	1,272	1,112
Scheme agents' remuneration	52,579	409,291
Wage audit fees	9,572	4,105
Depreciation expense	64	-
Other	31,907	16,988
	267,382	**608,135**

notes to the financial statements
for the year ended 30 June 2016

Fund Management remuneration

Fund manager remuneration includes base fees which are generally paid quarterly. In some cases additional performance bonus fees may be payable under the remuneration contract if returns above benchmark levels are achieved.

(c) Statutory levies:

	2016 $'000	2015 $'000
State Insurance Regulatory Authority (SIRA)	177,505	–
Former WorkCover Authority	42,242	204,694
Dust Diseases Authority	83,469	80,745
Department of Primary Industries – Mine Safety Levy	9,697	7,280
	312,913	**292,719**

In accordance with the *State Insurance and Care Governance Act 2015* from 1 September 2015 structural changes to the NSW Workers Compensation System and related agencies were implemented.
The Act established four discrete agencies:

- Insurance and Care NSW (icare), a single insurance and care service provider;
- State Insurance Regulatory Authority (SIRA), an independent insurance regulator;
- SafeWork NSW, an independent workplace safety regulator; and
- Sporting Injuries Compensation Authority, an entity to manage the Sporting Injuries Compensation Scheme. The payment of Statutory Levies was changed from 1 September 2015 to reflect the structural changes of the Act.

notes to the financial statements

for the year ended 30 June 2016

6. Cash and cash equivalents

	2016 $'000	2015 $'000
Cash and cash equivalents	718,951	776,490

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions and bank overdrafts that are repayable on demand.

The Scheme holds short-term term deposits with major Australian Banks as security for the payment of premiums by large employers who participate in the optional alternative premium method commonly known as the Retro-Paid Loss Premium. These term-deposits are not included in cash and cash equivalents. Instead they are included in Prepayments and Other Assets as upon the payment of all potential premium debts or when the security is in excess of the amount of maximum unpaid premium, the security is returned to the employer. (Refer note 20).

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

The above figures are reconciled to cash at the end of the financial year as shown in the Statement of Cash Flows as follows:

	2016 $'000	2015 $'000
Cash	545,901	612,753
Money Market Deposits	173,050	163,737
Total cash and cash equivalents	**718,951**	**776,490**
Bank overdraft	(7,089)	(8,226)
Balances as per Statement of Cash Flows	**711,862**	**768,264**

(a) Interest rate risk exposure

Details of the Scheme's exposure to interest rate changes on borrowings are set out in Note 11.

(b) Fair value disclosures

The carrying amount of the Scheme's borrowings approximates their fair value.

(c) Bank overdrafts

The bank overdraft may be drawn at any time and is non interest bearing.

notes to the financial statements

for the year ended 30 June 2016

Reconciliation of Net Result to Cash Flows from Operating Activities

	2016 $'000	2015 $'000
Net result:	**(638,469)**	**1,433,407**
Expenses/Revenues not involving cash		
Bad Debts written off	20,314	29,463
Depreciation expense	64	–
Increase/(decrease) in Impairment of trade receivables	8,590	(6,346)
Increase/(decrease) in actuarially assessed claim liabilities	1,223,178	(610,300)
Decrease/(increase) in actuarially assessed recoveries receivable	5,657	15,871
Increase/(reduction) in unearned premiums	39,552	(8,561)
Increase/(decrease) in unexpired risk premium	42,344	62,512
Unrealised loss/(gain) on investments	(181,660)	116,076
Decrease/(Increase) in operating assets:		
Financial assets	(504,626)	(345,950)
Interest and dividends receivable	45,670	(108,183)
Premiums receivable	(72,422)	(383)
Trade debtors and prepayments	(30,758)	(14,962)
(**Decrease)/Increase in operating liabilities**:		
Trade and other payables	(60,349)	(556,888)
Security deposits received	22,339	11,678
Collateral from brokers	28,510	76,639
Net cash provided by/(used in) operating activities	**(52,066)**	**94,073**

notes to the financial statements

for the year ended 30 June 2016

7. Recoveries receivable

	2016 $'000	2015 $'000
Current		
Actuarially assessed recoveries	96,798	98,498
Non-Current		
Actuarially assessed recoveries	268,304	272,261
Total recoveries receivable	**365,102**	**370,759**

8. Trade and other receivables

	2016 $'000	2015 $'000
Current		
Premiums receivable (i)	359,660	306,007
Interest, dividends and other investment income receivable	91,412	216,463
Trade proceeds yet to be settled (ii)	185,372	88,360
Deposits held with brokers/counter parties:		
Margin calls	121,480	42,099
Amounts recoverable from uninsured employers (iii)	7,239	1,491
Other receivables	11,195	4,581
GST receivable	11,230	6,832
	787,588	**665,833**
Less: allowance for impairment	(37,221)	(25,119)
Total current trade and other receivables	**750,367**	**640,714**
Non-Current		
Amounts recoverable from uninsured employers (iii)	129	4,214
Less: Allowance for impairment	–	(3,512)
Total non-current trade and other receivables	**129**	**702**
Total trade and other receivables	**750,496**	**641,416**
Total trade and other receivables (before impairment)	787,717	670,047
Total allowance for impairment	(37,221)	(28,631)
Total trade and other receivables (after impairment)	**750,496**	**641,416**

notes to the financial statements

for the year ended 30 June 2016

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

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

(iii) Where a legally enforceable debt exists, claims costs recoverable from uninsured employers are classified as Trade and Other Receivables.

(a) Status of trade receivables

Collectability of trade receivables is reviewed on an ongoing basis. Where receivables are outstanding beyond the normal trading terms, management assesses the likelihood of the recovery of these receivables. Individual debts that are known to be uncollectible are written off directly to the Statement of Comprehensive Income when identified. An impairment allowance is recognised when there is objective evidence that the Scheme is unlikely to collect the receivable.

(b) Allowance for impairment status of receivables

At 30 June, the impairment allowance is increased or decreased based on an assessment of the likelihood of recovery of individual receivables.

Apart from a limited number of industries covered by specialised insurance arrangements, all employers in New South Wales are able to take out a workers compensation insurance policy with the Scheme. Accordingly the credit quality of these debts is viewed as the average of the credit quality of employers in the State.

Reconciliation of allowance for impairment – receivables

	2016 $'000	2015 $'000
Allowance for impairment as at 1 July	28,631	34,977
Increase/(decrease) to allowance for impairment	8,590	(6,346)
Allowance for impairment as at 30 June	**37,221**	**28,631**

notes to the financial statements

for the year ended 30 June 2016

Ageing of receivables

Where credit terms have been renegotiated, 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
2016			
Within normal terms	700,357	-	-
Less than 3 months overdue	33,541	29,158	4,383
3 months to 6 months overdue	20,976	13,203	7,773
Greater than 6 months overdue	32,843	7,778	25,065
	787,717	**50,139**	**37,221**

	Total $'000	Past due but not impaired $'000	Considered impaired $'000
2015			
Within normal terms	602,621	–	–
Less than 3 months overdue	26,131	22,242	3,889
3 months to 6 months overdue	11,531	7,524	4,007
Greater than 6 months overdue	29,764	9,029	20,735
	670,047	**38,795**	**28,631**

9. Investments

	2016 $'000	2015 $'000
Investment assets		
Indexed and interest bearing securities	9,858,992	9,493,781
Australian equities	993,073	943,653
International equities	1,777,768	1,750,151
Unit trusts	3,163,054	2,812,987
Derivatives	150,154	175,376
	15,943,041	**15,175,948**
Investment liabilities		
Derivatives	105,246	91,583
Net financial assets	**15,837,795**	**15,084,365**

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for the year ended 30 June 2016

The main purpose of the Scheme's investments is to fund claim liabilities. Investment policies are put in place with the intention for the net financial assets to outperform the growth in these liabilities.

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

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

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

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, credit default swaps, cross currency swaps and forward foreign currency contracts, and options on interest rates, foreign currencies and equities.

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

Hedging strategies are determined by icare's Investment and Asset Committee (a sub-committee of the Board of icare), within the investment strategy for the Scheme. Hedging is conducted at two levels:

1) At the overall fund level, where TCorp decides on instruments and transaction parameters. Transactions are implemented in bond options by TCorp and equity options by State Street Global Markets (SSGM).
2) In underlying portfolios, by appointed investment managers who have discretion to implement hedges within mandate boundaries.

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

The fair values of any derivative financial instruments used for hedging purposes, if any, are disclosed in Note 11.

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10. Property, plant and equipment

	Leasehold Improvements $'000	Total $'000
At 1 July 2015 – fair value	**–**	**–**
Gross carrying amount	–	–
Accumulated depreciation	–	–
Net carrying amount	**–**	**–**
At 30 June 2016 – fair value		
Gross carrying amount	118	118
Accumulated depreciation	(64)	(64)
Net carrying amount	**54**	**54**

Reconciliation

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

Year ended 30 June 2016		
Net carrying amount at start of financial year	–	–
Additions	118	118
Depreciation expense	(64)	(64)
Net carrying amount at the end of the financial year	**54**	**54**

Assets are initially recognised at cost. 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 in accordance with the requirements of other Australian Accounting Standards. Assets acquired at no cost, or for nominal consideration, are initially recognised at their fair value at the date of acquisition. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at measurement date. Property, plant and equipment over $5,000 are capitalised.

Depreciation is provided for on a straight line basis. 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 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.

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for the year ended 30 June 2016

11. Financial instruments

The icare Board acting for the Nominal Insurer is ultimately responsible for identifying and controlling financial risks including the establishment of an overall financial risk management strategy and policy.

In May 2015, NSW Treasury Corporation (TCorp) was appointed to supply investment management and administration services to icare managed investment funds. TCorp are engaged through a Master Financial Services Agreement (MFSA) which details, amongst other things, the service and reporting provisions.

Market price risk

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

Market price risk arises as a result of the Scheme holding and trading investments as part of its asset allocation.

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

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

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

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

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

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

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

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

TCorp, in conjunction with its asset consultant (Mercer), conducts the risk budgeting analysis utilising:

- Assumptions regarding the expected level of return, risk and correlations between price and wage inflation, bond yields and returns from different asset classes (for example equities, bonds, property, alternative assets)
- 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 investment returns, volatilities and correlations, that may not represent actual outcomes. It is also important to note that the analysis only allows for some economic factors such as inflation and bond yields, which affect the value of the Scheme liabilities. It does not allow for other factors such as the claims loss ratio, claims incidence and recovery rates, which also affect the value of the Scheme liabilities. As such, the analysis may not be accurate in its assessment of the liability.

notes to the financial statements

for the year ended 30 June 2016

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

VaR is calculated using simulated forward looking expected returns at the 95th percentile confidence level over a 12 month time period. This represents the minimum expected reduction in the value of the Scheme's investment portfolio which has a 5 per cent chance of being exceeded over a one year period.

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

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

The most recent VaR analysis was conducted in July 2016 based on the June 2016 financial instruments and is computed via forward looking simulation using a 95 per cent confidence interval and a 1-year holding period.

VaR is calculated at 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 balance sheet position at 30 June 2016, the minimum potential loss expected over a 1-year period is $16.3 million (June 2015: $96.7 million), with a 5 per cent probability that this minimum may be exceeded.

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 the Scheme's liabilities is also affected by interest rate fluctuations.

(i) 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.

(ii) 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. At 30 June 2016 the Insurance Fund had a 27 per cent (2015: 28 per cent) allocation to Australian Commonwealth and state government bonds to mitigate interest rate risk of Scheme liabilities and a further 17 per cent (2015: 14 per cent) allocation to Australian Commonwealth and state government inflation linked bonds to mitigate inflation risk of Scheme liabilities.

(iii) 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 2016

2016

	Floating interest rate $'000	Fixed interest rate maturing in: 3 months or less $'000	4 to 12 months $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
Class						
Cash	545,901	–	–	–	–	545,901
Money market deposits	173,050	–	–	–	–	173,050
Indexed and interest bearing securities	4,917,708	68,678	450,236	893,209	3,529,161	9,858,992
Interest rate swaps	–	–	–	–	1,332	1,332
Options on fixed income	–	27,110	10,810	–	–	37,920
Interest rate futures	–	2,294	–	–	–	2,294
Assets	**5,636,659**	**98,082**	**461,046**	**893,209**	**3,530,493**	**10,619,489**
Interest rate swap	–	–	–	(302)	(57,643)	(57,945)
Interest rate futures	–	(568)	(217)	–	–	(758)
Liabilities	**–**	**(568)**	**(217)**	**(302)**	**(57,643)**	**(58,730)**

2015

	Floating interest rate $'000	Fixed interest rate maturing in: 3 months or less $'000	4 to 12 months $'000	3 months or less $'000	Over 5 years $'000	Total $'000
Class						
Cash	612,753	-	-	-	-	612,753
Money market deposits	163,737	-	-	-	-	163,737
Indexed and interest bearing securities	4,423,492	239,783	577,641	1,853,349	2,399,516	9,493,781
Interest rate swaps	-	-	-	423	22,329	22,752
Options on fixed income	-	24,802	14,209	-	-	39,011
Interest rate futures	-	1,172	-	-	-	1,172
Assets	**5,199,982**	**265,757**	**591,850**	**1,853,772**	**2,421,845**	**10,333,206**
Interest rate swap	-	-	-	(693)	(46,432)	(47,125)
Interest rate futures	-	(1,135)	-	-	-	(1,135)
Liabilities	**-**	**(1,135)**	**-**	**(693)**	**(46,432)**	**(48,260)**

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for the year ended 30 June 2016

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

Foreign exchange risk

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.

(i) 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.

(ii) Risk management objective, policies and processes:

Independent investment managers manage foreign exchange risk. The investment grade credit (developed markets) managers fully hedge portfolio foreign currency exposures. An independent 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, State Street Bank and Trust Company, 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

for the year ended 30 June 2016

(iii) 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
2016					
International equities	1,063,294	142,873	83,431	493,285	1,782,883
International trusts	15,809	–	–	632	16,441
International listed property trusts	74,042	–	–	1,912	75,954
International floating rate securities	48,011	3,985	–	4,022	56,018
International bonds	359,030	504	–	241,757	601,291
Foreign currency derivatives (Assets)	143	1,016	29	4,942	6,130
Foreign currency derivatives (Liabilities)	(2)	(72)	(479)	(4,938)	(5,491)
Swap derivative (Assets)	17,520	1,597	–	–	19,117
Swap derivative (Liability)	(23,121)	(1,723)	–	–	(24,844)
Foreign exchange exposure position	**1,554,726**	**148,180**	**82,981**	**741,612**	**2,527,499**
2015					
International equities	905,544	184,519	191,053	469,035	1,750,151
International trusts	195,928	103	–	336	196,367
International listed property trusts	41,231	–	828	5,090	47,149
International floating rate securities	64,292	8,582	–	2,914	75,788
International bonds	357,044	4,839	–	236,495	598,378
Foreign currency derivatives (Assets)	32	510	19	652	1,213
Foreign currency derivatives (Liabilities)	(2,565)	–	(725)	(1,952)	(5,242)
Swap derivatives (Liability)	(26,435)	(4,004)	–	(270)	(30,709)
Foreign exchange exposure position	**1,535,071**	**194,549**	**191,175**	**712,300**	**2,633,095**

Liquidity risk

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.

(i) Exposure:

The financial assets of the Scheme that may not be readily convertible to cash are largely premium receivables (refer Note 8) and investments in over-the-counter or thinly traded investments, principally unlisted property trusts and infrastructure debt.

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for the year ended 30 June 2016

(ii) 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.

(iii) Quantitative 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 2015.

The other Scheme liabilities are either claims related (maturity is disclosed in Note 16) 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 held for trading 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
2016				
Derivatives	3,061	9,945	92,240	105,246
2015				
Derivatives	4,736	8,049	78,798	91,583

Fair value estimation

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.

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- 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 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.
- Level 3 – inputs for the assets or liabilities that are not based on observable market data. The fair value of financial instruments that are not based on observable market data (for example unlisted property trusts and infrastructure debt) is determined using valuation techniques. The table below sets out information about significant unobservable inputs used at year end in measuring financial instruments categorised as Level 3 in the fair value hierarchy.

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
2016				
Other financial assets				
Indexed and interest bearing securities	6,877,059	2,848,673	133,260	9,858,992
Australian equities	992,979	67	27	993,073
International equities	1,773,269	4,499	-	1,777,768
Unit Trusts	249,710	1,684,463	1,228,881	3,163,054
Derivatives	12,302	137,852	-	150,154
	9,905,318	**4,675,554**	**1,362,168**	**15,943,041**
Other financial liabilities				
Derivatives	785	104,461	-	105,246
2015				
Other financial assets				
Indexed and interest bearing securities	6,252,799	3,078,239	162,743	9,493,781
Australian equities	941,208	-	2,445	943,653
International equities	1,744,869	5,282	-	1,750,151
Unit Trusts	163,354	1,524,704	1,124,929	2,812,987
Derivatives	40,230	135,146	-	175,376
	9,142,460	**4,743,371**	**1,290,117**	**15,175,948**
Other financial liabilities				
Derivatives	1,604	89,979	-	91,583

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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	Discount for lack of marketability /restricted redemptions	2016: 5–10% (7.5%) (2015: 5–10% (7.5%))	Increase in discount would result in a lower fair value.
Indexed and Interest Bearing Securities	Collateralised mortgage trust obligations	Valuation prices provided by an independent security price provider	Discount for lack of marketability	2016: 7.5–15% (11.25%) (2015: 7.5–15% (11.25%))	An increase in discount would result in a lower fair value
Indexed and Interest Bearing Securities	Private infrastructure debt	Valuations performed by an independent business and debt valuer	Discount for lack of marketability	2016: 10–20% (15%) (2015: 10–20% (15%))	An increase in discount would result in a lower fair value.

Discount for lack of marketability: represents the discount applied to the net asset value or valuation provided by the independent valuer to reflect the lack of marketability or liquidity of the funds/investments. Management determines these discounts based on its judgement after considering investment-specific factors such as quality of the underlying assets.

Transfers between levels

The Scheme 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 transfers between levels for the year ended 30 June 2016:

	2016 $'000	2015 $'000
Opening balance	1,290,117	1,098,574
Transfers into Level 3	24	3
Purchases of securities	34,272	217,863
Other increases	-	-
Sale of securities	(45,575)	(2,677)
Transfer out of Level 3	-	(47,383)
Gain / (loss) in Profit & Loss (investment income)	83,330	23,737
Closing balance	**1,362,168**	**1,290,117**
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)	83,330	23,737

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for the year ended 30 June 2016

During the year ending 30 June 2016:

- debt securities with a carrying value of $nil (2015: $47,383 thousand) were transferred from Level 3 to Level 2 because the Scheme assessed that input into valuation are observable.
- equity securities with a carrying value of $24 thousand (2015: $3 thousand) were transferred from Level 1 to Level 3 because public price quotations in an active market for these instruments were no longer available.
- debt securities of $nil (2015: $326,610 thousand) were transferred from Level 2 to Level 1 as public price quotations in an active market for those securities became available.

Valuation framework

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

- Verification of observable pricing;
- Re-performance of model valuations;
- A review and approval process for new models and changes to models;
- Quarterly calibration and back testing of models against observed market transactions;
- Analysis and investigation of significant daily valuation movements;
- 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 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;
- Where a number of quotes for the same financial instrument have been obtained, how fair value has been determined using those quotes.

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

Financial assets pledged as collateral

Scheme's financial assets pledged as collateral are $nil (2015: $nil), apart from cash held in margin accounts with the brokers/counter parties across various markets for exchange traded derivatives (refer Note 8) 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.

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.

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.

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(i) 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.

(ii) Risk management objective, policies and processes:

Credit Guidelines ensure the Scheme has controlled levels of credit concentration. These guidelines are at a total Insurance Fund level, with further asset class specific restrictions in investment manager's 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.

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:

	2016 %	2015 %
AAA/aaa	67	57
AA/Aa	17	24
A/A	8	9
BBB	6	6
BB	1	2
No Rating	1	2
Total	**100**	**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.

Derivatives

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

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

The fair value amounts reported in the Statement of Financial Position, and the amounts reported in the following tables are the net value of individual swap positions where there is the ability to settle the swaps on a net basis and the Nominal Insurer intends to settle on this basis.

notes to the financial statements

for the year ended 30 June 2016

	Assets $'000	Liabilities $'000	Notional amount $'000
2016			
Futures:			
Share price index futures	102	–	39,357
Interest rate futures	2,294	(785)	487,356
Options:			
Options on Fixed Income	37,920	–	1,879,000
Options on index	9,906	–	856,652
Swaption	64,830	–	792,400
Forwards:			
Forward foreign exchange contracts	6,130	(5,491)	670,451
Swaps:			
Interest rate swaps	1,332	(57,945)	366,500
Inflation swaps	8,523	(16,181)	213,100
Cross currency swaps	18,859	(24,844)	17,228
Credit default swaps	258	–	16,903
	150,154	**(105,246)**	**5,338,947**

	Assets $'000	Liabilities $'000	Notional amount $'000
2015			
Futures:			
Share price index futures	–	469	21,648
Interest rate futures	1,172	1,135	740,613
Options:			
Options on Fixed Income	39,011	–	2,814,300
Options on futures	539	–	40,010
Options on index	38,519	–	2,738,034
Swaption	47,536	–	2,117,400
Forwards:			
Forward foreign exchange contracts	1,213	5,242	800,748
Swaps:			
Interest rate swaps	22,752	47,125	779,598
Inflation swaps	5	7,172	212,100
Cross currency swaps	24,629	30,320	22,524
Credit default swaps	–	120	17,890
	175,376	**91,583**	**10,304,865**

notes to the financial statements

for the year ended 30 June 2016

12. 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 9. The maximum exposure or loss is limited to the net market value of the investment strategy as at 30 June 2016. 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 2016 $'000	Exposure % as at 30 June 2016	Net Market Value as at 30 June 2015 $'000	Exposure % as at 30 June 2015
Property	1,228,881	44%	1,124,929	42%
Alternatives	686,569	24%	702,329	27%
Emerging Markets	377,188	13%	373,779	14%
Cash	536,232	19%	448,596	17%
Total	**2,828,870**	**100%**	**2,649,633**	**100%**

notes to the financial statements

for the year ended 30 June 2016

13. Intangible assets

	Software WIP $'000	Total $'000
At 1 July 2015 – fair value		
Cost (gross carrying amount)	-	-
Accumulated amortisation and impairment	-	-
Net carrying amount	**-**	**-**
At 30 June 2016 – fair value		
Cost (gross carrying amount)	8,517	8,517
Accumulated amortisation and impairment	-	-
Net carrying amount	**8,517**	**8,517**

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

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

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

The useful lives of intangible assets are assessed to be finite. The Scheme charges amortisation on intangible assets using straight–line method over a period of three years.

Intangible assets are subsequently measured at fair value only if there is an active market. As there is no active market for 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 recoverable amount and the reduction is recognised as an impairment loss.

Reconciliation

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

	Software WIP $'000	Total $'000
Year ended 30 June 2016		
Net carrying amount at start of year	–	–
Additions – Internal development	8,517	8,517
Amortisation expense	-	-
Net carrying amount at end of year	**8,517**	**8,517**

notes to the financial statements

for the year ended 30 June 2016

14. Trade and other payables

	2016 $'000	2015 $'000
Service fee payable to icare	56,436	-
Agent remuneration	-	125,749
Investment purchases	238,295	74,139
Goods and Services Tax	32,938	27,804
Other	128,662	92,141
Total payables	**456,331**	**319,833**

These amounts represent liabilities for services provided to the Scheme prior to the end of financial year, which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

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

15. Unearned premiums

Unearned premium represents the amount of premium that has been received relating to periods of coverage in the next financial year. Please refer note 2 for earned premium.

	2016 $'000	2015 $'000
Unearned premiums	394,692	355,140

16. Outstanding claims

Provisions for claims are recognised when:

- the Scheme has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources will be required to settle the obligation; and
- the amount has been reliably estimated.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the Statement of Financial Position date. The discount rate represents a risk free rate derived from market yields on Commonwealth government bonds.

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 consulting 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

notes to the financial statements

for the year ended 30 June 2016

- 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 9 and 11)
- 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.

Accordingly they are not regarded as a financial instrument under Australian Accounting Standards and are not included in financial assets.

	2016 $'000	2015 $'000
(a) Expected future gross claims payments (undiscounted)	**16,855,663**	**16,672,785**
Discount to present value	(3,475,787)	(4,516,086)
Liability for outstanding claims	13,379,877	12,156,699
Current	1,930,871	1,906,086
Non-Current	11,449,006	10,250,613
	13,379,877	**12,156,699**
(b) Expected future actuarial assessment of recoveries (undiscounted)	**395,078**	**417,021**
Discount to present value	(29,977)	(46,262)
Discounted actuarial assessment of recoveries	365,102	370,759
Net outstanding claims per actuarial report	**13,014,775**	**11,785,940**

The overall outstanding claims liability of the Scheme is calculated by the consulting actuaries using a range of recognised, aggregate actuarial methods, appropriate for the characteristics of the various types of claim liability under scrutiny. The liability for the outstanding claims is estimated as the inflated and discounted values of the expected future payments, reflecting the fact that these payments will be spread over future years. The expected future payments are estimated on the basis of the ultimate cost of settling claims (including claims handling expenses) which is affected by factors arising during the period to settlement.

The provision for claims handling expenses is calculated as a percentage of the gross outstanding claims central estimate to recognise the ultimate expense of managing outstanding claims until they are finalised and closed. The percentage for claims handling expenses is 9.7 per cent (2015 9.6 per cent).

There is inherent uncertainty in any estimate of outstanding claims liabilities. 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. Examples of this uncertainty include but are not limited to the likelihood of injured workers lodging claims under the Scheme, 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 Scheme design and operation which have occurred.

notes to the financial statements

for the year ended 30 June 2016

Significant reforms to workers compensation legislation gained assent on 27 June 2012 with some reforms being effective from when the Bill was tabled while others are effective from later dates. The *Workers Compensation Amendment Act 2015* gained assent on 1 September 2015 to wind back some of the reforms that were introduced in 2012 as well as introduce other incentives to assist return to work.

The key changes in the 2015 reforms package are summarised below.
1. Extensions of benefits on claims made on or after 1 October 2012. (For claims made before 1 October 2012, these extensions were already in place from the 2014 regulations)

- Entitlement to medical benefits for life for all workers with Whole Person Impairment (WPI) assessed between 21% and 30%.
- Access to medical aid payments for life for all workers.
- Restored entitlement for weekly payments until one year after retirement age (noting that claims with WPI between 0% and 20% are still subject to a five-year cap under the 2012 reforms).
- Continued eligibility for weekly benefits for all workers until a disputed work capacity assessment and/or decision is resolved.

2. Additional benefits

- Removal of the requirement for injured workers with work capacity and a WPI between 21% and 30% to work at least 15 hours per week beyond 130 weeks.
- A minimum weekly payment of $788.32 (as at August 2015) for those injured workers with more than 30% WPI. The minimum amount is to be indexed half yearly on each 1 April and 1 October in accordance with CPI.
- Extension of the 12 month limitation period on medical benefits to two years for claims with a WPI up to 10%; and five years for claims with a WPI from 11% to 20%.
- Increase in the amount of permanent impairment (Section 66) compensation available to injured workers (above 10% WPI) injured on or after 5 August 2015. Compensation is to be indexed annually on each 1 July in line with CPI.
- A job-ready payment of up to $1,000 for injured workers who return to work with a new employer.
- An education or re-training payment of up to $8,000 for injured workers with more than 20% WPI who have been on weekly benefits for more than 78 weeks.
- Increase in the maximum amount payable for funeral expenses to $15,000 applicable to deaths on or after 5 August 2015.
- Increased the lump sum payment for death to $750,000 for deaths on or after 5 August 2015.
- Payments to legal practitioners for advice provided to injured workers and insurers in relation to the review of work capacity assessments.

3. Impact of 2015 reforms

The outstanding claims liability as at 30 June 2016 includes estimates of the expected impact of the 2015 reforms listed above, with the exception of payments to legal practitioners for advice in relation to work capacity assessments.

Details of the changes to legal payments were yet to be determined by regulation as at the date of the valuation, therefore it was not possible to allow for the financial impact in our estimate of the outstanding claims liability.
In total, the impact of the 2015 reforms on claims incurred to 30 June 2016 was estimated to increase the outstanding claims liability by $1,060 million (excluding Risk Margin).

notes to the financial statements

for the year ended 30 June 2016

4. Uncertainty

As noted above, the Scheme has not allowed for certain aspects of the 2015 reforms due to the level of uncertainty associated with how they would be applied in practice. The Scheme intends to allow for these aspects in future valuations as more guidance or actual experience becomes available. For the aspects of the 2015 reforms the Scheme has allowed for, the Scheme have estimated the impact on a central estimate basis, based on the information available to us at the time. It is important to note that actual experience may prove to be significantly different from these allowances. Key uncertainties include:

- Behavioural impacts – The reforms could lead to significant behavioural changes in claimants' pursuit of particular benefit types. It is not possible to incorporate these impacts with accuracy and hence no allowance for behavioural impacts has been made.
- Honeymoon and slippage – Following most legislative reforms, there is usually a "honeymoon" period, where experience remains favourable over the short term as scheme participants take time to understand how the reforms work. However, as they have a better understanding of how the new reforms work, they will begin to fully utilise scheme benefits and experience may turn. We have not allowed for any impact of honeymoon and slippage in our estimate.
- Effectiveness of implementation – The ultimate financial impact of the reforms will depend heavily on how effectively the reforms are implemented. A particular risk is if Whole Person Impairment outcomes differ from that assumed.
- Model risk – there is always the risk that a model will not capture important aspects of reality. As only a short period of time has elapsed since the reforms and as yet many affected claimants have not been contacted to advise them of the changes to their benefits, there is little post-reform experience to analyse.

Accordingly the adopted probability of adequacy for the Scheme for 2016 is 80 per cent (2015 80 per cent). The consulting actuary has assessed this requires a risk margin of 15.6 per cent (2015 16.2 per cent) or $1.76 billion (2015 $1.64 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.

Based on the consulting actuaries assessment of the Scheme's exposure to asbestos claims, an explicit provision of $113 million (2015: $105 million) for such claims has been included in the overall outstanding claims liability.

notes to the financial statements

for the year ended 30 June 2016

Movement in claim liabilities and recoveries

	2016 $'000	2015 $'000
Claims liabilities		
Opening balance	12,156,699	12,766,999
Adjustment arising from changes in:		
- Actuarial assumptions	477,007	(885,339)
- Discount/inflation rates	485,208	395,825
- Risk margins	110,765	(85,085)
Expected expenses on 2016/17 claim payments	(173,422)	(170,220)
Claims incurred in current year	2,121,747	1,929,326
Claims payments	(1,798,128)	(1,794,806)
Claims liabilities 30 June 2016	**13,379,877**	**12,156,699**
Recoveries		
Opening balance	370,759	386,630
Adjustment arising from changes in:		
- Actuarial assumptions	19,170	21,555
- Discount/inflation rates	11,126	9,620
- Risk Margins	(2,420)	(2,213)
Recoveries incurred in current year	73,587	65,749
Recoveries received (excluding tax recoveries)	(80,178)	(84,914)
Tax recoveries received	(26,942)	(25,668)
Recoveries receivable 30 June 2016	**365,102**	**370,759**

Recoveries relate principally to amounts that the Scheme Actuaries estimate can be recovered from other insurers for workers compensation injuries. These recoveries relate to amounts already incurred on a claim or amounts estimated to be recovered from the estimated claim liabilities.

notes to the financial statements

for the year ended 30 June 2016

Claims development

The Scheme provides ongoing weekly 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 claim liabilities of 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 in weekly benefits is 5 years, with medical benefits to continue for a year after the weekly benefits end. The 2015 reforms changed the medical benefit cap from 1 year to 2 or 5 years depending on the severity of the injury.

	2016 $'000	2015 $'000
Outstanding claims liabilities (undiscounted):		
Prior to 10 years ago	5,336,462	5,059,830
9 years ago	604,448	645,748
8 years ago	697,114	711,683
7 years ago	804,617	816,939
6 years ago	1,058,258	975,438
5 years ago	1,144,986	1,288,470
4 years ago	1,330,854	1,381,409
3 years ago	1,673,094	1,554,611
2 years ago	1,824,348	1,792,680
1 year ago	2,381,482	2,445,977
	16,855,663	**16,672,785**

Claims liability maturity

	2016 $'000	2015 $'000
Outstanding claims net of recoveries maturing:		
Within 1 year	1,834,073	1,807,587
2 to 5 years	4,722,625	4,648,748
More than 5 years	6,458,077	5,329,605
	13,014,775	**11,785,940**

notes to the financial statements

for the year ended 30 June 2016

Core claims liability variables

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

Weekly benefits are based on workers average weekly earnings. For claims incurred prior to 1 October 2012 weekly 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.

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

	2016 %p.a.	2015 %p.a
For the first succeeding year		
Inflation rate		
LPI	2.50	3.00
CPI	1.75	2.50
Discount rate	1.63	1.96
For subsequent years		
Inflation rate		
LPI	1.00-3.50	2.37 – 3.00
CPI	0.00-2.50	1.37 –2.50
Discount rate	1.49-3.35	1.99 – 4.47

The weighted average discounted expected term from the balance date to settlement of the outstanding claims is estimated to be 8.3 years (2015: 7.5 years).

Sensitivity analysis

The impact of changes in key variables is summarised in the table below. Sensitivity analysis is conducted by the consulting actuaries on each variable whilst holding all other variables constant.

Variable	Movement in Variable %	2016 Impact on		2015 Impact on	
		Profit/(Loss) $'000	Liabilities $'000	Profit/(Loss) $'000	Liabilities $'000
Inflation Rate	+1	(444,277)	444,277	(312,433)	312,433
	-1	421,976	(421,976)	297,790	(297,790)
Discount Rate	+1	447,417	(447,417)	317,898	(317,898)
	-1	(481,743)	481,743	(340,987)	340,987

notes to the financial statements

for the year ended 30 June 2016

17. Restoration provisions

	2016 $'000
Non-current provisions	
Restoration provision	118
	118

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

	2016 $'000
Movement in restoration provisions	
Opening balance at 1 July	-
Amount provided during year	118
Amount used during year	-
Closing balance at 30 June	**118**

18. Unearned premium reserve

At 30 June 2016 the Scheme has an unearned premium provision of $395 million (2015: $355 million). This unearned premium was based on policies on risk during 2015/16 but where the period of coverage extends into 2016/17.

The present value of expected future cash flows for future claims relating to the unearned premium estimated to be $471 million (2015: $361 million), with this increasing to $553 million (2015: $450 million) once a risk margin of 17.3 per cent to give a 80 per cent probability of adequacy is added. This is the same probability of adequacy that is used for the Scheme valuation.

After allowing for unearned premium related to expected future premium adjustments of $27 million (2015: $6 million) the Scheme's consulting actuaries have advised that the unearned premium provision is not adequate to meet the anticipated claims. Accordingly an additional unexpired risk provision of $131 million was required to be made by the Scheme. In 2015 the actuaries determined that this unexpired risk provision was $88 million.

19. Commitments

At 30 June 2016 the Scheme has a lease commitment with Government Property NSW.

notes to the financial statements

for the year ended 30 June 2016

	2016 $'000	2015 $'000
Within 1 year	965	1,060
2 to 5 years	-	965
More than 5 years	-	-
	965	**2,025**

As at the 30 June 2016 the Scheme was required to contribute $241 million to the Workers Compensation Operational Fund to fund the State Insurance Regulatory Authority and Safework NSW. (2015: $282 million to WorkCover Authority- Refer Note 5 (c)) in monthly installments by 30th June 2017.

As at the 30 June 2016 the Scheme was required to contribute $86 million (2015: $85 million) to the Workers Compensation Dust Diseases Authority in monthly installments by 30th June 2017.

As at the 30 June 2016 the Scheme was required to contribute $8.2 million (2015: $9.7 million) to the NSW Department of Primary Industries for the Mine Safety Levy in 4 equal quarterly installments by 30th June 2017.

20. 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, provided they meet specified work health and safety, injury management and financial criteria. Under this methodology employers pay a deposit premium for the insured period, with subsequent adjustments made over the next three to four years to reflect the actual costs of claims incurred plus a contribution to those costs such as very high value claims that are shared across all employers. As the premium is not finalised till four to five years post the commencement of risk under the policy, the employers are required to lodge a security for the difference between the premium paid to date and the maximum amount of premium the employer may need to pay under the Retro-Paid Loss Premium Method.

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 Retro-Paid Loss Premium Method.

As at 30 June 2016, the Scheme held deposits of $80 million (2015: $58 million) and bank guarantees of $867 million (2015: $865 million). These deposits are held on trust for the payment of employers potential liability to pay workers compensation premium.

Earnings on funds deposited with the Scheme for this purpose are paid directly to the entity that lodged the Security Deposit provided that the security held meets the minimum level required for the applicable employers.

END OF AUDITED FINANCIAL STATEMENTS

sporting injuries insurance

Sporting Injuries Compensation Authority

sporting injuries insurance financial statements
for the period ended 30 June 2016

Notes to the Financial Statements

Actuarial Certificate
Outstanding Claims Liabilities at 30 June 2016

Finity Consulting Pty Ltd (Finity) has been contracted by Insurance & Care NSW (icare) to estimate the outstanding claims liabilities as at 30 June 2016 of the following schemes:

- Sporting Injuries Insurance Scheme (SIIS)
- Supplementary Sporting Injuries Benefits Scheme (SSIBS).

Together, the two schemes are referred to as NSW Sporting Injuries or NSWSI.

Data

Finity has relied on the completeness and accuracy of the data provided by icare and the Sporting Injuries Committee for previous years. We have also placed significant reliance on the information compiled by the previous actuaries. We have not independently audited the data but it was reviewed for reasonableness and internal consistency. Finity has no reason to believe that any information supplied to it was false or in error, or that any material information has been withheld from it. Finity has evaluated the information provided to us by icare for reasonableness and consistency, through inquiry, analysis and review, and nothing has come to our attention to indicate the information provided was materially misstated or would not afford reasonable grounds upon which to base our analysis.

The accuracy of our results is dependent on the accuracy and completeness of the underlying data.

Basis of our Estimates

We have made central estimates of the outstanding claims liabilities; this means that the valuation assumptions have been selected such that our estimates of these liabilities contain no deliberate overstatement or understatement. Our estimates:

- Are discounted to allow for the time value of money consistent with the relevant Australian standards
- Contain an allowance for associated claims handling expenses.

Given the inherent uncertainty in any central estimate of insurance liabilities, icare may choose to hold an additional margin when reporting the provision in the accounts. Furthermore, icare can decide on the level of margin to hold in the accounts. Based on advice from icare, we have provided estimates which include a risk margin at the 75% probability of adequacy level for SIIS. No risk margin has been included for SSIBS.

Valuation Results

Finity estimates the outstanding claims liability for the above schemes to be $2.4 million. This estimate includes a risk margin at the 75th percentile for SIIS of $0.6 million. The Central Estimate, Claims Handling Expense and Risk Margin components of the outstanding claims liability for each of SSIS, SSIBS and in total are shown in Table 1.

Table 1 – Outstanding Claims Liability at 30 June 2016

	SIIS	SSIBS	Total
	$'000	$'000	$'000
Central Estimate (excl. CHE[1])	1,261	259	1,519
CHE	252	52	304
Risk Margin[2]	588	-	588
Outstanding Claims Liability	2,101	310	2,411

1 Claims Handling Expenses
2 Intended to achieve a 75% probability of sufficiency

It is a decision for icare to determine the amount adopted in the accounts.

Uncertainty

There is inherent uncertainty in estimates of outstanding claims liabilities. Claims outcomes remain dependent on future events, including legislative, social and economic forces. A key source of the uncertainty in the valuation relates to the inherent volatility in NSWSI's portfolio due to the small number of claims.

We have prepared our estimates on the basis that they represent our current assessment of the likely future experience of SIIS and SSIBS. However, potentially material deviations of the actual experience from our estimates are normal and to be expected.

Reports

Full details of data, analysis and results for the valuation of the above schemes are set out in a separate report titled "Valuation of NSW Sporting Injuries Insurance Liabilities at 30 June 2016" dated 12 August 2016.

Relevant Standards

Our estimates and report are prepared in accordance with Australian Accounting Standards AASB1023 and AASB137 and the Actuaries Institute's Professional Standard 300.

Yours sincerely

Scott Collings

Kane Boulton

Fellows of the Institute of Actuaries of Australia

13 October 2016

statement by the chairman and chief executive officer

for the period ended 30 June 2016

Sporting Injuries Compensation Authority

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

In the opinion of the directors of Insurance and Care NSW:

1. the financial statements of Sporting Injuries Compensation Authority have been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2015* and the Treasurer's Directions. They have also been prepared in accordance with Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board.
2. the financial statements for the period ended 30 June 2016 exhibit a true and fair view of the position and transactions of the Sporting Injuries Compensation Authority and;
3. the directors are not aware of any circumstances as at the date of this certificate which would render any particulars included in the financial statements misleading or inaccurate.

Signed on behalf of the Board of Directors:

Michael Carapiet
Chairman
Insurance and Care NSW
26 September 2016

Vivek Bhatia
Chief Executive Officer
Sporting Injuries Compensation Authority &
Insurance and Care NSW
26 September 2016

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 Sporting Injuries Compensation Authority (the Authority), which comprise the statement of financial position as at 30 June 2016, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the period 1 September 2015 to 30 June 2016, notes comprising a summary of significant accounting policies and other explanatory information.

In my opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 30 June 2016, and of its financial performance and its cash flows for the period 1 September 2015 to 30 June 2016 in accordance with Australian Accounting Standards
- are in accordance with section 41B of the *Public Finance and Audit Act 1983* (PF&A Act) and the Public Finance and Audit Regulation 2015.

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

Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under those standards are further 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 auditor independence requirements of:

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

I have also fulfilled my other ethical responsibilities in accordance with the Code.

The PF&A Act further 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, but precluding the provision of non-audit services.

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

The Chief Executive's Responsibility for the Financial Statements

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

In preparing the financial statements, the Chief Executive Officer must assess the Authority's ability to continue as a going concern unless the Authority will be dissolved by an Act of Parliament or otherwise cease operations. The assessment must include, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

Auditor's Responsibility 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, and
- 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 further description of my responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/Home.aspx.

The description forms part of my auditor's report.

My opinion does *not* provide assurance:

- that the Authority carried out its activities effectively, efficiently and economically
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented.

A Oyetunji
Director, Financial Audit Services

30 September 2016
SYDNEY

statement of comprehensive income

for the period ended 30 June 2016

	Notes	2016 $'000
Revenue		
Earned premium	3	643
Levies	4	47
Investment Revenue	5	126
Total Revenue		**816**
Expenses excluding losses		
Net claims incurred	6	370
Other operating expenses	7	388
Total Expenses excluding losses		**758**
Net result		**58**
Other comprehensive income		
Items that will not be reclassified to net result		-
Total Other comprehensive income		**-**
TOTAL COMPREHENSIVE INCOME		**58**

The accompanying notes form part of these statements.

statement of financial position

as at 30 June 2016

	Notes	2016 $'000
ASSETS		
Current Assets		
Cash and cash equivalents	8	2,280
Receivables	9	268
Investments	10	2,066
Total Current Assets		**4,614**
Total Assets		**4,614**
LIABILITIES		
Current Liabilities		
Payables	12	229
Unearned premium reserve	13	426
Provision for outstanding claims	14	711
Total Current Liabilities		**1,366**
Non-Current Liabilities		
Provision for outstanding claims	14	1,390
Total Non-current Liabilities		**1,390**
Total Liabilities		**2,756**
Net Assets		**1,858**
EQUITY		
Accumulated funds		1,858
Total Equity		**1,858**

The accompanying notes form part of these statements.

statement of changes in equity

for the period ended 30 June 2016

	Notes	Accumulated funds $'000
Balance at 1 September 2015		-
Net result for the period		58
Other comprehensive income		-
Total other comprehensive income		**-**
Total comprehensive income for the period		**58**
Transactions with owners in their capacity as owners		
Increase in net assets from equity transfer	16	1,800
Balance at 30 June 2016		**1,858**

The accompanying notes form part of these statements.

statement of cash flows

for the period ended 30 June 2016

	Notes	2016 $'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Premiums received		740
Claims paid		(476)
Net Cash Flow from Scheme Activities		**264**
Receipts		
Proceeds from sale of Investments		3,833
Levies received		47
Interest received		23
Other receipts		39
Total Receipts Excluding Scheme Activities		**3,942**
Payments		
Purchases of Investments		(3,328)
Other payments		(267)
Total Payments Excluding Scheme Activities		**(3,595)**
NET CASH FLOWS FROM OPERATING ACTIVITIES	8	**611**
Opening cash and cash equivalents		-
Cash transferred in as a result of administrative restructure	16	1,669
CLOSING CASH AND CASH EQUIVALENTS	8	**2,280**

The accompanying notes form part of these statements.

notes to the financial statements

for the period ended 30 June 2016

1. Summary of significant accounting policies

(a) Reporting entity

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 Sporting Injuries Compensation Authority was established from 1 September 2015 in accordance with the *State Insurance and Care Governance Act 2015*. As a result these financial statements cover the 10 month period to 30 June 2016.These financial statements for the period ended 30 June 2016 have been authorised for issue by the Chairman of the Board and the Chief Executive Officer on behalf of the board on 26 September 2016.

(b) 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:

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

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, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

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

- Note 11 Financial instruments
- Note 14 Current/Non-Current Liabilities – Provision for outstanding claims

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.

(c) Statement of compliance

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

(d) Accounting for the Goods and Services Tax (GST)

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

- amount of GST incurred by Sporting Injuries Compensation Authority as a purchaser that is not recovered from the Australian Taxation Office is recognised as part of an asset's cost of acquisition or as part of an item of expense and
- receivables and payables are stated with the amount of GST included

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

notes to the financial statements

for the period ended 30 June 2016

(e) Changes in accounting policy, including new or revised Australian Accounting Standards.

The following new Australian Accounting Standards have not been applied and are not yet effective:

- AASB 7, AASB 9, AASB 132, AASB 139 and AASB 2014-7 regarding financial instruments
- AASB 4 regarding insurance contracts
- AASB 15, AASB 2014-5 and AASB 2015-8 regarding Revenue from Contracts with Customers
- AASB 1057, AASB 2015-9 Application of Australian Accounting Standards.
- AASB 2015-1 regarding annual improvements to Australian Accounting Standards 2012-2014 cycle.
- AASB 2015-2 regarding amendments to AASB 101 disclosure initiatives
- AASB 2015-6 Amendments to Australian Accounting Standards - Extending Related Party Disclosures to Not-for-Profit Public Sector Entities
- AASB 2015-7 Amendments to Australian Accounting Standards - Fair Value Disclosures of Not-for-Profit Public Sector Entities

AASB 9 Financial Instruments and its associated amending standards specify new recognition and measurement requirements for financial assets and financial liabilities within the scope of AASB 139 Financial Instruments: Recognition and Measurement.

The Authority already values its financial assets and financial liabilities at fair value through profit or loss. Therefore when applied, the only material impact of these standards will be on the presentation of the financial statements and disclosures in the notes.

The proposed amendments to AASB 4 Insurance Contracts specify the financial reporting for insurance contracts. The changes will not impact the financial statements based on the current proposal. However, we will conduct a full impact assessment of implementing the standard before 1 January 2018.

The remaining standards are concerned with disclosures and will have no direct impact on the Authority's financial results.

notes to the financial statements

for the period ended 30 June 2016

2. Underwriting result

	2016 $'000
Earned Premium (refer Note 3)	643
Net claims incurred (refer Note 6)	(370)
Underwriting result	**273**

3. Earned premium

	2016 $'000
Gross written premium	751
Unearned income adjustment	(108)
Earned Premium	**643**

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 period and on completion of that period 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.

4. Levies

	2016 $'000
Injury Prevention Levies	47
	47

During 2002/03 the Parliament approved a major amendment to the *Sporting Injuries Insurance Act 1978* which enables declared sporting organisations under the Act to apply for, and be granted, an insurance exemption for a private scheme rather than participate in the Sporting Injuries Insurance Scheme.

Levy income is treated as income from the date the levy period commences. The portion of levies received or receivable relating to the financial year is recognised as income.

notes to the financial statements
for the period ended 30 June 2016

5. Investment revenue

	2016 $'000
TCorp Cash facility	21
TCorp Fixed variable interest discrete portfolio	107
Interest Income other	25
Realised gains /(losses) TCorp	(13)
Unrealised gains /(losses) TCorp	(16)
Interest on bank accounts	2
	126

Investment revenue includes interest income and net realised and unrealised gains or losses from changes in the fair value of investments. Interest revenue is recognised using the effective interest method as set out in *AASB 139 Financial Instruments: Recognition and Measurement.*

6. Net claims incurred

	2016 $'000
Claims paid	546
Movement in claims liabilities	(176)
	370

	2016		
	Current Year $'000	Prior Years $'000	Total $'000
Direct business			
Gross claims incurred and related expenses – undiscounted	712	(360)	352
Discount and discount movement – gross claims incurred	(28)	46	18
Net claims incurred	**684**	**(314)**	**370**

Net claims incurred include claims paid and the movement in the provision for outstanding claims liabilities. The provision for outstanding claims liabilities includes claimed incurred and not yet paid, incurred but not yet reported and allowances for the costs of claims administration. An assessment of outstanding claims by independent actuarial consultants is undertaken to determine the net central estimate of this liability.

The Sporting Injuries Insurance Scheme in accordance with AASB 1023:General Insurance Contracts has a risk margin applied to the net central estimate to bring the liability for this Scheme up to an acceptable level of probability of adequacy of 75%. The 75% level of probability of adequacy is in compliance with the Australian Prudential Regulation Authority's prudential standard GPS210 for commercial insurers.

Current period claims relate to risks borne in the current reporting period. Prior period claims relate to an assessment of the risk borne in all previous reporting periods.

notes to the financial statements

for the period ended 30 June 2016

7. Other operating expenses

	2016 $'000
Service fees to icare	324
Bank and fund manager fees	62
Medical panel & report costs	2
	388

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

Included in the Service fee paid to icare is $15,000 for the audit of the financial statements performed by the Audit Office of NSW.

8. Current assets – Cash and cash equivalents

	2016 $'000
Cash at bank and on hand	75
Short term deposits	
- Cash Other	1,058
- TCorp Hour-Glass investment – Cash facility	1,147
	2,280

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

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

	2016 $'000
Cash and cash equivalent assets (per Statement of financial position)	2,280
Closing cash and cash equivalents (per Statement of cash flows)	**2,280**

Refer to Note 11 for further information regarding credit risk, liquidity risk and market risk arising from financial instruments.

notes to the financial statements

for the period ended 30 June 2016

Reconciliation of Net Cash Flows from Operating Activities to Net Result

	2016 $'000
Net cashflows from operating activities	611
Net investment sales	(505)
Net cashflows from investment operating activities	101
Change in assets and liabilities	
Increase/(Decrease) in receivables	(27)
Decrease/(Increase) in payables	(190)
Decrease/(increase) in Unearned premium income	(108)
Decrease/ (Increase) in provisions for outstanding claims	176
Net result	**58**

9. Current assets – Receivables

	2016 $'000
Current	
Premiums Receivable	260
Investments Receivable	4
Bank Interest	2
GST Receivable	2
Total Current Receivables	**268**

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These financial assets are recognised initially at fair value, usually based on the transation costs or face value. Subsequent measurement is at amortised cost using the effective interest methods, less an allowance for any impairment of receivables. Any changes are recognised in the net result for the year when impaired, derecognised or through the amortisation process. Short term receivables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial.

Details regarding credit risk, liquidity risk, and market risk, including financial assets that are either past due or impaired, are disclosed in Note 11.

notes to the financial statements

for the period ended 30 June 2016

10. Current assets – Investments

	2016 $'000
Current	
NSW Treasury Corporation Hour Glass Facilities	2,066
Total financial assets at fair value	**2,066**

All investments are held to fund outstanding claims liabilities.

Details regarding credit risk, liquidity risk, and market risk on investments are disclosed in Note 11.

Investments are held for trading and are classified as current assets.

11. Financial instruments

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

In accordance with the *State Insurance and Care Governance Act 2015* the Board of Insurance and Care NSW has overall responsibility for the establishment and oversight of risk management and reviews and agrees policies for managing each of these risks. Risk management policies are established to identify and analyse the risks faced by the Authority, to set risk limits and controls and to monitor risk. Compliance with policies is reviewed by sub Committees of the Board on a continual basis.

In May 2015, NSW Treasury Corporation (TCorp) was appointed to supply investment management and administration services to icare managed investment funds. TCorp are engaged through a Master Financial Services Agreement (MFSA) which details, amongst other things, the service and reporting provisions. Service levels and compliance to the NMFSA are monitored through icare's Finance and Services team.

(a) Financial instrument categories

	Note	Category	2016 $'000
Financial Assets			
Cash and cash equivalents	8	N/A	2,280
Receivables[1]	9	Loans and receivables at amortised cost	266
Investments	10	At fair value through profit or loss	2,066
Financial Liabilities			
Payables[2]	12	Financial liabilities measured at amortised cost	212

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

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

notes to the financial statements

for the period ended 30 June 2016

(b) Credit risk

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

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

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.

Cash

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

Receivables – trade debtors

Collectability of trade debtors is reviewed on an ongoing basis. Procedures have been established to recover outstanding amounts, including letters of demand. Debts which are known to be uncollectible are written off. An allowance for impairment is raised when there is objective evidence that the Authority will not be able to collect the amount due. This evidence includes past experience, and current and expected changes in economic conditions and debtor credit ratings. Sales are made on 30 day terms.

There were no debtors past due or considered impaired at 30 June 2016.

There are no debtors past due or impaired whose terms have been renegotiated.

(c) Liquidity risk

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 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. There were no late penalty payments in 2015-16.

notes to the financial statements

for the period ended 30 June 2016

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

Maturity analysis and interest rate exposure of financial liabilities

	Weighted Average Effective Interest Rate	Nominal Amount (1) $'000	Interest Rate Exposure $'000			Maturity Dates $'000		
			Fixed rate	Variable rate	Non-interest bearing	<1 year	1-5 years	>5 years
2016	**%**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Payables	N/A	212	-	-	212	212	-	-

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.

(d) Market risk

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

The Authority's exposures to market risk are primarily through other price risk associated with the movement in the unit price of the Hour Glass Investment Facilities.

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. 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 period). The sensitivity analysis is based on risk exposures in existence at the statement of financial position date. The analysis assumes that all other variables remain constant.

Interest rate risk

The Authority's exposure to interest rate risk is set out below:

A reasonably possible change of +/- 1% 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
2016					
Cash and cash equivalents	1,133	(11)	(11)	11	11

notes to the financial statements

for the period ended 30 June 2016

Other price risk

Exposure to other price risk arises through the investment in the TCorp Hour Glass Investment Facilities. The Authority holds units in the following Hour Glass investment trusts.

Facility	Investment Section	Investment Horizon	2016 $'000
Cash facility	Cash and money market instruments	Up to 1.5 years	1,147
Australian equities	Australian shares	7 years and over	217
International equities hedged	International shares	7 years and over	86
International equities unhedged	International shares	7 years and over	220
Emerging market equities	Emerging market shares	7 years and over	81
Listed property	Listed property	7 years and over	138
Multi asset	Multi asset class	7 years and over	122
Bonds	Bonds	7 years and over	1,202

The unit price of each facility is equal to the total fair value of net assets held by the facility divided by the number of units on issue for that facility. Unit prices are calculated and published daily.

NSW TCorp as trustee for each of the above facilities is required to act in the best interest of the unit holders and to administer the trusts in accordance with the trust deeds. As trustee, TCorp has appointed external managers to manage the performance and risks of each facility in accordance with a mandate agreed by the parties. TCorp has also leveraged off internal expertise to manage certain fixed income assets for the Hour-Glass facilities. A significant portion of the administration of the facilities is outsourced to an external custodian.

Investment in the Hour-Glass facilities limits the Authority's exposure to risk, as it allows diversification across a pool of funds, with different investment horizons and a mix of investments.

NSW TCorp provides sensitivity analysis information for each of the investment facilities, using historically based volatility information collected over a ten-year period, quoted at two standard deviations (i.e. 95% probability). The TCorp Hour-Glass investment facilities are designated at fair value through profit or loss and therefore any change in unit price impacts directly on profit (rather than equity). A reasonably possible change is based on the percentage change in unit price (as advised by TCorp) multiplied by the redemption value as at 30 June each year for each facility (balance from Hour-Glass statement).

Facility		Change in Unit Price 2016 %	Impact on Net Result 2016 $'000
Hour-Glass investment – Cash facility	+/-	1	11
Hour-Glass investment – Australian shares sector	+/-	28	61
Hour-Glass investment – International shares hedged sector	+/-	15	13
Hour-Glass investment – International shares unhedged sector	+/-	24	53
Hour-Glass investment – Emerging market shares sector	+/-	19	15
Hour-Glass investment – Listed property sector	+/-	38	52
Hour-Glass investment – Australian Bond sector	+/-	6	72
Hour-Glass investment – Multi asset class sector	+/-	10	12

notes to the financial statements

for the period ended 30 June 2016

(e) Fair value estimation

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

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets at fair value				
Hour-Glass investment facility	-	2,066	-	2,066
Total	-	2,066	-	2,066

(The tables above include only financial assets, as no financial liabilities were measured at fair value in the statement of financial position.)

The value of the Hour-Glass Investments is based on the entity's share of the value of the underlying assets of the facility, based on the market value. All of the Hour-Glass 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 report during which the transfer has occurred. There were no transfers during the period ended 30 June 2016.

12. Current liabilities – Payables

	2016 $'000
Current	
Creditors	71
Unearned Injury Prevention levies	17
Accrued Operating Expenses	141
Total Payables	**229**

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

Details regarding credit risk, liquidity risk, and market risk, including a maturity analysis of the above payables are disclosed in Note 11

notes to the financial statements
for the period ended 30 June 2016

13. Current liabilities – Unearned premium reserve

	2016 $'000
Unearned premium income	426
Unexpired risk liability	-
	426

(a) Unexpired risk liability

	Actual 2016 $'000
Unexpired risk liability as at 1 September	-
Movement in the unexpired risk liability recognised in the Statement of Comprehensive Income	-
Unexpired risk liability as at 30 June	**-**

(b) Calculation of unexpired risk liability

	2016 $'000
Unearned premium liability relating to contracts issued under the Sporting Injuries Insurance Scheme (A)	**426**
Central estimate of the present value of expected future cash flows arising from future claims on contracts issued under the Sporting Injuries Insurance Scheme	283
Risk Margin (75% Probability of Sufficiency)	141
(B)	**424**
Unexpired risk liability (B)-(A) (zero minimum)	**-**

The process for determining the overall risk margin, including the way in which diversification of risks has been allowed for is discussed in Note 14. As with outstanding claims, the overall risk margin is intended to achieve a 75% probability of adequacy.

notes to the financial statements

for the period ended 30 June 2016

14. Current/Non-current liabilities – Provision for outstanding claims

	2016 $'000
Current Outstanding Claims	711
Non Current Outstanding Claims	1,390
	2,101

The Authority manages the Sporting Injuries Insurance Scheme. The Scheme covers registered participants of sporting organisations for injury while engaged in specific activities or events. The Scheme provides capital lump sum benefits for injuries that lead to a prescribed percentage of permanent loss of use or fatality.

Provision is made at year end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the Authority.

The reconciliation and dissection of the movement in discounted outstanding claims liability for the Authority as follows:

	2016 $'000
Central Estimate	1,308
Claims handling costs	262
Risk margin	610
Outstanding claims liability– undiscounted	**2,180**
Discount to present value	(79)
Liability for Outstanding Claims – discounted	**2,101**
Brought forward	2,277
Reconciliation of discounted risk margin under AIFRS	(10)
Effect of changes in experience and assumptions on claims occurring in prior years	(113)
Increase in claims incurred arising from claims occurring in current year	493.
Claims payments during the year	(546)
CARRIED FORWARD	**2,101**

Actuarial assumptions and method

The Authority writes long tailed insurance business. The process for determining the value of outstanding claims liabilities is described below.

notes to the financial statements

for the period ended 30 June 2016

Actuarial assumptions

The actuarial valuation at 30 June 2016 was performed by Finity Consulting. The assumptions used by Finity Consulting in determining the outstanding claims liabilities as at 30 June 2016 were:

	2016
Claims handling expense	20%
Discount rate	1.6%
Inflation	0%
Superimposed inflation	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 Rate

Discount rates are derived from market yields on Commonwealth Government securities.

Inflation

No allowance has been made for future claims inflation. Past claims are fixed by the benefit schedules as specified by the *Sporting Injuries Insurance Act 1978* and the Authority has assumed that there are no future legislation changes that will affect the level of benefits paid in respect of past claims. The introduction of the *Sporting injuries Regulation 2009* has had no impact on the level of benefits as it only changed the impairment thresholds for a person to qualify for benefits.

Superimposed Inflation

Superimposed inflation occurs due to non-economic effects such as court settlements increasing at a faster rate than wages or CPI inflation. As the benefits are fixed by legislation, the Authority has not made an allowance for superimposed inflation. Hence to the extent that they are present in the historic experience, the valuation methodology makes an implicit allowance for superimposed inflation in claims cost.

notes to the financial statements

for the period ended 30 June 2016

Claims Development table

The following table shows the development of undiscounted outstanding claims relative to the ultimate expected claims for the most recent accident years for the Sporting injuries Schemes.

Accident year	2006–2010 $'000	2011 $'000	2012 $'000	2013 $'000	2014 $'000	2015 $'000	2016 $'000	Total $'000
Estimate of ultimate claims cost								
At end of accident period		409	381	365	712	731	504	3,102
One year later	461	234	260	378	755	852		2,940
Two years later	625	231	320	385	679			2,240
Three years later	965	203	308	541				2,017
Four years later	1,022	171	190					1,383
Five years later	1,882	146						2,028
Six years later	1,639							1,639
Seven years later	1,313							1,313
Eight years later	1,139							1,139
Nine years later	908							908
Ten years and later	538							538
Current estimate of cumulative claims cost	1,544	146	190	541	679	852	504	4,456
Cumulative payments	(1,470)	(96)	(157)	(407)	(431)	(587)	-	(3,148)
Outstanding claims – undiscounted	**74**	**50**	**33**	**134**	**248**	**265**	**504**	**1,308**
Discount								(47)
2005 and prior								-
Claims handling expenses								252
Outstanding claims excluding risk margin								**1,513**
Risk Margin								588
Final Outstanding claims including risk margin								**2,101**

Weighted average expected term to settlement of the outstanding claims

The weighted average expected term to settlement from the reporting date of the outstanding claims is estimated to be 2.2 years for the Scheme.

Risk Margin

The overall risk margin was determined allowing for the relative uncertainty of the outstanding claims estimate. Uncertainty was analysed using stochastic modelling and also taking into account potential uncertainties relating to the actuarial models and assumptions, the quality of the underlying data used in the models, the general insurance environment, the underlying characteristics of business written and the impact of legislative reform.

The estimate of uncertainty is greater for long tailed classes when compared to short tailed classes due to the longer time until settlement of the outstanding claims.

The assumptions regarding uncertainty were applied to the central estimates of the liability for the Sporting Injuries Insurance Scheme only and are intended to result in a 75% probability of adequacy. The overall risk margin applied is 39%.

notes to the financial statements

for the period ended 30 June 2016

Uncertainty in estimation process

The estimated cost of claims includes direct expenses to be incurred in settling claims. The Authority takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of claims incurred but not reported ('IBNR') is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Authority, where more information about the claim event is generally available. IBNR claims may often not be apparent to the insured until many years after the incident giving rise to the claim. In calculating the estimated cost of unpaid claims the Authority uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

- the high level of severe injury claims reported in the latest accident years
- the change in mix of sporting injuries over time
- limitations of historical information
- outcomes remain dependent on future events, including legislative, social and economic forces
- inherent volatility in the portfolio due to the small number of claims

Uncertainty can also arise from the process of selecting a simplified model and assumptions since it is difficult to reflect reality completely in a model. Erroneous data can cause additional issues with selecting appropriate assumptions. The inherent randomness in the claims process means that experience can differ to expected even if the modeling and assumptions were perfect.

Sensitivity analysis

The Authority conducts a sensitivity analysis to quantify the exposure to risk of changes in the key underlying variables. The valuations included in the reported results are calculated using certain assumptions about these variables as disclosed above. The movement in any key variable will impact the performance and equity of the Authority. The tables below describe how a change in each assumption will affect the insurance liabilities and show an analysis of the sensitivity of the net result and equity to changes in these assumptions. There are no recoveries in the Sporting Injuries Insurance Scheme.

	Movement in variable	2016 Impact on Net Result $'000	2016 Impact on Liabilities $'000
Expenses	5%	(88)	88
Expenses	-5%	88	(88)
Discount rate	1%	45	(45)
Discount rate	-1%	(47)	47

15. Contingent liabilities and contingent assets

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

notes to the financial statements

for the period ended 30 June 2016

16. Increase in net assets as a result of equity transfer

The *State Insurance and Care Governance Act 2015* (the Act) abolished the WorkCover Authority and transferred the assets, rights and liabilities of the WorkCover Authority to either Insurance and Care NSW, Sporting Injuries Compensation Authority, State Insurance and Regulatory Authority, NSW Self Insurance Corporation and SafeWork New South Wales. This Act was effective from 1 September 2015.

The transfer of net assets between the WorkCover Authority and Sporting Injuries Compensation Authority as a result of the Act is designated or required by Accounting Standards to be treated as contributions by owners and recognised as an adjustment to 'Accumulated Funds.' This treatment is consistent with AASB 1004 Contributions and Australian Interpretation 1038 Contributions by Owners Made to Wholly-Owned Public Sector Entities.

Transfers arising from an administrative restructure involving not-for-profit government entities are recognised at the amount at which the assets and liabilities were recognised by the transferor immediately prior to the restructure. Subject to below, in most instances this will approximate fair value.

All other equity transfers are recognised at fair value, except for intangibles. Where an intangible has been recognised at (amortised) cost by the transferor because there is no active market, the entity recognises the asset at the transferor's carrying amount. Where the transferor is prohibited from recognising internally generated intangibles, the entity does not recognise that asset.

Details of assets and liabilities transferred from the WorkCover Authority to the Sporting Injuries Compensation Authority as at 1 September 2015.	$'000
ASSETS	
Current Assets	
Cash and cash equivalents	1,669
Receivables	295
Investments	2,470
Total Current Assets	**4,434**
Total Assets	**4,434**
LIABILITIES	
Current Liabilities	
Payables	39
Unearned premium income	318
Provision for outstanding claims	702
Total Current Liabilities	**1,059**
Non-Current Liabilities	
Provision for outstanding claims	1,575
Total Non-current Liabilities	**1,575**
Total Liabilities	**2,634**
Increase in Net Assets from equity transfers	**1,800**

END OF AUDITED FINANCIAL STATEMENTS

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The icare 2015–16 Annual Report has been prepared in accordance with the *Annual Reports (Statutory Bodies) Act 1984*.

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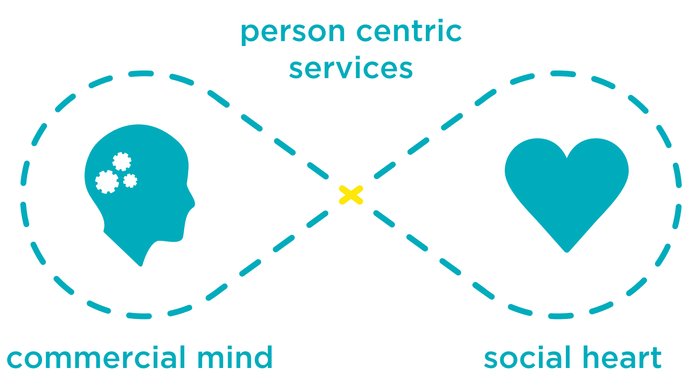

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