icare™
Insurance and Care NSW

Insurance and Care NSW

Annual Report 2018-19

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for the year ended 30 June 2019

Insurance and Care NSW

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

In the opinion of the Board of Directors:

1. the financial statements of Insurance and Care NSW have been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2015* and the Treasurer's Directions. They have also been prepared in accordance with Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board.
2. the financial statements for the year ended 30 June 2019 exhibit a true and fair view of the position and transactions of Insurance and Care NSW: and
3. the directors are not aware of any circumstances as at the date of this certificate which would render any particulars included in the financial statements misleading or inaccurate.

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

Michael Carapiet
Chairman
Insurance and Care NSW
23 September 2019

John Nagle
Chief Executive Officer and Managing Director
Insurance and Care NSW
23 September 2019

INDEPENDENT AUDITOR'S REPORT

Insurance and Care New South Wales

To Members of the New South Wales Parliament

Opinion

I have audited the accompanying financial statements of Insurance and Care New South Wales (icare), which comprise the Statement of Comprehensive Income for the year ended 30 June 2019, the Statement of Financial Position as at 30 June 2019, the Statement of Changes in Equity and the Statement of Cash Flows for the year then ended, and notes comprising 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 2019, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards
- are in accordance with section 41B of the *Public Finance and Audit Act 1983* (PF&A Act) and the Public Finance and Audit Regulation 2015.

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

Basis for Opinion

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

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

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

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

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

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

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

Other Information

icare's annual report for the year ended 30 June 2019 includes other information in addition to the financial statements and my Independent Auditor's Report thereon. The Directors of icare are responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprises the Statement by the Chairman and Chief Executive.

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GPO Box 12, Sydney NSW 2001 | **t** 02 9275 7101 | **f** 02 9275 7179 | mail@audit.nsw.gov.au | audit.nsw.gov.au

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

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

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

I have nothing to report in this regard.

The Board's Responsibilities for the Financial Statements

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

In preparing the financial statements, the Board of Directors are responsible for assessing icare's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting, unless it is not appropriate to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to:

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

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

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

My opinion does not provide assurance:

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

D Daniels

David Daniels
Director, Financial Audit Services

Delegate of the Auditor-General for New South Wales

27 September 2019
SYDNEY

Statement of comprehensive income

for the year ended 30 June 2019

	Notes	2019 $'000	2018 $'000
REVENUE			
Service fee revenue	2.1	664,287	654,712
Investment revenue		183	360
Other revenue		142	145
Total Revenue		**664,612**	**655,217**
EXPENSES			
Employee related	2.2	127,335	131,073
Other operating expenses	2.3	528,680	515,774
Grants	2.4	8,597	8,370
Total Expenses		**664,612**	**655,217**
Net result		**-**	**-**
TOTAL COMPREHENSIVE INCOME		**-**	**-**

The accompanying notes form part of these financial statements.

Statement of financial position

as at 30 June 2019

	Notes	2019 $'000	2018 $'000
ASSETS			
Cash and cash equivalents	4.1	8,259	22,975
Receivables and prepayments	2.5	136,363	132,983
Property, plant and equipment	4.2	16,374	22,251
Intangible assets	4.3	18	265
Total Assets		**161,014**	**178,474**
LIABILITIES			
Payables	2.6	123,898	137,560
Provisions	4.4	24,037	27,835
Total Liabilities		**147,935**	**165,395**
Net Assets		**13,079**	**13,079**
EQUITY			
Accumulated funds		13,079	13,079
Total Equity		**13,079**	**13,079**

The accompanying notes form part of these financial statements.

Statement of changes in equity

for the year ended 30 June 2019

	2019 $'000	2018 $'000
Balance at beginning of year	**13,079**	**13,079**
Net Result for the year	-	-
Total comprehensive income for the year	-	-
Balance at 30 June	**13,079**	**13,079**

The accompanying notes form part of these financial statements.

Statement of cash flows

for the year ended 30 June 2019

	Notes	2019 $'000	2018 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts			
Service fees		633,648	744,486
Interest received		183	614
Other receipts		163	125
Total Receipts		**633,994**	**745,225**
Payments			
Agent remuneration		(354,789)	(476,301)
Employee related		(132,187)	(122,906)
Grants		(8,597)	(8,370)
Other payments		(152,872)	(136,764)
Total Payments		**(648,445)**	**(744,341)**
NET CASH FLOWS FROM OPERATING ACTIVITIES	4.1	**(14,451)**	**884**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment and intangibles	4.2	(265)	(10,723)
NET CASH FLOWS USED IN INVESTING ACTIVITIES		**(265)**	**(10,723)**
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		**(14,716)**	**(9,839)**
Opening cash and cash equivalents		22,975	32,814
CLOSING CASH AND CASH EQUIVALENTS	**4.1**	**8,259**	**22,975**

The accompanying notes form part of these financial statements.

Notes of financial statements

for the year ended 30 June 2019

1. Overview

1.1. About the Entity

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

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

These financial statements for the year ended 30 June 2019 have been authorised by the Chairman of the Board of icare and the Chief Executive Officer and Managing Director of icare on behalf of the Board of Directors of icare on 23 September 2019.

1.2. About this report

This Financial Report includes the financial statements of icare.

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

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

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

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

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

Information is considered material and relevant if:

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

Notes of financial statements

for the year ended 30 June 2019

1.2.1. Basis of preparation

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

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

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

These financial statements have been presented on a liquidity basis following receipt of an exemption from TC19-04 by NSW Treasury that statements are presented on a current and non-current basis.

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

1.2.2. Statement of compliance

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

1.2.3. Taxation

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

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

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

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

1.2.4. Comparative information

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

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

1.2.5. Intangibles

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

The capitalisation threshold for intangible assets is one hundred thousand dollars and above (including direct allocation of personnel service costs).

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

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

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

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

Notes of financial statements

for the year ended 30 June 2019

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.

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

Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the reporting year ending 30 June 2019. The following new Standards will not have a material impact on the financial performance or position of icare:

- AASB 15, AASB 2014-5, AASB 2015-8 and AASB 2016-3 regarding *Revenue from Contracts with Customers*;
- AASB 16 regarding *Leases*;
- AASB 17 regarding *Insurance Contracts*;
- AASB 1058 *Income of Not-for-profit Entities*;
- AASB 2016-8 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities;
- AASB 2017-1 Amendments to Australian Accounting Standards – Transfer of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments; and
- AASB 2018-1 Amendments to Australian Accounting Standards – Annual improvements 2015-2017 cycle.

In relation to certain new accounting standards and interpretations that have been published that are not mandatory for 30 June 2019 reporting period. the following information on their impact is provided:

- AASB 15 *Revenue from Contracts with Customers*, AASB 2014-5 *Amendments to Australian Accounting Standards* arising from AASB 15 and AASB 1058 Income of *Not-for-Profits*
  - AASB 15 *Revenue from Contracts with Customers* (AASB 15) is effective for reporting periods commencing on or after 1 January 2019. AASB 15 establishes a five-step model to account for revenue arising from contracts with customers. Revenue is recognised when control of goods or services is transferred to the customer at amounts that reflect the consideration to which icare expects to be entitled in exchange for transferring the goods or services to the customer. Under AASB 118 *Revenue* (AASB 118), revenue recognition is currently based on when risks and rewards are transferred.
  - AASB 1058 *Income of Not-for-Profits* (AASB 1058) is effective for reporting periods commencing on or after 1 January 2019 and will replace most of the existing requirements in AASB 1004 *Contributions* (AASB 1004). The scope of AASB 1004 is now limited mainly to parliamentary appropriations, administrative arrangements and contributions by owners. Under AASB 1058, icare will need to determine whether a transaction is consideration received below fair value principally to enable icare to further its objectives (accounted for under AASB 1058) or a revenue contract with a customer (accounted for under AASB 15).
  - The standards will result in the identification of separate performance obligations that will not change the timing of recognition for some revenues, including revenues relating to sales of goods and services and specific purpose grants and subsidies.
  - Under AASB 1058, icare will recognise as liabilities, obligations for funding received where there is an obligation to construct recognisable non-financial assets controlled by icare. AASB 1058 will not have any impact on icare because it does not receive this type of funding.

Notes of financial statements

for the year ended 30 June 2019

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

  - icare will adopt AASB 15 and AASB 1058 on 1 July 2019 through application of the full retrospective transition approach. Recognition and measurement principles of the new standards will be applied for the current year and comparative year as though AASB 15 and AASB 1058 had always applied.
  - The impacts to balances resulting from the adoption of AASB 15 and AASB 1058 have been assessed by icare as not being significant.
- AASB 16 Leases
  - AASB 16 *Leases* (AASB 16) is effective from reporting periods commencing on or after 1 January 2019
    For lessees, AASB 16 will result in most leases being recognised on the Statement of Financial Position, as the distinction between operating and finance leases is largely removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised at the commencement of the lease. The only exceptions are short-term and low-value leases. AASB 16 will therefore increase assets and liabilities reported on the Statement of Financial Position. It will also increase depreciation and interest expenses and reduce operating lease rental expenses on the Statement of Comprehensive Income. Expenses recognised in the earlier years of the lease term will be higher as the interest charges will be calculated on a larger lease liability balance. Existing finance leases are not expected to be significantly impacted from the transition to AASB 16.
    icare will adopt AASB 16 on 1 July 2019 through application of the partial retrospective approach, where only the current year is adjusted as though AASB 16 had always applied. Comparative information will not be restated. icare will also adopt the practical expedient whereby the fair value of the right-of use asset will be the same as the lease liability at 1 July 2019.

    Based on the impact assessments icare has undertaken on currently available information, icare estimates additional lease liabilities of $49 million and right-of-use assets of $49 million will be recognised as at 1 July 2019 for leases in which icare is a lessee. Most operating lease expenses will be replaced by depreciation of the right of use asset and interest on the lease liability. The impact on the statement of comprehensive income is expected to be immaterial.
- AASB 9 *Financial Instruments*
  - AASB 9 *Financial Instruments* replaces AASB 139 *Financial Instruments: Recognition and Measurement* and is effective for icare from 1 July 2018.

    The standard makes changes to the classification of financial assets for the purpose of determining their measurement basis, as well as the recognition of changes in fair value. The standard replaces the incurred loss model of AASB 139 with a new expected loss model which can result in the acceleration of impairment recognition on financial instruments.
    The standard requires icare to account for expected credit losses on financial instruments at the point at which the financial instruments are first recognised and to estimate the expected loss applicable to those financial instruments over the period for which they are held. This requirement can result in expected losses on financial instruments being recognised in full much earlier than would have been the case under AASB 139.
    icare has performed an assessment and concluded that no transitional adjustments were required as a result of complying with the new requirements. The majority of icare's's assets are already measured at fair value through profit and loss as required by AASB 9.

Notes of financial statements

for the year ended 30 June 2019

2. Service activities

Overview

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

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

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

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

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

2.1. Service fee revenue

	2019 $'000	2018 $'000
Lifetime Care and Support Authority of NSW	33,158	33,893
New South Wales Self Insurance Corporation	166,940	173,654
NSW Workers Insurance Scheme	452,094	435,072
Sporting Injuries Compensation Authority	125	196
Workers Compensation (Dust Diseases) Authority	11,249	11,256
Building Insurers' Guarantee Corporation	237	169
Generators and Transgrid	484	472
	664,287	**654,712**

Notes of financial statements

for the year ended 30 June 2019

2.2. Employee related

	2019 $'000	2018 $'000
Salaries and wages (including recreation leave)	112,455	101,727
Agency short-term staff	1,113	10,838
Long service leave	(4,885)	2,383
Superannuation	9,413	8,325
Payroll tax and fringe benefit tax	7,559	6,552
Allowances	1,219	916
Workers' compensation insurance	461	332
	127,335	**131,073**

2.3. Other operating expenses

	2019 $'000	2018 $'000
Agent remuneration	254,432	342,922
Fees paid to outsourced service providers	106,451	33,025
Advertising, promotion and publicity	2,708	3,526
Auditor's remuneration - Audit Office of NSW – audit of financial statements	258	128
Other external audits	90	296
Internal audit and reviews	1,311	385
Building maintenance, repairs and management	(105)	417
Board and Committee fees	1,215	1,258
Consultants – Actuarial fees	9,009	7,449
Consultants – Other	3,763	3,857
Contractors	14,961	12,412
Communication expenses	3,599	2,695
Depreciation and amortisation expense	6,389	6,478
Fees Hosted Contingent workers	19,961	2,093
ICT Services- Managed Service	18,971	10,423
Insurance	425	385
Legal Fees	1,896	1,218

Notes of financial statements

for the year ended 30 June 2019

2.3 Other operating expenses (continued)

	2019 $'000	2018 $'000
Other miscellaneous	7,398	6,531
Operating lease rental expense		
- minimum lease payments	5,811	6,074
- other related expenses	4,423	3,245
Other repairs and maintenance	(55)	435
Reinsurance administration fees	1,444	1,313
Printing	3,916	7,048
Risk Consulting Services	11,566	8,235
Service Fees incurred on behalf of icare	4,723	-
Service NSW Service fees	12,127	15,159
Software Licences	26,510	32,504
Stores	1,504	1,540
Training	3,057	3,540
Travel and vehicle expenses	922	1,183
	528,680	**515,774**

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

Notes of financial statements

for the year ended 30 June 2019

2.4. Grants

Overview

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

	2019 $'000	2018 $'000
Grants	**8,597**	**8,370**

2.5. Receivables

Overview

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

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

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

Prepayments primarily relate to scheme agent remuneration paid in advance for the September 2019 quarter in relation to the insurance activities of icare and the entities it supports.

Notes of financial statements

for the year ended 30 June 2019

2.5 Receivables (continued)

No receivables are considered impaired (2018 $nil).

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

	2019 $'000	2018 $'000
Service fees receivable from relevant entities		
Lifetime Care and Support Authority of NSW	2,394	4,209
New South Wales Self Insurance Corporation	16,400	14,468
NSW Workers Insurance Scheme	79,487	47,038
Sporting Injuries Compensation Authority	26	11
Workers Compensation (Dust Diseases) Authority	1,218	2,460
Building Insurers' Guarantee Corporation	15	22
Generators and Transgrid	712	243
Prepayments	35,509	58,795
Receivables – other	194	637
GST receivable	408	5,100
	136,363	**132,983**

Notes of financial statements

for the year ended 30 June 2019

2.6. Payables

Overview

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

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

	2019 $'000	2018 $'000
Scheme Agents remuneration	89,177	106,369
Creditors	29,207	24,685
Accrued salaries, wages and on-costs (Refer Note 4.4.1)	5,514	6,506
Total Payables	**123,898**	**137,560**

3. Risk Management

Overview

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

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

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

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

Notes of financial statements

for the year ended 30 June 2019

3. Risk Management (continued)

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

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

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

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

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

Financial instrument categories

	Note	Category	Carrying Amount 2019 $'000	Carrying Amount 2018 $'000
Financial Assets				
Class:				
Cash and cash equivalents	4.1	N/A	8,259	22,975
Receivables[1]	3.4	Loans and Receivables – at amortised cost	100,446	69,088
Financial Liabilities				
Class:				
Payables[2]	3.3	Financial liabilities – at amortised cost	123,898	137,560

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.

Notes of financial statements

for the year ended 30 June 2019

3.1. Market risk

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

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

3.2. Interest rate risk

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

3.2.1. Exposure

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

3.2.2. Quantitative analysis of exposure

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

	Carrying Amount $'000	-1%		+1%	
		Profit $'000	Equity $'000	Profit $'000	Equity $'000
2019					
Cash and cash equivalents	8,259	(83)	(83)	83	83
2018					
Cash and cash equivalents	22,975	(230)	(230)	230	230

Notes of financial statements

for the year ended 30 June 2019

3.2.2. Quantitative analysis of exposure (continued)

	Floating Interest Rate	Fixed Interest Rates		
		< 1 year $'000	1-5 years $'000	> 5 years $'000
2019				
Class				
Cash	8,259	-	-	-
Assets	**8,259**	**-**	**-**	**-**
2018				
Class				
Cash	22,975	-	-	-
Assets	**22,975**	**-**	**-**	**-**

3.3. Liquidity risk

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

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

icare paid $1,347 in interest to small business suppliers for late payment of invoices in accordance with Government guidelines. (2018: nil)

Notes of financial statements

for the year ended 30 June 2019

3.3. Liquidity risk (continued)

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

Interest rate exposure of financial liabilities

	Nominal Amount	Interest Rate Exposure		
		Fixed Rate $'000	Variable Rate $'000	Non-Interest Bearing $'000
2019				
Payables	123,898	-	-	123,898
2018				
Payables	137,560	-	-	137,560

Maturity Analysis of financial liabilities

	Interest Rate Exposure		
	< 1 year $'000	1-5 years $'000	> 5 years $'000
2019			
Payables	123,898	-	-
2018			
Payables	137,560	-	-

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

3.4. Credit risk

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

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

Notes of financial statements

for the year ended 30 June 2019

3.4.1. Cash

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

3.4.2. Receivables

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

3.5. Fair value estimation

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

4. Other

Overview

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

4.1. Cash and cash equivalents

Overview

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

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

	2019 $'000	2018 $'000
Cash at bank and on hand	8,259	22,975
	8,259	**22,975**

Notes of financial statements

for the year ended 30 June 2019

4.1 Cash and cash equivalents (continued)

Reconciliation of cash flows from operating activities to Net Result

	2019 $'000	2018 $'000
Net cash flow from operating activities	(14,451)	884
Depreciation and amortisation	(6,388)	(6,478)
Increase/(decrease) in receivables	3,380	(63,696)
(Increase)/decrease in payables	13,661	72,778
(Increase) in provisions	3,798	(3,488)
Net result per Statement of Comprehensive Income	**-**	**-**

4.2. Property, plant and equipment

Overview

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

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

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

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

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

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

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

	2019 %	2018 %
	per annum	per annum
Office machines and equipment	20.0	20.0
Computer hardware	20.0-33.3	20.0-33.3
Motor Vehicle	20.0	20.0

Notes of financial statements

for the year ended 30 June 2019

4.2 Property, plant and equipment (continued)

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

Restoration costs

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

	Capital Work in Progress $'000	Leasehold Improvements $'000	Office Machines and Equipment $'000	Computer Hardware $'000	Motor Vehicles $'000	Total $'000
At 1 July 2018 fair value						
Gross carrying amount	211	32,166	323	154	31	32,885
Accumulated depreciation and impairment	-	(10,356)	(152)	(116)	(10)	(10,634)
Net carrying amount	**211**	**21,810**	**171**	**38**	**21**	**22,251**
At 30 June 2019 fair value						
Gross carrying amount	-	32,446	323	154	31	32,954
Accumulated depreciation and impairment	-	(16,218)	(215)	(129)	(18)	(16,580)
Net carrying amount	**-**	**16,228**	**108**	**25**	**13**	**16,374**
Reconciliation						
A reconciliation of the carrying amount of each class of property, plant and equipment at the beginning and end of the current reporting year is set out below:						
Net carrying amount at start of the year	211	21,810	171	38	21	22,251
Additions	153	361	-	-	-	514
Disposals	(249)	(197)	-	-	-	(446)
Depreciation writeback on disposal	-	197	-	-	-	197
Transfers	(115)	115	-	-	-	-
Depreciation expense	-	(6,058)	(63)	(13)	(8)	(6,142)
Net carrying amount at end of the year	**-**	**16,228**	**108**	**25**	**13**	**16,374**

Notes of financial statements

for the year ended 30 June 2019

4.2 Property, plant and equipment (continued)

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

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Notes of financial statements

for the year ended 30 June 2019

4.3. Provisions

Overview

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

	2019 $'000	2018 $'000
Employee benefits and related on-costs		
Annual leave entitlements including on-costs	10,123	8,051
Long service leave entitlements including on-costs	11,610	17,644
Restoration provision	2,304	2,140
Total Provisions	**24,037**	**27,835**
Aggregate employee benefits and related on-costs		
Annual leave entitlements including on-costs	10,123	8,051
Long service leave entitlements including on-costs	11,610	17,644
Accrued salaries, wages and on-costs	5,514	6,506
	27,247	**32,201**

Employee Benefits and Other Provisions

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

	2019 $'000	2018 $'000
Expected to be settled no more than twelve months		
Annual leave and related on-costs	10,123	8,051
Long service leave and related on-costs	1,183	1,186
	11,306	**9,237**
Expected to be settled after more than twelve months		
Long service leave and related on-costs	**10,427**	**16,458**

Notes of financial statements

for the year ended 30 June 2019

4.3.1. Salaries and Wages, Annual Leave, Sick Leave and On-Costs

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

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

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

4.3.2. Superannuation and Long Service Leave

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

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

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

The calculation is actuarially performed.

4.3.3. Consequential on-costs

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

4.3.4. Restoration provision

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

	2019 $'000	2018 $'000
Carrying amount at the beginning of financial year	2,140	1,567
Additional provisions	361	573
Disposals	(197)	-
Carrying amount at end of financial year	**2,304**	**2,140**

Notes of financial statements

for the year ended 30 June 2019

4.4. Contingent liabilities and contingent assets

Overview

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

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

4.5. Related party disclosures

Overview

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

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

	2019 $'000	2018 $'000
Short term employee benefits		
Salaries	7,732	7,649
Other monetary allowances	-	-
Non-monetary benefits	-	-
Other long-term employee benefits	363	456
Post-employment benefits	-	-
Termination benefits	731	500
Total Remuneration	**8,826**	**8,605**

End of audited financial statements

Dust Diseases Care

Dust Diseases Care Financial statements

for the year ended 30 June 2019

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Notes to the financial statements

WORKERS COMPENSATION DUST DISEASES AUTHORITY OF NSW

Actuarial Certificate
Outstanding claims liabilities at 30 June 2019

PricewaterhouseCoopers Consulting (Australia) Pty Ltd (PwC) has been requested by Insurance and Care NSW ("icare") acting for the Workers' Compensation Dust Diseases Authority of NSW ("DDA") to make estimates of outstanding claims liabilities of the DDA under the *Workers Compensation (Dust Diseases) Act* as at 30 June 2019.

Data

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

Basis of Our Estimates

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

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

Valuation Results

The PwC central estimates of the outstanding claims liabilities, net of recoveries, for Known Claims and Future Claims as at 30 June 2019 is **$1,887.0 m.** The breakdown of the result between Known Claims and Future Claims are shown in the following table.

Component	Net Central Estimate ($m)
Known Claims	835.8
Future Claims	1,051.1
Total Liability *	**1,887.0**

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

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

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

Uncertainty

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

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

Report

Full details of data, methodology, assumptions and results are set out in our valuation report dated 06 September 2019.

Relevant Standards

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

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

Andrew Smith
FIAA
06 September 2019

Gavin Moore
FIAA
06 September 2019

Statement by the chairman and chief executive officer

for the year ended 30 June 2019

Workers Compensation (Dust Diseases) Authority

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

In the opinion of the Board of Directors:

1. the financial statements of Workers Compensation (Dust Diseases) Authority have been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2015* and the Treasurer's Directions. They have also been prepared in accordance with Australian Accounting Standards (which include Australian Accounting Interpretations) and other authoritative pronouncements of the Australian Accounting Standards Board;
2. the financial statements for the year ended 30 June 2019 exhibit a true and fair view of the position and transactions of Workers Compensation (Dust Diseases) Authority; and
3. the directors are not aware of any circumstances as at the date of this certificate which would render any particulars included in the financial statements misleading or inaccurate.

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

Michael Carapiet
Chairman/Director
Insurance and Care NSW
23 September 2019

John Nagle
Chief Executive Officer and Managing Director
Workers Compensation (Dust Diseases) Authority
and Insurance and Care NSW
23 September 2019

INDEPENDENT AUDITOR'S REPORT

Workers Compensation (Dust Diseases) Authority

To Members of the New South Wales Parliament

Opinion

I have audited the accompanying financial statements of the Workers Compensation (Dust Diseases) Authority (the Authority), which comprise the Statement of Comprehensive Income for the year ended 30 June 2019, the Statement of Financial Position as at 30 June 2019, the Statement of Changes in Equity and the Statement of Cash Flows for the year then ended, and notes comprising 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 2019, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards
- are in accordance with section 41B of the *Public Finance and Audit Act 1983* (PF&A Act) and the Public Finance and Audit Regulation 2015.

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

Basis for Opinion

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

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

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

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

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

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

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

Level 19, Darling Park Tower 2, 201 Sussex Street, Sydney NSW 2000
GPO Box 12, Sydney NSW 2001 | **t** 02 9275 7101 | **f** 02 9275 7179 | mail@audit.nsw.gov.au | audit.nsw.gov.au

Other Information

The Authority's annual report for the year ended 30 June 2019 includes other information in addition to the financial statements and my Independent Auditor's Report thereon. The Chief Executive Officer of the Authority is responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprises the Statement by the Chairman and Chief Executive Officer.

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

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

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

I have nothing to report in this regard.

The Chief Executive Officer's Responsibilities for the Financial Statements

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

In preparing the financial statements, the Chief Executive Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting, unless it is not appropriate to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to:

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

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

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

My opinion does not provide assurance:

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

David Daniels
Director, Financial Audit Services

Delegate of the Auditor-General for New South Wales

27 September 2019
SYDNEY

Statement of comprehensive income

for the year ended 30 June 2019

	Notes	2019 $'000	2018 $'000
Revenue			
Fees and levies	2.1	71,173	61,822
Net investment revenue	3.1	105,057	96,622
Other revenue	5.1	21,870	11,976
Total Revenue		**198,100**	**170,420**
Expenses excluding losses			
Scheme costs	2.2	193,560	156,796
Service fees		11,176	13,560
Transformation expenses		3,504	-
Other operating expenses		3,172	628
Grants and subsidies		5,729	5,526
Total expenses excluding losses		**217,141**	**176,510**
Movement in allowance for impairment	2.3.5	70	(578)
Gain on disposal of assets	5.4	7,944	-
Net result		**(11,027)**	**(6,668)**
Other comprehensive income			
Items that will not be reclassified to the net result		-	-
Net decrease in property, plant and equipment revaluation reserve		(2,598)	-
Total other comprehensive income/(loss)		**(2,598)**	**-**
TOTAL COMPREHENSIVE INCOME/(LOSS)		**(13,625)**	**(6,668)**

The accompanying notes form part of these financial statements

Statement of financial position

as at 30 June 2019

	Notes	2019 $'000	2018 $'000
ASSETS			
Cash and cash equivalents	5.3	10,304	19,193
Investments	3.2	1,242,829	1,182,846
Receivables	2.3.5	697,997	638,839
Assets held for sale	5.4	-	5,373
Property, plant and equipment	1.2.6	4,957	3,045
Intangibles		6,549	-
Total Assets		**1,962,636**	**1,849,296**
LIABILITIES			
Payables	2.3.6	13,066	8,599
Investments	3.2	197	144
Outstanding claims	2.3.1	1,949,293	1,826,928
Restoration Provision		80	-
Total Liabilities		**1,962,636**	**1,835,671**
Net Assets		**-**	**13,625**
EQUITY			
Asset revaluation reserve		-	2,598
Accumulated funds		-	11,027
Total Equity		**-**	**13,625**

The accompanying notes form part of these financial statements.

Statement of changes in equity

for the year ended 30 June 2019

	Accumulated Funds $'000	Asset Revaluation Surplus $'000	Total $'000
Balance at 1 July 2018	**11,027**	**2,598**	**13,625**
Net Result for the year	**(11,027)**	**-**	**(11,027)**
Other comprehensive income			
Net decrease in property, plant and equipment revaluation reserve	-	(2,598)	(2,598)
Total other comprehensive income/(loss)	**-**	**(2,598)**	**(2,598)**
Total comprehensive income/(loss) for the year	**(11,027)**	**-**	**(11,027)**
Balance at 30 June 2019	**-**	**-**	**-**
Balance at July 2017	17,695	2,598	20,293
Net Result for the year	(6,668)	-	(6,668)
Total comprehensive income/(loss) for the year	(6,668)	-	(6,668)
Balance at 30 June 2018	11,027	2,598	13,625

The accompanying notes form part of these financial statements.

Statement of cash flows

for the year ended 30 June 2019

	Notes	2019 $'000	2018 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Fees and levies received		66,471	63,925
Compensation payments		(106,894)	(102,295)
Net Cash Flows from Scheme Activities		**(40,423)**	**(38,370)**
Receipts			
Proceeds from sale of investments		1,155,403	1,282,511
Distributions/interest investments income		22,468	48,880
Other		3,082	3,466
Total Receipts Excluding Scheme Activities		**1,180,953**	**1,334,857**
Payments			
Purchases of investments		(1,133,056)	(1,267,248)
Service fees		(3,852)	(12,118)
Other operating expenses		(7,756)	(360)
Grants and subsidies		(5,729)	(5,526)
Total Payments Excluding Scheme Activities		**(1,150,393)**	**(1,285,252)**
NET CASH FLOWS FROM OPERATING ACTIVITIES	**5.3**	**(9,863)**	**11,235**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		13,317	-
Purchases of plant and equipment		(12,343)	(2,864)
NET CASH FLOWS FROM INVESTING ACTIVITIES		**974**	**(2,864)**
NET INCREASE/(DECREASE) IN CASH & CASH EQUIVALENTS		**(8,889)**	**8,371**
Opening cash and cash equivalents	**5.3**	**19,193**	**10,822**
CLOSING CASH AND CASH EQUIVALENTS	**5.3**	**10,304**	**19,193**

The accompanying notes form part of these financial statements.

Notes of financial statements

for the year ended 30 June 2019

1. Overview

1.1. About the Authority

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

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

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

These financial statements for the year ended 30 June 2019 have been authorised for issue by the Chairman of the Board of icare and the Chief Executive Officer and Managing Director of the Authority on behalf of the Board of Directors of icare on 23 September 2019.

1.2. About this report

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

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

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

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

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

Information is considered material and relevant if:

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

Notes of financial statements

for the year ended 30 June 2019

1.2.1. Basis of preparation

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

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

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

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

These financial statements have been presented on a liquidity basis following receipt of an exemption from TC19-04 by NSW Treasury that statements are presented on a current and non-current basis.

1.2.2. Statement of compliance

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

1.2.3. Judgements, key assumptions and estimations

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

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

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

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

- Note 3 & 4 – Investments;
- Note 2.3 – Net Outstanding Claims liability. and
- Note 2.3.5 - Receivables

1.2.4. Taxation

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

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

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

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

Notes of financial statements

for the year ended 30 June 2019

1.2.5. Equity and reserves

Asset Revaluation reserve

The revaluation reserve is used to record increments and decrements on the revaluation of property, plant and equipment. This reserve has been extinguished following the disposal of the Authority's building in 2018/19 (refer note 5.4).

Accumulated funds

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

1.2.6. Property, plant and equipment

Overview

Plant and equipment are recorded at cost on acquisition.

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

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

1.2.6.1. Fair value

Physical assets are valued in accordance with the *'Valuation of Physical Non-Current Assets at Fair Value'* Policy and Guidelines Paper (TPP 14-01). This policy adopts fair value in accordance with AASB 13 *Fair Value Measurement* and AASB 116 *Property, Plant and Equipmen*t.

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

1.2.6.2. Revaluation of property, plant and equipment

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

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

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

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

Notes of financial statements

for the year ended 30 June 2019

1.2.6.3. Depreciation of property, plant and equipment

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

The following depreciation rates were used:

Categories	2019 %	2018 %
	per annum	per annum
Buildings	3	3
Motor vehicles: passenger cars	20	20
Motor vehicles: mobile respiratory unit	10	10
Office equipment	20	20
Scientific and medical equipment	5-12.5	5-12.5

1.2.7. Intangibles

The capitalisation threshold for intangible assets is one hundred thousand dollars and above (including direct allocation of personnel service costs).

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

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

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

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

1.2.8. Comparative figures

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

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

1.2.9. Transformation expenses

2018-19 is the second year of Care's three-year development and implementation of the new Service Delivery Model (SDM). While the SDM rollout will continue beyond FY20 it will do so as business as usual. In addition, the initial transition of the Care schemes to the new icare system has commenced. This has included development of the Dust Diseases Care portal and medical imaging functionality, as well as the discovery work for transitioning the Care schemes onto the Guidewire Claims System.

Transformation costs include transition to the new SDM through to the end of FY20 and the initial system build costs.

Notes of financial statements

for the year ended 30 June 2019

1.2.10. 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 2019. The following new Standards will not have a material impact on the financial performance or position of Authority:

- AASB 15, AASB 2014-5, AASB 2015-8 and AASB 2016-3 regarding *Revenue from Contracts with Customers*;
- AASB 16 regarding *Leases*;
- AASB 17 regarding *Insurance Contracts*;
- AASB 1058 *Income of Not-for-profit Entities*;
- AASB 2016-8 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities;
- AASB 2017-1 Amendments to Australian Accounting Standards – Transfer of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments; and
- AASB 2018-1 Amendments to Australian Accounting Standards – Annual improvements 2015-2017 cycle.

In relation to certain new accounting standards and interpretations that have been published that are not mandatory for 30 June 2019 reporting period. the following information on their impact is provided:

- AASB 15 *Revenue from Contracts with Customers*, AASB 2014-5 *Amendments to Australian Accounting Standards* arising from AASB 15 and AASB 1058 *Income of Not-for-Profits*
  - AASB 15 *Revenue from Contracts with Customers* (AASB 15) is effective for reporting periods commencing on or after 1 January 2019. AASB 15 establishes a five-step model to account for revenue arising from contracts with customers. Revenue is recognised when control of goods or services is transferred to the customer at amounts that reflect the consideration to which the Authority expects to be entitled in exchange for transferring the goods or services to the customer. Under AASB 118 *Revenue* (AASB 118), revenue recognition is currently based on when risks and rewards are transferred.
  - AASB 1058 *Income of Not-for-Profits* (AASB 1058) is effective for reporting periods commencing on or after 1 January 2019 and will replace most of the existing requirements in AASB 1004 *Contributions* (AASB 1004). The scope of AASB 1004 is now limited mainly to parliamentary appropriations, administrative arrangements and contributions by owners. Under AASB 1058, The Authority will need to determine whether a transaction is consideration received below fair value principally to enable the Authority to further its objectives (accounted for under AASB 1058) or a revenue contract with a customer (accounted for under AASB 15).
  - The standards will result in the identification of separate performance obligations that will not change the timing of recognition for some revenues, including revenues relating to sales of goods and services and specific purpose grants and subsidies.
  - Under AASB 1058, the Authority will recognise as liabilities, obligations for funding received where there is an obligation to construct recognisable non-financial assets controlled by the authority. AASB 1058 will not have any impact on the authority because it does not receive this type of funding.
  - The Authority will adopt AASB 15 and AASB 1058 on 1 July 2019 through application of the full retrospective transition approach. Recognition and measurement principles of the new standards will be applied for the current year and comparative year as though AASB 15 and AASB 1058 had always applied.

Notes of financial statements

for the year ended 30 June 2019

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

  - The impacts to balances resulting from the adoption of AASB 15 and AASB 1058 have been assessed by the Authority as not being significant.
- AASB 16 *Leases*
  - AASB 16 *Leases* (AASB 16) is effective from reporting periods commencing on or after 1 January 2019.

    For lessees, AASB 16 will result in most leases being recognised on the Statement of Financial Position, as the distinction between operating and finance leases is largely removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised at the commencement of the lease. The only exceptions are short-term and low-value leases. AASB 16 will therefore increase assets and liabilities reported on the Statement of Financial Position. It will also increase depreciation and interest expenses and reduce operating lease rental expenses on the Statement of Comprehensive Income. Expenses recognised in the earlier years of the lease term will be higher as the interest charges will be calculated on a larger lease liability balance. Existing finance leases are not expected to be significantly impacted from the transition to AASB 16.
  - The Authority will adopt AASB 16 on 1 July 2019 through application of the partial retrospective approach, where only the current year is adjusted as though AASB 16 had always applied. Comparative information will not be restated. The Authority will also adopt the practical expedient whereby the fair value of the right-of use asset will be the same as the lease liability at 1 July 2019.
  - Based on the impact assessments the Authority has undertaken on currently available information, the Authority estimates additional lease liabilities of $1.3 million and right-of-use assets of $1.3 million will be recognised as at 1 July 2019 for leases in which the Authority is a lessee. Most operating lease expenses will be replaced by depreciation of the right of use asset and interest on the lease liability. The impact on the statement of comprehensive income is expected to be immaterial.
- AASB 9 *Financial Instruments*
  - AASB 9 *Financial Instruments replaces* AASB 139 *Financial Instruments: Recognition and Measurement* and is effective for the Authority from 1 July 2018.

    The standard makes changes to the classification of financial assets for the purpose of determining their measurement basis, as well as the recognition of changes in fair value. The standard replaces the incurred loss model of AASB 139 with a new expected loss model which can result in the acceleration of impairment recognition on financial instruments.

    The standard requires the Authority to account for expected credit losses on financial instruments at the point at which the financial instruments are first recognised and to estimate the expected loss applicable to those financial instruments over the period for which they are held. This requirement can result in expected losses on financial instruments being recognised in full much earlier than would have been the case under AASB 139. The Authority has performed an assessment and concluded that no transitional adjustments were required as a result of complying with the new requirements. The majority of the Authority's assets are already measured at fair value through profit and loss as required by AASB 9.

Notes of financial statements

for the year ended 30 June 2019

2. Scheme activities

Overview

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

2.1. Fees and Levies

Overview

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

	2019 $'000	2018 $'000
Levy contributions		
- NSW Self Insurance Corporation	5,013	6,233
- Specialised insurer and other self insurers	8,221	4,751
- NSW Workers Insurance Scheme	57,939	50,838
Total fees and levies	**71,173**	**61,822**

2.2. Scheme costs

Overview

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

- the amount incurred by the Authority on claims during the year;
- plus the amount, which the consulting actuary has estimated as at 30 June 2019 as being the movement in the amount required to meet the cost of compensation expenses reported but not yet paid;
- compensation expenses incurred which are yet to be reported; and
- the escalation in reported and reopened compensation expenses.

Notes of financial statements

for the year ended 30 June 2019

2.2 Scheme costs (continued)

	2019 $'000	2018 $'000
(i) Compensation payments made during the year		
Compensation to workers	22,068	22,329
Compensation to dependents	39,244	37,678
Lump sum awards to dependents	24,963	24,647
Healthcare services and funeral benefits	17,026	16,406
	103,301	**101,060**
(ii) Medical examination of workers		
Medical fees and other related supplies	922	791
Workers travelling expenses	19	17
	941	**808**
(iii) Movement in provision for compensation (Refer note 2.3.1)		
Finance costs	32,499	26,311
Movement in provision for compensation - known claims	(61,977)	50,761
Movement in provision for compensation - estimated future	151,843	36,414
Total net movement during the year	**122,365**	**113,486**
Total Scheme costs	**226,607**	**215,354**
Movement in contributions from insurers yet to be levied (Note 2.3.5)	(33,047)	(58,558)
Total Scheme costs including movement in contribution receivable	**193,560**	**156,796**

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

Notes of financial statements

for the year ended 30 June 2019

2.3. Net Outstanding claims liability

Overview

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

As the Authority does not issue insurance contracts, the Authority's claims liabilities are accounted for in accordance with AASB 137 *"Provisions, Contingent Liabilities and Contingent Assets"*

The net outstanding claims liability comprises the elements described below:

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

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

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

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

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for the year ended 30 June 2019

2.3.1. Outstanding claims

Overview

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

At 30 June 2019, liabilities for compensation payments and estimated compensation for future claims were valued by the actuaries Pricewaterhouse Coopers consulting (Australia) (PwC) up to valuation date, with no addition of an explicit risk margin.

	2019 $'000	2018 $'000
Outstanding claims liabilities		
Expected future gross claims payments	2,314,510	2,401,129
Gross claims handling	407,579	431,543
Gross outstanding claims liabilities	2,722,089	2,832,672
Discount on central estimate	(650,096)	(842,328)
Discount on claims handling expenses	(122,700)	(163,416)
Total discount on claims liabilities	(772,796)	(1,005,744)
Claims liabilities	**1,949,293**	**1,826,928**
Gross claims recoveries	84,201	62,288
Discount on claims recoveries	(21,864)	(19,509)
Claims recoveries	**62,337**	**42,779**
Net claims liabilities at 30 June	**1,886,956**	**1,784,149**

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

	2019 $'000	2018 $'000
Claims provisions		
Provision for compensation - known claims	835,811	866,356
Provision for compensation - estimated future claims	1,051,145	917,793
Total claims provisions	**1,886,956**	**1,784,149**

Notes of financial statements

for the year ended 30 June 2019

2.3.1 Outstanding claims liability (continued)

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

	2019 $'000	2018 $'000
Movements in the provision for compensation during the financial year are set out below:		
Carrying amount at start of financial year	1,784,149	1,679,173
Addition/(Reduction) in provision	90,370	173,485
Less: Service Fees - refer Note 5.2	(11,176)	(13,560)
Transformation expenses	(3,504)	-
Other operating expenses (excluding depreciation and amortisation)	(1,807)	(544)
Compensation payments made during the year - refer note 2.2(i)	(103,301)	(101,060)
Medical examination costs of workers - refer note 2.2(ii)	(941)	(808)
Add: Compensation recoveries - refer note 5.1	1,581	2,996
Change in discount rate	99,086	18,156
Finance cost (unwinding of discount - refer note 2.2(iii)	32,499	26,311
Carrying amount at end of financial year	**1,886,956**	**1,784,149**

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

The Authority includes in its provision an estimate for compensation payable for claims yet to be made of $1,051,145 Thousand (2018: $917,793 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.

2.3.2. Core claims liability variables

Overview

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

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

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for the year ended 30 June 2019

2.3.2. Core claims liability variables (continued)

	2019 %	2018 %
Compensation expected to be paid		
Not later than one year		
Wages inflation rate	2.33	2.39
Discount rate	1.00	1.95
Later than one year		
Wages inflation rate *	2.06	2.47
Discount rate *	1.90	2.89

*weighted average

2.3.3. Net claims liability maturity

Overview

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

	2019 $'000	2018 $'000
Not later than one year	110,989	116,508
Later than one year but not later than five years	426,837	410,287
Later than five years	1,349,130	1,257,354
	1,886,956	**1,784,149**

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

Overview

The liability represents the best estimate and is based on standard actuarial assessment methodologies. The table below shows sensitivities to the valuation to changes in a number of key assumptions. If the Authority was required to adopt a risk margin (similar to insurers) to increase the probability of adequacy of the outstanding claims valuation liability to 75% the outstanding claims liability would increase by $428m to $2,315m.

Notes of financial statements

for the year ended 30 June 2019

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

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

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

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

- Inflation and discount rates;

The actuaries, in the valuation of liability report dated 6 September 2019 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.

	30 June 2019 Liability $'000	Effect On 30 June 2019 Liability $'000	Percentage Effect %
Central estimate of the Authority's liability	1,886,956		
All valuation assumptions used			
Economic assumptions			
Increase inflation rate by 1% but with long-term gap of 1.5%	1,991,404	104,447	6
Decrease inflation rate by 1% but with long-term gap of 1.5%	1,788,010	(98,946)	(5)
Decrease discount rate by 1% but with long-term gap of 1.5%	1,996,351	109,394	6
Increase discount rate by 1% but with long-term gap of 1.5%	1,785,601	(101,356)	(5)

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.

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for the year ended 30 June 2019

2.3.5. Receivables

Overview

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

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

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

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

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

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

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

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

Notes of financial statements

for the year ended 30 June 2019

2.3.5 Receivables (continued)

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

	2019 $'000	2018 $'000
Contributions from insurers	614,887	584,440
Recoveries receivable	62,337	42,780
Other receivables	10,478	8,423
less: Allowance for impairment	(1,504)	(1,574)
Dust Diseases levy hindsight	7,926	2,679
GST receivable	911	203
Service fees	256	122
Investment receivables (as per note 3.2)	2,657	1,766
Prepayments & other assets	49	-
Total Receivables	**697,997**	**638,839**
Movement in the allowance for impairment		
Balance at 1 July	1,574	996
Increase/(Decrease) in allowance recognised in profit or loss	(70)	578
Balance at 30 June	**1,504**	**1,574**

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for the year ended 30 June 2019

2.3.6. Payables

Overview

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

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

	2019 $'000	2018 $'000
Creditors	-	1,833
Service fees	10,963	3,589
Accrued expenses and other creditors	2,103	3,177
Total Payables	**13,066**	**8,599**

3. Investing activities

Overview

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

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

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

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

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

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

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

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3.1. Net investment revenue

Overview

Investment revenue is brought to account on an accruals basis. Interest revenue is recognised as fair value through profit or loss as set out in AASB 9 *Financial Instruments*. Differences between the net market values of investments at the end of the reporting period and their net market values at the end of the previous reporting period (or cost of acquisition, if acquired during the reporting period) are recognised as revenue in the statement of comprehensive income.

	2019 $'000	2018 $'000
Interest revenue from bank interest and TCorpM cash fund	407	616
Other investment facilities	7,938	13,136
Distribution	14,406	32,891
Realised Gains/(Losses) on investments	6,806	13,153
Unrealised Gains/(Losses) on investments	76,079	37,748
Total Investment revenue	**105,636**	**97,544**
Investment management fees	(579)	(922)
Net investment revenue	**105,057**	**96,622**

3.2. Investments

	2019 $'000	2018 $'000
TCorp Managed Trusts	999,887	954,143
TCorp Fixed/Variable interest discrete portfolio	242,744	228,646
Derivatives	198	57
Total investment assets	**1,242,829**	**1,182,846**
Investment receivables		
Investment receivables (refer note 2.3.5)	2,657	1,766
Total investment assets including receivables	**1,245,486**	**1,184,612**
Investments payable		
Investments payable	197	144
Net Investments	**1,245,289**	**1,184,468**

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3.2. Investments (continued)

Derivatives

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

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

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

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

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

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

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

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

3.3. Fair value estimation

Overview

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

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3.3. Fair value estimation (continued)

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

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

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

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

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

	2019				2018			
	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	-	242,744	-	242,744	-	228,646	-	228,646
Equities	-	-	-	-	-	-	-	-
Unit Trusts	-	812,626	187,261	999,887	-	756,600	197,543	954,143
Derivatives	97	101	-	198	57	-	-	57
	97	**1,055,471**	**187,261**	**1,242,829**	**57**	**985,246**	**197,543**	**1,182,846**
Other financial liabilities								
Derivatives	**96**	**101**	**-**	**197**	**144**	**-**	**-**	**144**

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3.3.1. Transfer between levels

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

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

	2019 $'000	2018 $'000
Opening balance	197,543	170,696
Transfers into Level 3	-	-
Purchases of securities	3,240	12,499
Sale of securities	(15,076)	-
Gain / (loss) in Profit & Loss (investment income)	1,554	14,348
Closing balance	**187,261**	**197,543**
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)	**1,554**	**14,348**

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

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

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3.3.2. Valuation framework

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

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

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

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

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

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3.3.3. Involvement with unconsolidated structured entities

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

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

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

Investment Strategy	Net Market Value as at 30 June 2019 $'000	Net Market Value as at 30 June 2018 $'000
Equity – Listed	448,896	438,428
Equity - Unlisted	69,011	-
Property	121,792	135,315
Strategic	-	-
Alternatives	35,228	34,638
Emerging Markets	63,394	58,181
Infrastructure	65,469	62,229
Debt	89,831	83,216
Cash	106,266	142,137
Total	**999,887**	**954,144**

These unconsolidated structured entities are included under TCorpIM Funds in Note 3.2. The maximum exposure or loss is limited to the net market value of the investment strategy as at 30 June 2019. 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 relevant TCorpIM Product Disclosure Statement and investment mandates with respective underlying investment managers. The investment decisions of the mandate are based on the analysis conducted by the investment manager. The return of the portfolio is exposed to the variability of the performance of the underlying management of these investments

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4. Risk Management

Overview

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

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

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

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

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

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

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

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

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

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

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4. Risk Management (continued)

Financial instrument categories

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

		Category	Carrying Amount 2019 $'000	Carrying Amount 2018 $'000
Financial Assets				
Class:				
Cash and cash equivalents	5.3	N/A	10,304	19,193
Receivables[1]	2.3.5	Loans and receivables (at amortised cost)	2,913	1,888
Investments	3.2	Fair value through profit or loss	1,242,829	1,182,846
Financial Liabilities				
Class:				
Payables[2]	2.3.6	Financial Liabilities (at amortised cost)	13,263	8,743

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).

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4.1. Market risk

Overview

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

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

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

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. TCorp are responsible for determining and implementing the dynamic asset allocation positions to be taken, within pre-determined ranges set by the Board.

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

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

As Trustee or a direct investment manager, TCorp is responsible for ensuring that each investment manager is managing security specific risk using its distinct management style. TCorp is responsible for ensuring that each investment manager is also 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.

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

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

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

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

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

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

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

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

The most recent VaR analysis performed byTCorp's asset consultant was conducted in July 2019 based on the June 2019 financial instruments and is computed via forward looking simulation using a 95% confidence level and a 1 year holding period.

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

Given the Authority's financial instruments at 30 June 2019, the minimum potential loss expected over a one year period is $58.2 million (June 2018: $46.7 million), with a 5 per cent probability that this minimum may be exceeded.

4.2. Interest rate risk

Overview

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

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4.2.1. Exposure

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

4.2.2. Risk management objective, policies and processes

The interest risk of the Authority is managed primarily through its strategic asset allocation and mandate objective setting. At 30 June 2019 the Authority had a 19.5 per cent (2018: 19.3 per cent) allocation to Australian Commonwealth and state government bonds and other interest bearing securities to mitigate interest rate risk of Authority liabilities.

4.2.3. Quantitative analysis of exposure

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

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

	Floating interest rate $'000	Fixed interest rate maturing in				Total $'000
		3 months or less $'000	4 to 12 months $'000	1 to 5 years $'000	Over 5 years $'000	
2019						
Cash	10,304	-	-	-	-	10,304
Indexed and interest-bearing securities	57,716	-	-	35,872	149,156	242,744
Derivative assets	101	97	-	-	-	198
Derivative liabilities	(101)	(96)	-	-	-	(197)
Assets	**68,020**	**1**	**-**	**35,872**	**149,156**	**253,049**
2018						
Cash	18,987	-	-	-	-	18,987
Indexed and interest-bearing securities	125,276	-	-	38,477	64,893	228,646
Derivative assets	-	57	-	-	-	57
Derivative liabilities	-	(144)	-	-	-	(144)
Assets	**144,263**	**(87)**	**-**	**38,477**	**64,893**	**247,546**

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.

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4.3. Liquidity risk

Overview

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

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

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

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

4.3.1. Exposure

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

4.3.2. Risk management objective, policies and processes

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

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

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

As Trustee or direct investment manager, TCorp is responsible for ensuring that each investment manager is allowing for adequate cashflow management of the assets that have been mandated to them. That is, each investment manager is responsible for managing settlement liquidity risk. The custodian supplies daily reporting to each investment manager to assist them in this process.

4.3.3. Quantitative analysis of exposure

The financial liabilities of the Authority comprise interest and other payables. The types of financial liabilities of the Authority were similar at 30 June 2018.

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.

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4.3.3 Quantitative analysis of exposure (continued)

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

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

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
2019								
Payables	N/A	13,263	-	-	13,263	13,263	-	-
2018								
Payables	N/A	8,743	-	-	8,743	8,743	-	-

Notes

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

4.4. Foreign exchange risk

Overview

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

4.4.1. Exposure

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

4.4.2. Risk management objective, policies and processes

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

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

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

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

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

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

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

4.4.3. Quantitative analysis of exposure

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

	US Dollars $'000 AUD	Euro $'000 AUD	Japanese Yen $'000 AUD	Other Currencies $'000 AUD	Total $'000
2019					
Cash	-	-	-	-	-
Indexed and interest-bearing securities	-	-	-	-	-
Derivates Assets – Swaps	76	5	8	12	101
Derivates Assets - Futures	44	11	-	6	61
Derivates Liabilities – Swaps	(77)	(6)	(9)	(9)	(101)
Unit Trusts	-	-	-	-	-
Foreign exchange exposure position	**43**	**10**	**(1)**	**9**	**61**
2018					
Cash	59	58	-	-	117
Indexed and interest-bearing securities	-	-	-	-	-
Unit Trusts	-	-	-	-	-
Foreign exchange exposure position	**59**	**58**	**-**	**-**	**117**

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.

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4.5. Credit risk

Overview

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

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

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

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

4.5.1. Exposure

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

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

4.5.2. Risk management objective, policies and processes

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 mandates where applicable. In addition, where possible, collateral arrangements may be implemented to reduce the Authority’s exposure.

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

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

4.5.3. Quantitative analysis of exposure

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

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

Notes of financial statements

for the year ended 30 June 2019

4.5.4. Derivatives

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

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

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

	Assets $'000	Liabilities $'000	Notional amount $'000
2019 Options			
Options on Fixed Income	97	(96)	(31,909)
Forward foreign exchange contracts	101	(101)	13,281
	198	**(197)**	**(18,628)**
2018 Options			
Options on Fixed Income	57	(144)	9,889
Forward foreign exchange contracts	-	-	-
	57	**(144)**	**9,889**

Notes of financial statements

for the year ended 30 June 2019

4.5.5. Indexed and interest-bearing investments

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

	2019 $'000	2019 %	2018 $'000	2018 %
AAA/aaa	202,287	83	213,174	93
AA/Aa	40,457	17	15,471	7
A/A	-	-	-	-
BBB	-	-	-	-
BB	-	-	-	-
Rated below BB	-	-	-	-
Total	**242,744**	**100**	**228,645**	**100**

4.5.6. Cash and cash equivalents

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

4.5.7. Receivable – trade debtors

All trade debtors are recognised as amounts receivable as at balance date. Collectability of trade debtors is reviewed on an ongoing basis.

The Authority has applied a simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, receivables have been grouped based on days overdue.

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

Notes of financial statements

for the year ended 30 June 2019

4.5.7. Receivable – trade debtors (continued)

	Total1,2 $'000	Past Due but not impaired1,2 $'000	Considered impaired1,2 $'000
2019			
< 3 months overdue	72	72	-
3 months – 6 months overdue	35	35	-
> 6 months overdue	521	350	171
2018			
< 3 months overdue	10	-	-
3 months – 6 months overdue	14	14	-
> 6 months overdue	190	92	98

Notes:

1. Each column in the table reports 'gross receivables'.

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

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

Notes of financial statements

for the year ended 30 June 2019

5. Other

Overview

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

5.1. Other revenue

	2019 $'000	2018 $'000
Compensation recoveries under Section 8E of the Act	1,581	2,996
Scheme recoveries	19,557	8,510
Rendering of services - Occupational respiratory health assessments	564	441
Solicitor's production fees	44	29
Employee Related Service Fee - Income	124	-
Total other revenue	**21,870**	**11,976**

5.2. Service fees

Overview

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

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

Notes of financial statements

for the year ended 30 June 2019

5.3. Cash and cash equivalents

Overview

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

	2019 $'000	2018 $'000
Cash at bank and on hand	1,547	1
Cash - Other deposits at Tcorp	-	234
Cash - Other	8,757	18,987
Total cash and cash equivalents	**10,304**	**19,222**
Bank overdraft	-	(29)
	10,304	**19,193**

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 3 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:

	2019 $'000	2018 $'000
Cash and cash equivalent assets (per Statement of financial position)	10,304	19,193
Closing cash and cash equivalents (per Statement of cash flows)	**10,304**	**19,193**

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

Notes of financial statements

for the year ended 30 June 2019

5.3 Cash and cash equivalents (continued)

	2019 $'000	2018 $'000
Reconciliation of Net Cash Flows from Operating Activities to net result		
Net cash provided by/ (used in) operating activities	(9,863)	11,235
Profit on disposal of fixed assets	7,944	-
Depreciation and amortisation	(1,365)	(84)
Net investment purchases	(22,190)	(15,350)
Net cashflows from investment operating activities	83,010	48,797
Change in assets and liabilities		
(Decrease) in receivables	58,269	64,473
(Increase) in payables	(4,467)	(2,252)
Increase/(Decrease) in claims provisions	(122,365)	(113,487)
Net result	**(11,027)**	**(6,668)**

5.4. Assets held for sale

Overview

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

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

The Board has accepted an offer of $13.5m from SFT4 Properties Pty Ltd. for its building at 82 Elizabeth St.

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

	Buildings $'000
At 30 June 2019	
Gross carrying amount	5,500
Accumulated depreciation and impairment	(127)
Proceeds from sale of property, plant and equipment	(13,317)
Gain on disposal of assets	7,944
Net decrease in property, plant and equipment revaluation reserve	-
Closing balance	-

Notes of financial statements

for the year ended 30 June 2019

5.5. Fair value measurement of non-financial assets

Overview

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

Property, plant and equipment – Scientific and medical equipment classified as Level 2 (2019:$63,000 2018:$79,000)

There were no transfers between Level 1 and 2 during the year ended 30 June 2019 (2018: nil).

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.

5.6. Contingent liabilities and contingent assets

Overview

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

The Authority has no contingent assets or liabilities (2018: nil).

Notes of financial statements

for the year ended 30 June 2019

5.7. Budget review

5.7.1. Statement of comprehensive income

	Actual 2019 $'000	Budget 2019 $'000
Revenue		
Levies	71,173	62,400
Investment Revenue	105,057	65,854
Other revenue	21,870	498
Total Revenue	**198,100**	**128,752**
Expenses excluding losses		
Scheme costs	193,560	95,934
Service fees	11,176	12,579
Transformation expenses	3,504	-
Other operating expenses	3,172	14,297
Grants and subsidies	5,729	5,692
Total expenses excluding losses	**217,141**	**128,502**
Movement in allowance for impairment	70	(250)
Gain on disposal of assets	7,944	-
Net result	**(11,027)**	**-**
Other comprehensive income		
Items that will not be reclassified to the net result	-	-
Net decrease in property, plant and equipment revaluation reserve	(2,598)	-
Total other comprehensive income	**(2,598)**	**-**
TOTAL COMPREHENSIVE INCOME	**(13,625)**	**-**

Comment

The net result is $13.6 million unfavourable to budget due to a change in accounting process. Under this process the Authority's assets cannot exceed its liabilities. i.e. it should have net assets of nil.

In accordance with this process the Authority's accumulated surplus at 30 June 2018 was removed.

This is partially offset by: Investment revenue is $39.2 million favourable to budget due to stronger investment markets.

Notes of financial statements

for the year ended 30 June 2019

5.7 Budget review (continued)

5.7.2. Statement of financial position

	Actual 2019 $'000	Budget 2019 $'000
ASSETS		
Cash and cash equivalents	10,304	29,414
Investments	1,242,829	1,173,030
Receivables	697,997	366,383
Assets held for sale	-	5,373
Property, plant and equipment	4,957	5,094
Intangibles	6,549	-
Total Assets	**1,962,636**	**1,579,294**
LIABILITIES		
Payables	13,066	2,994
Investments payable	197	-
Claims Provision	1,949,293	1,556,007
Provisions	80	-
Total Liabilities	**1,962,636**	**1,559,001**
Net Assets	**-**	**20,293**
EQUITY		
Reserves	-	2,599
Accumulated funds	-	17,694
Total Equity	**-**	**20,293**

Comment

Total assets were $383.3 million favourable to budget mainly due to higher investments due to favourable investment returns and an increase in outstanding contributions from insurers as a result of an increase in the outstanding claims provision and favourable investment revenue.

Total liabilities were $403.0 million unfavourable to budget mainly due to the increases in the provision for outstanding claims liabilities attributable to changes to both actuarial valuation assumptions and economic assumptions (see above reasoning in the P&L comment, section 5.7.1).

Notes of financial statements

for the year ended 30 June 2019

5.7.3. Statement of Cash flows

	Notes	Actual 2019 $'000	Budget 2019 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Levies received		66,471	62,152
Compensation payments		(106,894)	(91,082)
Net Cash Flows from Scheme Activities		**(40,423)**	**(28,930)**
Receipts			
Proceeds from sale of investments		1,155,403	30,373
Interest received		22,468	30,480
Other		3,082	498
Total Receipts		**1,180,953**	**61,351**
Payments			
Purchases of investments		(1,133,056)	-
Service fees		(3,852)	(12,579)
Other operating expenses		(7,756)	(12,292)
Grants and subsidies		(5,729)	(5,692)
Total Payments		**(1,150,393)**	**(30,563)**
NET CASH FLOWS FROM OPERATING ACTIVITIES		**(9,863)**	**1,858**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		13,317	-
Purchases of plant and equipment		(12,343)	(2,040)
NET CASH FLOWS FROM INVESTING ACTIVITIES		**974**	**(2,040)**
NET INCREASE/(DECREASE) IN CASH		**(8,889)**	**(182)**
Opening cash and cash equivalents		19,193	29,596
CLOSING CASH AND CASH EQUIVALENTS		**10,304**	**29,414**

Comment

Cash and equivalents held as at 30 June 2019 are $19.1 million lower than budget due to a different opening cash position as at 1 July 2018 by $10.4 million, higher purchases of plant and equipment $10.3m offset by a more favourable cashflow from operating activities in particular higher levies received $4.3m and lower grants and subsidies paid $0.37 million

Notes of financial statements

for the year ended 30 June 2019

5.8. Post balance date events

There are no post balance date events.

END OF AUDITED FINANCIAL STATEMENTS

Lifetime Care

Lifetime Care Financial statements

for the year ended 30 June 2019

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Notes to the financial statements

pwc

LIFETIME CARE AND SUPPORT SCHEME

Actuarial Certificate
Outstanding claims liabilities at 30 June 2019

PricewaterhouseCoopers Consulting (Australia) Pty Ltd (PwC) has been contracted by Insurance & Care NSW (icare) acting for the Lifetime Care and Support Authority (LTCSA) to make estimates of the outstanding claims liabilities as at 30 June 2019 of the Lifetime Care and Support Scheme.

Data

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

Basis of Our Estimates

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

- Future expected care costs for scheme participants throughout their lifetime;
- Future inflation and discounting for the time value of money;
- Future mortality and injury severity improvements of participants; and
- Includes a loading for future expenses to meet the cost of managing the outstanding compensation needs of incurred participants (including claims incurred but yet to be reported) as at 30 June 2019.

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

Valuation Results

The PwC estimated liability for the Lifetime Care and Support Scheme as at 30 June 2019 is $6,062 million.

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

Uncertainty

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

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

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

Valuation Report

Full details of data, methodology, assumptions and results are set out in our valuation report dated 6 September 2019.

Relevant Standards

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

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

Andrew Smith
FIAA
6 September 2019

Gavin Moore
FIAA
6 September 2019

pwc

MOTOR ACCIDENTS INJURIES TREATMENT AND CARE BENEFITS FUND

Actuarial Certificate
Outstanding claims liabilities at 30 June 2019

PricewaterhouseCoopers Consulting (Australia) Pty Ltd (PwC) has been contracted by Insurance & Care NSW (icare) to make estimates of the outstanding claims liabilities as at 30 June 2019 of the Motor Accident Injuries Treatment and Care Benefits Fund (referred to as "CTP Care Fund") which is administered by the Lifetime Care and Support Authority (LTCSA).

Data

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

Basis of Our Estimates

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

- Future inflation and discounting for the time value of money; and
- Includes a loading for future expenses to meet the cost of management of claims outstanding (including claims incurred but yet to be reported) as at 30 June 2019.

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

Valuation Results

The PwC estimated liability for the CTP Care Fund as at 30 June 2019 is $124.5 million.

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

Uncertainty

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

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

Valuation Report

PricewaterhouseCoopers Consulting (Australia) Pty Ltd, ABN 20 607 773 295
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pwc

Full details of data, methodology, assumptions and results are set out in our valuation report dated 6 September 2019.

Relevant Standards

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

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

Andrew Smith
FIAA
6 September 2019

Gavin Moore
FIAA
6 September 2019

Statement by the chairman and chief executive officer

for the year ended 30 June 2019

Lifetime Care and Support Authority of NSW

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

In the opinion of the Board of Directors:

1. the financial statements of Lifetime Care and Support Authority of NSW have been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2015* and the Treasurer's Directions. They have also been prepared in accordance with Australian Accounting Standards (which include Australian Interpretations) and other authoritative pronouncements of the Australian Accounting Standards Board.
2. the financial statements for the year ended 30 June 2019 exhibit a true and fair view of the position and transactions of the Lifetime Care and Support Authority; and
3. the directors are not aware of any circumstances as at the date of this certificate which would render any particulars included in the financial statements misleading or inaccurate.

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

Michael Carapiet
Chairman/Director
Insurance and Care NSW
23 September 2019

John Nagle
Chief Executive Officer and Managing Director
Lifetime Care and Support Authority of NSW and Insurance and Care NSW
23 September 2019

INDEPENDENT AUDITOR'S REPORT

Lifetime Care and Support Authority

To Members of the New South Wales Parliament

Opinion

I have audited the accompanying financial statements of the Lifetime Care and Support Authority (the Authority), which comprise the Statement of Comprehensive Income for the year ended 30 June 2019, the Statement of Financial Position as at 30 June 2019, the Statement of Changes in Equity and the Statement of Cash Flows for the year then ended, notes comprising 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 2019, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards
- are in accordance with section 41B of the *Public Finance and Audit Act 1983* (PF&A Act) and the Public Finance and Audit Regulation 2015.

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

Basis for Opinion

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

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

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

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

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

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

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

Level 19, Darling Park Tower 2, 201 Sussex Street, Sydney NSW 2000
GPO Box 12, Sydney NSW 2001 | **t** 02 9275 7101 | **f** 02 9275 7179 | mail@audit.nsw.gov.au | audit.nsw.gov.au

Other Information

The Authority's annual report for the year ended 30 June 2019 includes other information in addition to the financial statements and my Independent Auditor's Report thereon. The Chief Executive Officer of the Authority is responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprises the Statement by the Chairman and Chief Executive Officer.

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

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

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

I have nothing to report in this regard.

The Chief Executive Officer's Responsibilities for the Financial Statements

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

In preparing the financial statements, the Chief Executive Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting, unless it is not appropriate to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to:

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

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

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

My opinion does *not* provide assurance:

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

D Daniels

David Daniels
Director, Financial Audit Services

Delegate of the Auditor-General for New South Wales

27 September 2019
SYDNEY

Statement of comprehensive income

for the year ended 30 June 2019

	Notes	2019 $'000	2018 $'000
Revenue			
Fees and Levies	2.1	515,964	488,549
Investment revenue	3.1	559,228	457,259
Share of profit or (loss) of associates	5.4	(297)	(450)
Other revenue		1,711	1,566
Total Revenue		**1,076,606**	**946,924**
Expenses			
Scheme costs	2.2	1,602,617	792,366
Service fee	5.1	33,362	43,032
Transformation expenses	5.2	14,256	-
Other operating expenses		2,671	6,151
Total Expenses		**1,652,906**	**841,549**
Loss on disposal of assets		(7)	-
Net result		**(576,307)**	**105,375**
Other comprehensive income			
Items that will not be reclassified to the net result			
Net increase/(decrease) in property, plant and equipment revaluation surplus		(270)	800
Total other comprehensive income		**(270)**	**800**
TOTAL COMPREHENSIVE INCOME / (LOSS)		**(576,577)**	**106,175**

The accompanying notes form part of these financial statements.

Statement of financial position

as at 30 June 2019

	Notes	2019 $'000	2018 $'000
ASSETS			
Cash and cash equivalents	5.3	89,965	48,684
Investments	3.2	6,585,957	5,788,362
Receivables	2.3.5	89,877	68,772
Property, plant and equipment	5.5	9,433	10,055
Intangibles	5.6	346	4,168
Investments accounted for using the equity method	5.4.1	1,501	1,798
Total Assets		**6,777,079**	**5,921,839**
LIABILITIES			
Payables	2.3.6	9,354	17,621
Investments	3.2	1,406	285
Outstanding claims	2.3.1	6,186,327	4,747,333
Restoration provision		-	31
Total Liabilities		**6,197,087**	**4,765,270**
Net Assets		**579,992**	**1,156,569**
EQUITY			
Reserves		530	800
Accumulated funds		579,462	1,155,769
Total Equity		**579,992**	**1,156,569**

The accompanying notes form part of these financial statements.

Statement of changes in equity

for the year ended 30 June 2019

	Accumulated Funds $'000	Asset Revaluation Surplus $'000	Total $'000
Balance at 1 July 2018	**1,155,769**	**800**	**1,156,569**
Net result for the year	**(576,307)**	**-**	**(576,307)**
Other comprehensive income			
Net increase in property, plant and equipment revaluation surplus	-	(270)	(270)
Total other comprehensive income	**-**	**(270)**	**(270)**
Total comprehensive income for the year	**(576,307)**	**(270)**	**(576,577)**
Balance at 30 June 2019	**579,462**	**530**	**579,992**
Balance at 1 July 2017	1,050,394	-	1,050,394
Net result for the year	105,375	-	105,375
Other comprehensive income			
Net decrease in property, plant and equipment revaluation surplus	-	800	800
Total other comprehensive income	-	800	800
Total comprehensive income for the year	105,375	800	106,175
Balance at 30 June 2018	1,155,769	800	1,156,569

The accompanying notes form part of these financial statements.

Statement of cash flows

for the year ended 30 June 2019

	Notes	2019 $'000	2018 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Fees and levies received		518,174	480,819
Compensation payments		(166,566)	(150,335)
Net Cash Flows from Scheme Activities		**351,608**	**330,484**
Receipts			
Proceeds from sale of investments		2,131,090	2,520,187
Interest & distributions received		110,228	205,878
Other		1,712	1,566
Total Receipts Excluding Scheme Activities		**2,243,030**	**2,727,631**
Payments			
Purchases of investments		(2,488,335)	(2,994,547)
Service Fees		(43,563)	(43,553)
Employee related		-	(912)
Other		(25,288)	(6,243)
Total Payments Excluding Scheme Activities		**(2,557,186)**	**(3,045,255)**
NET CASH FLOWS FROM OPERATING ACTIVITIES	5.3	**37,452**	**12,860**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		-	-
Purchases of property, plant and equipment		-	-
Purchases of intangible assets		3,829	(4,168)
NET CASH FLOWS FROM INVESTING ACTIVITIES		**3,829**	**(4,168)**
NET INCREASE/(DECREASE) IN CASH		**41,281**	**8,692**
Opening cash and cash equivalents		**48,684**	**39,992**
CLOSING CASH AND CASH EQUIVALENTS	5.3	**89,965**	**48,684**

The accompanying notes form part of these financial statements

Notes of financial statements

for the year ended 30 June 2019

1. Overview

1.1. About the Authority

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

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

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

These financial statements for the year ended 30 June 2019 have been authorised for issue by the Chairman of the Board of icare and the Chief Executive Officer and Managing Director of the Authority on behalf of the Board of Directors of icare on 23 Septembers 2019.

1.2. About this report

This Financial Report includes the financial statements of the Authority.

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

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

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

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

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

Information is considered material and relevant if:

- the amount in question is significant because of its size or nature;

Notes of financial statements

for the year ended 30 June 2019

1.2 About this report (continued)

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

1.2.1. Basis of preparation

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

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

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

These financial statements have been presented on a liquidity basis following receipt of an exemption from TC19-04 by NSW Treasury that statements are presented on a current and non-current basis.

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

1.2.2. Statement of compliance

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

1.2.3. Use of estimates and judgements

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

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

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

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

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

1.2.4. Taxation

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

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

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

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

Notes of financial statements

for the year ended 30 June 2019

1.2.5. Equity and reserves

Asset Revaluation reserve

The revaluation reserve is used to record increments and decrements on the revaluation of property, plant and equipment. This accords with the Authority's policy on the revaluation of property, plant and equipment as discussed in note 5.5.

Accumulated funds

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

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

Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the reporting year ending 30 June 2019. The following new Standards will not have a material impact on the financial performance or position of the Authority:

- AASB 15, AASB 2014-5, AASB 2015-8 and AASB 2016-3 regarding *Revenue from Contracts with Customers*;
- AASB 16 regarding *Leases*;
- AASB 17 regarding *Insurance Contracts*;
- AASB 1058 *Income of Not-for-profit Entities*;
- AASB 2016-8 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities;
- AASB 2017-1 Amendments to Australian Accounting Standards – Transfer of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments; and
- AASB 2018-1 Amendments to Australian Accounting Standards – Annual improvements 2015-2017 cycle.

In relation to certain new accounting standards and interpretations that have been published that are not mandatory for 30 June 2019 reporting period. the following information on their impact is provided:

- AASB 15 *Revenue from Contracts with Customers*, AASB 2014-5 *Amendments to Australian Accounting Standards* arising from AASB 15 and AASB 1058 *Income of Not-for-Profits*
  - AASB 15 *Revenue from Contracts with Customers* (AASB 15) is effective for reporting periods commencing on or after 1 January 2019. AASB 15 establishes a five-step model to account for revenue arising from contracts with customers. Revenue is recognised when control of goods or services is transferred to the customer at amounts that reflect the consideration to which the Authority expects to be entitled in exchange for transferring the goods or services to the customer. Under AASB 118 *Revenue* (AASB 118), revenue recognition is currently based on when risks and rewards are transferred.
  - AASB 1058 *Income of Not-for-Profits* (AASB 1058) is effective for reporting periods commencing on or after 1 January 2019 and will replace most of the existing requirements in AASB 1004 *Contributions* (AASB 1004). The scope of AASB 1004 is now limited mainly to parliamentary appropriations, administrative arrangements and contributions by owners. Under AASB 1058, the Authority will need to determine whether a transaction is consideration received below fair value principally to enable the Authority to further its objectives (accounted for under AASB 1058) or a revenue contract with a customer (accounted for under AASB 15).
  - The standards will result in the identification of separate performance obligations that will not change the timing of recognition for some revenues, including revenues relating to sales of goods and services and specific purpose grants and subsidies.

Notes of financial statements

for the year ended 30 June 2019

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

- ◦ Under AASB 1058, the Authority will recognise as liabilities, obligations for funding received where there is an obligation to construct recognisable non-financial assets controlled by the Authority. AASB 1058 will not have any impact on the Authority because it does not receive this type of funding.
- ◦ The Authority will adopt AASB 15 and AASB 1058 on 1 July 2019 through application of the full retrospective transition approach. Recognition and measurement principles of the new standards will be applied for the current year and comparative year as though AASB 15 and AASB 1058 had always applied.
- ◦ The impacts to balances resulting from the adoption of AASB 15 and AASB 1058 have been assessed by the Authority as not being material.

- AASB 9 *Financial Instruments*
  AASB 9 *Financial Instruments* replaces AASB 139 *Financial Instruments: Recognition and Measurement* and is effective for the Authority from 1 July 2018.

  The standard makes changes to the classification of financial assets for the purpose of determining their measurement basis, as well as the recognition of changes in fair value. The standard replaces the incurred loss model of AASB 139 with a new expected loss model which can result in the acceleration of impairment recognition on financial instruments.

  The standard requires the Authority to account for expected credit losses on financial instruments at the point at which the financial instruments are first recognised and to estimate the expected loss applicable to those financial instruments over the period for which they are held.

  This requirement can result in expected losses on financial instruments being recognised in full much earlier than would have been the case under AASB 139. The Authority has performed an assessment and concluded that no transitional adjustments were required as a result of complying with the new requirements. The majority of the Authority's assets are already measured at fair value through profit and loss as required by AASB 9.

1.3. Fund information

Overview

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

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

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

Lifetime Care and Support Authority Fund (LTCS)

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

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

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

Notes of financial statements

for the year ended 30 June 2019

1.3. Fund information (continued)

This entitlement is no longer available under the CTP scheme. In addition, the LTCS scheme extends coverage to eligible injured motorists who are unable to establish the fault of a third party, and consequently would not be eligible to long term compensation under the CTP scheme, although they would be entitled to up to six months worth of benefits.

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

Motor Accident Injuries Treatment and Care Benefits Fund (MAITC)

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

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

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

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

Notes of financial statements

for the year ended 30 June 2019

1.3 Fund information (continued)

Disaggregated Financial Statements

Statement of Comprehensive Income - June 2019

	LTCS $'000	MAITC $'000	2019 $'000
Revenue			
Fees and Levies	455,764	60,200	515,964
Investment revenue	555,330	3,898	559,228
Share of (loss) of associates	(297)	-	(297)
Other revenue	1,711	-	1,711
Total Revenue	**1,012,508**	**64,098**	**1,076,606**
Expenses excluding losses			
Scheme costs	1,515,584	87,033	1,602,617
Service fee	33,055	307	33,362
Transformation expenses	14,256	-	14,256
Other operating expenses	2,664	7	2,671
Total Expenses excluding losses	**1,565,559**	**87,347**	**1,652,906**
Loss on disposal of assets	(7)	-	(7)
Net result	**(553,058)**	**(23,249)**	**(576,307)**
Other comprehensive income			
Items that will not be reclassified to the net result			
Net increase in property, plant and equipment revaluation surplus	(270)	-	(270)
Total other comprehensive income	**(270)**	**-**	**(270)**
TOTAL COMPREHENSIVE INCOME	**(553,328)**	**(23,249)**	**(576,577)**

Notes of financial statements

for the year ended 30 June 2019

1.3 Fund information (continued)

Disaggregated Financial Statements (continued)

Statement of Financial Position - June 2019

	LTCS $'000	MAITC $'000	2019 $'000
ASSETS			
Cash and cash equivalents	89,231	734	89,965
Investments	6,492,598	93,359	6,585,957
Receivables	83,774	6,103	89,877
Property, plant and equipment	9,433	-	9,433
Intangible assets	346	-	346
Investments accounted for using the equity method	1,501	-	1,501
Total Assets	**6,676,883**	**100,196**	**6,777,079**
LIABILITIES			
Payables	8,902	452	9,354
Investments	1,406	-	1,406
Outstanding claims	6,061,827	124,500	6,186,327
Total Liabilities	**6,072,135**	**124,952**	**6,197,087**
Net Assets	**604,748**	**(24,756)**	**579,992**
EQUITY			
Reserves	530	-	530
Accumulated funds	604,218	(24,756)	579,462
Total Equity	**604,748**	**(24,756)**	**579,992**

Notes of financial statements

for the year ended 30 June 2019

2. Scheme activities

Overview

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

2.1. Fees and Levies

Overview

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

	2019 $'000	2018 $'000
Fees and Levies		
CTP premium levy	515,964	488,549
	515,964	**488,549**

2.2. Scheme costs

Overview

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

- the amount incurred by the Authority on claims during the year;
- plus the amount, which the consulting actuary has estimated as at 30 June 2019 as being the movement in the amount required to meet the cost of participants care and support expenses reported but not yet paid;
- participant care and support expenses incurred which are yet to be reported; and
- the escalation in reported and reopened participants care and support expenses.

Notes of financial statements

for the year ended 30 June 2019

2.2 Scheme costs (continued)

	2019 $'000	2018 $'000
Participants' care and support expenses		
- Attendant care	86,275	74,186
- Equipment	12,327	10,696
- Home modifications	6,220	5,317
- Hospital	14,459	15,596
- Medical	6,622	6,763
- Rehabilitation	25,899	23,730
- Other	9,051	9,204
	160,853	**145,492**
Movement in provision for future participant care and support services refer Note 2.3.1)	1,348,063	572,379
Finance costs – unwinding of discount rate (refer Note 2.3.1)	90,931	70,091
Bulk billing fees – Ambulance Service of NSW	61	59
Bulk billing fees – NSW Ministry of Health	2,709	4,345
	1,602,617	**792,366**

Notes of financial statements

for the year ended 30 June 2019

2.3. Net Outstanding claims liability

Overview

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

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

The net outstanding claims liability comprises the elements described below:

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

2.3.1. Outstanding claims liability

Overview

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

	2019 $'000	2018 $'000
Claims liabilities		
Expected future gross claims payments	13,142,626	13,293,925
Gross claims handling	1,227,510	1,241,648
Gross outstanding claims liabilities	14,370,136	14,535,573
Discount on central estimate	(7,484,740)	(8,952,115)
Discount on claims handling expenses	(699,069)	(836,125)
Total discount on claims liabilities	(8,183,809)	(9,788,240)
Claims liabilities 30 June	**6,186,327**	**4,747,333**

Notes of financial statements

for the year ended 30 June 2019

2.3.1. Outstanding claims liability (continued)

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

	2019 $'000	2018 $'000
Opening balance	4,747,333	3,343,065
Discount unwind	90,931	70,091
Expected claim payments (prior years only)	(146,938)	(117,268)
CHE on expected claim payments (prior years only)	(13,724)	(10,947)
Adjustment arising from change in (prior years only):		
- Actuarial assumptions*	155,604	85,571
- Discount/inflation rates	595,756	927,149
Net outstanding claims arising in current year	757,365	449,673
Net outstanding claims per actuarial report	**6,186,327**	**4,747,334**
Breakdown of Actuarial assumptions*		
Change in experience	(74,369)	(3,595)
Change in actuarial assumptions	94,101	-
Change in CHE	135,872	88,987
Other	-	179

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

Notes of financial statements

for the year ended 30 June 2019

2.3.2. Core claims liability variables

Overview

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

	MAITC 2019	MAITC 2018	LTCS 2019	LTCS 2018
Discount rate 12 months or less	1.00%-1.09%	1.81%-1.95%	1.00%-1.09%	1.81%-1.95%
Discount rate greater than 12 months	0.95%-3.84%	1.97%-4.15%	0.95%-3.84%	1.97%-4.15%
Inflation rate 12 months or less	1.72%-2.48%	2.28%-2.47%	2.22%-2.48%	2.30%-2.47%
Inflation rate greater than 12 months	0.30%-3.00%	0.80%-3.30%	0.80%-3.00%	1.80%-3.30%
Weighted mean term (years)				
Uninflated, undiscounted	25.1	25.6	24.2	24.5
Inflated, discounted	23.9	23.9	21.0	20.8

2.3.3. Claims liability maturity

Overview

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

	2019 $'000	2018 $'000
Not later than one year	179,177	159,119
Later than one year but not later than five years	715,250	585,535
Later than five years	5,291,900	4,002,679
Total	**6,186,327**	**4,747,333**

Notes of financial statements

for the year ended 30 June 2019

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

Overview

The liability represents the central estimate and is based on standard actuarial assessment. The table below shows the sensitivity of the valuation to changes in some of the key assumptions. Uncertainty exists due to the long-term nature of liabilities and volatility around the number of Scheme participants and their injury severity. Based on the minimum level required by APRA, a risk margin of a 75 per cent probability of Sufficiency/Adequacy if applied this would result in the Authority's liabilities increasing by $1,189 million (2018: $1,043.3 million) and reducing its accumulated funds surplus to a deficit of $609.5 million (2018: surplus of $112.5 million).

	30 June Liability $M	Effect on 30 June Liability $M	Percentage Effect %
Central estimate of LTCSA Scheme	6,062		
All valuation assumptions used			
Change in number of participants eligible:			
(a) Assuming current interim participants are deemed not lifetime			
Different long term gap assumptions:			
(a) One per cent per annum lower for all future years	5,005	(1,057)	-17.44%
(b) One per cent per annum higher for all future years	7,506	1,444	23.82%
(c) One percent increase in the discount rate	4,996	(1,066)	-17.58%
(d) One percent decrease in the discount rate	7,546	1,484	24.48%
Discount rate held at flat 6% and inflation rate held at flat 4%	4,399	(1,663)	-27.43%

	30 June Liability $M	Effect on 30 June Liability $M	Percentage Effect %
Central estimate of MAITC Scheme	125		
Economics:			
(a) Increase inflation by 1%	159	34	27.65%
(b) Decrease inflation by 1%	99	(25)	-20.41%
(c) Decrease discount rate by 1%	159	34	27.60%
(d) Increase discount rate by 1%	100	(25)	-20.08%

Notes of financial statements

for the year ended 30 June 2019

2.3.5. Receivables

Overview

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

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

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

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

No receivables are considered impaired (2018 $nil).

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

	2019 $'000	2018 $'000
Fees and levies	50,258	56,497
Service Fee Receivable	13,553	4,405
GST receivable	736	428
Receivables from participants	450	450
Other	7,480	2,705
Investment receivables (refer note 3.2)	17,400	4,287
	89,877	**68,772**

2.3.6. Payables

Overview

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

	2019 $'000	2018 $'000
Service fee	8,063	9,634
Accrued expenses	1,291	7,987
Creditors	-	-
	9,354	**17,621**

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

3. Investing activities

Overview

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

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

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

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

Notes of financial statements

for the year ended 30 June 2019

3. Investing activities Overview (continued)

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

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

3.1. Net Investment revenue

Overview

Investment revenue is brought to account on an accruals basis. Interest revenue is recognised using the effective interest method as set out in AASB 9 *Financial Instruments* 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.

	2019 $'000	2018 $'000
Interest revenue from bank interest and TCorpIM Cash Fund	1,059	7,657
Other investment facilities	34,384	33,321
Realised Gains on investments	9,685	28,362
Unrealised Gains on investments	441,278	230,240
Distributions	76,164	161,288
Total Investment revenue	**562,570**	**460,868**
Investment management expense	(3,342)	(3,609)
Net Investment revenue	**559,228**	**457,259**

Notes of financial statements

for the year ended 30 June 2019

3.2. Investments

	2019 $'000	2018 $'000
Investment assets		
TCorp Managed Trusts	5,176,894	4,579,542
TCorp Fixed/Variable Interest discrete portfolio	1,408,145	1,208,784
Derivatives	918	36
Total Investment assets	**6,585,957**	**5,788,362**
Investment receivables		
Investments receivable (refer note 2.3.5.1)	17,400	4,287
Total Investment assets including receivables	**6,603,357**	**5,792,649**
Investment liabilities		
Investments liabilities	1,406	285
Net Investments	**6,601,951**	**5,792,364**

Derivatives

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

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

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

Hedging is conducted in underlying portfolios, of the NSW Treasury Corporation (TCorp) managed unit trusts by TCorp appointed investment managers who have discretion to implement hedges within mandate boundaries.

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3.2. Investments Derivatives (continued)

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

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

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

3.3. Fair value estimation

Overview

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

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

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

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

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.

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3.3 Fair value estimation (continued)

	2019				2018			
	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	162,537	1,245,608	-	1,408,145	210,553	998,231	-	1,208,784
Unit Trusts	-	4,178,334	998,560	5,176,894	-	3,656,200	923,342	4,579,542
Derivatives	665	253	-	918	36	-	-	36
	163,202	**5,424,195**	**998,560**	**6,585,957**	**210,589**	**4,654,431**	**923,342**	**5,788,362**
Other financial liabilities								
Derivatives	**(745)**	**(662)**	**-**	**(1,406)**	**285**	**-**	**-**	**285**

Transfer between levels

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

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

	2019 $'000	2018 $'000
Opening balance	923,342	733,178
Purchases of securities	46,638	122,879
Gain / (loss) in Profit & Loss (investment income)	28,580	67,285
Closing balance	**998,560**	**923,342**
Total gains for the period included in profit or loss that relate to assets held at the end of the reporting period (shown in investment income)	**28,580**	**67,285**

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3.3 Fair value estimation (continued)

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

3.3.1. Valuation framework

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

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

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

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

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

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3.3.2. Involvement with unconsolidated structured entities

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

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

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

Investment Strategy	Net Market Value as at 30 June 2019 $'000	Net Market Value as at 30 June 2018 $'000
Property	586,019	531,216
Shares	2,477,097	2,215,112
Equity - Unlisted	316,592	-
Cash	135,786	396,956
Infrastructure	412,540	392,125
Debt	588,495	503,790
Emerging Market	330,517	296,133
Alternatives	236,489	244,210
Unit trust (Medium term growth)	93,359	-
Total	**5,176,894**	**4,579,542**

These unconsolidated structured entities are included under TCorp Managed Funds in Note 3.2. The maximum exposure or loss is limited to the net market value of the investment strategy as at 30 June 2019. 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.

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4. Risk Management

Overview

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

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

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

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

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

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

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

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

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

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

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.

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4. Risk Management (continued)

Financial instrument categories

	Category	Carrying Amount 2019 $'000	Carrying Amount 2018 $'000
Financial Assets			
Class:			
Cash and cash equivalents	N/A	89,965	48,684
Receivables[1]	Loans and receivables (at amortised cost)	38,883	11,846
Investments	At fair value through profit or loss – designated as such upon initial recognition	6,585,957	5,788,362
Financial Liabilities			
Class:			
Payables[2]	Financial liabilities (at amortised cost)	10,760	17,906

[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).

4.1. Market risk

Overview

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

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

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

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4.1 Market risk (continued)

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 set by the icare Board TCorp appoints investment managers in each asset class, be it directly, or through unit Trusts where TCorp are the Trustee . Management of the Authority's assets is allocated to TCorp directly, or through unit Trusts where TCorp are the Trustee, and the subsequently underlying appointed investment managers. Each investment manager, be they TCorp directly or a manager appointed by TCorp within a trust structure,is subject to restrictions in relation to the types of assets in which it may invest, and in relation to the composition of investments within certain asset types. These restrictions are expressed in formalised mandates; typically contained in individually negotiated Investment Management Agreements or as described in Information Memoranda (or similar documents) issued by the relevant investment manager where the investment is via a pooled fund. The investment mandates are monitored by the custodian and reported to T-Corp on a daily basis to ensure that all investment managers are compliant with their mandates and relevant agreements.

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

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

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

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

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

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.

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4.1 Market risk (continued)

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 2019 based on the June 2019 financial instruments and is computed via forward looking simulation using a 95 per cent confidence interval and a 1-year holding period.

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

Given the Authority's financial instruments at 30 June 2019, the minimum potential loss expected over a one year period is $343.6 million (June 2018: $259.1 million), with a 5 per cent probability that this minimum may be exceeded.

4.2. Interest rate risk

Overview

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

4.2.1. Exposure

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

4.2.2. Risk management objective, policies and processes

The interest rate risk of the Authority is managed primarily through its strategic asset allocation and mandate objective setting. At 30 June 2019 the Authority had a 21.7 per cent (2018: 20.9 per cent) allocation to Australian Commonwealth and state government bonds and other interest bearing securities to mitigate interest rate risk of Authority liabilities. Of that allocation, 14.4 per cent (2018: 15.3 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.

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4.2.3. Quantitative analysis of exposure

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

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

	Floating interest rate $'000	Fixed interest rate maturing in				Total $'000
		3 months or less $'000	4 to 12 months $'000	1 to 5 years $'000	Over 5 years $'000	
2019						
Cash	89,965	-	-	-	-	89,965
Indexed and interest- bearing securities	1,089,156	-	-	47,220	271,769	1,408,145
Interest rate futures	-	(80)	-	-	-	(80)
Swaps FFX	(408)	-	-	-	-	(408)
Assets	**1,178,713**	**(80)**	**-**	**47,220**	**271,769**	**1,497,622**
2018						
Cash	7,453	-	-	-	-	7,453
Indexed and interest- bearing securities	1,097,277	-	-	34,177	77,330	1,208,784
Interest rate futures	-	(248)	-	-	-	(248)
Assets	**1,104,730**	**(248)**	**-**	**34,177**	**77,330**	**1,215,989**

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

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

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4.3. Liquidity risk

Overview

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

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

The liabilities are recognised for amounts due to be paid in the future for goods or services received, whether or not invoiced. Amounts owing to suppliers (which are unsecured) are settled in accordance with the policy set out in NSW Treasury Circular NSWTC 11/12. There were no late penalty payments in 2018/19.

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

4.3.1. Exposure

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

4.3.2. Risk management objective, policies and processes

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

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

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

TCorp directly, or through unit Trusts where TCorp are the Trustee is responsible for cashflow management of the assets. That is, TCorp directly, or underlying managers within the TCorp Trusts, are responsible for managing settlement liquidity risk. The custodian supplies daily reporting to each investment manager to assist them in this process.

4.3.3. Quantitative analysis of exposure

The financial liabilities of the Authority comprise interest and other payables. The types of financial liabilities of the Authority were similar at 30 June 2018.

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

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

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4.3.3 Quantitative analysis of exposure (continued)

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

Maturity analysis and interest rate exposure of financial liabilities

	Weighted Average Effective Interest Rate	Nominal Amount (1)	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
2019								
Payables	N/A	10,760	-	-	10,760	10,760	-	-
2018								
Payables	N/A	17,906	-	-	17,906	17,906	-	-

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

4.4. Credit risk

Overview

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

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

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

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

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4.4.1. Exposure

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

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

4.4.2. Risk management objective, policies and processes

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

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

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

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

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

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

4.4.3. Quantitative analysis of exposure

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

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

4.4.4. Derivatives

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

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

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4.4.4. Derivatives (continued)

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
2019			
Futures			
Interest rate futures	665	(745)	(11,345)
Swaps FFX	253	(662)	93,071
	918	**(1,406)**	**81,726**
2018			
Futures			
Interest rate futures	36	(285)	2,674
Options	-	-	-
	36	**(285)**	**2,674**

4.4.5. Indexed and interest-bearing investments

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

	2019 $'000	2019 %	2018 $'000	2018 %
Rating				
AAA/aaa	1,174,167	83	966,989	80
AA/Aa	41,661	3	7,296	1
Other	192,317	14	234,499	19
Total	**1,408,145**	**100**	**1,208,784**	**100**

4.4.6. Cash and cash equivalents

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

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4.4.7. Receivable – trade debtors

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

The Authority is not materially exposed to concentrations of credit risk to a single trade debtor or group of debtors. At balance date, no debtors are past due nor are they determined as impaired (2018: nil).

5. Other

Overview

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

5.1. Service Fees

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

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

5.2. Transformation expenses

2018-19 is the second year of Care's three-year development and implementation of the new Service Delivery Model (SDM). While the SDM rollout will continue beyond FY20 it will do so as business as usual. In addition, the initial transition of the Care schemes to the new icare system has commenced. This has included the discovery work for transitioning the Care schemes onto the Guidewire Claims System.

Transformation costs include transition to the new SDM through to the end of FY20 and the initial system build costs.

5.3. Cash and cash equivalents

Overview

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

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

	2019 $'000	2018 $'000
Cash at bank and on hand	4,589	39,375
Short-term deposits:		
- Cash – Other Deposits at TCorp	305	1,855
- Cash – Other	85,071	7,454
	89,965	**48,684**

Cash at bank of $734 thousand relating to MAITC is included within the cash balance (2018: $14.2 million). This Fund was established in December 2017 (refer note 1.3).

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for the year ended 30 June 2019

5.3 Cash and cash equivalents (continued)

	2019 $'000	2018 $'000
Reconciliation of Net Cash Flows from Operating Activities to Net Result		
Net cash provided by/(used on) operating activities	37,452	12,860
Depreciation and amortisation	(338)	(622)
Decrement on asset revaluation	-	-
Gain/(loss) on disposal of assets	(7)	-
Increase/(Decrease) in investments in Sargood	(297)	(450)
Net investment purchases	267,720	474,371
Net cashflows from investment operating activities	541,867	255,134
Change in assets and liabilities		
Increase/(decrease) in receivables	7,992	11,423
(Increase)/decrease in payables	8,267	(4,972)
(Increase) in provisions	(1,438,963)	(642,369)
Net result	**(576,307)**	**105,375**

5.4. Share of profit or (loss) of associates

Overview

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

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

The Sargood Centre commenced operations in March 2017. The Authority has one-third member interests in the Sargood Centre (the Centre), a not-for-profit company limited by guarantee. The Authority is not entitled to any distribution of funds from the Centre. The Authority's member interests is recognised in these accounts in accordance with AASB 128 *Investments in Associates* using the equity method of accounting as mandated by NSW Treasury Circular TC 18/01.

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

Notes of financial statements

for the year ended 30 June 2019

5.4. Share of profit or (loss) of associates (continued)

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

	2019 $'000	2018 $'000
Share of profit or (loss) of associates	**(297)**	**(450)**

5.4.1. Investments accounted for using the equity method

	2019 $'000	2018 $'000
Share of equity in Sargood Centre	**1,501**	**1,798**

Summarised financial information of Sargood Centre based on unaudited financials

	2019 $'000	2018 $'000
Total revenue	109	16
Total expenses excluding losses	(1,001)	(1,366)
Net result	**(892)**	**(1,350)**
Other comprehensive income	-	-
Total comprehensive income	**(892)**	**(1,350)**
Total assets	14,584	15,388
Total liabilities	(121)	(33)
Net assets	**14,463**	**15,355**
Total equity	**14,463**	**15,355**

Notes of financial statements

for the year ended 30 June 2019

5.4.1 Investments accounted for using the equity method (continued)

Reconciliation of Summarised financial information of Sargood Centre to LTCSA's Share of Equity in Sargood Centre

	2019 $'000	2018 $'000
Net assets as per Sargood Centre unaudited accounts	**14,463**	**15,355**
Less Grant provided by Authority to the Centre*	(9,960)	(9,960)
Net Assets not provided by the Authority	**4,503**	**5,395**
Authority 1/3rd Equity interest in Sarggod Centre	**1,501**	**1,798**

*The Authority has 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.

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

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

Notes of financial statements

for the year ended 30 June 2019

5.5. Property, plant and equipment

Overview

Plant and equipment are recorded at cost on acquisition.

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

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

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

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

The Authority revalues each class of property, plant and equipment at least every three years to ensure that the carrying amount of each asset in the class does not differ materially from its fair value at reporting date. The last revaluation for the land and building class was completed as at April 2019 and was based on an independent assessment.

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

	Land and Buildings $'000	Leasehold Improve-ments $'000	Motor Vehicles $'000	Total $'000
At 1 July 2018 – fair value				
Gross carrying amount	9,885	357	209	10,451
Accumulated depreciation and impairment	(36)	(268)	(92)	(396)
Net carrying amount	**9,849**	**89**	**117**	**10,055**
At 30 June 2019 – fair value				
Gross carrying amount	9,418	-	209	9,627
Accumulated depreciation and impairment	(55)	-	(139)	(194)
Net carrying amount	**9,363**	**-**	**70**	**9,433**

Notes of financial statements

for the year ended 30 June 2019

5.5 Property, plant and equipment (continued)

Reconciliation

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

	Land and Buildings $'000	Leasehold Improvements $'000	Motor Vehicles $'000	Total $'000
Year ended 30 June 2019				
Net carrying amount at start of financial year	9,849	89	117	10,055
Loss on disposal	-	(7)	-	(7)
Disposals	-	(357)	-	(357)
Net revaluation increment less revaluation decrements	(270)	-	-	(270)
Depreciation expense	(216)	(75)	(47)	(338)
Write-back of depreciation on disposal	-	350	-	350
Net carrying amount at end of financial year	**9,363**	**-**	**70**	**9,433**
At 1 July 2017 - fair value				
Gross carrying amount	9,292	1,127	209	10,628
Accumulated depreciation and impairment	(31)	(956)	(44)	(1,031)
Net carrying amount	**9,261**	**171**	**165**	**9,597**
At 30 June 2018 - fair value				
Gross carrying amount	9,885	357	209	10,451
Accumulated depreciation and impairment	(36)	(268)	(92)	(396)
Net carrying amount	**9,849**	**89**	**117**	**10,055**

Notes of financial statements

for the year ended 30 June 2019

5.5 Property, plant and equipment (continued)

Reconciliation

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

	Land and Buildings $'000	Leasehold Improvements $'000	Motor Vehicles $'000	Total $'000
Year ended 30 June 2018				
Net carrying amount at start of financial year	9,261	171	165	9,597
Additions	-	-	-	-
Disposals	-	(669)	-	(669)
Loss on disposal of assets	-	-	-	-
Net revaluation increment less revaluation decrements	800	-	-	800
Transfers	-	-	-	-
Depreciation expense	(212)	(82)	(48)	(342)
Write-back of depreciation on disposal	-	669	-	669
Net carrying amount at end of financial year	**9,849**	**89**	**117**	**10,055**

5.5.1. Depreciation of property, plant and equipment

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

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

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

Notes of financial statements

for the year ended 30 June 2019

5.6. Intangibles

Overview

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

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

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

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

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

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

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

	Capital Works in Progress $'000	Computer Software $'000	Total $'000
At 1 July 2018			
Cost (gross carrying amount)	4,168	4,861	9,029
Accumulated amortisation and impairment	-	(4,861)	(4,861)
Net carrying amount	**4,168**	**-**	**4,168**
At 30 June 2019			
Cost (gross carrying amount)	346	4,861	5,207
Accumulated amortisation and impairment	-	(4,861)	(4,861)
Net carrying amount	**346**	**-**	**346**

Notes of financial statements

for the year ended 30 June 2019

5.6 Intangibles (continued)

Reconciliation

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

	Capital Works in Progress $'000	Computer Software $'000	Total $'000
Year ended 30 June 2019			
Net carrying amount at start of financial year	4,168	-	4,168
Additions	3,122	-	3,122
Disposals	(6,944)	-	(6,944)
Net carrying amount at end of financial year	**346**	**-**	**346**
At 1 July 2017			
Cost (gross carrying amount)	-	4,861	4,861
Accumulated amortisation and impairment	-	(4,581)	(4,581)
Net carrying amount	**-**	**280**	**280**
At 30 June 2018			
Cost (gross carrying amount)	4,168	4,861	9,029
Accumulated amortisation and impairment	-	(4,861)	(4,861)
Net carrying amount	**4,168**	**-**	**4,168**

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for the year ended 30 June 2019

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:

	Capital Works in Progress $'000	Computer Software $'000	Total $'000
Year ended 30 June 2018			
Net carrying amount at start of financial year	-	280	280
Additions	4,168	-	4,168
Amortisation expense	-	(280)	(280)
Net carrying amount at end of financial year	**4,168**	**-**	**4,168**

5.7. Fair value measurement of non-financial assets

Overview

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

Fair value hierarchy

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total Fair value $'000
2019				
Property, plant and equipment (Note 5.5)				
Land and buildings (including WIP)		5,376	3,987	9,363
		5,376	**3,987**	**9,363**
2018				
Property, plant and equipment (Note 5.5)				
Land and buildings (including WIP)	-	5,754	4,095	9,849
	-	**5,754**	**4,095**	**9,849**

There were no transfers between Level 1 and Level 2 during the year ended 30 June 2019 (2018: nil)

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for the year ended 30 June 2019

5.7.1. Valuation techniques, inputs and processes

Land at Collaroy (the Sargood Foundation building) is measured using the income approach as it is subject to a longterm lease. This lease is for a period of 30 years with an option for a further 30 year term at the discretion of the lessee, with a rental return of $10 per year. The estimated fair value of this land will increase significantly if the restrictions on the use of the site were removed. The remainder of the Authority's buildings have been valued using a market approach.

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

5.7.2. Reconciliation of recurring Level 3 fair value measurements

	2019		2018	
	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	4,095	4,095	3,889	3,889
Depreciation	(92)	(92)	(121)	(121)
Revaluation	25	25	327	327
Fair value at 30 June	**4,028**	**4,028**	**4,095**	**4,095**

5.8. Contingent liabilities and contingent assets

Overview

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

The Authority does not have any contingent asset or liability at reporting date (2018: nil)

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for the year ended 30 June 2019

5.9. Administered assets and liabilities

Overview

The Authority has direction and management responsibility for a fund managed on behalf of the ACT government. The Authority is acting in capacity as agent and as such Assets and Liabilities of the fund are not recognised in the Authority's statement of financial position, but are shown separately as "Administered Assets and Liabilities".

Section 43A of the *Motor Accidents (Lifetime Care and Support) Act 2006 (NSW)* (NSW Act) enables the Authority to enter into care and support arrangements by agreement with relevant authorities to provide services to injured persons who are eligible under similar lifetime care schemes that have been prescribed by regulation under the NSW Act, which agreements may confer functions on the Authority to be exercised for and on behalf of the relevant authority.

Section 12 of the *Lifetime Care and Support (Catastrophic Injuries) Act 2014 (ACT)* (ACT Act) permits the Lifetime Care and Support Commissioner of the Australian Capital Territory, appointed in accordance with s.10 of the ACT Act (ACT Commissioner) to delegate the ACT Commissioner's functions to an authorised person, and the Authority is an authorised person in accordance with the ACT Act.

The ACT has sought agreement from the Authority to administer the ACT Scheme on behalf of the ACT Commissioner and NSW and the ACT have entered into an Inter-Governmental Agreement in 2015 to establish an agreed framework of commitments for this Agreement.

	2019 $'000	2018 $'000
Revenue		
Funding provided by ACT government to meet participant scheme costs	1,298	763
	1,298	**763**
Expenses excluding losses		
Participant scheme costs	1,298	763
	1,298	**763**
Net result	**-**	**-**
Assets		
Cash and cash equivalents	198	233
Receivable – from ACT government	41	5
	239	**238**
Liabilities		
Creditors	-	8
Income received in Advance	239	230
	239	**238**
Net Assets	**-**	**-**

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for the year ended 30 June 2019

5.10. Related Party Disclosure

The Authority has an agreement with its equity partner Sargood under which it provides land at Collaroy at which the facility was built. The land has been leased to the Centre, for nominal consideration. (Refer Note 5.4 for further details).

5.11. Capital management

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

The Board of icare set a Capital Management Policy which defines a Target Capital Ratio and Target Operating Zone for the Authority.

To determine the Authority's Target Capital Ratio and Target operating Zone, consideration was given to the following:

- The unique nature of the business from both various perspectives- internal (financial and operational) and external (economic and political);
- The Authority's strategic objectives and the risks of not achieving them; and
- The regulatory requirements of the Australian Prudential Regulation Authority (APRA), consistency with the insurance industry and best practice

Under this policy the Authority will be managed towards holding excess capital above the Minimum Capital Requirement within a defined range as set out in the Target Capital Ratio Policy.

The Board has determined that the target operating zone for the Authority is between 125-155%. This means that the Authority's Policy Capital Ratio defined as the value of the Authority's assets to liabilities (that does not include a risk margin) should be between 125-155%. The actual capital ratio at 30 June 2019 was 109%. (2018- 124%)

The Capital Management policy details actions required where the Policy Capital Ratio falls outside of the target operating zone. These actions will now be followed.

The Capital Management Framework is reviewed annually by Management or as directed by the Board or ARC. Any recommendations for change are endorsed by the ARC and approved by the Board.

END OF AUDITED FINANCIAL STATEMENTS

Insurance for NSW

Insurance for NSW Financial statements

for the year ended 30 June 2019

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finity
Actuarial and Insurance Consultants

Actuarial Certificate
Outstanding Claims Liabilities at 30 June 2019

Finity Consulting Pty Ltd (Finity) has been contracted by Insurance & Care NSW (icare) to estimate the workers compensation outstanding claims liabilities of the NSW Self Insurance Corporation (Insurance for NSW, or IfNSW) TMF portfolio as at 30 June 2019.

Data

Finity has relied on the completeness and accuracy of the data provided by icare for this valuation. We have not independently audited the data however we did review material aspects of the data for reasonableness and internal consistency. The accuracy of our results is dependent on the accuracy and completeness of the underlying data.

Basis of our Estimates

The outstanding claims estimates we provided were prepared on a central estimate basis; the assumptions have been selected such that our estimates of the liabilities contain no deliberate overstatement or understatement. The central estimate is intended to be a mean of the distribution of possible outcomes. The central estimate is net of expected recoveries and contains an allowance for claims handling expenses.

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

Valuation Results

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

Table 1 – Outstanding Claims Liability at 30 June 2019

Central Estimate	**$m**
Gross	5,139
Recoveries	(61)
Net Central Estimate	5,078
Risk Margin	-
Provision	**5,078**

Uncertainty

There is considerable uncertainty in the projected outcomes of future claims costs, particularly for long tail claims, where payments are expected to occur many decades into the future; it is not possible to value or project long tail claims with certainty. IfNSW is a complex portfolio, and there are a number of cost drivers that have the potential to move the liabilities higher or lower than our estimates.

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finity
Actuarial and Insurance Consultants

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

- The number of claims that will ultimately become eligible for long duration benefits, since it can be many years before a claimant's Whole Person Impairment can be assessed; as well as uncertainty around the average level of payment each claim will receive.
- Medical discharges – Emergency Services agencies have control of the decision to medically discharge claimants and we can see considerable variability in how this discretion has been exercised historically. Claimants who are medically discharged have historically tended to have a very high average claim size.

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

Reports

Full details of data, analysis and results for the outstanding claims valuation are documented in our valuation report titled "Insurance for NSW TMF – Workers Compensation Insurance Liabilities at 30 June 2019", dated 6 September 2019.

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

Yours sincerely

A McInerney

Andrew McInerney   Scott Collings

Fellows of the Institute of Actuaries of Australia

6 September 2019

ICARE INSURANCE FOR NSW

Actuarial Certificate
Outstanding claims liabilities at 30 June 2019

PricewaterhouseCoopers Consulting (Australia) Pty Ltd (PwC) has been contracted by Insurance & Care NSW (icare) to make estimates of the workers' compensation outstanding claims liabilities as at 30 June 2019 of the following funds that icare operates:

- The State Rail Authority and Rail Infrastructure Corporation, (collectively "Rail" Schemes) for claims incurred prior to 1 October 2009
- The Governmental Workers' Compensation Account ("GWC") of NSW Treasury
- The Electricity Assets Ministerial Holding Corporation ("EAMHC")
- The Electricity Transmission Ministerial Holding Corporation ("ETMHC")
- The Bush Fire Fighters Compensation Fund ("BFFCF")
- The Emergency and Rescue Workers Compensation Fund ("ERWCF")

collectively referred to as the "Funds".

Data

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

Basis of Our Estimates

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

- Future inflation and discounting for the time value of money;
- A loading for future expenses to meet the cost of management of claims outstanding (including claims incurred but yet to be reported) as at 30 June 2019; and
- Future expected recoveries.

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

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One International Towers Sydney, Watermans Quay, Barangaroo NSW 2000,
GPO BOX 2650 Sydney NSW 2001
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

Valuation Results

The PwC estimated liabilities as at 30 June 2019, net of recoveries, including claims handing expenses are summarised in the following table:

Table 1 - icare Insurance for NSW Outstanding Claims Liability at 30 June 2019 ($M)	Rail	GWC	EAMHC	ETMHC	BFFCF	ERWCF
Gross Outstanding Claims	93	96	24	10	106	27
Less Anticipated Recoveries	15	3	0	3	1	1
Net Outstanding Claims	77	93	24	6	105	27

The gross outstanding claims liabilities include allowances for expenses to meet the cost of managing the outstanding compensation needs of incurred participants (including claims incurred but yet to be reported) as at 30 June 2019. The allowances are summarised in the following table:

Table 2 - icare Insurance for NSW Claims Handling Expense at 30 June 2019	Rail	GWC	EAMHC	ETMHC	BFFCF	ERWCF
Claims Handling Expense Allowance ($M)	0	0	3	1	10	4
Claims Handling Expense Allowance (%)*	0.0%	0.0%	11.9%	16.8%	10.7%	16.0%

* 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.

Valuation Report

Full details of data, methodology, assumptions and results are set out in our valuation reports.

Fund	Date of Report
Rail	06 September 2019
GWC	06 September 2019
EAMHC	06 September 2019
ETMHC	06 September 2019
BFFCF	06 September 2019
ERWCF	06 September 2019

Relevant Standards

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

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

Andrew Smith
FIAA
06 September 2019

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Insurance & Care NSW Actuarial Certificate

General Lines outstanding claims and premium liabilities at 30 June 2019

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 includes an allowance for non child abuse incurred but not reported ('IBNR') claims, but does not include an allowance for child abuse IBNR claims. Our estimates include allowances for inflation and investment return, claims handling expenses and expected recoveries. The basis of our estimates for each fund are described below:

- All funds

We have used discount rates provided by icare. These are based on estimates of future annual risk free rates of return which have been derived from the yield curve of Australian government bonds as at the valuation date.

- TMF, TAC Fund and Generators Fund

For these funds, our contract specifies that icare reports under AASB 137 and the discount rate used is risk free rates as described previously. We have not made an explicit assessment as to whether or not these discount rates are appropriate for use under AASB 137. The adoption of AASB 137 also results in no application of a risk margin. Lastly, it is noted that the premium liabilities are nil at the valuation date given the common renewal date of 1 July 2019 for TMF policies and that the TAC Fund and Generators Fund have been closed.

- CRIF

The CRIF is assessed under AASB 1023 and therefore includes an assessment of the risk margin and premium liabilities. The discount rate used for CRIF is based on risk free rates as described previously. In addition, icare targets a probability of adequacy of 75% which results in a risk margin loading on the liability.

Building a better working world

► 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 risk margins. An allowance for IBNR claims is included for non child abuse related claims but not for child abuse ("CA") related claims. The allowance for IBNR for non CA claims is a new instruction for the current valuation. Further, we have adopted the discount rates based on risk free rates as described previously.

Valuation results

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

Fund	Net outstanding claims ($m)	Premium liabilities ($m) [3]
TMF	3,229.6	0.0
CRIF[1]	14.3	20.8
TAC	374.3	0.0
Generator	28.3	0.0
Solvency Fund[2]	248.0	0.0
Total	3,894.5	20.8

[1] CRIF is based on AASB1023
[2] Solvency Fund includes non child abuse IBNR claims, but excludes child abuse IBNR claims
[3] Premium liabilities are zero for TMF because there is a common renewal date of 1 July 2019 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 10th September 2019, apart from the TMF report which is dated 11th September 2019:

- Outstanding claims liabilities of the NSW TMF General Lines as at 30 June 2019
- Outstanding claims liabilities of the Transport Accidents Compensation Fund as at 30 June 2019
- Outstanding claims liabilities of the Construction Risks Insurance Fund as at 30 June 2019
- Outstanding claims liabilities of the Generators Fund - Public Liability as at 30 June 2019
- Outstanding claims liability for the Solvency Fund as at 30 June 2019.

Relevant standards

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

Yours sincerely,

Melissa Yan

Melissa Yan, FIAA FNZSA
Associate Partner
11th September 2019

Statement by the chairman and chief executive officer

for the year ended 30 June 2019

New South Wales Self Insurance Corporation

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

In the opinion of the Board of Directors

1. the financial statements of New South Wales Self Insurance Corporation have been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2015* and the Treasurer's Directions. They have also been prepared in accordance with Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board;
2. the financial report for the year ended 30 June 2019 exhibit a true and fair view of the position and transactions of New South Wales Self Insurance Corporation; and
3. the directors are not aware of any circumstances as at the date of this certificate which would render any particulars included in the financial report misleading or inaccurate.

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

Michael Carapiet
Chairman
Insurance and Care NSW
23 September 2019

John Nagle
Chief Executive Officer and
Managing Director
NSW Self Insurance Corporation and
Insurance and Care NSW
23 September 2019

INDEPENDENT AUDITOR'S REPORT

New South Wales Self Insurance Corporation

To Members of the New South Wales Parliament

Opinion

I have audited the accompanying financial statements of the New South Wales Self Insurance Corporation (the Corporation), which comprise the Statement of Comprehensive Income for the year ended 30 June 2019, the Statement of Financial Position as at 30 June 2019, the Statement of Changes in Equity and the Statement of Cash Flows for the year then ended, and notes comprising 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 2019, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards
- are in accordance with section 41B of the *Public Finance and Audit Act 1983* (PF&A Act) and the Public Finance and Audit Regulation 2015.

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

Basis for Opinion

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

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

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

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

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

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

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

Level 19, Darling Park Tower 2, 201 Sussex Street, Sydney NSW 2000
GPO Box 12, Sydney NSW 2001 | **t** 02 9275 7101 | **f** 02 9275 7179 | mail@audit.nsw.gov.au | audit.nsw.gov.au

Other Information

The Corporation's annual report for the year ended 30 June 2019 includes other information in addition to the financial statements and my Independent Auditor's Report thereon. The Chief Executive Officer of the Corporation is responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprises the Statement by the Chairman and the Chief Executive Officer.

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

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

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

I have nothing to report in this regard.

The Chief Executive Officer's Responsibilities for the Financial Statements

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

In preparing the financial statements, the Chief Executive Officer is responsible for assessing the Corporation's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting, unless it is not appropriate to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to:

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

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

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

My opinion does *not* provide assurance:

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

David Daniels
Director, Financial Audit Services

Delegate of the Auditor-General for New South Wales

27 September 2019
SYDNEY

Statement of comprehensive income

for the year ended 30 June 2019

	Notes	2019 $'000	2018 $'000
Gross written premium and contributions	2.1	1,551,161	1,256,881
Unearned premium and contribution movement	2.1	(110,848)	(46,590)
Net earned premium	2.1	1,440,313	1,210,291
Outwards reinsurance expense	2.1	(8,349)	618
Gross Earned premium and contributions net of reinsurance (a)		**1,431,964**	**1,210,909**
Gross Claims expenses	2.2	(2,518,064)	(1,654,234)
Recoveries revenue	2.2	73,351	30,543
Acquisition costs	2.2	(14,097)	(25,467)
Unexpired risk liability expense	2.3.7.2	(175,967)	(122,371)
Net Claims expense (b)		**(2,634,777)**	**(1,771,529)**
Underwriting and other expenses (c)	2.3.9	(232,315)	(259,687)
Underwriting result (a+b+c)		**(1,435,128)**	**(820,307)**
Hindsight adjustments		(90,529)	(192,716)
Transformation Costs	2.3.9	(8,393)	-
Investment revenue	3.1	775,244	909,032
Other revenue		859	706
Insurance profit		**(757,947)**	**(103,285)**
Grants (to)/ from the Crown	5.2	1,163,496	221,372
Net Result		**405,549**	**118,087**
Other comprehensive income		-	-
Total comprehensive income		**405,549**	**118,087**

The accompanying notes form part of these financial statements.

Statement of financial position

as at 30 June 2019

	Notes	2019 $'000	Restated 2018 $'000	1 July 2017 $'000
ASSETS				
Cash and cash equivalents	5.1	1,748,288	505,579	268,003
Investments	3.2	9,076,609	8,565,074	8,066,641
Trade and other receivables	2.3.10	429,241	318,737	303,799
Plant and equipment		3	5	6
Intangible assets		989	1,656	2,453
Total Assets		**11,255,130**	**9,391,051**	**8,640,902**
LIABILITIES				
Trade and other payables	2.3.11	52,897	41,306	92,507
Unearned premiums	2.3.7.1	417,675	347,224	289,447
Outstanding claims liabilities	2.3.1	9,702,252	8,501,731	7,998,616
Unexpired risk liability	2.3.7.2	464,521	288,554	166,183
Total Liabilities		**10,637,345**	**9,178,815**	**8,546,753**
Net Assets		**617,785**	**212,236**	**94,149**
EQUITY				
Accumulated funds		617,785	212,236	94,149
Total Equity		**617,785**	**212,236**	**94,149**

Refer Note 1.2.8 Restatement/corrections to Prior Year Comparatives, for details of corrections to prior periods.

The accompanying notes form part of these financial statements.

Statement of changes in equity

for the year ended 30 June 2019

		2019 Accumulated Funds $'000	2018 Accumulated Funds $'000
Balance at beginning of year		**212,236**	**111,384**
Corrections to prior period		**-**	**(17,235)**
Equity at beginning of year restated			94,149
Net Result for the year		405,549	118,087
Other comprehensive income		-	-
Total comprehensive income for the year		**405,549**	**118,087**
Transfers with owners in their capacity as owners		**-**	**-**
Balance at 30 June		**617,785**	**212,236**

Refer Note 1.2.8 Restatement/corrections to Prior Year Comparatives, for details of corrections to prior periods.

The accompanying notes form part of these financial statements.

Statement of cash flows

for the year ended 30 June 2019

	Notes	2019 $'000	2018 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Premiums received		1,351,930	1,053,545
Claims paid		(1,317,545)	(1,151,119)
Recoveries received		43,823	33,603
Total Premiums/contributions less claims		**78,208**	**(63,971)**
Receipts			
Proceeds from sale of investment		250,000	400,000
Investment income		565,526	641,598
Interest received		13,709	13,832
Grants from the Crown	5.2	1,253,496	231,372
Other income		859	706
Total Receipts		**2,083,590**	**1,287,508**
Payments			
Purchases of investments		(565,526)	(641,598)
Grants to the Crown	5.2	(90,000)	(10,000)
Service fees paid		(166,772)	(228,096)
Other payments		(96,662)	(106,267)
Total Payments		**(918,960)**	**(985,961)**
Net cash flows from operating activities		**1,242,838**	**237,576**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		-	-
Purchase of PPE & Intangible Assets		(129)	-
Net cash flows from investing activities		**(129)**	**-**
NET INCREASE / (DECREASE) IN CASH		**1,242,709**	**237,576**
Opening cash and cash equivalents	5.1	505,579	268,003
CLOSING CASH AND CASH EQUIVALENTS	**5.1**	**1,748,288**	**505,579**

The accompanying notes form part of these financial statements.

Notes of financial statements

for the year ended 30 June 2019

1. Overview

1.1. About the Corporation

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

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

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

The financial statements for the year ended 30 June 2019 have been authorised for issue by the Chairman of the Board of icare and the Chief Executive Officer and Managing Director of SI on behalf of the Board of Directors of icare on 23 September 2019.

SI is a not-for-profit entity.

1.2. About this report

This Financial Report includes the consolidated financial statements of SI.

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

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

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

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

Notes of financial statements

for the year ended 30 June 2019

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

Information is considered material and relevant if:

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

1.2.1. Management of claims and insurance underwriting business

SI uses an outsourced model for the management of claims and underwriting business. The claims and underwriting management contracts were awarded to the service providers following a public tender.

The claims and underwriting management arrangement of SI is shared between:

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

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

1.2.2. Basis of preparation

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

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

Financial assets are measured at 'fair value through profit or loss'. Other financial statement items are prepared in accordance with the historical cost convention except where specified otherwise.

These financial statements have been presented on a liquidity basis following receipt of an exemption from TC19-04 by NSW Treasury that statements are presented on a current and non-current basis.

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

1.2.3. Statement of compliance

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

1.2.4. Use of estimates and judgments

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

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

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

Notes of financial statements

for the year ended 30 June 2019

1.2.4. Use of estimates and judgments (continued)

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

- Note 3 & 4 – Financial instruments;
- Note 2.3 – Outstanding Claims liability; and
- Note 2.3.7- Unearned premiums and unexpired risk reserve.

1.2.5. Taxation

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

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

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

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

1.2.6. Property, plant and equipment

Overview

Plant and equipment are recorded at cost on acquisition.

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

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

1.2.6.1. Fair value

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

1.2.6.2. Revaluation of property, plant and equipment

SI 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.

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.

Notes of financial statements

for the year ended 30 June 2019

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

1.2.6.3. Depreciation of property, plant and equipment

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

1.2.7. Intangibles

The capitalisation threshold for intangible assets is one hundred thousand dollars and above (including direct allocation of personnel service costs).

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

The useful lives of intangible assets are assessed to be finite. SI charges amortisation on intangible assets using the straight-line method over a period of 5 years.

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

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

1.2.8. Restatement/correction to Prior Year Comparative information

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

In 2018-19 it has been determined that an allowance for incurred but not reported claims ("IBNR") should be included for non abuse related claims in the outstanding claims liability for the Pre Managed Fund (PMF).

The outstanding claims liabilities for the PMF are measured in accordance with AASB 137 Provisions, Contingent Liabilities and Contingent Assets. Under AASB 137 a provision shall be recognised when:

- an entity has a present obligation (legal or constructive) 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.

Notes of financial statements

for the year ended 30 June 2019

In 2018-19 it has been determined that a reliable estimate can be made for the IBNR component of non abuse claims in the PMF.

Item	30 June 2018 Previously reported $'000	Adjustment $'000	30 June 2018 Restated $'000
Statement of comprehensive income			
Gross Claims expenses	(1,641,145)	(13,089)	(1,654,234)
Net claims expense	(1,758,440)	(13,089)	(1,771,529)
Underwriting result	(807,218)	(13,089)	(820,307)
Insurance profit	(90,196)	(13,089)	(103,285)
Net result	131,176	(13,089)	118,087

Item	30 June 2017 Previously reported $'000	Adjustment $'000	30 June 2017 Restated $'000
Statement of financial position			
Outstanding claims	7,981,381	17,235	7,998,616
Total Liabilities	8,529,518	17,235	8,546,753
Net Assets	111,384	(17,235)	94,149
Accumulated funds	111,384	(17,235)	94,149

Notes of financial statements

for the year ended 30 June 2019

1.2.8. Restatement/correction to Prior Year Comparative information (continued)

Item	30 June 2018 Previously reported $'000	Adjustment $'000	30 June 2018 Restated $'000
Statement of financial position			
Outstanding claims	8,471,407	30,324	8,501,731
Total Liabilities	9,148,491	30,324	9,178,815
Net Assets	242,560	(30,324)	212,236
Accumulated funds	242,560	(30,324)	212,236

1.2.9. Accounting Standards issued but not yet effective

Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the reporting year ending 30 June 2019. The following new Standards will not have a material impact on the financial performance or position of SI.

- AASB 15, AASB 2014-5, AASB 2015-8 and AASB 2016-3 regarding *Revenue from Contracts with Customers*;
- AASB 16 regarding *Leases*;
- AASB 1058 *Income of Not-for-profit Entities*;
- AASB 2016-8 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities;
- AASB 2017-1 Amendments to Australian Accounting Standards – Transfer of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments; and
- AASB 2018-1 Amendments to Australian Accounting Standards – Annual improvements 2015-2017 cycle.

In relation to certain new accounting standards and interpretations that have been published that are not mandatory for 30 June 2019 reporting period. the following information on their impact is provided:

- AASB 15 *Revenue from Contracts with Customers*, AASB 2014-5 *Amendments to Australian Accounting Standards* arising from AASB 15 and AASB 1058 *Income of Not-for-Profits*
  - AASB 15 *Revenue from Contracts with Customers* (AASB 15) is effective for reporting periods commencing on or after 1 January 2019. AASB 15 establishes a five-step model to account for revenue arising from contracts with customers. Revenue is recognised when control of goods or services is transferred to the customer at amounts that reflect the consideration to which icare expects to be entitled in exchange for transferring the goods or services to the customer. Under AASB 118 *Revenue* (AASB 118), revenue recognition is currently based on when risks and rewards are transferred.

Notes of financial statements

for the year ended 30 June 2019

- AASB 1058 *Income of Not-for-Profits* (AASB 1058) is effective for reporting periods commencing on or after 1 January 2019 and will replace most of the existing requirements in AASB 1004 *Contributions* (AASB 1004). The scope of AASB 1004 is now limited mainly to parliamentary appropriations, administrative arrangements and contributions by owners. Under AASB 1058, SI will need to determine whether a transaction is consideration received below fair value principally to enable SI to further its objectives (accounted for under AASB 1058) or a revenue contract with a customer (accounted for under AASB 15).
- AASB 15 will result in the identification of separate performance obligations that will not change the timing of recognition for some revenues, including revenues relating to sales of goods and services and specific purpose grants and subsidies.
- Under AASB 1058, SI will recognise as liabilities, obligations for funding received where there is an obligation to construct recognisable non-financial assets controlled by SI. AASB 1058 will not have any impact on SI because it does not receive this type of funding.
- SI will adopt AASB 15 and AASB 1058 on 1 July 2019 through application of the full retrospective transition approach. Recognition and measurement principles of the new standards will be applied for the current year and comparative year as though AASB 15 and AASB 1058 had always applied.
- The impacts to balances resulting from the adoption of AASB 15 and AASB 1058 have been assessed by icare as not being significant.

- AASB 9 *Financial Instruments*
  AASB 9 *Financial Instruments* replaces AASB 139 *Financial Instruments: Recognition and Measurement* and is effective for SI from 1 July 2018.

  The standard makes changes to the classification of financial assets for the purpose of determining their measurement basis, as well as the recognition of changes in fair value. The standard replaces the incurred loss model of AASB 139 with a new expected loss model which can result in the acceleration of impairment recognition on financial instruments.

  The standard requires SI to account for expected credit losses on financial instruments at the point at which the financial instruments are first recognised and to estimate the expected loss applicable to those financial instruments over the period for which they are held. This requirement can result in expected losses on financial instruments being recognised in full much earlier than would have been the case under AASB 139. SI has performed an assessment and concluded that no transitional adjustments were required as a result of complying with the new requirements. The majority of SI's assets are already measured at fair value through profit and loss as required by AASB 9.

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

Notes of financial statements

for the year ended 30 June 2019

1.3. Fund information

Overview

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

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

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

NSW Treasury Managed Fund (TMF)

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

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

As TMF does not issue insurance contracts its claims liabilities are accounted for in accordance with AASB 137 "*Provisions, Contingent Liabilities and Contingent Assets*".

Home Building Compensation Fund (HBCF)

SI became the manager and underwriter of the HBCF from 1 July 2010 following the withdrawal of the commercial insurers in NSW. HBCF is the sole provider of insurance for home owners of residential building projects where a builder defaults on their contract. From 15 January 2015, the Home Warranty Insurance Fund was renamed as the Home Building Compensation Fund (HBCF).

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

Construction Risk Insurance Fund (CRIF)

Treasury Circular 16/11 '*Mandatory principal arranged insurance (PAI)* for all major capital works projects' requires all government agencies, other than State Owned Corporations (SOC) to undertake Principal Arranged Insurance through SI for all major capital works projects with a contract value greater than $10 million. This is to provide cost savings for the government capital works projects as well as to ensure that adequate insurance is in place with a reputable insurer and that the contractor's insurance arrangement remain current. The *NSW Self Insurance Corporation Act 2004* was amended to extend cover to non-government entities for the purpose of principal arranged insurance for major infrastructure projects where a NSW government entity is the Principal. The *NSW Self Insurance Corporation Amendment Bill 2013* was assented by the Parliament on 25 June 2013. The CRIF scheme was setup for operation in 2013-14.

CRIF's claims liabilities are accounted for in accordance with AASB 1023 "*General Insurance Contracts*".

Transport Accidents Compensation Fund (TAC)

The TAC pays for motor transport accident claims under the common law system which applied until 30 June 1987 and TransCover system claims costs from then until 30 June 1989. The Motor Accidents Scheme replaced TransCover from 1 July 1989.

Notes of financial statements

for the year ended 30 June 2019

As TAC does not issue insurance contracts its claims liabilities are accounted for in accordance with AASB 137 "*Provisions, Contingent Liabilities and Contingent Assets*".

1.3 Fund information (continued)

Pre-Managed Fund Reserve (PMF)

The PMF holds reserves previously held in the Fire Risks Account, the Fidelity Fund and the Public Liability Fund. It has been used to fund claims incurred by the NSW Government before 1 July 1989.

As PMF does not issue insurance contracts its claim liabilities are accounted for in accordance with AASB 137 "*Provisions, Contingent Liabilities and Contingent Assets*".

Governmental Workers Compensation Account (GWC)

The GWC pays the outstanding workers compensation claims liabilities as at 30 June 1989 of the:

- Consolidated Revenue Fund
- Public Hospitals
- Road and Traffic Authority Managed Fund.

From 1 July 1989, the TMF has managed workers compensation insurance for these agencies.

As GWC does not issue insurance contracts its claims liabilities are accounted for in accordance with AASB 137 "*Provisions, Contingent Liabilities and Contingent Assets*".

Residual Workers Compensation Liabilities of the Crown (SRA/RIC)

Residual workers compensation liabilities include those from the former State Rail Authority of NSW (SRA) and Rail Infrastructure Corporation (RIC).

The liabilities of the SRA were initially vested to the Crown Finance Entity pursuant to amendments to the *Transport Administration Act 1988 (TAA)* that provided for the restructuring of the Rail Industry. The liabilities of RIC were transferred to the Crown Finance Entity following section 94 and Order No. 2008-01 of the TAA which took effect from 1 October 2008. SI was appointed the claims manager for these liabilities upon Treasurer's direction.

As SRA/RIC does not issue insurance contracts its claims liabilities are accounted for in accordance with AASB 137 "*Provisions, Contingent Liabilities and Contingent Assets*".

Bush Fire Fighters Compensation Fund (BFFF)

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

As BFFF does not issue insurance contracts its claims liabilities are accounted for in accordance with AASB 137 "*Provisions, Contingent Liabilities and Contingent Assets*".

Emergency and Rescue Workers Compensation Fund (ERWF)

The ERWF compensates emergency service workers, rescue association workers and surf life savers for personal injury and damage to their personal equipment and vehicles.

As ERWF does not issue insurance contracts its claims liabilities are accounted for in accordance with AASB 137 "*Provisions, Contingent Liabilities and Contingent Assets*".

Supplementary Sporting Injuries Fund (SSIF)

The SSIF has been established to facilitate administration of the Supplementary Sporting Injuries Scheme.

The scheme provides capital lump sum benefits for injuries that lead to a prescribed percentage of permanent loss of use or fatality to (a) children who are seriously injured while participating in organised school sport or athletic activities and (b) persons likewise injured while participating in certain programs or activity conducted or sanctioned by the Office of Sport.

As SSIF does not issue insurance contracts its claims liabilities are accounted for in accordance with AASB 137 "*Provisions, Contingent Liabilities and Contingent Assets*".

Notes of financial statements

for the year ended 30 June 2019

1.3 Fund information (continued)

Disaggregated Financial Statements

Statement of Comprehensive income

	TMF $'000	HBCF $'000	CRIF $'000	PMF $'000	GWC $'000	TAC $'000	SRA/RIC $'000	BFFF $'000	ERWF $'000	SSIF $'000	2019 Total $'000
Gross written premium	1,240,412	129,025	39,072	-	-	-	-	108,498	34,154	-	1,551,161
Unearned premium & contribution movement	-	(48,872)	(21,579)	-	-	-	-	(12,671)	(27,659)	(67)	(110,848)
Net earned premiums	1,240,412	80,153	17,493	-	-	-	-	95,827	6,495	(67)	1,440,313
Outwards reinsurance expense	-	-	(8,349)	-	-	-	-	-	-	-	(8,349)
Net earned premiums and contributions less reinsurance expense (a)	**1,240,412**	**80,153**	**9,144**	**-**	**-**	**-**	**-**	**95,827**	**6,495**	**(67)**	**1,431,964**
Gross Claims expenses	(2,089,808)	(114,013)	(11,666)	(110,695)	(14,538)	(54,354)	(22,036)	(95,250)	(5,771)	67	(2,518,064)
Recoveries received	66,123	3,255	3,292	2,243	351	465	(2,486)	62	46	-	73,351
Acquisition costs	-	(14,097)	-	-	-	-	-	-	-	-	(14,097)
Unexpired risk liability	-	(175,967)	-	-	-	-	-	-	-	-	(175,967)
Net Claims expense (b)	**(2,023,685)**	**(300,822)**	**(8,374)**	**(108,452)**	**(14,187)**	**(53,889)**	**(24,522)**	**(95,188)**	**(5,725)**	**67**	**(2,634,777)**
Underwriting and other expenses (c)	(214,605)	(14,711)	(1,170)	(54)	(141)	(129)	(96)	(639)	(770)	-	(232,315)
Underwriting result (a+b+c)	**(997,878)**	**(235,380)**	**(400)**	**(108,506)**	**(14,328)**	**(54,018)**	**(24,618)**	**-**	**-**	**-**	**(1,435,128)**
Hindsight adjustments	(90,529)	-	-	-	-	-	-	-	-	-	(90,529)
Transformation Costs	(8,393)	-	-	-	-	-	-	-	-	-	(8,393)
Investment Revenue	712,843	5,287	981	-	8,078	36,450	11,605	-	-	-	775,244
Other Revenue	854	2	3	-	-	-	-	-	-	-	859
Insurance profit/(loss)	**(383,103)**	**(230,091)**	**584**	**(108,506)**	**(6,250)**	**(17,568)**	**(13,013)**	**-**	**-**	**-**	**(757,947)**
Grants (to) and from the Crown	1,115,000	28,496	(5,000)	100,000	10,000	(30,000)	(55,000)	-	-	-	1,163,496
Net Result	**731,897**	**(201,595)**	**(4,416)**	**(8,506)**	**3,750**	**(47,568)**	**(68,013)**	**-**	**-**	**-**	**405,549**
Other Comprehensive Income	-	-	-	-	-	-	-	-	-	-	-
Total Comprehensive Income	**731,897**	**(201,595)**	**(4,416)**	**(8,506)**	**3,750**	**(47,568)**	**(68,013)**	**-**	**-**	**-**	**405,549**

Notes of financial statements

for the year ended 30 June 2019

1.3 Fund information (continued)

Statement of Comprehensive income

	TMF $'000	HBCF $'000	CRIF $'000	PMF $'000	GWC $'000	TAC $'000	SRA/ RIC $'000	BFFF $'000	ERWF $'000	SSIF $'000	2018 Total $'000
Gross written premium	1,103,626	130,785	16,970	-	-	-	-	2,500	3,000	-	1,256,881
Unearned premium & contribution movement	-	(46,797)	(10,980)	-	-	-	-	1,001	10,233	(47)	(46,590)
Net earned premiums	1,103,626	83,988	5,990	-	-	-	-	3,501	13,233	(47)	1,210,291
Outwards reinsurance expense	-	-	618	-	-	-	-	-	-	-	618
Net earned premiums and contributions less reinsurance expense (a)	**1,103,626**	**83,988**	**6,608**	**-**	**-**	**-**	**-**	**3,501**	**13,233**	**(47)**	**1,210,909**
Gross Claims expenses	(1,479,244)	(57,620)	(3,692)	(82,599)	(9,352)	(5,636)	(638)	(2,909)	(12,591)	47	(1,654,234)
Recoveries received	27,765	875	1,296	179	80	84	109	(29)	184	-	30,543
Acquisition costs	-	(25,467)	-	-	-	-	-	-	-	-	(25,467)
Unexpired risk liability	-	(122,371)	-	-	-	-	-	-	-	-	(122,371)
Net Claims expense (b)	**(1,451,479)**	**(204,583)**	**(2,396)**	**(82,420)**	**(9,272)**	**(5,552)**	**(529)**	**(2,938)**	**(12,407)**	**47**	**(1,771,529)**
Underwriting and other expenses (c)	(237,573)	(19,113)	(1,185)	(53)	(137)	(126)	(95)	(567)	(838)	-	(259,687)
Underwriting result (a+b+c)	**(585,426)**	**(139,708)**	**3,027**	**(82,473)**	**(9,409)**	**(5,678)**	**(624)**	**(4)**	**(12)**	**-**	**(820,307)**
Hindsight adjustments	(192,716)	-	-	-	-	-	-	-	-	-	(192,716)
Investment Revenue	848,484	3,291	627	2	8,354	36,284	11,974	4	12	-	909,032
Other Revenue	104	542	60	-	-	-	-	-	-	-	706
Insurance profit/(loss)	**70,446**	**(135,875)**	**3,714**	**(82,471)**	**(1,055)**	**30,606**	**11,350**	**-**	**-**	**-**	**(103,285)**
Grants (to) and from the Crown	(10,000)	181,372	-	50,000	-	-	-	-	-	-	221,372
Net Result	**60,446**	**45,497**	**3,714**	**(32,471)**	**(1,055)**	**30,606**	**11,350**	**-**	**-**	**-**	**118,087**
Other Comprehensive Income	-	-	-	-	-	-	-	-	-	-	-
Total Comprehensive Income	**60,446**	**45,497**	**3,714**	**(32,471)**	**(1,055)**	**30,606**	**11,350**	**-**	**-**	**-**	**118,087**

Notes of financial statements

for the year ended 30 June 2019

1.3 Fund information (continued)

Statement of financial position

	TMF $'000	HBCF $'000	CRIF $'000	PMF $'000	GWC $'000	TAC $'000	SRA/RIC $'000	BFFF $'000	ERWF $'000	SSIF $'000	2019 Total $'000
ASSETS											
Cash and cash equivalents	1,296,050	393,761	58,480	-	-	-	(3)	-	-	-	1,748,288
Investments	8,392,581	-	-	-	98,412	444,210	141,406	-	-	-	9,076,609
Trade and other receivables	270,005	25,653	54,506	-	3,172	1,115	15,218	18,623	40,789	160	429,241
Plant and equipment	3	-	-	-	-	-	-	-	-	-	3
Intangible assets	129	860	-	-	-	-	-	-	-	-	989
Total Assets	**9,958,768**	**420,274**	**112,986**	**-**	**101,584**	**445,325**	**156,621**	**18,623**	**40,789**	**160**	**11,255,130**
LIABILITIES											
Trade and other payables	192,728	5,875	9,175	(178,975)	(3,926)	38,250	63,825	(87,408)	13,361	(8)	52,897
Unearned premiums	-	373,030	44,645	-	-	-	-	-	-	-	417,675
Outstanding claims liabilities	8,521,677	213,766	20,882	247,970	96,370	375,442	92,518	106,031	27,428	168	9,702,252
Unexpired risk liability	-	464,521	-	-	-	-	-	-	-	-	464,521
Total Liabilities	**8,714,405**	**1,057,192**	**74,702**	**68,995**	**92,444**	**413,692**	**156,343**	**18,623**	**40,789**	**160**	**10,637,345**
Net Assets	**1,244,363**	**(636,918)**	**38,284**	**(68,995)**	**9,140**	**31,633**	**278**	**-**	**-**	**-**	**617,785**
EQUITY											
Balance as at 1 July 2018	512,465	(435,323)	42,701	(60,489)	5,390	79,201	68,291	-	-	-	212,236
Net Result for the year	731,897	(201,595)	(4,416)	(8,506)	3,750	(47,568)	(68,013)	-	-	-	405,549
Total Equity	**1,244,362**	**(636,918)**	**38,285**	**(68,995)**	**9,140**	**31,633**	**278**	**-**	**-**	**-**	**617,785**

Notes of financial statements

for the year ended 30 June 2019

1.3 Fund information (continued)

Statement of financial position

	TMF $'000	HBCF $'000	CRIF $'000	PMF $'000	GWC $'000	TAC $'000	SRA/RIC $'000	BFFF $'000	ERWF $'000	SSIF $'000	2018 Total $'000
ASSETS											
Cash and cash equivalents	143,796	299,233	62,603	-	(4)	(19)	(30)	-	-	-	505,579
Investments	7,937,175	-	-	-	90,337	407,760	129,802	-	-	-	8,565,074
Trade and other receivables	199,323	31,671	13,389	-	2,834	977	17,707	18,449	34,161	226	318,737
Plant and equipment	5	-	-	-	-	-	-	-	-	-	5
Intangible assets	3	1,653	-	-	-	-	-	-	-	-	1,656
Total Assets	**8,280,302**	**332,557**	**75,992**	**-**	**93,167**	**408,718**	**147,479**	**18,449**	**34,161**	**226**	**9,391,051**
LIABILITIES											
Trade and other payables	148,157	6,105	409	(125,392)	(811)	1,089	99	3,802	7,856	(8)	41,306
Unearned premiums	-	324,158	23,066	-	-	-	-	-	-	-	347,224
Outstanding claims liabilities	7,619,679	149,064	9,816	185,881	88,588	328,428	79,089	14,647	26,305	234	8,501,731
Unexpired risk liability	-	288,554	-	-	-	-	-	-	-	-	288,554
Total Liabilities	**7,767,836**	**767,881**	**33,291**	**60,489**	**87,777**	**329,517**	**79,188**	**18,449**	**34,161**	**226**	**9,178,815**
Net Assets	**512,466**	**(435,324)**	**42,701**	**(60,489)**	**5,390**	**79,201**	**68,291**	**-**	**-**	**-**	**212,236**
EQUITY											
Balance as at 1 July 2018	452,020	(480,821)	38,987	(28,018)	6,445	48,595	56,941	-	-	-	94,149
Net Result for the year	60,446	45,497	3,714	(32,471)	(1,055)	30,606	11,350	-	-	-	118,087
Total Equity	**512,466**	**(435,324)**	**42,701**	**(60,489)**	**5,390**	**79,201**	**68,291**	**-**	**-**	**-**	**212,236**

Notes of financial statements

for the year ended 30 June 2019

2. Underwriting activities

Overview

This section provides analysis and commentary on the SI's underwriting activities. Underwriting, in simple terms, is the agreement by the insurer to assume insurance risk in return for a premium paid by the insured. The underwriter assesses the quality of the risk and prices it accordingly.

2.1. Revenue

Overview

Revenue mainly comprises premiums and contributions charged for providing insurance coverage. They are classified as either:

- **Premium and contributions**

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

TMF revenue is received from member agencies and recognised as levied.

HBCF Premium provides insurance cover for periods up to 7 years commencing from the date of the insurance contract. Premiums are recognised in line with the expected loss pattern of the contract. The proportion of premium received not earned at reporting date is recognised as an unearned premium liability on the statement of financial position.

CRIF Premium is received from agencies for principal arranged insurance cover for government capital projects estimated to cost $10 million or more and is recognised from the date of the insurance contract over the period in line with the expected loss pattern of the contract.

- **Hindsight adjustments**

TMF uses a discretionary scheme to encourage agencies to improve their claims performance. Claims costs and premium for agencies are established at the start of a fund year. After sufficient time has passed for claims development, the scheme applies a hindsight adjustment, judgementally determined by SI, at 3 years (Interim) and 5 years (Final). Agencies receive or pay the difference between the annual premium and hindsight adjustment.

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

Hindsight adjustments recognised in 2018-19 include workers compensation final hindsight adjustments for 2013-14 and interim hindsight adjustments for 2015-16. Hindsight adjustments recognised in 2017-18 include workers compensation final hindsight adjustments for 2012-13 and interim hindsight adjustments for 2014-15.

- **Outwards reinsurance expense**

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

Notes of financial statements

for the year ended 30 June 2019

2.1 Revenue (continued)

	2019 $'000	2018 $'000
Gross written premium	168,097	147,755
Unearned premium movement	(70,451)	(57,777)
Reinsurance expense	(8,349)	618
Net earned premium (a)	89,297	90,596
Contributions	1,383,064	1,109,126
Unearned contribution movement	(40,397)	11,187
Net earned contributions (b)	1,342,667	1,120,313
Net earned premium and contributions (**a+b**)	1,431,964	1,210,909

2.2. Net Claims expense

Overview

The largest expense for SI is net claims, which is the difference between the net outstanding claims liability (Note 2.3) at the beginning and the end of the financial year plus any claims incurred and settled in the financial year and the movement in the unexpired risk liability.

Claims incurred is:

- the amount incurred on claims by SI during the year;
- plus the amount, which the consulting actuary has estimated as at 30 June 2019 as being the movement in the amount required to meet the cost of claims reported but not yet paid;
- claims incurred which are yet to be reported; and
- the escalation in reported and reopened claims.

Insurance recoveries are recognised as revenue when it is virtually certain the recovery will be made. Other recoveries include recoveries of claims paid under:

- sharing agreements;
- third party recoveries; and
- salvage and subrogation.

Notes of financial statements

for the year ended 30 June 2019

Movement in outstanding recoveries represents the increase/(decrease) in the actuarially assessed level of insurance and other recoveries receivable at reporting date. (Note 2.3.10).

	2019 $'000	2018 $'000
Claims and related expenses	1,317,545	1,151,119
Finance costs	150,078	121,252
Other movements in outstanding claims liabilities (refer Note 2.3.1)	1,050,441	381,863
Gross claims expenses	2,518,064	1,654,234
Recoveries revenue	(73,351)	(30,543)
Acquisition costs	14,097	25,467
Movement in unexpired risk liability	175,967	122,371
Net claims expense	**2,634,777**	**1,771,529**

Finance costs relate to the unwinding of the discount rate due to the passage of time and are dissected by scheme in the table below:

	2019 $'000	2018 $'000
Unwinding of discounts on provision for outstanding claims see below:		
NSW Treasury Managed Fund (TMF)	134,480	108,139
Pre Managed Fund (PMF)	3,143	2,577
Governmental Workers Compensation Account (GWC)	1,628	1,349
Home Building Compensation Fund (HBCF)	2,520	1,972
Construction Risk Insurance Fund (CRIF)	115	68
Transport Accidents Compensation Fund (TAC)	6,330	5,274
Residual Workers Compensation Liabilities of the Crown (SRA/RIC)	1,146	1,353
Bush Fire Fighters Compensation Fund (BFFF)	251	227
Emergency and Rescue Workers Compensation Fund (ERWF)	461	289
Supplementary Sporting Injuries Fund (SSIF)	4	4
Finance costs	**150,078**	**121,252**

Notes of financial statements

for the year ended 30 June 2019

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

(i) TMF Workers Compensation

	12 Months to 30 June 2019			12 Months to 30 June 2018		
	Current year $'000	Prior Years $'000	Total $'000	Current year $'000	Prior Years $'000	Total $'000
Gross Claims Expense3						
Gross claims incurred – Undiscounted	1,003,509	(225,807)	777,702	882,730	(12,876)	869,854
Discount movement	(104,201)	611,916	507,715	(174,273)	155,908	(18,365)
	899,308	**386,109**	**1,285,417**	**708,457**	**143,032**	**851,489**
Reinsurance and other recoveries revenue						
Reinsurance and other recoveries revenue - undiscounted	(10,015)	(5,105)	(15,120)	(9,553)	10,290	737
Discount movement	677	(3,430)	(2,753)	1,115	(3,146)	(2,031)
	(9,338)	**(8,535)**	**(17,873)**	**(8,438)**	**7,144**	**(1,294)**
Total Net Claims Incurred	**889,970**	**377,574**	**1,267,544**	**700,019**	**150,176**	**850,195**

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

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

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

Notes of financial statements

for the year ended 30 June 2019

2.2 Net claims expense (continued)

(ii) TMF General Lines

	12 Months to 30 June 2019			12 Months to 30 June 2018		
	Current year $'000	Prior Years $'000	Total $'000	Current year $'000	Prior Years $'000	Total $'000
Gross Claims Expense[3]						
Gross claims incurred – Undiscounted	756,188	(172,850)	583,338	784,013	(115,022)	668,991
Discount movement	(50,254)	271,307	221,053	(103,848)	62,613	(41,235)
	705,934	**98,457**	**804,391**	**680,165**	**(52,409)**	**627,756**
Reinsurance and other recoveries revenue						
Reinsurance and other recoveries revenue - undiscounted	(42,835)	1,673	(41,162)	(50,497)	25,694	(24,803)
Discount movement	2,072	(9,160)	(7,088)	4,144	(5,812)	(1,668)
	(40,763)	**(7,487)**	**(48,250)**	**(46,353)**	**19,882**	**(26,471)**
Total Net Claims Incurred	**665,171**	**90,970**	**756,141**	**633,812**	**(32,527)**	**601,285**

(iii) Other

	12 Months to 30 June 2019			12 Months to 30 June		
	Current year $'000	Prior Years $'000	Total $'000	Current year $'000	Prior Years $'000	Total $'000
Gross Claims Expense[3]						
Gross claims incurred – Undiscounted	206,373	40,771	247,144	6,931	126,617	133,548
Discount movement	(6,262)	187,374	181,112	57,658	(16,217)	41,441
	200,111	**228,145**	**428,256**	**64,589**	**110,400**	**174,989**
Reinsurance and other recoveries revenue						
Reinsurance and other recoveries revenue - undiscounted	(4,868)	2,290	(2,578)	(3)	(1,743)	(1,746)
Discount movement	166	(4,816)	(4,650)	(1,982)	950	(1,032)
	(4,702)	**(2,526)**	**(7,228)**	**(1,985)**	**(793)**	**(2,778)**
Total Net Claims Incurred	**195,409**	**225,619**	**421,028**	**62,604**	**109,607**	**172,211**

Notes of financial statements

for the year ended 30 June 2019

2.3. Outstanding claims liabilities

Overview

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

The net outstanding claims liability comprises the elements described below.

- The net central estimate (Note 2.3.1). This is the provision for expected future claims payments and includes claims reported but not yet paid, claims incurred but which have not yet been reported (IBNR), claims incurred but not enough reported (known as IBNER) and estimated claims handling costs;
- Less an amount to reflect the discount to present value using risk-free rates of return. The net central estimate is discounted to present value recognising that the claim and/or recovery may not be settled for some time. The expected future payments are discounted to a present value at the reporting date using a risk free discount rate.; and
- Plus a risk margin (Note 2.3.2). While Management have considered risks and uncertainties in the estimation of the central estimate, consistent with the requirements of AASB 1023, a risk margin is included in the net discounted central estimate of outstanding claims for HBCF and CRIF.

For HBCF, the provision for outstanding claims is actuarially determined in conjunction with information supplied by the Insurance Agents for the NSW Home Building Compensation Fund and includes a factor for superimposed inflation and an additional risk margin in accordance with the requirements of AASB 1023.

The outstanding claims liability for the Pre-Managed Fund Reserve (part of the TMF) is determined from estimates provided by the member agencies based on claims incurred and reported as at the reporting date. The list of claims estimates provided by the agencies is vetted by the TMF's manager and approved by SI.

For CRIF, the provision for outstanding claims is actuarially determined in conjunction with various sources of industry benchmark data and assumptions given the very limited claims experience to date and includes an additional risk margin in accordance with the requirements of AASB 1023.

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

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2.3.1. Discounted net outstanding claims

Overview

The liability for outstanding claims is actuarially determined in consultation with the claims managers for TMF, TAC, GWC, SRA/RIC, CRIF, BFFF, ERWF and SSIF. It is measured as the estimate of the expected future payments required to settle the present obligation at the reporting date, including the expenses associated with the settlement.

The expected future payments are estimated on the basis of the ultimate cost of the settling of claims, which is affected by factors arising during the period to settlement such as normal inflation and "superimposed inflation". Superimposed inflation refers to growth/inflation above normal inflation, including factors such as trends in court awards, such as increases in the level and period of compensation for injury or above inflation increases in the cost of obtaining medical services.

	2019 $'000	2018 $'000
Outstanding claims liabilities		
Expected future gross claims payments	10,851,455	10,521,981
Gross claims handling	734,605	705,748
Gross risk margin	32,596	26,801
Gross outstanding claims liabilities	11,618,656	11,254,530
Discount on central estimate	(1,794,937)	(2,585,646)
Discount on claims handling expenses	(120,375)	(161,758)
Discount on risk margin	(1,092)	(5,395)
Total discount on claims liabilities	(1,916,404)	(2,752,799)
Claims liabilities 30 June	**9,702,252**	**8,501,731**
Recoveries		
Expected future actuarial assessment of reinsurance recoveries	6,953	3,614
Expected future actuarial assessment of other recoveries	266,067	256,743
Gross outstanding recoveries	273,020	260,357
Discount to present value reinsurance recoveries	(377)	(329)
Discount to present value other recoveries	(26,686)	(38,186)
Total discounted on recoveries	(27,063)	(38,515)
Recoveries 30 June	**245,957**	**221,842**
Net outstanding claims liabilities	**9,456,295**	**8,279,889**

The valuation of liabilities for inclusion in the accounts incorporates a full review of the assumptions behind the estimates. Included in this review are the economic assumptions used to inflate future payments and discount them back to the balance date. The discount rates adopted for TMF are now based on the yields of Commonwealth Government bonds. The future inflation rates are based on market expectations in the short term and a fixed gap relative to the discount rates in the longer term.

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2.3.1 Discounted net outstanding claims (continued)

The table below analyses the movement in the outstanding claims liability (excluding recoveries)

	TMF $'000	CRIF $'000	PMF $'000	GWC $'000	TAC $'000	SRA/ RIC $'000	HBCF $'000	BFFF $'000	ERWF $'000	SSIF $'000	2019 Total $'000
Net claims liabilities											
Opening balance	7,426,291	6,531	185,881	85,758	327,452	61,385	146,742	13,951	25,664	234	8,279,889
Discount unwind	134,480	115	3,143	1,628	6,330	1,146	2,520	251	461	4	150,078
Expected claim payments (prior years only)	(985,192)	(1,830)	(68,861)	(4,479)	(7,348)	(5,212)	(35,025)	(1,790)	(3,354)	(64)	(1,113,155)
CHE on expected claim payments (prior years only)	(71,092)	(284)	(3,443)	-	(73)	-	(2,829)	(358)	(718)	(13)	(78,810)
Release of Risk Margin on claim payments (prior years only)	-	(529)	-	-	-	-	(5,729)	-	-	-	(6,258)
Adjustment arising from change in (prior years only):											-
- Actuarial assumptions*	(23,403)	1,552	126,931	2,816	6,173	14,255	(14,354)	44,415	(401)	(36)	157,948
- Discount/ inflation rates	420,810	185	4,319	7,475	41,793	5,725	1,647	823	1,498	3	484,278
- Risk margins	-	-	-	-	-	-	-	-	-	-	-
Net outstanding claims in current year	1,405,611	8,565	-	-	-	-	116,535	47,982	3,591	41	1,582,325
Net outstanding claims per actuarial report	8,307,505	14,305	247,970	93,198	374,327	77,299	209,507	105,274	26,741	169	9,456,295
Breakdown of Actuarial assumptions*											
Actual vs Expected Payments	39,543	1,690	22	(2,268)	334	(3,395)	(2,492)	(552)	(55)	65	32,892
Change in experience	98,318	(575)	108	-	(334)	-	12,491	(29)	(1,152)	(70)	108,757
Change in actuarial assumptions	(199,617)	437	(4)	5,163	6,173	17,633	3,256	44,996	1,030	(31)	(120,964)
Change in CHE	(9,073)	-	-	-	-	-	-	-	(224)	-	(9,297)
Other	47,426	-	-	(79)	-	17	(27,609)	-	-	-	19,755

AY = Accident year

CHE= Claims handling expenses

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2.3.2. Risk Margin

Overview

For scheme's accounted for under AASB 1023 "General Insurance Contracts" a risk margin is determined by the Board to reflect the inherent uncertainty in the net discounted central estimate.

The risk margin and the net discounted central estimate are key inputs in the determination of the probability of adequacy, which is a statistical measure of the relative adequacy of the outstanding claims liability to ultimately be able to pay claims. For example, a 75 percent probability of adequacy indicates that the net discounted central estimate is expected to be adequate seven and a half years out of 10.

For HBCF and CRIF, the outstanding claims liability estimate includes a risk margin of 15 and 25 per cent respectively (2018: 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 (2018: 75 per cent).

The risk margin for the HBCF was $27.3 million (2018: $19.0 million) and for the CRIF $4.2 million (2018: $2.0 million).

No risk margin is included in the outstanding claims liability for the TMF (2018 nil). The overall probability of sufficiency of the liability was 53 per cent at 30 June 2019 (2018: 53 per cent).

2.3.3. Core claims liability variables

Overview

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

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

		2019 %			2018 %	
Next 12 months	**Inflation rate**	**Discount rate**	**Superimposed inflation**	**Inflation rate**	**Discount rate**	**Superimposed inflation**
TMF Workers	1.80 - 2.10	0.7 - 0.9	1.00 - 1.10	1.60 - 2.20	1.80 - 1.90	0.80 - 1.80
TMF General	1.72 - 2.88	0.92 - 1.09	1.50 - 2.50	2.17 - 2.70	1.81 - 2.03	1.50 - 3.50
CRIF	1.72 - 1.98	0.92 - 1.09	-	2.17 - 2.39	1.81 - 2.03	-
PMF	2.32 - 2.88	0.92 - 1.09	2.00 (for Dust Diseases)	2.20 - 2.70	1.81 - 2.03	2.00 (for Dust Diseases)
GWC	2.33 - 2.58	1.00	0 - 1.75	2.59	1.95	0 - 1.50
TAC	2.32 - 2.88	0.92 - 1.09	3.50	2.20 - 2.70	1.81 - 2.03	3.5
SRA/RIC	2.33 - 2.58	1.00	0 - 1.70	2.39 - 2.64	1.95	0 - 1.70
HBCF	1.05 - 3.13	1.00	2.25	1.95 - 3.37	1.95	1.63 - 3.05
ERWF	2.33	1.00	-	2.39	1.95	-
BFF	2.33	1.00	0 - 2.00	2.39	1.95	-
SSIF	-	1.00	-	-	2.10	-
Greater than 12 months						
TMF Workers	1.60 - 2.50	0.90 - 3.70	0.10 - 0.70	2.20 - 2.70	2.00 - 4.10	0 - 0.60
TMF General	0.30 - 3.50	0.89 - 4.50	1.50 - 2.50	2.00 - 3.50	1.81 - 2.03	1.50 - 3.50
CRIF	0.30 - 2.30	0.89 - 4.50	-	2.00 - 2.38	1.81 - 2.03	-
PMF	1.30 - 3.50	0.89 - 4.50	2.00 (for Dust Diseases)	2.87 - 3.50	1.81 - 2.03	2.00 (for Dust Diseases)
GWC	0.85 - 3.50	0.90 - 4.50	0 - 1.75	2.20 - 3.60	2.10 - 4.50	0 - 1.50
TAC	1.30 - 3.50	0.89 - 4.50	3.50	2.87 - 3.50	1.81 - 2.03	3.5
SRA/RIC	0.85 - 3.50	0.90 - 4.50	0 - 1.70	1.80 - 3.70	2.10 - 4.50	0 - 1.70
HBCF	1.05 - 3.13	0.90 - 4.50	2.25	1.95 - 3.37	2.07-4.50	1.63 - 3.05
ERWF	0.85 - 3.00	0.90 - 4.50	-	1.83 - 3.21	2.07-4.50	-
BFF	0.85 - 3.00	0.90 - 4.50	0 - 2.00	1.83 - 3.21	2.07-4.50	-
SSIF	-	0.90 - 3.18	-	-	2.07-4.01	-

The weighted average expected term to settlement from the balance date of the outstanding claims is estimated to be 5.2 years for TMF General Lines, 7.94 years for TMF Workers Compensation (2018: 5.1 years and 7.9 years), 3.2 years for the CRIF (2018: 2.06 years), 10.5 years for GWC (2018: 12.2 years), 20.8 years for TAC (2018: 23.0 years), 9.3 years for SRA/RIC (2018: 9.7 years), 3.0 years for BFF (2018: 6.9 years), 8.1 years for ERWF (2018: 8.1 years), 1.9 years for PMF (2018: 1.4 years) and 2.2 years for HBCF (2018: 2.3 years).

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2.3.4. Net Claims liability maturity

Overview

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

	2019 $'000	2018 $'000
Outstanding claims net of recoveries maturing:		
Within 1 year	1,420,701	1,187,129
2 to 5 years	3,580,787	3,166,749
More than 5 years	4,454,807	3,926,011
	9,456,295	**8,279,889**

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

Overview

The outstanding claims liabilities are central estimates (excluding HBCF & CRIF that have a risk margin applied) derived from actuarial assumptions regarding future experience. Sensitivity analysis can be used to measure the change in the outstanding claims liability estimate that would result from a change in the assumptions. TMF is SI's main scheme which represents 88% (2018: 90%) of the outstanding claims. A sensitivity analysis of the key assumption changes for the TMF and their impact on the net central estimate is shown in the following tables.

(i) TMF Workers Compensation

Variable	Movement in variable %	Net Central Estimate $'000	Impact of Change $'000	Impact %
Net Central Estimate[1]		5,077,942		
Discount rate[2]	Discount rate -4.5%	4,120,459	(957,483)	-18.9%
Discount rate[2]	+1%	4,710,952	(366,990)	-7.2%
	-1%	5,509,926	431,983	8.5%
Inflation rate[2]	+1%	5,511,058	433,116	8.5%
	-1%	4,707,817	(370,125)	-7.3%

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

[2] returns to fixed inflation gap (1.5%) after 10 years, blended impact 5-10 years.

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

(ii) TMF General Lines

Variable	Movement in variable %	Net Central Estimate $'000	Impact of Change $'000	Impact %
Net Central Estimate[1]		3,229,563		
Discount rate	Discount rate -4.5%	2,772,035	(457,528)	-14.2%
Discount Rate	+1	3,072,516	(157,047)	-4.9%
	-1	3,403,902	174,339	5.4%
Inflation rate	+1	3,399,753	170,190	5.3%
	-1	3,073,114	(156,449)	-4.8%
Superimposed Inflation rate	+1	3,372,976	143,413	4.4%
	-1	3,097,737	(131,826)	-4.1%

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

(iii) TMF Workers Compensation

Variable	Movement in variable %	Gross Central Estimate $'000	Impact of Change $'000	Impact %
Gross Central Estimate[1]		5,139,059		
Discount rate[2]	Discount rate -4.5%	4,173,262	(965,797)	-18.8%
Discount rate[2]	+1	4,769,238	(369,821)	-7.2%
	-1	5,574,174	435,115	8.5%
Inflation rate[2]	+1	5,575,479	436,420	8.5%
	-1	4,765,890	(373,169)	-7.3%

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

[2] returns to fixed inflation gap (1.5%) after 10 years, blended impact 5-10 years.

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

(iv) TMF General lines

Variable	Movement in variable %	Gross Central Estimate $'000	Impact of Change $'000	Impact %
Gross Central Estimate[1]		3,382,618		
Discount rate	Discount rate -4.5%	2,907,002	(475,616)	-14.1%
Discount rate	+1	3,219,612	(163,006)	-4.8%
	-1	3,563,451	180,833	5.3%
Inflation rate	+1	3,559,134	176,515	5.2%
	-1	3,220,246	(162,372)	-4.8%
Superimposed inflation rate	+1	3,531,767	149,148	4.4%
	-1	3,245,442	(137,176)	-4.1%

2.3.6. Claims development

Overview

A significant portion of SI's liabilities relate to claim liabilities of past years that will be settled in future years.

The following table shows the development of undiscounted outstanding claims relative to the ultimate expected claims for the most recent accident years for SI.

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2.3.6. Claims development (continued)

(i) TMF Workers Compensation

Accident Year	2010 & prior $'000	2011 $'000	2012 $'000	2013 $'000	2014 $'000	2015 $'000	2016 $'000	2017 $'000	2018 $'000	2019 $'000	Total $'000
Estimate of ultimate claims cost											
At the end of accident year		870,009	806,693	766,805	742,282	675,108	674,813	762,098	793,708	921,123	
One year later		848,001	792,706	679,304	638,548	653,422	703,381	801,942	884,103		
Two years later		887,271	837,704	612,288	611,692	676,302	715,097	791,182			
Three years later		1,003,611	760,115	591,531	594,766	652,035	693,413				
Four years later		992,280	717,572	579,361	552,638	618,210					
Five years later		979,591	721,020	493,879	514,624						
Six years later		978,424	683,511	489,070							
Seven years later		911,893	646,976								
Eight years later		892,378									
Accumulated nine years and greater	8,809,305										-
Current estimate of cumulative claim costs	8,809,305	892,378	646,976	489,070	514,624	618,210	693,413	791,182	884,103	921,123	15,260,384
Cumulative net claim payments	7,171,643	575,882	435,725	280,836	264,933	275,711	267,114	253,885	233,226	95,647	9,854,602
Undiscounted central estimate	1,637,662	316,496	211,251	208,234	249,691	342,499	426,299	537,297	650,877	825,476	5,405,782
Effect of discounting	(249,496)	(48,902)	(31,537)	(28,390)	(34,330)	(45,865)	(55,139)	(67,659)	(79,898)	(95,194)	(736,410)
Claims handling expense	121,465	23,414	15,725	15,736	18,844	25,955	32,477	41,093	49,961	63,900	408,570
Risk margin											
Net Outstanding claims liability at 30 June 2019	**1,509,631**	**291,008**	**195,439**	**195,580**	**234,205**	**322,589**	**403,637**	**510,731**	**620,940**	**794,182**	**5,077,942**

The table above shows that the estimated undiscounted net outstanding claims tends to reduce as the years past. The main drivers are the 2012 legislative reforms and claims experience more favourable than the actuarial valuation assumptions. For the more recent accident years, the increases have been driven by valuation strengthening in response to the high medical inflation experienced in the TMF Workers Compensation portfolio.

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2.3.6 Claims development (continued)

(ii) TMF General Lines

Accident Year	2010 & prior $'000	2011 $'000	2012 $'000	2013 $'000	2014 $'000	2015 $'000	2016 $'000	2017 $'000	2018 $'000	2019 $'000	Total $'000
Estimate of ultimate claims cost											
At the end of accident year		509,966	505,657	520,902	536,890	644,473	604,770	645,521	696,438	692,723	
One year later		478,286	483,945	493,576	528,947	588,976	638,931	635,203	655,324		
Two years later		441,402	463,759	536,375	543,330	624,003	654,920	577,888			
Three years later		427,210	525,668	527,084	551,632	559,785	697,905				
Four years later		512,873	493,300	516,985	553,665	541,945					
Five years later		442,380	449,825	481,169	518,189						
Six years later		399,466	423,722	447,922							
Seven years later		366,142	443,638								
Eight years later		352,987									
Accumulated nine years and greater	5,474,759										
Current estimate of cumulative claim costs	5,474,759	352,987	443,638	447,922	518,189	541,945	697,905	577,888	655,324	692,723	10,403,280
Cumulative net claim payments	5,145,173	272,691	282,359	288,112	318,560	253,682	212,159	132,577	140,337	64,770	7,110,420
Undiscounted central estimate	329,586	80,296	161,279	159,810	199,629	288,263	485,746	445,311	514,987	627,953	3,292,860
Effect of discounting	(21,151)	(5,345)	(10,431)	(10,111)	(13,535)	(18,651)	(30,836)	(30,373)	(37,682)	(46,260)	(224,375)
Claims handling expense	15,663	3,911	7,843	7,881	9,966	14,309	23,856	21,865	25,119	30,665	161,078
Risk margin											0
Net Outstanding claims liability at 30 June 2019	**324,098**	**78,862**	**158,691**	**157,580**	**196,060**	**283,921**	**478,766**	**436,803**	**502,424**	**612,358**	**3,229,563**

Uncertainty about the amount and timing of claims in the TMF property and motor vehicle portfolios is typically resolved within one year.

The claims presented in the development tables are undiscounted, gross of insurance recoveries and net of non-reinsurance recoveries. Insurance recoveries are nil in the TMF Workers Compensation portfolio and negligible in the TMF Public Liability portfolio.

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2.3.7. Unearned premium and unexpired risk liability

Overview

Unearned premium

Gross written premium is earned in profit or loss in accordance with the pattern of incidence of risk of the related business. The unearned premium liability is that portion of gross written premium that SI has not yet earned in profit or loss as it represents insurance coverage to be provided by SI after the balance date.

Unexpired risk liability

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

At the balance date, SI recognises a liability in respect of outstanding claims and assesses the adequacy of its unearned premium liability. As required under AASB 1023 General Insurance Contracts, a LAT is undertaken to determine the adequacy of the unearned premium liability against current estimates of the present value of the expected future cash flows relating to future claims arising from the rights and obligations under current insurance contracts.

	2019 $'000	2018 $'000
Unearned premiums	417,675	347,224
Unexpired risk liability	464,521	288,554
	882,196	**635,778**

2.3.7.1. Reconciliation of unearned premiums

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

	2019 $'000	2018 $'000
Year ended 30 June		
Net carrying amount at start of year	347,224	289,447
Deferral of premiums written in current year	168,097	147,755
Premiums earned during the year	(97,646)	(89,978)
Net carrying amount at end of year	**417,675**	**347,224**

2.3.7.2. Reconciliation of unexpired risk liability

At the reporting date, a LAT is performed by the Fund Actuaries for the HBCF and CRIF.

Any deficiency is first written down against the deferred acquisition costs (DAC). The remaining deficiency is recognised as an unexpired risk liability. It represents the extent that the unearned premium liability is insufficient to cover expected future claims.

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2.3.7.3. Reconciliation of unexpired risk liability (continued)

Reconciliation of unexpired risk liability:

	2019 $'000	2018 $'000
At beginning of year	288,554	166,183
Recognition of additional unexpired risk liability in the year	175,967	122,371
At year ended 30 June	**464,521**	**288,554**

As at the reporting date, the LAT identified a deficit of $479 million (2018: $314 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:

	2019 $'000	2018 $'000
Unearned premium liability	373,030	324,159
Deferred acquisition costs	(14,097)	(25,467)
	358,933	**298,692**
Central estimate of present value of expected future cash flows arising from future claims	703,824	514,885
Risk Margin	133,727	97,828
Premium liability provision	**837,551**	**612,713**
Net Deficiency	**478,618**	**314,021**

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

The premium liability provision represents the actuarial assessment of future claims payments and the expenses associated with settling them. The mean term to settlement of the undiscounted premium liability is 6.3 years (2018: 7.4 years).

	2019 $'000	2018 $'000
Gross movement in unexpired risk liability	(175,967)	(122,371)
Write down of deferred acquisition costs 1	(14,097)	(25,467)
Total deficiency recognised in the Statement of Comprehensive Income	**(190,064)**	**(147,838)**

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

The probability of adequacy for HBCF was 75 per cent (2018: 75 per cent).

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2.3.7.2 Reconciliation of unexpired risk liability (continued)

The actuarial assessment of the expected future cash flows relating to future claims arising from current general insurance contracts in the CRIF indicates that this estimate is lower than the current value of the unearned premium liability (net of deferred acquisition costs) and that there is therefore no deficiency in the unearned premium liability as at 30 June 2019 (30 June 2018: nil). The probability of adequacy for the CRIF was 75 per cent (2018: 75 per cent).

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

2.3.8. Other Assets – Deferred acquisition cost

Costs directly attributable to the acquisition of the HBCF premium revenue are deferred by recognising them as an asset in the statement of financial position when they can be reliably measured. Deferred acquisition costs (net of any deficiency) are amortised systematically over the life of the insurance policy in line with the expected pattern of the incidence of risk. This corresponds to the earning pattern of premium revenue.

	2019 $'000	2018 $'000
Acquisition costs incurred during the year	14,097	25,467
Acquisition costs amortised during the year	-	-
Net deficiency write down 1	(14,097)	(25,467)
At year ended 30 June	**-**	**-**

[1] Refer to Note 2.3.7.2 for details

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2.3.9. Underwriting and other expenses

Overview

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

	2019 $'000	2018 $'000
Statutory levies:		
State Insurance Regulatory Authority	22,845	24,801
Dust Diseases Authority	5,013	4,751
Total Statutory levies	**27,858**	**29,552**
Service fees to icare (2.3.9.1)	154,050	159,395
Insurance/Risk Consulting	47,049	41,682
Software licensing	4	1,540
Service transition fees	-	10,654
Depreciation and amortisation	798	798
Audit fees- other	694	689
Audit fees - audit of financial statements	427	368
Consultants	25	1,894
Contractors	1,315	12,073
Legal fees	3	51
Other expenses	92	991
Underwriting and other expenses	**232,315**	**259,687**
Transformation costs	8,393	-
Total underwriting and other expenses	**240,708**	**259,687**

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2.3.9.1. Service fees and Statutory levies

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

Agent's remuneration of $14.1m paid by icare has been treated as an acquisition cost rather than as a Service fee expense.

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

SI have the following commitments for levies in 2019/20:

- State Insurance Regulatory Authority and NSW Workers Compensation (Dust Diseases) Authority is $18.6 million

2.3.9.2. Transformation expenses

2018-19 is the second year of two-years SI (IfNSW) transformation - focused on delivering new operating model for TMF including building the foundational technology infrastructure for the scheme.

This year the transformation effort was specifically focused around further extending the digital channel for TMF customers, digitising the annual asset declaration process, building Risk Education Express offering and finishing the transition of GL Claims Management to the new Claims Management service provider GBS.

Albeit the initial transformation is complete we are moving into continuous improvement phase which will see us making incremental investment into our data and insights capability, as well as ongoing enhancements to the TMF workers compensation claims model in FY20.

2.3.10. Trade and other receivables

Overview

Trade and other receivables are principally amounts owed to SI by policyholders or on investments. Investment receivables are amounts due from investment counterparties in settlement of transactions.

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

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

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

	2019 $'000	2018 $'000
Premium and contribution receivable	153,650	85,342
Insurance and other recoveries receivable1	251,370	221,842
GST receivable	-	2,917
Prepayments	24,167	8,348
Other	54	288
	429,241	**318,737**

[1] Includes a insurance recovery of $5.413m for NSW Water that is additional to the actuarial assessment.

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

Insurance and other recoveries receivables are discounted to present value.

SI receives recoveries from both reinsurance and non reinsurance areas (this includes recoveries from CTP). The majority of recoveries come from the non reinsurance area.

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

The amount of insurance and other recoveries receivable is equal to the estimated gross incurred cost less the retention limit and insurance recoveries received to date. The receivable is recognised when recovery is virtually certain to take place when the corresponding obligation is settled. The measurement of these receivables is affected by factors such as normal inflation and the discount rate used for discounting of future expected receipts. The rates applied are consistent with those used in the valuation of provisions for outstanding claims (see Note 2.3.3).

	2019 $'000	2018 $'000
Present value of insurance and other recoveries		
Expected future recoveries (undiscounted)	273,020	260,357
Discount to present value	(27,063)	(38,515)
	245,957	**221,842**

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

2.3.11. Trade and other payables

Overview

Trade and other payables represent liabilities for services provided to SI prior to the end of financial year, which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

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

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

	2019 $'000	2018 $'000
Accrued expenses & other creditors	16,523	12,551
Service fee	17,490	18,070
Statutory fees	1,053	1,507
GST Payable	16,845	-
Other	986	9,178
	52,897	**41,306**

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

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for the year ended 30 June 2019

3. Investment activities

Overview

Investments in New South Wales Treasury Corporation's Funds (TCorpIM Funds or the Funds) and the managed asset portfolio are designated as fair value through profit or loss. The investments within the Funds are unit holdings. The value of the Funds is based on SI's share of the value of the underlying assets of the Fund, based on the market value. All of the Funds are valued at redemption price.

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

The movement in the fair value of the Funds incorporates distributions received as well as realised and unrealised movements in fair value and is reported as investment revenue in the statement of comprehensive income.

Purchases or sales of investments are recognised on the trade date i.e. the date the entity commits itself to purchase or sell the asset.

Refer to Note 4 for further information regarding fair value measurement, credit risk, liquidity risk and market risk arising from financial assets at fair value.

All investments are held to back insurance liabilities. As part of its investment strategy SI actively manages its investment portfolio to ensure that investment liquidity is in accordance with the expected pattern of future cash flows arising from insurance liabilities.

3.1. Investment income

Overview

Interest revenue and expenses are recognised on an accrual basis. Investment revenue includes interest income.

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

Differences between the fair values of investments at the end of the reporting period and their fair values at the end of the previous reporting period (or cost of acquisition, if acquired during the reporting period) are recognised as revenue in the statement of comprehensive income.

	2019 $'000	2018 $'000
Return on investment		
Revenue from financial assets held at fair value	565,526	641,598
Gains/(losses) from financial assets held at fair value	196,009	256,835
Interest	13,709	10,599
	775,244	**909,032**

3.2. Investment assets and liabilities

	2019 $'000	2018 $'000
TCorpIM Funds	9,076,609	8,565,074
	9,076,609	**8,565,074**

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for the year ended 30 June 2019

3.3. Fair value estimation

Overview

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

SI uses the following hierarchy for disclosing the fair value of financial instruments by valuation technique:

- Level 1 – derived from quoted prices in active markets for identical assets / liabilities that the entity can access at measurement date;
- Level 2 – derived from inputs other than quoted prices that are observable directly or indirectly; and
- Level 3 – derived from valuation techniques that include inputs for the asset / liability not based on observable market data (unobservable inputs).

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
2019				
Financial assets at fair value				
TCorpIM Funds	-	9,076,609	-	9,076,609
	-	**9,076,609**	**-**	**9,076,609**
2018				
Financial assets at fair value				
TCorpIM Funds	-	8,565,074	-	8,565,074
	-	**8,565,074**	**-**	**8,565,074**

There were no transfers between the levels during the period ended 30 June 2019 (2018: Nil). The value of the Funds is based on SI's share of the value of the underlying assets of the fund, based on the market value. All of the facilities are valued using redemption pricing.

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for the year ended 30 June 2019

4. Risk Management

Overview

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

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

Following the enactment of the State Insurance and Care Governance Act 2015, overall responsibility for the establishment and oversight of risk management, risk reviews, policy setting and for managing each of these risks moved to NSW Treasury. The risk management policies in place prior to the Act remain in place, with the purposes of:

- Establishing frameworks and processes that identify and analyse the risks faced by SI investment funds;
- Setting risk limits and controls; and
- Monitoring risks.

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

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

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

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

- Claims and underwriting risk (note 4.1);
- Market risk (Note 4.2);
- Interest rate risk (Note 4.3);
- Foreign exchange risk (Note 4.4);
- Other price risk (Note 4.5);
- Liquidity risk (Note 4.6); and
- Credit risk (Note 4.7).

SICorp manages claims and underwriting risks with all investment- and financial-related risks managed by NSW Treasury Corporation (TCorp) and NSW Treasury (Treasury). A Memorandum of Understanding (MoU) exists between Treasury and TCorp to effectively monitor, manage and report on these risks between the two parties.

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

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

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4. Risk Management (continued)

Financial instrument categories

	Note	Category	2019 $'000	2018 $'000
Financial assets				
Cash and cash equivalents	5.1	N/A	1,748,288	505,579
Investments	3.2	At fair value through profit and loss (designated as such upon initial recognition)	9,076,609	8,565,074
Receivables (i)	2.3.10	Receivables measured at amortised cost	153,704	85,630
Financial liabilities				
Payables (ii)	2.3.11	Payables measured at amortised cost	34,999	39,799

(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)

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4.1. Claims and Underwriting Risk

Overview

Claims and underwriting risk is the risk of fluctuations in the timing, frequency and severity of insured events and claims settlements, relative to expectations. Key drivers of claims and underwriting risk include natural or man-made catastrophic events, pricing of insurance contracts, reserving and claims.

SI is affected by claims and underwriting risk, market risk, credit risk, and liquidity risks. Overall risk management within icare forms a part of operations and line responsibilities. The Audit and Risk Committee (ARC) has oversight of risk management and reports to the icare Board. Internal Audit helps identify, monitor and evaluate risks and gives assurance to the ARC on higher-risk activities.

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

- Use and maintenance of information systems to provide up-to-date and reliable data on the risks to which the entity is exposed;
- Independent actuarial assessment, using data from the information systems and robust actuarial modelling, are used to assess the adequacy of pricing and premiums and to monitor claims patterns based on past experience and emerging trends;
- Detailed risk and compliance registers that identify key risks and controls, residual risk exposures, and risk treatment and owner. Compliance attestations are performed on a quarterly basis and material exceptions are reported to the icare Board;
- Detailed underwriting procedures are in place and strictly followed for accepting risks and regular reviews and audits are performed on the underwriting function of brokers and insurance agents;
- Contributions received by the largest fund (TMF) are paid by member agencies through funding from the NSW Treasury;
- Most premiums or contributions are paid within payment terms. The outstanding debtors are managed by outsourced service providers who actively monitor and review the portfolios; and
- Under the Net Asset Holding Level Policy (NAHLP, refer Note 5.2) SI maintains the required level of net assets for each scheme (except HBCF, CRIF, BFFF, ERWF and SSIF) through fund transfers to/from the Consolidated Fund.

4.2. Market risk

Overview

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

The effects on SI's operating result due to reasonably possible changes in risk variables are outlined in the information below, for interest rate risk and other price risk. A reasonably possible change in each risk variable has been determined after taking into account the economic environment in which SI operates and the time frame for the assessment (i.e. until the end of the next annual reporting period). The sensitivity analysis is based on risk exposures in existence at the reporting date. The analysis was performed on the same basis as 2018. The analysis assumes that all other variables remain constant.

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4.3. Interest rate risk

Overview

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

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

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

	Carrying amount $'000	Decrease in Profit -0.5% $'000	Decrease in Equity -0.5% $'000	Increase in Profit 0.5% $'000	Increase in Equity 0.5% $'000
2019					
Cash and cash equivalents	1,748,288	(8,741)	(8,741)	8,741	8,741
2018					
Cash and cash equivalents	505,579	(2,528)	(2,528)	2,528	2,528

4.4. Foreign Currency risk

Overview

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

SI has some foreign currency risk exposure from its investments in the TCorp Funds. The investments in the emerging market, indexed and actively managed international share funds are denominated in currencies other than Australian Dollars. SI also has an exposure to Global Listed Real Estate Securities, Multi-Asset Class, Bank Loans, Global High Yield and Global Investment Grade Credit strategies which are typically hedged with a 100 per cent target level asset. The agreement between SI and TCorp requires the manager to effectively review the currency exposure when it arises.

TCorp considers currency risk within the context of its overall investment strategy.

As at 30 June 2019 SI has no transactional or structural currency exposures (2018: Nil).

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4.5. Other price risk

Overview

Exposure to “other price risk” primarily arises through the investment in the TCorpIM Funds which are held for strategic rather than trading purposes. SI has no direct equity investments. SI holds units in the following Funds.

Fund	Investment sectors	Investment horizon	2019 $'000	2018 $'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	8,392,581	7,937,175
Long Term Growth Fund	Cash, money market instruments, Australian Bonds, Listed Property, Australian, International and Emerging Markets shares, Multi-assets	7 years	684,028	627,899
			9,076,609	8,565,074

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

TCorp acts as trustee for each of the above Funds and is required to act in the best interest of the unit holders and to administer the Funds in accordance with the trust deeds. TCorp has appointed specialist investment managers to manage the performance and risks of each Fund in accordance with a mandate agreed by the parties. A significant portion of the administration of the facilities is outsourced to an external custodian. TCorp's Cash and Fixed Income Investment team also manages certain cash and fixed income assets for the Funds.

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

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

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4.5 Other price risk (continued)

Investment fund	Change in unit price		Impact on surplus/(deficit)	
	2019 %	2018 %	2019 $'000	2018 $'000
Treasury Managed Fund Investment Portfolio	+/- 18.0	+/- 18.0	+/-$1,510,665	+/-$1,428,691
Long Term Growth Fund	+/- 15.0	+/- 15.0	+/-$102,604	+/-$94,185

4.6. Liquidity risk

Overview

Liquidity risk is the risk of insufficient liquid assets to meet liabilities as they fall due. SI's liquidity risk arises due to the nature of insurance activities where the timing and amount of cash outflows are uncertain.

The liquidity of SI's investments is assured by the liquid nature of the fixed interest investments within the TCorpIM Funds. All Fund share and property investments are required to be listed on a recognised stock exchange with the exception of the unlisted property and unlisted infrastructure investments which account for 9.2 per cent and 6.3 per cent of the Treasury Managed Fund Investment Portfolio as at the reporting date.

In accordance with the MoU, TCorp is required to take market turnover and liquidity risk into account at the time of constructing SI's investment asset allocation.

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

The payables are recognised for amounts due to be paid in the future for goods or services received, whether or not invoiced. Amounts owing to suppliers (which are unsecured) are settled in accordance with the policy set out in Treasury Circular 11/12. If trade terms are not specified, payment is made no later than the end of the month following the month in which an invoice or a statement is received.

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

	Weighted average effective interest rate %	Nominal amount $'000	Interest rate exposure: Fixed Interest rate $'000	Variable interest rate $'000	Non-interest bearing $'000	Maturity dates: < 1 Year $'000	1–5 Years $'000	> 5 Years $'000
2019								
Payables	-	34,999	-	-	34,999	34,999	-	-
2018								
Payables	-	39,799	-	-	39,799	39,799	-	-

4.7. Credit risk

Overview

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

Credit risk arises from the financial assets of SI, which comprise cash and cash equivalents, receivables and financial assets at fair value. SI's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments at balance date.

Cash and cash equivalents

Cash comprises bank balances with financial institutions. Interest is earned on daily bank balances and short term money market deposits held at T Corp..

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

	Total $'000	Past due but not impaired $'000			Considered impaired $'000
		< 3 months	3 - 6 months	> 6 months	
2019					
Receivables	12,845	8,257	913	3,675	-
2018					
Receivables	5,773	2,175	1,436	2,162	-

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

Financial assets at fair value

Financial assets at fair value include investments in TCorpIM Funds and the managed assets portfolio. The investments within the Funds are unit holdings, and as such, do not give rise to credit risk. Credit risk within the Funds is managed by ensuring there is a wide spread of risks. TCorp, as trustee, contracts with specialist investment managers and requires the mandates to include a series of controls over the concentration and credit quality of assets.

5. Other

Overview

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

5.1. Cash and cash equivalents

Overview

Cash and cash equivalents include cash at bank and short term money market investments held at TCorp.

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

	2019 $'000	2018 $'000
Cash at bank	1,748,288	505,579

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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:

	2019 $'000	2018 $'000
Cash and cash equivalents (per statement of financial position)	1,748,288	505,579
Closing cash and cash equivalents (per statement of cash flows)	1,748,288	505,579

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

	2019 $'000	2018 $'000
Net cash flows from operating activities	**1,242,838**	**237,576**
Adjustments for:		
Depreciation and amortisation	(798)	(798)
(Decrease)/Increase in investments	511,535	498,433
(Increase) in outstanding claims	(1,200,521)	(503,115)
Increase in unearned premiums	(70,451)	(57,777)
Decrease/(Increase) in payables	(11,591)	51,201
(Increase) in unexpired risk	(175,967)	(122,371)
Increase / (Decrease) in receivables	110,504	14,938
Net Result	**405,549**	**118,087**

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5.2. Grant from/(to) the Crown

Overview

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

The policy, introduced in March 2006 and revised in May 2013, requires SI to maintain financial assets for each 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 insurance protection or exhausting the TMF insured retention level; and
- absence of premium and contribution income and insurance cover for residual schemes.

The annual funding adequacy assessment as at 31 December 2018 based on assets at 110% of liabilities (31 December 2017: 112.5%) has been approved and the funds transferred to the Consolidated Fund.

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

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

	2019 $'000	2018 $'000
Grant to the Crown Entity [expense]	(90,000)	(10,000)
Grant from the Crown Entity [revenue]	1,253,496	231,372
Net grant revenue	**1,163,496**	**221,372**

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5.3. Budget review

Statement of comprehensive income

	2019 actuals $'000	2019 budget $'000
Premium and contributions	1,551,161	1,284,051
Unearned premium movement	(110,848)	-
Net Earned premiums	**1,440,313**	**1,284,051**
Outwards reinsurance expense	(8,349)	-
Net Earned premiums and contributions (a)	**1,431,964**	**1,284,051**
Gross Claims expenses	(2,518,064)	(1,614,635)
Recoveries received	73,351	53,845
Acquisition costs	(14,097)	-
Unexpired risk liability expense	(175,967)	17,140
Net Claims expense (b)	**(2,634,777)**	**(1,543,650)**
Underwriting and other expenses (c)	(232,315)	(296,438)
Underwriting result (a+b+c)	**(1,435,128)**	**(556,037)**
Hindsight adjustments	(90,529)	(121,344)
Transformation Costs	(8,393)	-
Investment revenue	775,244	574,797
Other revenue	859	-
Insurance profit	**(757,947)**	**(102,584)**
Grants (to)/ from the Crown	1,163,496	128,496
Net Result	**405,549**	**25,912**
Other comprehensive income	-	-
Total comprehensive income	**405,549**	**25,912**

Commentary

Net result for the year is $380 million favourable to budget mainly due to higher investment revenue from stronger investment markets and the grants from the Crown (related to the Net Asset Holding Level Policy). This was partially offset by net claims expenses higher than budget predominantly driven by the fall in the risk-free discount rates, partially offset by lower inflation assumptions, and the impact of the June 2019 actuarial valuation of outstanding claims.

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for the year ended 30 June 2019

5.3 Budget review (continued)

Statement of financial position

	2019 actuals $'000	2019 budget $'000
ASSETS		
Cash and cash equivalents	1,748,288	610,448
Investments	9,076,609	8,680,474
Trade and other receivables	429,241	267,545
Plant and equipment	3	193
Intangible assets	989	968
Total Assets	**11,255,130**	**9,559,628**
LIABILITIES		
Trade and other payables	52,897	334
Unearned premiums	417,675	462,121
Outstanding claims liabilities	9,702,252	8,165,753
Unexpired risk liability	464,521	201,782
Total Liabilities	**10,637,345**	**8,829,990**
Net Assets	**617,785**	**729,638**
EQUITY		
Accumulated funds	617,785	729,638
Total Equity	**617,785**	**729,638**

Commentary

Total assets were $1.7 billion favourable to budget mainly due to the grants from the Crown related to the Net Asset Holding Level Policy and higher than budgeted investment returns. Total liabilities were $1.8 billion unfavourable to budget mainly due to the increase in the provision for outstanding claims liabilities attributable to the fall in the risk-free discount rates, partially offset by lower inflation assumptions, and the impact of the June 2019 actuarial valuation of outstanding claims.

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5.3 Budget review (continued)

Statement of cash flows

	2019 actuals $'000	2019 budget $'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Premiums received	1,351,930	1,286,828
Claims paid	(1,317,545)	(1,290,775)
Recoveries received	43,823	47,911
Total Premiums/contributions less claims	**78,208**	**43,964**
Receipts		
Proceeds from sale of investment	250,000	350,000
Investment Income	565,526	-
Interest received	13,709	322,938
Grants from the Crown	1,253,496	128,496
Other income	859	-
Total Receipts	**2,083,590**	**801,434**
Payments		
Purchases of investments	(565,526)	(309,986)
Grants to the Crown	(90,000)	-
Service fees paid	(166,772)	(190,289)
Other payments	(96,662)	(105,316)
Total Payments	**(918,960)**	**(605,591)**
Total cash flows from operating activities	**1,242,838**	**239,807**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of plant and equipment	-	(170)
Sale of plant and equipment	-	-
Purchases of intangibles/software	(129)	-
Total cash flows from investing activities	**(129)**	**(170)**
NET INCREASE / (DECREASE) IN CASH	1,242,709	239,637
Opening cash and cash equivalents	**505,579**	**370,811**
CLOSING CASH AND CASH EQUIVALENTS	1,748,288	610,448

Commentary

Cash equivalents held as at 30 June 2019 are $1.1 billion higher than budget mainly due to the grant from the Crown related to the Net Asset Holding Level Policy and higher investment income from stronger investment markets

Notes of financial statements

for the year ended 30 June 2019

5.4. Contingent liabilities

Overview

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

At 30 June 2019 liabilities relating to future reported claims from past exposure periods (incurred but not yet reported or IBNR) exist in the TMF and the PMF portfolios, relating to incidents of abuse that occurred within NSW Government institutions (referred to as latent abuse claims). Abuse could be sexual, physical, emotional or a combination of these types of abuse. There are two main considerations relevant to estimating the IBNR component of these liabilities for the TMF and PMF portfolios. These considerations, which are both subject to significant uncertainty and the unavailability of adequate data, comprise:

- The number of latent abuse claims incurred to date but not yet reported
- The average size of payments expected on these claims

A consideration relevant to estimating the IBNR for latent abuse claims, is the reduced relevance of historic claims experience given external developments such as relatively recent legislative changes, and the National Redress Scheme. Based on the information available at the balance date it has been determined that a reliable estimate of the liabilities for these latent abuse claims cannot be made. As such the liabilities presented in these accounts do not include an allowance for IBNR latent abuse claims.

As more information becomes available it may be possible to put an estimate on the IBNR for these latent abuse claim liabilities. It is possible that such an estimate is material to the financial statements.

In addition to latent abuse claims, the PMF portfolio is also exposed to future reported claims from exposure periods before 1 July 1989, for other non-dust disease related claims. While the outstanding claims liability for PMF includes an IBNR allowance for dust related claims, it does not include an IBNR allowance for other non-dust related claims on the basis that exposure information is not available to reliably estimate an explicit IBNR allowance.

The TMF and PMF are both covered by the NAHLP (refer Note 5.2). Any increase in the claims liability will see a corresponding increase in funding from the Crown entity to the extent the financial assets fall below the specified range in comparison to the financial liabilities.

Notes of financial statements

for the year ended 30 June 2019

5.5. Funding Accumulated deficit in HBCF

Overview

The accounts are prepared on a going concern basis specific to HBCF on the following grounds.

During the 2016/17 year the NSW Government approved a set of administrative reforms in respect of home warranty insurance in NSW under which:

- HBCF is able to apply for reimbursement of realised losses arising from underpricing of premiums on underwritten policies to June 2021 to the extent the insurance premiums were written before cost recovery is achieved
- Reimbursement of losses will be made in arrears to the extent the losses cannot be funded by the HBCF
- HBCF can apply to the State Insurance Regulatory Authority to approve future risk-based premium rates which achieve full cost recovery

HBCF adjusted the premiums it charges on residential construction types excluding multi-unit dwellings effective 2 October 2018 with the intention of covering the losses and expenses associated with these policies.

In the immediate term HBCF is economically dependent on the reimbursements provided by NSW Government under the above provisions. During 2018/19 HBCF received $28.5 million in funding relating to reimbursements of prior year losses up to 30 June 2017. In July 2019 (2019/20) HBCF received payment of $12.2 million from the Crown in respect of realised losses in the 2017/18 year arising from pre 1 July 2021 policies. HBCF expect to receive ongoing funding from the NSW Government post 1 July 2021 until all losses incurred before the establishment of risk-based premium rates which achieve full cost recovery are recovered.

END OF AUDITED FINANCIAL STATEMENTS

HBCF

HBCF
Financial statements

for the year ended 30 June 2019

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Notes to the financial statements

pwc

HOME BUILDING COMPENSATION FUND

Actuarial Certificate
Outstanding claims liabilities at 30 June 2019

PricewaterhouseCoopers Actuarial Pty Ltd (PwC) has been contracted by the NSW Self Insurance Corporation (now part of Insurance & Care NSW or icare) to make estimates of the outstanding claims liabilities as at 30 June 2019 of the Home Building Compensation Fund.

Data

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

Basis of Our Estimates

We have made central estimates of the outstanding claims liabilities, meaning that our assumptions have been selected to yield estimates that are the mean of the distribution of future outcomes. In addition to our central estimates, we have estimated the risk margin required in order to provide a probability of adequacy of 75%. Our estimates include allowances for:

- Future inflation and discounting for the time value of money;
- Future expected recoveries; and
- A risk margin of 15% of the net outstanding claims liability. This is intended to provide a probability of adequacy of 75%.

Valuation Results

The PwC estimated liability for the Home Building Compensation Fund as at 30 June 2019, net of recoveries, including claims handing expenses and a risk margin of 15%, is $209.5 million. This amount is made up as follows:

Home Building Compensation Fund Outstanding Claims Liability at 30 June 2019	$M
Gross Outstanding Claims	213.2
Less Anticipated Recoveries	3.7
Net Outstanding Claims	209.5

The net outstanding claims liability for the Home Building Compensation Fund includes an allowance for claims handling expenses of $13.5 million. This allowance equates to 8% of the net outstanding claims liability.

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

PricewaterhouseCoopers Actuarial Pty Limited, ACN 003 562 696, ABN 29 003 562 696
One International Towers Sydney, Watermans Quay, Barangaroo NSW 2000
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

Qualifications and Uncertainty

There is a limitation upon the accuracy of the estimates in this certificate in that there is an inherent uncertainty in any estimate of outstanding claims liabilities. These uncertainties include, but are not limited to, the future direction of the building cycle and its impact on claims experience, tail development of multi-unit claims, and future changes to claim management practices.

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

Reports

Full details of data, methodology, assumptions and results are set out in our valuation report dated 6 September 2019.

Relevant Standards

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

icare have informed us that the financial statements for the Home Building Compensation Fund are intended to comply with Accounting Standard AASB 1023. We have been instructed by icare to prepare a central estimate and our report includes the determination of a risk margin intended to achieve a probability of adequacy of 75%.

Andrew Smith
FIAA
6 September 2019

Andrew Ngai
FIAA
6 September 2019

James Richardson
FIAA
6 September 2019

Statement by the chairman and chief executive officer

for the year ended 30 June 2019

Home Building Compensation Fund

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

In the opinion of the Board of Directors:

1. The financial statements of the Home Building Compensation Fund have been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2015* and the Treasurer's Directions. They have also been prepared in accordance with Australian Accounting Standards (which include Australian Accounting interpretations) and other authoritative pronouncements of the Australian Accounting Standards Board;
2. The financial report for the year ended 30 June 2019 exhibit a true and fair view of the position and transactions of the Home Building Compensation Fund; and
3. The directors are not aware of any circumstances as at the date of this certificate which would render any particulars included in the financial statements misleading or inaccurate.

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

Michael Carapiet
Chairman
Insurance and Care NSW
23 September 2019

John Nagle
Chief Executive Officer and Managing Director
NSW Self Insurance Corporation and Insurance and Care NSW
23 September 2019

INDEPENDENT AUDITOR'S REPORT

Home Building Compensation Fund

To Members of the New South Wales Parliament

Opinion

I have audited the accompanying financial statements of the Home Building Compensation Fund (the Fund), which comprise the Statement of Comprehensive Income for the year ended 30 June 2019, the Statement of Financial Position as at 30 June 2019, the Statement of Changes in Equity and the Statement of Cash Flows for the year then ended, and notes comprising 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 2019, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards
- are in accordance with section 41B of the *Public Finance and Audit Act 1983* (PF&A Act) and the Public Finance and Audit Regulation 2015.

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

Basis for Opinion

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

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

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

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

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

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

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

Other Information

The Fund's annual report for the year ended 30 June 2019 includes other information in addition to the financial statements and my Independent Auditor's Report thereon. The Chief Executive Officer of the Fund is responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprises the Statement by the Chairman and Chief Executive.

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GPO Box 12, Sydney NSW 2001 | **t** 02 9275 7101 | **f** 02 9275 7179 | mail@audit.nsw.gov.au | audit.nsw.gov.au

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

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

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

I have nothing to report in this regard.

The Chief Executive Officer's Responsibilities for the Financial Statements

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

In preparing the financial statements, the Chief Executive Officer is responsible for assessing the Fund's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting, unless it is not appropriate to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to:

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

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

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

My opinion does *not* provide assurance:

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

D Daniels

David Daniels
Director, Financial Audit Services

Delegate of the Auditor-General for New South Wales

27 September 2019
SYDNEY

Statement of comprehensive income

for the year ended 30 June 2019

	Notes	2019 $'000	2018 $'000
Premium	2.1	129,025	130,785
Unearned premium movement		(48,872)	(46,797)
Net Earned premium (a)		**80,153**	**83,988**
Gross Claims expenses	2.2	(114,013)	(57,620)
Recoveries received		3,255	875
Acquisition costs		(14,097)	(25,467)
Unexpired risk liability expense	2.3.7	(175,967)	(122,371)
Net Claims expense (b)		**(300,822)**	**(204,583)**
Underwriting and other expenses (c)	2.3.9	(14,711)	(19,113)
Underwriting result (a+b+c)		**(235,380)**	**(139,708)**
Investment income		5,287	3,291
Other Revenue		2	542
Insurance profit		**(230,091)**	**(135,875)**
Grants (to) and from the Crown	4.3	28,496	181,372
Net Result		**(201,595)**	**45,497**

The accompanying notes form part of these financial statements.

Statement of financial position

as at 30 June 2019

	Notes	2019 $'000	2018 $'000
Assets			
Cash and cash equivalents	4.1	393,761	299,233
Trade and other receivables	2.3.10	25,653	33,830
Intangible assets	4.2	860	1,653
Total Assets		**420,274**	**334,716**
Liabilities			
Trade and other payables	2.3.11	5,875	8,263
Unearned premiums	2.3.7	373,030	324,158
Outstanding claims liabilities	2.3.1	213,766	149,064
Unexpired risk liability	2.3.7.2	464,521	288,554
Total Liabilities		**1,057,192**	**770,039**
Net Assets		**(636,918)**	**(435,323)**
Equity			
Accumulated Deficit		(636,918)	(435,323)
Total Equity		**(636,918)**	**(435,323)**

The accompanying notes form part of these financial statements.

Statement of changes in equity

for the year ended 30 June 2019

	Accumulated Funds $'000	Total Equity $'000
Balance at 1 July 2018	**(435,323)**	**(435,323)**
Net result	(201,595)	(201,595)
Other comprehensive income	-	-
Total comprehensive result for the year	**(201,595)**	**(201,595)**
Balance at 30 June 2019	**(636,918)**	**(636,918)**
Balance at 1 July 2017	(480,820)	(480,820)
Net result	45,497	45,497
Other comprehensive income	-	-
Total comprehensive result for the year	45,497	45,497
Balance at 30 June 2018	**(435,323)**	**(435,323)**

The accompanying notes form part of these financial statements

Statement of cash flows

for the year ended 30 June 2019

	Notes	2019 $'000	2018 $'000
CASH FLOW FROM OPERATING ACTIVITIES			
Premiums received		139,000	120,768
Recoveries		1,318	776
Claims and expenses paid		(63,395)	(81,840)
Total cash flow from premiums less claims		**76,923**	**39,704**
Receipts			
Interest received		5,287	4,013
Grants received from Crown		28,496	181,372
Other Income		2	542
Total Receipts		**33,785**	**185,927**
Payments			
Service fees paid		(10,319)	(6,642)
Other payments		(5,861)	(13,842)
Total Payments		**(16,180)**	**(20,484)**
Net cash from Operating Activities	4.1	**94,528**	**205,147**
Net increase/(decrease) in cash and cash equivalents		94,528	205,147
Cash and cash equivalents at the beginning of the year		299,233	94,086
Cash and cash equivalents at the end of the year	4.1	**393,761**	**299,233**

The accompanying notes form part of these financial statements.

Notes of financial statements

for the year ended 30 June 2019

1. Overview

1.1. About the Scheme

On 1 July 2010, the NSW Self Insurance Corporation (SICorp) became the sole home warranty insurer in New South Wales. SICorp is a statutory corporation constituted by the *NSW Self Insurance Corporation Act, 2004* (the SICorp Act).

The Home Building Compensation Fund (HBCF) was created under s12A of the SICorp Act to provide consumer protection for home owners undertaking residential building projects in NSW where the contracted builder, due to certain circumstances, defaults under the contract.

HBCF issues certificates of insurance as required under the *Home Building Act, 1989* through its appointed insurance agents. HBCF is a not for profit entity.

In accordance with s12A of the SICorp Act, HBCF may receive financial support by way of money advanced by the Minister or appropriated by the Parliament for the purposes of the HBCF.

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

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

The financial statements for the year ended 30 June 2019 have been authorised for issue by the Chairman of the Board of icare and the Chief Executive Officer and Managing Director of SI Corp on behalf of the Board of Directors of icare on 23 September 2019.

1.2. About this report

This Financial Report includes the consolidated financial statements of HBCF.

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

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

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

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

Notes of financial statements

for the year ended 30 June 2019

1.2 About this report (continued)

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

Information is considered material and relevant if:

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

1.2.1. Basis of preparation

These general purpose financial statements have been prepared in accordance with the requirements of the:

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

These financial statements have been presented on a liquidity basis following receipt of an exemption from TC19-04 by NSW Treasury that statements are presented on a current and non-current basis.

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

As HBCF is a fund established within SICorp under s8A of the SICorp Act, the financial statements are aggregated into SICorp's financial statements.

1.2.2. Going concern basis

These financial statements have been prepared on a going concern basis, despite the accumulated deficit. The HBCF is able to pay its current known debts as and when they fall due. Refer to Note 4.3 for more information on funding arrangements for HBCF.

1.2.3. Use of estimates and judgements

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

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

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

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

- Note 2.3 – Outstanding claims liability;
- Note 2.3.7- Unearned premiums and unexpired risk; and
- Notes 3 & 4 – Financial instruments.

Notes of financial statements

for the year ended 30 June 2019

1.2.4. Statement of compliance

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

1.2.5. Taxation

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

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

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

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

1.2.6. Comparative figures

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

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

1.2.7. 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 2019. The following new Standards will not have a material impact on the financial performance or position of HBCF:

- AASB 15, AASB 2014-5, AASB 2015-8 and AASB 2016-3 regarding *Revenue from Contracts with Customers*;
- AASB 16 regarding *Leases*;
- AASB 17 regarding *Insurance Contracts*;
- AASB 1058 *Income of Not-for-profit Entities*;
- AASB 2016-8 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities;
- AASB 2017-1 Amendments to Australian Accounting Standards – Transfer of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments; and
- AASB 2018-1 Amendments to Australian Accounting Standards – Annual improvements 2015-2017 cycle.

Notes of financial statements

for the year ended 30 June 2019

1.2.7. New standards and interpretations not yet effective (continued)

In relation to certain new accounting standards and interpretations that have been published that are not mandatory for 30 June 2019 reporting period. the following information on their impact is provided:

- AASB 15 *Revenue from Contracts with Customers*, AASB 2014-5 *Amendments to Australian Accounting Standards* arising from AASB 15 and AASB 1058 *Income of Not-for-Profits*
  - AASB 15 *Revenue from Contracts with Customers* (AASB 15) is effective for reporting periods commencing on or after 1 January 2019. AASB 15 establishes a five-step model to account for revenue arising from contracts with customers. Revenue is recognised when control of goods or services is transferred to the customer at amounts that reflect the consideration to which HBCF expects to be entitled in exchange for transferring the goods or services to the customer. Under AASB 118 *Revenue* (AASB 118), revenue recognition is currently based on when risks and rewards are transferred.
  - AASB 1058 *Income of Not-for-Profits* (AASB 1058) is effective for reporting periods commencing on or after 1 January 2019 and will replace most of the existing requirements in AASB 1004 *Contributions* (AASB 1004). The scope of AASB 1004 is now limited mainly to parliamentary appropriations, administrative arrangements and contributions by owners. Under AASB 1058, HBCF will need to determine whether a transaction is consideration received below fair value principally to enable HBCF to
  - further its objectives (accounted for under AASB 1058) or a revenue contract with a customer (accounted for under AASB 15).
  - The standards will result in the identification of separate performance obligations that will not change the timing of recognition for some revenues, including revenues relating to sales of goods and services and specific purpose grants and subsidies.
  - Under AASB 1058, HBCF will recognise as liabilities, obligations for funding received where there is an obligation to construct recognisable non-financial assets controlled by HBCF. AASB 1058 will not have any impact on HBCF because it does not receive this type of funding.
  - HBCF will adopt AASB 15 and AASB 1058 on 1 July 2019 through application of the full retrospective transition approach. Recognition and measurement principles of the new standards will be applied for the current year and comparative year as though AASB 15 and AASB 1058 had always applied.

The impacts to balances resulting from the adoption of AASB 15 and AASB 1058 have been assessed by HBCF as not being significant.

- AASB 9 *Financial Instruments*
  AASB 9 *Financial Instruments* replaces AASB 139 *Financial Instruments: Recognition and Measurement* and is effective for HBCF from 1 July 2018.

  The standard makes changes to the classification of financial assets for the purpose of determining their measurement basis, as well as the recognition of changes in fair value. The standard replaces the incurred loss model of AASB 139 with a new expected loss model which can result in the acceleration of impairment recognition on financial instruments.

  The standard requires HBCF to account for expected credit losses on financial instruments at the point at which the

Notes of financial statements

for the year ended 30 June 2019

1.2.7. New standards and interpretations not yet effective (continued)

financial instruments are first recognised and to estimate the expected loss applicable to those financial instruments over the period for which they are held. This requirement can result in expected losses on financial instruments being recognised in full much earlier than would have been the case under AASB 139. HBCF has performed an assessment and concluded that no transitional adjustments were required as a result of complying with the new requirements. The majority of HBCF's assets are already measured at fair value through profit and loss as required by AASB 1023 *General Insurance Contracts* and as permitted under both AASB 1023 and AASB 9.

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

2. Underwriting activities

Overview

This section provides analysis and commentary on HBCF's underwriting activities. Underwriting, in simple terms, is the agreement by the insurer to assume insurance risk in return for a premium paid by the insured. The underwriter assesses the quality of the risk and prices it accordingly.

2.1. Revenue

Revenue mainly comprises premiums charged for providing insurance coverage.

Premiums are recognised as income earned in accordance with the pattern of risk associated with the insured risk over the insured period (7 years). They are exclusive of taxes and duties levied.

The proportion of the premium revenue that is not earned in the statement of comprehensive income at the reporting date is recognised in the statement of financial position as unearned premium.

2.2. Net Claims expense

Overview

The largest expense for HBCF is net claims, which is the difference between the net outstanding claims liability (Note 2.3) at the beginning and the end of the financial year plus any claims incurred and settled in the financial year and the movement in the unexpired risk liability.

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

Claims incurred is:

- the amount incurred on claims by HBCF during the year;
- plus the amount, which the consulting actuary has estimated as at 30 June 2019 as being the movement in the amount required to meet the cost of claims reported but not yet paid;
- claims incurred which are yet to be reported; and
- the escalation in reported and reopened claims.

Insurance recoveries are recognised as revenue when it is virtually certain the recovery will be made. Other recoveries include recoveries of claims paid under:

- sharing agreements;
- third party recoveries; and
- salvage and subrogation.

Movement in outstanding recoveries represents the increase/(decrease) in the actuarially assessed level of insurance and other recoveries receivable at reporting date. (Note 2.3.10).

Notes of financial statements

for the year ended 30 June 2019

2.2 Net Claims expense (continued)

	2019 $'000	2018 $'000
Claims and related expenses	49,312	56,327
Finance costs (net)	2,520	1,972
Other movements in claims liabilities (refer note 2.3.1)	62,181	(679)
Gross claims expenses	114,013	57,620
Recoveries revenue	(3,255)	(875)
Acquisition costs	14,097	25,467
Movement in unexpired risk liability	175,967	122,371
Net claims expense	**300,822**	**204,583**

An analysis of the claims expense for HBCF showing separately the amount relating to risks borne in the current period and the amount relating to a reassessment of risks borne in all previous periods is presented below:

	Current Year $'000	Prior Year $'000	2019Total $'000	2018Total $'000
Gross claims incurred & related expenses – undiscounted	131,036	(20,267)	110,769	58,945
Reinsurance & other recoveries – undiscounted	(1,542)	(1,448)	(2,990)	(897)
Net claims incurred – undiscounted	**129,494**	**(21,715)**	**107,779**	**58,048**
Discount & discount movement – gross claims incurred	(2,850)	5,842	2,992	(1,325)
Discount & discount movement – reinsurance & other recoveries	49	(62)	(13)	22
Net discount movement	**(2,801)**	**5,780**	**2,979**	**(1,303)**
Net claims incurred	**126,693**	**(15,935)**	**110,758**	**56,745**

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2.3. Net Outstanding claims liability

Overview

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

The net outstanding claims liability comprises the elements described below:

- The net central estimate (Note 2.3.1). This is the provision for expected future claims payments and includes claims reported but not yet paid, claims incurred but which have not yet been reported (IBNR), claims incurred but not enough reported (known as IBNER) and estimated claims handling costs;
- Less an amount to reflect the discount to present value using risk-free rates of return. The net central estimate is discounted to present value recognising that the claim and/or recovery may not be settled for some time. The expected future payments are discounted to a present value at the reporting date using a risk-free discount rate; and
- Plus a risk margin (Note 2.3.2). A risk margin is added to reflect the inherent uncertainty in the net discounted central estimate of outstanding claims.

The provision for outstanding claims is determined by the Fund Actuary in conjunction with information supplied by the HBCF Insurance Agents. It is measured as the central estimate of the present value of the expected future payments required to settle the present obligation at the report date. It includes an additional risk margin to allow for the inherent uncertainty in the central estimate.

2.3.1. Discounted net outstanding claims

Overview

The provision for outstanding claims is actuarially determined in consultation with the claims managers. It is measured as the estimate of the expected future payments required to settle the present obligation at the reporting date, including the expenses associated with the settlement.

The expected future payments are estimated on the basis of the ultimate cost of the settling of claims, which is affected by factors arising during the period to settlement such as normal inflation and "superimposed inflation". Superimposed inflation refers to factors such as above economic inflation increases in the cost of construction.

The expected future payments are then discounted to a present value at the reporting date using discount rates based on long term Commonwealth government securities that have similar duration to the liability cash flows.

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2.3.1. Discounted net outstanding claims (continued)

	2019 $'000	2018 $'000
Outstanding claims liabilities		
Expected future gross claims payments	177,811	126,499
Gross claims handling	13,922	9,950
Gross risk margin	28,192	24,657
Gross outstanding claims liabilities	**219,925**	**161,106**
Discount on central estimate	(4,867)	(6,330)
Discount on claims handling expenses	(427)	(498)
Discount on risk margin	(865)	(5,214)
Total discount on claims liabilities	**(6,159)**	**(12,042)**
Claims liabilities at 30 June	**213,766**	**149,064**
Expected future recoveries	(4,408)	(2,444)
Discount to present value recoveries	149	123
Recoveries 30 June (refer 2.3.10)	**(4,259)**	**(2,321)**
Net outstanding claim liabilities	**209,507**	**146,743**

The movement in the net claims liabilities (excluding recoveries) at 30 June is shown in the below table:

	2019 $'000	2018 $'000
Net carrying amount at start of year	146,743	145,548
Expected claim payments (prior years only)	(35,026)	(40,727)
Unwinding of discounts	2,520	1,972
CHE on expected claims payments (prior year only)	(2,829)	(4,073)
Adjustments arising from change in (prior years only incl. release of risk margin on claims payments)	(18,436)	(2,338)
Net outstanding claims in current year	116,535	46,361
Closing balance	**209,507**	**146,743**

AY = Accident year

CHE= Claims handling expenses

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

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2.3.2. Risk Margin

Overview

A risk margin is determined by the Board to reflect the inherent uncertainty in the net discounted central estimate.

The uncertainty has been determined on a basis that reflects the Home Building Compensation Fund's business. Regard is had to the robustness of the valuation models, the reliability and volume of the available data, past experience of the NSW home warranty insurance market and the characteristics of the business written.

The risk margin and the net discounted central estimate are key inputs in the determination of the probability of adequacy, which is a statistical measure of the relative adequacy of the outstanding claims liability to ultimately be able to pay claims. For example, a 75 per cent probability of adequacy indicates that the net discounted central estimate is expected to be adequate seven and a half years in 10.

For HBCF the outstanding claims liability estimate includes a risk margin of 15 per cent respectively (2018: 15 per cent) to cover the inherent uncertainty in the net central estimate. The risk margin has been set at a level that results in an overall probability of sufficiency in the outstanding claims liability of 75 per cent (2018: 75 per cent).

The discounted risk margin on outstanding claims for HBCF was $27 million (2018: $19.0 million).

2.3.3. Core claims liability variables

Overview

The core variables that drive HBCF's liabilities are the inflation rate and the discount rate of those liabilities.

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

	2019	2018
Discount rates and term to settlement		
Discount rates		
- Not later than one year	1.00%	1.95%
- Later than one year	0.90% - 4.50%	2.07-4.5%
Inflation rates	1.05% - 3.13%	1.95-3.37%
Superimposed inflation rates	2.25%	1.63-3.05%
Weighted average term to settlement	2.2 years	2.3 years

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2.3.4. Claims liability maturity

Overview

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

	2019 $'000	2018 $'000
Outstanding claims net of recoveries maturing:		
Less than one year	72,597	43,084
1 to 2 years	50,188	34,280
2 to 5 years	65,461	54,062
Over 5 years	21,261	15,317
Total net outstanding claims liability	**209,507**	**146,743**

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

Overview

The outstanding claims liabilities are central estimates derived from actuarial assumptions regarding future experience. Sensitivity analysis can be used to measure the change in the outstanding claims liability estimate that would result from a change in the assumptions.

The outstanding claims liability represents the best estimate and is based on standard actuarial assessment.

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

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

- Post the 30 June 2002 reforms, the private industry exited the market in 2010 and the product became publicly underwritten by HBCF. This makes the building cycle effects on the new publicly underwritten arrangement uncertain as there are questions on the relevance of the past schemes data.
- The future building cycle is uncertain, especially the length and the severity of future economic downturns, and this will impact the emergence of future builder insolvencies and hence future claims costs;
- There is particular uncertainty around how defect claims are likely to emerge and develop, especially in respect to multi-unit covers; and
- The calculation of premiums requires the estimation of future expenses, which are a high proportion of the projected premium, and it is unclear the level of future expenses to be allowed for.

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

The impact that possible changes in key actuarial assumptions have on the financial results is shown in the following tables:

Movement in Variable		Financial Impact					
		2019 Change in outstanding claims liability		2019 Change in insurance liability		Net Result *	Lat Deficiency
Variable		$'000	%	$'000	%	$'000	$'000
Base		**209,507**		**1,047,058**			**478,604**
Inflation rate	+1	4,475	2.1	56,162	5.4	(56,162)	530,290
	-1	(4,353)	(2.1)	(52,729)	(5.0)	52,729	430,228
Discount rate	+1	(4,382)	(2.1)	(52,952)	(5.1)	52,952	430,035
	-1	4,598	2.2	57,564	5.5	(57,564)	531,570
Largest builder failing		47,300	22.6	315,100	30.1	(315,100)	793,704

*Note: Net Result includes the estimated impact of a revised Liability Adequacy Test result.

2.3.6. Claims development

Overview

A significant portion of HBCF's liabilities relate to claim liabilities of past years that will be settled in future years.

The following table shows the development of undiscounted outstanding claims relative to the ultimate expected claims for the most recent accident years for HBCF.

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2.3.6 Claims development (continued)

Underwriting year	2011 $'000	2012 $'000	2013 $'000	2014 $'000	2015 $'000	2016 $'000	2017 $'000	2018 $'000	2019 $'000	Total $'000
Estimate of ultimate claim cost										
At the end of underwriting year	38,386	66,963	78,338	89,186	98,858	118,917	150,195	178,856	176,933	
One year later	85,728	77,575	67,677	82,364	88,800	125,694	158,718	189,685		
Two years later	87,257	70,492	72,070	80,577	100,558	130,989	167,769			
Three years later	79,862	77,698	70,668	79,353	100,906	140,120				
Four years later	83,291	74,818	67,071	82,538	111,386					
Five years later	81,403	78,899	65,279	90,901						
Six years later	86,724	73,224	66,599							
Seven year later	85,268	74,582								
Eight years later	80,512									
Nine years later										
Current estimate of cumulative claim costs	80,512	74,582	66,599	90,901	111,386	140,120	167,769	189,685	176,933	1,098,487
Cumulative net claim payments	63,985	51,009	29,369	28,700	22,957	22,236	11,311	6,323	467	236,357
Net undiscounted central estimate	16,527	23,573	37,230	62,201	88,429	117,884	156,458	183,362	176,466	862,130
Effect of discounting	(433)	(772)	(1,481)	(2,897)	(4,713)	(6,743)	(10,012)	(12,812)	(13,741)	(53,604)
Claims handling expense	1,348	1,964	3,198	5,473	7,905	10,621	14,151	16,656	16,163	77,479
Risk margin	2,749	4,022	6,586	11,319	16,400	22,069	29,448	34,707	33,753	161,053
Total insurance liability at 30 June 2019	**20,191**	**28,787**	**45,533**	**76,096**	**108,021**	**143,831**	**190,045**	**221,913**	**212,641**	**1,047,058**
Premium liability										837,551
Outstanding claims liability at 30 June 2019										**209,507**

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2.3.7. Unearned premium and unexpired risk liability

Overview

Unearned premium

Gross written premium is earned in profit or loss in accordance with the pattern of incidence of risk of the related business. The unearned premium liability is that portion of gross written premium that HBCF has not yet earned in profit or loss as it represents insurance coverage to be provided by HBCF after the balance date.

Unexpired risk liability

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

At the balance date, HBCF recognises a liability in respect of outstanding claims and assesses the adequacy of its unearned premium liability. As required under AASB 1023 *General Insurance Contracts*, a LAT is undertaken to determine the adequacy of the unearned premium liability against current estimates of the present value of the expected future cash flows relating to future claims arising from the rights and obligations under current insurance contracts. An additional risk margin is included to take into account the inherent uncertainty in the central estimate.

It represents the extent that the unearned premium liability is insufficient to cover expected future claims.

If the assessment shows the carrying amount of the liabilities is inadequate, any deficiency is recognised as an expense in the statement of comprehensive income by firstly writing down the deferred acquisition cost. If an additional liability is required, this is recognised in the statement of financial position as an unexpired risk liability.

As at the reporting date, the LAT identified a deficit of $478.6 million (2018: $314 million). The deficit, after deducting the opening balance of the unexpired risk liability, is recognised as an expense in the statement of comprehensive income.

	2019 $'000	2018 $'000
Unearned premiums	373,030	324,158
Unearned risk liability	464,521	288,554
	837,551	**612,712**

2.3.7.1. Reconciliation of unearned premiums

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

	2019 $'000	2018 $'000
As at 1 July	324,158	277,361
Deferral of premiums written in current year	129,025	130,785
Premiums earned during the year	(80,153)	(83,988)
As at 30 June	**373,030**	**324,158**

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2.3.7.2. Reconciliation of unexpired risk liability

A reconciliation of the carrying amount of the unexpired risk liability at the beginning and end of the reporting periods is set out below.

	2019 $'000	2018 $'000
Unexpired risk liability		
Unexpired risk liability as at 1 July	288,554	166,183
Recognition of additional unexpired risk liability in the year	175,967	122,371
Unexpired risk liability as at 30 June	**464,521**	**288,554**
Deficiency recognised in the Statement of Comprehensive Income		
Gross movement in unexpired risk liability	(175,967)	(122,371)
Write down of deferred acquisition costs*	(14,097)	(25,467)
Total deficiency recognised in the Statement of Comprehensive Income	**(190,064)**	**(147,838)**
Calculation of deficiency		
Unearned premium liability	373,030	324,159
Acquisition costs*	(14,097)	(25,467)
	358,933	**298,692**
Central estimate of present value of expected future cash flows arising from future claims	703,824	514,885
Risk Margin (refer 2.3.2)	133,727	97,828
Premium liability provision	**837,551**	**612,713**
Net Deficiency	**478,618**	**314,021**

*Refer Note 2.3.8 Other Assets- Deferred Acquisition Costs

The premium liability provision represents the actuarial assessment of future claims expenses.

The mean term to settlement of the undiscounted premium liability is 6.1 years (2018: 7.4 years).

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2.3.8. Other Assets – Deferred acquisition cost

Costs directly attributable to the acquisition of premium revenue are deferred by recognising them as an asset in the statement of financial position when they can be reliably measured. Deferred acquisition costs (net of any deficiency) are amortised systematically over the life of the insurance policy in line with the expected pattern of the incidence of risk. This corresponds to the earning pattern of premium revenue.

	2019 $'000	2018 $'000
As at 1 July		
Acquisition costs incurred during the year	14,097	25,467
Acquisition costs amortised during the year	-	-
Net deficiency write-down[1]	(14,097)	(25,467)
As at 30 June	**-**	**-**
Acquisition costs recognised in the Statement of Comprehensive Income comprise:		
Acquisition costs amortised during the year	-	-
Net deficiency write-down[1]	14,097	25,467
	14,097	**25,467**

[1] Refer to Note 2.3.7 Unearned Premium and Unexpired Risk Liability. Due to the unearned premium liability deficiency as identified by the LAT, deferred acquisition costs are written down.

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2.3.9. Underwriting and other expenses

Overview

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

	2019 $'000	2018 $'000
Statutory levies paid to State Insurance Regulatory Authority (SIRA) (2.3.9.1)	4,301	5,358
Service fees to icare (2.3.9.2)	8,240	9,201
Software support	4	1,511
Advertising	-	24
Consultancy & contractors	1,255	2,226
Audit fees - audit of financial statements	107	102
Amortisation	793	794
Other	11	(103)
	14,711	**19,113**

2.3.9.1. Statutory levies

Pursuant to Section 12A(3)(d)(2) of the *NSW Self Insurance Corporation Act 2004* HBCF is required to pay SIRA costs incurred in exercising its functions in relation to the regulation of home building.

2.3.9.2. Service fees

In accordance with the *State Insurance and Care Governance Act 2015* from 1 September 2015, HBCF receives services from Insurance & Care NSW (icare). Under the arrangement some of HBCF's costs are incurred by icare and recovered at cost from HBCF.

These services include claims handling facilities, general business expenses and governance services.

Agent's remuneration of $14.1 million (2018 $25 million) paid by icare has been treated as an acquisition cost rather than as a Service fee expense.

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

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2.3.10. Trade and other receivables

Overview

Trade and other receivables are principally amounts owed to HBCF by policyholders. Unclosed premium receivables are estimated amounts due to the Scheme in relation to business for which the Scheme is on risk but where the policy is not billed to the counterparty at the balance date.

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

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

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

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

	2019 $'000	2018 $'000
Premiums receivable	21,395	31,370
Insurance and other recoveries	4,258	2,321
Service fees	-	139
	25,653	**33,830**

2.3.11. Trade and other payables

Overview

Trade and other payables represent liabilities for services provided to HBCF prior to the end of financial year, which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

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

These amounts represent liabilities for goods and services provided to HBCF and other amounts. 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.

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2.3.11 Trade and other payables (continued)

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.

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

	2019 $'000	2018 $'000
Insurance duty payable	1,053	1,507
Service fees	2,006	4,291
Accrued expenses	1,052	306
Goods and Services Tax	1,764	2,159
	5,875	**8,263**

3. Risk management

Overview

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

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

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

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

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

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3. Risk management overview (continued)

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

- The maintenance and use of management information systems that provide up-to-date, reliable data on the risks to which the fund is exposed;
- Actuarial modelling to assess the adequacy of pricing and to monitor claims patterns based on past experience of the private insurers and emerging HBCF claims;
- Detailed underwriting procedures exist and are strictly followed for accepting risks;
- Regular reviews and audits are performed on the underwriting function of brokers and insurance agents; and
- The majority of premiums are paid within payment terms. Outstanding debtors are managed by the Insurance Agents actively monitoring and reviewing the portfolio.

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

- Insurance risk (Note 3.1);
- Market risk (Note 3.2);
- Interest rate risk (Note 3.3);
- Liquidity risk (Note 3.4); and
- Credit risk (Note 3.5).

HBCF's principal financial instruments are outlined below. These financial instruments arise directly from HBCF's operations or are required to finance those operations. HBCF does not enter into financial instruments for speculative purposes.

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

Financial instrument categories

	Note	Category	2019 Carrying Amount $'000	2018 Carrying Amount $'000
Financial Assets				
Cash and cash equivalents	4.1	N/A	393,761	299,233
Receivables[1]	2.3.10	Receivables (measured at amortised cost)	21,395	31,509
Financial Liabilities				
Payables[2]	2.3.11	Payables (measured at amortised cost)	3,058	4,597

[1] Excludes statutory receivables

[2] Excludes statutory payables

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3.1. Insurance Risk

Overview

Insurance risk is the risk of fluctuations in the timing, frequency and severity of insured events and claims settlements, relative to expectations Key drivers of insurance risk include quality of underwriting; the NSW macro-economic environment and its impact on demand and pricing of residential property, and natural or man-made catastrophic events.

3.2. Market risk

Overview

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

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

3.3. Interest rate risk

Overview

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

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

	Carrying Amount $'000	-1% Profit $'000	-1% Equity $'000	+1% Profit $'000	+1% Equity $'000
2019					
Cash and cash equivalents	393,761	(3,938)	(3,938)	3,938	3,938
2018					
Cash and cash equivalents	299,233	(2,992)	(2,992)	2,992	2,992

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3.4. Liquidity risk

Overview

Liquidity risk is the risk of insufficient liquid assets to meet liabilities as they fall due. HBCF’s liquidity risk arises due to the nature of insurance activities where the timing and amount of cash outflows are uncertain.

The payables are recognised for amounts due to be paid in the future for goods or services received, whether or not invoiced. Amounts owing to suppliers (which are unsecured) are settled in accordance with the policy set out in Treasury Circular NSW TC11/12. If trade terms are not specified, payment is made no later than the end of the month following the month in which an invoice or a statement is received.

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

The maturity profile of HBCF’s financial liabilities is summarized in the table below:

	Weighted average effective interest rate	Nominal amount $’000	Interest rate exposure $’000					
	%		Fixed interest rate	Variable interest rate	Non-interest bearing	< 1 year	1-5 years	>5 years
2019								
Payables	-	3,058	-	-	3,058	3,058	-	-
2018								
Payables	-	4,597	-	-	4,597	4,597	-	-

3.5. Credit risk

Overview

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

Credit risk arises from the financial assets of HBCF, which comprise cash and cash equivalents and receivables. HBCF’s exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments at reporting date.

Cash and cash equivalents

Cash comprises cash investment in banks. Interest is earned on daily bank balances at the prevailing Reserve Bank of Australia’s cash rate.

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3.5. Credit risk (continued)

Receivables

Receivables include premium receivables.

Trade debtors

All trade debtors are recognised as amounts receivable at the reporting date. The collection of trade debtors is reviewed on an ongoing basis. Procedures as established in the Treasurer's Directions are followed to recover outstanding amounts, including letters of demand. Debts which are known to be uncollectible are written off. An allowance for impairment is raised when there is objective evidence that HBCF will not be able to collect all amounts due. No interest is earned on trade debtors. The average credit period on sales, unless otherwise agreed, is 30 days.

HBCF does not receive any collateral for receivables.

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	
2019					
Receivables	8,533	7,653	463	417	-
2018					
Receivables	5,303	1,999	1,142	2,162	-

Concentration of credit risk

By Credit Rating	AAA $'000	AA+ $'000	AA $'000	AA- $'000	A+ $'000	A $'000	A- $'000	Other Ratings* $'000	Total $'000
2019									
Receivables	-	-	-	-	-	-	-	21,395	21,395
2018									
Receivables	-	-	-	-	-	-	-	31,509	31,509

*Short term ratings of A-2 or better, when counter party has no long-term rating or the long-term rating is A or lower.

Notes of financial statements

for the year ended 30 June 2019

3.5 Credit risk (continued)

By classification of counterparty	Governments $'000	Commercial insurer $'000	Other $'000	Total $'000
2019				
Receivables	-	-	21,395	21,395
2018				
Receivables	-	-	31,509	31,509

During the year there were no defaults on receivables. HBCF's exposure to credit risk is deemed insignificant due to there being no requirement, to date, to write off bad debts.

Notes of financial statements

for the year ended 30 June 2019

4. Other

Overview

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

4.1. Cash and cash equivalents

Overview

Cash and cash equivalents include cash at bank.

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

Cash and cash equivalents in the statement of financial position comprise deposits held at call with banks.

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

	2019 $'000	2018 $'000
Cash and cash equivalents (per statement of financial position)	393,761	299,233
Closing cash and cash equivalents (per statement of cash flows)	393,761	299,233
Reconciliation of net cash flows from operating activities to net result for the period		
Net cash flows from operating activities	**94,528**	**205,147**
Adjustments for:		
Amortisation	(793)	(794)
(Decrease)/Increase in receivables	(8,177)	9,532
Decrease/(Increase) in unearned premiums	(48,872)	(46,797)
Decrease/(Increase) in payables	2,388	2,073
Decrease/(Increase) in outstanding claims	(64,702)	(1,293)
Decrease/(Increase) in unexpired risk liability	(175,967)	(122,371)
Net result for the year	**(201,595)**	**45,497**

Notes of financial statements

for the year ended 30 June 2019

4.2. Intangible assets

Overview

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

The capitalisation threshold for intangible assets is one hundred thousand dollars only and above (including direct allocation of personnel service costs).

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

The useful lives of intangible assets are assessed to be finite HBCF charges amortisation on intangible assets using straight–line method over a period of five years.

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

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

	2019 $'000	2018 $'000
Gross carrying amount	3,968	3,968
Accumulated amortisation and impairment	(3,108)	(2,315)
Net carrying amount at end of year	**860**	**1,653**
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	1,653	2,447
Additions	-	-
Amortisation expense	(793)	(794)
Net carrying amount at end of year	**860**	**1,653**

Notes of financial statements

for the year ended 30 June 2019

4.3. Funding Accumulated deficit

Overview

The accounts are prepared on a going concern basis on the following grounds.

During the 2016/17 year the NSW Government approved a set of administrative reforms in respect of home warranty insurance in NSW under which:

- HBCF is able to apply for reimbursement of realised losses arising from underpricing of premiums on underwritten policies to June 2021 to the extent the insurance premiums were written before cost recovery is achieved.
- Reimbursement of losses will be made in arrears to the extent the losses cannot be funded by HBCF
- HBCF can apply to the State Insurance Regulatory Authority to approve future risk-based premium rates which achieve full cost recovery

HBCF adjusted the premiums it charges on residential construction types excluding multi-unit dwellings effective 2 October 2018 with the intention of covering the losses and expenses associated with these policies.

In the immediate term HBCF is economically dependent on the reimbursements provided by NSW Government under the above provisions. During 2018/19 HBCF received $28.5 million in funding relating to reimbursements of prior year losses up to 30 June 2017. In July 2019 (2019/20) HBCF received payment of $12.2m from the Crown in respect of realized losses in the 2017/18 year arising from pre 1 July 2021 policies. HBCF expect to receive ongoing funding from the NSW Government post 1 July 2021 until all losses incurred before the establishment of risk-based premium rates which achieve full cost recovery are recovered.

END OF AUDITED FINANCIAL STATEMENTS

Workers Insurance

Workers Insurance Financial statements

for the year ended 30 June 2019

Contents

Notes to the financial statements

finity

Actuarial and Insurance Consultants

Actuarial Certificate
Outstanding Claims Liabilities at 30 June 2019

Finity Consulting Pty Ltd (Finity) has been requested by Insurance & Care NSW (icare) to estimate the outstanding claims liabilities of the NSW Workers Compensation Nominal Insurer (the Nominal Insurer) as at 30 June 2019.

Data

Finity has relied on the completeness and accuracy of the data provided by icare for this valuation. We have not independently audited the data however we did review material aspects of the data for reasonableness and internal consistency. The accuracy of our results is dependent on the accuracy and completeness of the underlying data.

Basis of our Estimates

The outstanding claims estimates we provided were prepared on a central estimate basis; the assumptions have been selected such that our estimates of these liabilities contain no deliberate overstatement or understatement. The central estimate is intended to be a mean of the distribution of possible outcomes. The central estimate is net of expected recoveries and contains an allowance for claims handling expenses.

The estimates have been discounted using a risk free discount rate, to allow for the time value of money.

The total provision includes a risk margin of 15.1%. This has been added to the net outstanding claims central estimate in order to provide a probability of adequacy of 80%.

The estimates were prepared in accordance with accounting standard AASB 1023.

Valuation Results

The components of the Outstanding Claims Liability (including risk margin) are shown in Table 1.

Table 1 – Outstanding Claims Liability at 30 June 2019

	$m
Central Estimate	
Gross	14,338
Recoveries	(270)
Net Central Estimate	14,067
Risk Margin	2,124
Provision	**16,192**

It is a decision for icare to determine the amount adopted in the accounts.

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Finity Consulting Pty Limited ABN 89 111 470 270 finity.com.au / finityconsulting.co.nz

finity
Actuarial and Insurance Consultants

Uncertainty

There is considerable uncertainty in the projected outcomes of future claims costs, particularly for long tail claims, where payments are expected to occur many decades into the future; it is not possible to value or project long tail claims with certainty.

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

Key sources of uncertainty in the valuation include uncertainty regarding the number of claims that will ultimately become eligible for long duration benefits, since it can be many years before a claimant's Whole Person Impairment can be assessed; as well as uncertainty around the average level of payment each claim will receive.

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

Reports

Full details of data, analysis and results for the outstanding claims valuation are documented in our valuation report titled "Insurance Liabilities at 30 June 2019 – NSW Nominal Insurer", dated 6 September 2019.

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

Yours sincerely

Scott Collings

F. Beens

Francis Beens

Fellows of the Institute of Actuaries of Australia
6 September 2019

Statement by the chairman and chief executive officer

for the year ended 30 June 2019

NSW Workers Insurance Scheme
Financial Statements for the year ended 30 June 2019

In the opinion of the Board of Directors:

(a) The financial statements of the NSW Workers Insurance Scheme have been prepared in accordance and comply with Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board;

(b) The financial statements for the year ended 30 June 2019 exhibit a true and fair view of the position and transactions of the NSW Workers Insurance Scheme; and

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

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

Michael Carapiet
Chairman/Director
Insurance and Care NSW
23 September 2019

John Nagle
Chief Executive Officer and
Managing Director
NSW Workers Insurance Scheme and Insurance and Care NSW
23 September 2019

INDEPENDENT AUDITOR'S REPORT

Workers Compensation Nominal Insurer

(trading as the NSW Workers Insurance Scheme)

To Members of the New South Wales Parliament

Opinion

I have audited the accompanying financial statements of the Workers Compensation Nominal Insurer (the Scheme), which comprise the Statement of Comprehensive Income for the year ended 30 June 2019, the Statement of Financial Position as at 30 June 2019, the Statement of Changes in Equity and the Statement of Cash Flows for the year then ended, and notes comprising 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 2019, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards
- are in accordance with section 41B of the *Public Finance and Audit Act 1983* (PF&A Act) and the Public Finance and Audit Regulation 2015.

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

Basis for Opinion

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

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

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

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

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

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

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

Level 19, Darling Park Tower 2, 201 Sussex Street, Sydney NSW 2000
GPO Box 12, Sydney NSW 2001 | **t** 02 9275 7101 | **f** 02 9275 7179 | mail@audit.nsw.gov.au | audit.nsw.gov.au

Other Information

The Scheme's annual report for the year ended 30 June 2019 includes other information in addition to the financial statements and my Independent Auditor's Report thereon. The Directors of Insurance and Care NSW, acting for the Scheme, are responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprises the Statement by the Chairman and Chief Executive Officer.

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

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

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

I have nothing to report in this regard.

The Board's Responsibilities for the Financial Statements

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

In preparing the financial statements, the Board of Directors are responsible for assessing the Scheme's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting, unless it is not appropriate to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to:

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

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

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

My opinion does *not* provide assurance:

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

D Daniels

David Daniels
Director, Financial Audit Services

Delegate of the Auditor-General for New South Wales

27 September 2019
SYDNEY

Statement of comprehensive income

for the year ended 30 June 2019

	Notes	2019 $'000	2018 $'000
Gross Written Premium		2,586,019	2,332,713
Unearned premium movement		(64,890)	(6,989)
Gross earned premium		2,521,129	2,325,724
Hindsight adjustments		18,257	10,766
Net Earned premiums (a)	2.1	2,539,386	2,336,490
Gross Claims expense		(4,064,971)	(2,271,399)
Recoveries		70,526	74,514
Unexpired risk liability	2.4	(69,318)	(43,867)
Net claims expense (b)	2.2	(4,063,763)	(2,240,752)
Underwriting and other expenses (c)	2.5	(866,560)	(856,017)
Underwriting result (a+b+c)		**(2,390,937)**	**(760,279)**
Investment income		1,663,034	966,250
Investment management expense		(16,016)	(17,492)
Net investment revenue	3.1	1,647,018	948,758
Transformation expenses	2.5	(158,596)	(129,835)
Other income		26,779	30,299
Net Result		**(875,736)**	**88,943**
Other Comprehensive Income			
Items that will not be reclassified to net result		-	-
Items that may be reclassified to net result		-	-
Total Comprehensive Income		**(875,736)**	**88,943**

The accompanying notes form part of these financial statements.

Statement of financial position

as at 30 June 2019

	Notes	2019 $'000	2018 $'000
Assets			
Cash and cash equivalents	5.1	340,043	181,304
Investments	3.2	17,657,463	16,979,609
Trade and other receivables	2.6	830,500	865,755
Recoveries receivable	2.3.1	311,103	312,758
Prepayments and other assets		65,095	58,348
Intangible assets	5.2	128,663	82,704
Total assets		**19,332,867**	**18,480,478**
Liabilities			
Bank overdraft	5.1	7,598	5,540
Investment liabilities	3.2	238,133	552,707
Trade and other payables	2.7	192,412	153,611
Unearned premiums	2.4	555,589	490,699
Outstanding claims	2.3.1	16,502,677	14,636,869
Unexpired risk liability	2.4	187,255	117,937
Security deposits	5.4	71,002	69,178
Restoration provisions		-	-
Total liabilities		**17,754,666**	**16,026,541**
Net assets		**1,578,201**	**2,453,937**
Equity			
Accumulated funds		**1,578,201**	**2,453,937**

The accompanying notes form part of these financial statements

Statement of changes in equity

for the year ended 30 June 2019

	2019 $'000	2018 $'000
Accumulated funds		
Balance at the beginning of financial year (1 July)	2,453,937	2,364,994
Net Result for the year	(875,736)	88,943
Other Comprehensive Income	-	-
Total Comprehensive Income	**(875,736)**	**88,943**
Transactions with owners in their capacity as owners	-	-
Balance at the end of the financial year (30 June)	**1,578,201**	**2,453,937**

The accompanying notes form part of these financial statements.

Statement of cash flows

for the year ended 30 June 2019

	Notes	2019 $'000	2018 $'000
Cash flows from operating activities			
Premiums received		2,507,691	2,146,826
Recoveries received		72,364	66,270
Claims paid		(2,192,994)	(1,961,562)
Total Premiums/Recoveries less claims		**387,061**	**251,534**
Receipts			
Proceeds from sale of investments		38,681,124	27,741,235
Investment returns received		385,420	542,915
Security deposits received		5,508	13,005
Other receipts		25,157	29,039
Total Receipts		**39,097,209**	**28,326,194**
Payments			
Payments for investments		(38,264,330)	(27,691,603)
Security deposits paid		(9,516)	(23,776)
Service fees		(412,746)	(474,549)
Statutory levies paid		(302,139)	(279,249)
Other payments		(276,410)	(216,655)
Total Payments		**(39,265,141)**	**(28,685,832)**
Net cash flows from operating activities	5.1	**219,129**	**(108,104)**
Cash flows from Investing activities			
Purchases of intangible assets		(62,448)	(50,444)
Net cash flows from investing activities		**(62,448)**	**(50,444)**
Net increase/(decrease) in cash and cash equivalents		**156,681**	**(158,548)**
Cash and cash equivalents at the beginning of the financial year		175,764	334,312
Cash and cash equivalents at the end of the financial year	**5.1**	**332,445**	**175,764**

The accompanying notes form part of these financial statements.

Notes of financial statements

for the year ended 30 June 2019

1. Overview

1.1. About the Scheme

The NSW Workers Insurance Scheme is a not-for-profit entity that operates as a licensed workers compensation insurer and trades under the registered business name of "NSW Workers Insurance Scheme" (the Scheme). The Nominal Insurer is established under the *Workers Compensation Act 1987* and was created on 18 February 2005 by the Workers Compensation Amendment (Insurance Reform) Act 2003. It commenced operations on 1 July 2005. Under the State Insurance & Care Governance Act 2015, Insurance & Care NSW (icare) acts for the Nominal Insurer in accordance with section 154C of the Workers Compensation Act 1987.

The Scheme's financial statements include the Workers Compensation Insurance Fund (Insurance Fund) that holds premiums and all other funds received and is used to meet the Scheme's liabilities.

They also include icare Support Solutions which is an Australian proprietary limited company established in November 2017. icare Support Solutions Pty Ltd. has been appointed as a Scheme Agent of the Nominal Insurer to facilitate the enhanced delivery of claims management services to injured workers and employers. These services are delivered through contractual arrangements it has with providers, who are remunerated directly via icare and make claims payments direct from the Workers Compensation Insurance Fund. Accordingly, no financial transactions are made via icare Support Solutions.

The Act states that the Nominal Insurer is not and does not represent NSW (the state) or any authority of the state. The insurance claim liabilities of the Nominal Insurer can only be satisfied from the Insurance Fund and are not liabilities of the State, icare or any other authority of the State.

The Scheme is not consolidated as part of the NSW Total State Sector Accounts or icare accounts. icare provides services to the Scheme.

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

The financial statements for the year ended 30 June 2019 have been authorised for issue by the Chairman of the Board of icare and the Chief Executive Officer and Managing Director of the Scheme on behalf of the Board of Directors of icare on 23 September 2019.

1.2. About this report

This Financial Report includes the consolidated financial statements of the Scheme and controlled subsidiaries.

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

to assist users in their understanding of the financial statements:

1. **Overview** contains information that impacts the Financial Report as a whole.
2. **Underwriting** activities brings together results and Statement of financial position disclosures relevant to the Scheme's insurance activities.
3. **Investment activities** includes results and Statement of financial position disclosures relevant to the Scheme's investments.
4. **Risk management** provides commentary on the Scheme's exposure to various financial and capital risks, explaining the potential impact on the results and Statement of financial position and how the Scheme manages these risks.

Notes of financial statements

for the year ended 30 June 2019

1.2 About this report (continued)

5. **Other** includes additional disclosures required in order to comply with Australian Accounting Standards.

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

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

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

Information is considered material and relevant if:

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

1.2.1. Basis of preparation

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

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

1.2.2. Functional and presentation currency and rounding

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

Tables may not add in all instances due to rounding.

1.2.3. Use of estimates and judgements

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

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

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

- Note 3 & 4 – Investments;
- Note 2.4- Unearned premiums and unexpired risk liability; and
- Note 2.3 – Net outstanding claims.

Notes of financial statements

for the year ended 30 June 2019

1.2.4. Taxation

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the Statement of Financial Position.

Cash flows are presented on a gross basis in the statement of cash flows.

The Australian Taxation Office has issued Private Rulings that the income of the Workers Compensation Nominal Insurer is not assessable income and that the Workers Compensation Insurance Fund is exempt from income tax from when these entities were established in 2005 to June 2022. Management have considered whether it is likely a taxable position post June 2022 is likely, and concluded that the exemption will be sought post this date.

1.2.5. Comparative information

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

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

1.2.6. Accounting Standards issued but not yet effective

Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the reporting period ending 30 June 2019. The following new Standards will not have a material impact on the financial performance or position of the Scheme:

- AASB 15, AASB 2014-5, AASB 2015-8 and AASB 2016-3 regarding *Revenue from Contracts with Customers*;
- AASB 16 regarding *Leases*;
- AASB 1058 *Income of Not-for-profit Entities*;
- AASB 2016-8 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities;
- AASB 2017-1 Amendments to Australian Accounting Standards – Transfer of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments; and
- AASB 2018-1 Amendments to Australian Accounting Standards – Annual improvements 2015-2017 cycle.

Notes of financial statements

for the year ended 30 June 2019

1.2.6. Accounting Standards issued but not yet effective (continued)

In relation to certain new accounting standards and interpretations that have been published that are not mandatory for 30 June 2019 reporting period. the following information on their impact is provided:

- AASB 15 *Revenue from Contracts with Customers*, AASB 2014-5 *Amendments to Australian Accounting Standards* arising from AASB 15 and AASB 1058 *Income of Not-for-Profits*
  - AASB 15 Revenue from Contracts with Customers (AASB 15) is effective for reporting periods commencing on or after 1 January 2019. AASB 15 establishes a five-step model to account for revenue arising from contracts with customers. Revenue is recognised when control of goods or services is transferred to the customer at amounts that reflect the consideration to which the Scheme expects to be entitled in exchange for transferring the goods or services to the customer. Under AASB 118 Revenue (AASB 118), revenue recognition is currently based on when risks and rewards are transferred.
  - AASB 1058 Income of Not-for-Profits (AASB 1058) is effective for reporting periods commencing on or after 1 January 2019 and will replace most of the existing requirements in AASB 1004 Contributions (AASB 1004). The scope of AASB 1004 is now limited mainly to parliamentary appropriations, administrative arrangements and contributions by owners. Under AASB 1058, The Scheme will need to determine whether a transaction is consideration received below fair value principally to enable the Scheme to further its objectives (accounted for under AASB 1058) or a revenue contract with a customer (accounted for under AASB 15).
  - The standards will result in the identification of separate performance obligations that will not change the timing of recognition for some revenues, including revenues relating to sales of goods and services and specific purpose grants and subsidies.
  - Under AASB 1058, the Scheme will recognise as liabilities, obligations for funding received where there is an obligation to construct recognisable non-financial assets controlled by the Scheme. AASB 1058 will not have any impact on the Scheme because it does not receive this type of funding.
  - The Scheme will adopt AASB 15 and AASB 1058 on 1 July 2019 through application of the full retrospective transition approach. Recognition and measurement principles of the new standards will be applied for the current year and comparative year as though AASB 15 and AASB 1058 had always applied.
  - The impacts to balances resulting from the adoption of AASB 15 and AASB 1058 have been assessed by the Scheme as not being significant.

Notes of financial statements

for the year ended 30 June 2019

- AASB 16 *Leases*
  - AASB 16 Leases (AASB 16) is effective from reporting periods commencing on or after 1 January 2019.
  - For lessees, AASB 16 will result in most leases being recognised on the Statement of Financial Position, as the distinction between operating and finance leases is largely removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised at the commencement of the lease. The only exceptions are short-term and low-value leases. AASB 16 will therefore increase assets and liabilities reported on the Statement of Financial Position. It will also increase depreciation and interest expenses and reduce operating lease rental expenses on the Statement of Comprehensive Income. Expenses recognised in the earlier years of the lease term will be higher as the interest charges will be calculated on a larger lease liability balance. Existing finance leases are not expected to be significantly impacted from the transition to AASB 16.
  - The Scheme will adopt AASB 16 on 1 July 2019 through application of the partial retrospective approach, where only the current year is adjusted as though AASB 16 had always applied. Comparative information will not be restated. The Scheme will also adopt the practical expedient whereby the fair value of the right-of use asset will be the same as the lease liability at 1 July 2019.
  - Based on the impact assessments the Scheme has undertaken on currently available information, the Scheme estimates additional lease liabilities of $19.5 million and right-of-use assets of $19.5 million will be recognised as at 1 July 2019 for leases in which icare is a lessee. Most operating lease expenses will be replaced by depreciation of the right of use asset and interest on the lease liability. The impact on the statement of comprehensive income is expected to be immaterial

- AASB 9 *Financial Instruments*

  AASB 9 Financial Instruments replaces AASB 139 Financial Instruments: Recognition and Measurement and is effective for the Scheme from 1 July 2018.

  The standard makes changes to the classification of financial assets for the purpose of determining their measurement basis, as well as the recognition of changes in fair value. The standard replaces the incurred loss model of AASB 139 with a new expected loss model which can result in the acceleration of impairment recognition on financial instruments.

  The standard requires the Scheme to account for expected credit losses on financial instruments at the point at which the financial instruments are first recognised and to estimate the expected loss applicable to those financial instruments over the period for which they are held. This requirement can result in expected losses on financial instruments being recognised in full much earlier than would have been the case under AASB 139. The Scheme has performed an assessment and concluded that no transitional adjustments were required as a result of complying with the new requirements. The majority of the Scheme's assets are already measured at fair value through profit and loss as required by AASB 1023 General Insurance Contracts and as permitted under both AASB 1023 and AASB 9.

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

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2. Underwriting activities

Overview

This section provides analysis and commentary on the Scheme's underwriting activities. Underwriting, in simple terms, is the agreement by the insurer to assume insurance risk in return for a premium paid by the insured. The underwriter assesses the quality of the risk and prices it accordingly.

2.1. Revenue

Revenue mainly comprises premiums charged for providing insurance coverage. Premiums are classified as either:

- Written premium relates to amounts charged to policy holders on premiums written in the current financial year. Premiums received and receivable is recognised as written premium in the Statement of Comprehensive Income from the date of attachment of risk. The pattern of recognition over the policy periods is based on time, which is considered to approximate the pattern of risks underwritten;
- The earned portion of premium on unclosed business, being business that is written at the balance date but for which detailed policy information is not yet booked, is also included in written premium; or
- Hindsight adjustments relate to premium on adjustments made to policies mainly written in previous financial years. As the period of the risk for these policies has expired, earnings on hindsight adjustments are generally recognised in full in the current financial year.

	2019 $'000	2018 $'000
Written premium on closed business	2,558,363	2,272,432
Written premium on unclosed business	27,653	60,281
Gross written premium	2,586,016	2,332,713
Hindsight adjustments	18,257	10,766
Unearned premium movement	(64,890)	(6,989)
Net earned premium	2,539,383	2,336,490

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2.2. Net Claims expense

The largest expense for the Scheme is net claims, which is the difference between the net outstanding claims liability (Note 2.3) at the beginning and the end of the financial year plus any claims incurred and settled in the financial year and the movement in the unexpired risk liability

Claims incurred is:

- the amount incurred on claims by the Scheme during the year;
- plus the amount, which the reserving actuary has estimated as at 30 June 2019 as being the movement in the amount required to meet the cost of claims reported but not yet paid;
- claims incurred which are yet to be reported and where the event giving rise to the claim occurred before the balance date;
- the escalation in reported and reopened claims; and
- Recoveries receivable on paid claims, reported claims not yet paid and claims incurred but not yet reported are recognised as revenue. Recoveries receivable are estimated at the inflated and discounted values of the expected future receipts, calculated on the same basis as the liability for outstanding claims. Recoveries revenue is recognised as the movement of recoveries receivable (Note 2.6), which are based on estimates provided by icare's reserving actuary, Finity. Pricewaterhouse Coopers(PwC) have peer reviewed these estimates and support the conclusions of Finity.

Recoveries relate principally to amounts that the reserving actuaries estimate can be recovered from an employer's tax and CTP insurers. These recoveries relate to amounts already incurred on a claim or amounts estimated to be recovered from the estimated claim liabilities.

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2.2 Net Claims expense (continued)

	2019 $'000	2018 $'000
Claims and related expenses	2,199,164	1,961,194
Finance costs	241,931	202,317
Other movements in claims liabilities (refer note 2.3.1)	1,623,876	107,888
Gross claims expense	4,064,971	2,271,399
Recoveries revenue	(70,526)	(74,514)
Movement in unexpired risk liability	69,318	43,867
Net claims expense	**4,063,763**	**2,240,752**
Analysed as follows:		
Movement in net discounted central estimate gross claims	3,763,142	2,335,272
Movement in net discounted claims handling expenses	57,052	(50,680)
Movement in net discounted risk margin	244,777	(13,193)
Recoveries	(70,526)	(74,514)
Movement in unexpired risk liability	69,318	43,867
Net claims expense	**4,063,763**	**2,240,752**

	Current accident year $M	Prior accident year $M	2019 Total $M	2018 Total $M
Gross claims incurred & related expenses – undiscounted	3,727	(1,565)	2,162	1,657
Other recoveries – undiscounted	(83)	27	(56)	(73)
Net claims incurred – undiscounted	**3,644**	**(1,538)**	**2,106**	**1,584**
Discount & discount movement – gross claims incurred	(402)	2,303	1,901	608
Discount & discount movement – other recoveries	4	(18)	(14)	2
Net discount movement	**(398)**	**2,285**	**1,887**	**610**
Net claims incurred	**3,246**	**747**	**3,993**	**2,194**

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2.3. Net Outstanding claims liability

Overview

The net outstanding claims liability comprises the elements described below:

- The net central estimate (note 2.3.1) This is the provision for expected future claims payments and includes claims reported but not yet paid, claims incurred but which have not yet been reported (IBNR), claims incurred but not enough reported (known as IBNER) and estimated claims handling costs;
- Less an amount to reflect the discount to present value using risk-free rates of return. The net central estimate is discounted to present value recognising that the claim and/or recovery may not be settled for some time. The discount rate represents a risk-free rate derived from market yields on Commonwealth government bonds; and
- Plus a risk margin (note 2.3.2). A risk margin is added to reflect the inherent uncertainty in the net discounted central estimate of outstanding claims and increase the probability that the reserves will ultimately turn out to be adequate.

The Workers Compensation Legislation Amendment Act 2012 has resulted in claim payments being closely aligned to the pre-injury average weekly earnings of injured workers. Projected inflation factors take into account a number of relevant factors determined by the actuaries relating to future claims levels. The expected future payments are then discounted to a value at the end of the reporting period using rates of interest, which use appropriate risk-free discount rates, consistent with Australian Accounting Standard AASB 1023 General Insurance Contracts. Details of inflation and discount rates applied are included in Note 2.3.3.

The determination of the amounts that the Scheme will ultimately pay for claims arising under insurance contracts involves a number of critical assumptions. Whilst the valuation actuaries have employed techniques and assumptions that are appropriate, it should be recognised that future claim development is likely to deviate, perhaps materially, from their estimates.

Some of the uncertainties impacting these assumptions are as follows:

- Behavioral impacts – The reforms could lead to significant behavioral changes in claimants' pursuit of particular benefit types. It is not always possible to incorporate these impacts with accuracy and hence limited allowance for behavioral impacts has been made;
- Honeymoon and slippage – Following most legislative reforms, there is usually a "honeymoon" period, where experience remains favourable over the short term as scheme participants and their representatives take time to understand how the reforms work. However, as they have a better understanding of how the new reforms work, they will begin to fully utilise scheme benefits and experience may turn. The reserving actuaries have allowed for any impact of honeymoon and slippage in their estimate only once it can be estimated;
- Effectiveness of implementation – The ultimate financial impact of the reforms will depend heavily on how effectively the reforms are implemented. A particular risk is if Whole Person Impairment outcomes differ from that assumed; and
- Model risk – there is always the risk that a model will not capture important aspects of reality. As only a short period of time has elapsed since the reforms relative to the durations injured workers remain on benefits. There is relatively little post-reform experience to analyse.
- The medical inflation for the Nominal Insurers has been increasing at a higher rate than economic inflation. The outstanding claims liability valuation has allowed for this medical inflation but there is uncertainty on the projected future medical inflation. Deviations from the valuation actuaries' assumption may materially change the outstanding claims liability.

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2.3.1. Discounted net outstanding claims

Overview

The overall outstanding claims liability of the Scheme is calculated by the reserving actuary using a range of recognised, actuarial methods, appropriate for the characteristics of the various types of claim liability under scrutiny. The expected future payments are estimated on the basis of the ultimate cost of settling claims (including claims handling expenses) which is affected by factors arising during the period to settlement.

The provision for claims handling expenses is calculated as a percentage of the gross outstanding claims central estimate to recognize the ultimate expense of managing outstanding claims until they are finalized and closed. The percentage for claims handling expenses is 8.2 per cent. (2018 8.75 per cent).

	2019 $'000	2018 $'000
Claims liabilities		
Expected future gross claims payments	17,429,929	17,063,876
Gross claims handling	1,308,210	1,410,141
Gross risk margin	2,829,459	2,789,576
Gross outstanding claims liabilities	21,567,598	21,263,593
Discount on central estimate	(4,171,865)	(5,369,790)
Discount on claims handling expenses	(228,588)	(387,572)
Discount on risk margin	(664,468)	(869,362)
Total discount on claims liabilities	(5,064,921)	(6,626,724)
Claims liabilities 30 June	**16,502,677**	**14,636,869**
Recoveries		
Expected future actuarial assessment of recoveries	344,326	355,947
Discount to present value	(33,223)	(43,189)
Discounted actuarial assessment of recoveries	**311,103**	**312,758**
Net outstanding claims	**16,191,574**	**14,324,111**

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2.3.1 Discounted net outstanding claims (continued)

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

Movement in claim liabilities and recoveries

	2019 $'000	2018 $'000
Net claims liabilities		
Opening balance	14,324,111	14,020,827
Discount unwind	241,931	202,317
Expected claim payments (prior years only)	(1,520,538)	(1,541,147)
CHE on expected claim payments (prior years only)	(138,748)	(130,600)
Release of Risk Margin on claim payments (prior years only)	(250,552)	(252,434)
Adjustment arising from change in (prior years only):		
- Actuarial assumptions*	(223,938)	(308,025)
- Discount/inflation rates	947,230	64,889
- Risk margins	-	(53,205)
Net outstanding claims in current year	2,812,078	2,321,489
Net outstanding claims	**16,191,574**	**14,324,111**
Breakdown of Actuarial assumptions*		
Actual vs Expected Payments	(167,063)	(4,549)
Change in experience	367,302	(402,776)
Change in actuarial assumptions	(281,339)	212,866
Change in CHE	(142,838)	(113,560)
Balancing item	-	(6)

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2.3.2. Risk Margin

Overview

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

The risk margin and the net discounted central estimate are key inputs in the determination of the probability of adequacy that the outstanding claims liability provision will ultimately turn out to be adequate. The probability of adequacy is a statistical measure of the relative adequacy of the outstanding claims liability to ultimately be able to pay claims in respect of accidents up to and including the balance date. For example, a 80% probability of adequacy indicates that the net discounted provision is expected to be adequate eight times out of 10.

The adopted probability of adequacy for the Scheme for 2019 is 80 per cent (2018 80 per cent). The reserving actuary has assessed this requires a risk margin of 15.1 per cent (2018 15.1 per cent) or a discounted $2.2 billion (2018 $1.9 billion).

In arriving at this decision on the probability of adequacy required the legislative provisions to set and retrospectively adjust premiums, and employers being required to fund any deficit as part of future premiums were taken into account.

2.3.3. Economic assumptions

Overview

Two of the core variables that drive the Schemes liabilities are the inflation rate for benefits and the discount rate applied to the liabilities to reflect the earnings on Scheme investments. Income support benefits to injured workers are indexed half yearly while other payments such as medical costs are considered to increase at least in line with inflation.

Income support benefits are based on workers average weekly earnings. For claims incurred prior to 1 October 2012 income support benefits are indexed to the Labour Price Index (LPI), while claims incurred after that date are indexed to the Consumer Price Index (CPI). Other Scheme costs continue to align with movements in the LPI.

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

	2019 %p.a.	2018 %p.a.
For the first succeeding year		
Inflation rate		
LPI	2.33	2.39
CPI	1.83	2.36
Discount rate	1.00	1.95
For subsequent years		
Inflation rate		
LPI	0.80-3.00	1.80-3.30
CPI	0.30-2.30	0.80-2.42
Discount rate	0.89-4.50	2.04-4.50

The weighted average discounted expected term from the balance date to settlement of the outstanding claims is estimated to be 8.9 years (2018: 8.9 years).

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2.3.4. Claims liability maturity

Overview

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

	2019 $'000	2018 $'000
Outstanding claims net of recoveries maturing:		
Within 1 year	2,294,876	1,946,080
2 to 5 years	5,500,159	4,812,787
More than 5 years	8,396,539	7,565,244
	16,191,574	**14,324,111**

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

Overview

The impact of changes in key variables is summarised in the table below. Sensitivity analysis is conducted by the reserving actuaries on each variable to measure the change in outstanding claims liability estimate that would result from a change in the assumptions whilst holding all other variables constant.

Variable	Movement in Variable %	2019 Impact on All Durations		2019 Impact with fixed gap beyond 10 years		2018 Impact with fixed gap beyond 10 years	
		Profit/(Loss) $'000	Liabilities $'000	Profit/(Loss) $'000	Liabilities $'000	Profit/(Loss) $'000	Liabilities $M
Inflation	+1	(1,562,168)	1,562,168	(752,624)	752,624	(666,482)	666,482
Rate	-1	1,298,764	(1,298,764)	714,630	(714,630)	632,729	(632,729)
Discount	+1	1,285,676	(1,285,676)	703,707	(703,707)	618,234	(618,234)
Rate	-1	(1,570,628)	1,570,628	(755,597)	755,597	(663,047)	663,047

2.3.6. Claims development

Overview

The Scheme provides ongoing income support benefits to injured workers who are unable to return to pre-injury levels of work up to retirement age, (or if injured after retirement age one year after the date of claim). This results in a significant portion of Scheme liabilities relating to accidents from past years that will be settled in future years.

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Under the 2012 reforms the maximum number of years an injured worker who is not seriously injured can remain on income support benefits is 5 years, with medical benefits to continue for a year after the weekly benefits end. The 2015 reforms changed the medical benefit cap from 1 year to 2 or 5 years depending on the severity of the injury.

The following table shows the development of undiscounted net outstanding claims relative to the ultimate expected claims for the most recent accident years for the Nominal Insurer.

Accident year	2010 & prior $'m	2011 $'m	2012 $'m	2013 $'m	2014 $'m	2015 $'m	2016 $'m	2017 $'m	2018 $'m	2019 $'m	Total $'m
Estimate of ultimate claims cost											
At end of accident year	3,635	4,047	3,361	3,326	2,610	2,506	2,482	2,515	2,790	2,965	
One year later	3,403	2,926	3,278	2,368	2,338	2,409	2,357	2,638	3,010		
Two years later	2,617	3,130	2,720	2,233	2,345	2,075	2,391	2,567			
Three years later	2,813	2,728	2,337	2,131	2,129	2,124	2,279				
Four years later	2,480	2,473	2,222	1,984	2,091	1,981					
Five years later	2,251	2,368	2,033	1,885	1,919						
Six years later	2,157	2,256	1,976	1,737							
Seven years later	2,024	2,109	1,855								
Eight years later	1,996	2,022									
Nine years later	1,904										
Ten years and later											
Current estimate of cumulative claims cost	**1,904**	**2,022**	**1,855**	**1,737**	**1,919**	**1,981**	**2,279**	**2,567**	**3,010**	**2,965**	**22,239**
Cumulative payments											**(10,887)**
Outstanding claims – undiscounted											**11,352**
Discount											(1,925)
2010 and prior											3,561
Claims handling expenses											1,080
Net Outstanding claims excluding risk margin											**14,068**
Risk Margin											2,124
Final Net Outstanding claims including risk margin											**16,192**

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The table above shows that the estimated undiscounted net outstanding claims tends to reduce as the years past. The main drivers are the 2012 legislative reforms and claims experience more favourable than the actuarial valuation assumptions. For the more recent accident years, the increases have been driven by valuation strengthening in response to the high medical inflation experienced in the Nominal Insurer's portfolio.

2.4. Unearned premium and unexpired risk liability

Overview

Unearned premium

Gross written premium is earned in profit or loss in accordance with the pattern of incidence of risk in the related business. The unearned premium liability is that portion of gross written premium that the Scheme has not yet earned in profit or loss as it represents insurance coverage to be provided by the Scheme after the balance date.

Unexpired risk liability

At the reporting date, a liability adequacy test (LAT) is performed by the Scheme reserving actuary. At the balance date, the Scheme recognises a liability in respect of outstanding claims and assesses the adequacy of its unearned premium liability. As required under AASB 1023 General Insurance Contracts, a Liability Adequacy Test (LAT) is undertaken to determine the adequacy of the unearned premium liability against current estimates of the present value of the expected future cash flows relating to future claims arising from the rights and obligations under current insurance contracts.

	2019 $'000	2018 $'000
Unearned premium income	555,589	490,699
Unexpired risk liability	187,255	117,937
	742,844	**608,636**
(a) Unexpired risk liability		
Unexpired risk liability as at 1 July	117,937	91,007
Movement in the unexpired risk liability recognised in the Statement of Comprehensive Income	69,318	26,930
Unexpired risk liability at 30 June	**187,255**	**117,937**
(b) Calculation of unexpired risk liability		
Unearned premium liability **(A)**	555,589	490,699
Central estimate of the present value of expected future cash flows arising from future claims on contracts issued	653,337	535,299
Risk Margin (80% Probability of Sufficiency)	89,507	73,337
(B)	**742,844**	**608,636**
Unexpired risk liability (B)-(A) (zero minimum)	**187,255**	**117,937**

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The process for determining the overall risk margin is discussed in Note 2.3.2. As with the outstanding claims, the overall risk margin is intended to achieve an 80% probability of adequacy for the premium liability.

2.5. Underwriting, transformation and other expenses

Overview

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

	2019 $'000	2018 $'000
Statutory levies:		
State Insurance Regulatory Authority (SIRA)	236,175	220,604
Dust Diseases Authority	57,939	50,838
Department of Primary Industries – Mine Safety Levy	8,025	7,807
Total Statutory levies (a)	**302,139**	**279,249**
Service fees (b)	452,108	436,556
Auditor's remuneration for audit of the financial statements	385	281
Auditor's remuneration other	2,144	2,075
Bad debts written off	44,854	22,140
Labour costs	37,351	32,592
Debt collection fees	8,038	9,829
Impairment of trade and other receivables	(30,530)	52,102
Interest expense	241	187
Operating lease expenses	61	44
Wage audit fees	1,859	3,040
Amortisation expense	16,489	-
Other	31,421	17,922
Underwriting and other expenses	**866,560**	**856,017**
Transformation expenses (c)	158,596	129,835
Total underwriting, transformation and other expenses	**1,025,156**	**985,852**

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2.5 Underwriting and other expenses (continued)

(a) Statutory levies

In accordance with the State Insurance and Care Governance Act 2015 on 1 September 2015 structural changes to the NSW Workers Compensation System and related agencies were implemented.
The Act established four discrete agencies:

- Insurance and Care NSW (icare), a single insurance and care service provider;
- State Insurance Regulatory Authority (SIRA), an independent insurance regulator;
- SafeWork NSW, an independent workplace safety regulator; and
- Sporting Injuries Compensation Authority, an entity to manage the Sporting Injuries Compensation Scheme.

The payment of Statutory Levies was changed from 1 September 2015 to reflect the structural changes of the Act.

(b) Service fees

Service fees

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

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

As the Scheme is engaged in transformation, the skills and expertise of contractors are used where appropriate to deliver improved outcomes to customers.

(c) Transformation expenses

2018-19 is the third year of icare's three-year strategy and delivered the following major programs of work for the NI: the development of our Guidewire Claims System build, transition claims on to the new system, improvements to our policy and billing systems. Additionally, projects to continue to build icare's corporate technology, human resources, and data & analytics capability were key to 2018-19.

Transformation costs include system build costs and scheme agent costs relating to the transition to icare.

2.6. Trade and other receivables

Overview

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

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

Trade and other receivables are principally amounts owed to the Scheme by policyholders or on investments. Unclosed premium receivables are estimated amounts due to the Scheme in relation to business for which the Scheme is on risk but where the policy is not billed to the counterparty at the balance date.

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2.6 Trade and other receivables (continued)

Investment receivables are amounts due from investment counterparties in settlement of transactions.

	2019 $'000	2018 $'000
Premiums receivable (i)	732,965	653,454
Other receivables	19,832	33,517
Investment receivables (refer note 3.2)	134,392	266,003
Less: allowance for expected credit losses (refer note 2.6)	(56,689)	(87,219)
Total trade and other receivables	**830,500**	**865,755**

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

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

(a) **Status of trade receivables**

Collectability of trade receivables is reviewed on an ongoing basis. Where receivables are outstanding beyond the normal trading terms, management assesses the likelihood of the recovery of these receivables. Individual debts that are known to be uncollectible are written off directly to the Statement of Comprehensive Income when identified.

An impairment allowance is recognised when there is evidence that the Scheme is unlikely to collect the receivable.

(b) **Allowance for impairment status of receivables**

At 30 June, the impairment allowance is increased or decreased based on an assessment of the likelihood of recovery of individual receivables.

Apart from a limited number of industries covered by specialised insurance arrangements, all employers in New South Wales are able to take out a worker's compensation insurance policy with the Scheme. Accordingly, the credit quality of these debts is viewed as the average of the credit quality of employers in the State.

Reconciliation of allowance for impairment – receivables

	2019 $'000	2018 $'000
Allowance for impairment as at 1 July	87,219	35,117
Increase/(decrease) to allowance for impairment	(30,530)	52,102
Allowance for impairment as at 30 June	**56,689**	**87,219**

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2.6 Trade and other receivables (continued)

Ageing of receivables

Where credit terms have been re-negotiated, the date that the premium debt was incurred remains unchanged. Consequently, ageing of premium debts applies from the date that the debt was incurred and not from the date of renegotiation.

	Total $'000	Past due but not impaired $'000	Considered impaired $'000
2019			
Within normal terms	432,714	-	-
Less than 3 months overdue	104,540	98,142	6,398
3 months to 6 months overdue	56,088	52,399	3,689
Greater than 6 months overdue	159,455	112,853	46,602
	752,797	**263,394**	**56,689**

	Total $'000	Past due but not impaired $'000	Considered impaired $'000
2018			
Within normal terms	374,097	-	-
Less than 3 months overdue	74,362	69,268	5,094
3 months to 6 months overdue	69,384	62,137	7,247
Greater than 6 months overdue	169,128	94,250	74,878
	686,971	**225,655**	**87,219**

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2.7. Trade and other payables

Overview

Trade and other payables substantially represent liabilities for services provided to the Scheme prior to the end of financial year, which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

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

	2019 $'000	2018 $'000
Service fee payable to icare	84,022	51,444
Goods and Services Tax	25,033	21,181
Pay as you go tax payable	2,482	4,474
Accrued expenses	66,825	42,373
Other	14,050	34,139
Total payables	**192,412**	**153,611**

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

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3. Investment activities

Overview

The main purpose of the Scheme's investments is to fund claim liabilities. Investment policies are put in place with the intention that the net financial assets to outperform the growth in these liabilities.

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

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

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

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Scheme uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. The fair value of interest-rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the Statement of Financial Position date.

Where the fair values of financial assets and financial liabilities recorded on the Statement of Financial Position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible a degree of judgment is required in establishing fair values. The judgments include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives.

Derivatives include interest rate swaps and futures, swaptions, credit default swaps, cross currency swaps and forward foreign currency contracts, and options on interest rates, foreign currencies
and equities.

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

Hedging strategies are determined by icare's Investment and Asset Committee (a sub-Committee of the Board of icare), within the investment strategy for the Scheme. Hedging is conducted at two levels:

- At the overall fund level, where TCorp decides on instruments and transaction parameters. Transactions are implemented in bond options and swaptions by TCorp and equity options by TCorp appointed investment managers; or
- In underlying portfolios, by appointed investment managers who have discretion to implement hedges within mandate boundaries.

The fair values of any derivative financial instruments used for hedging purposes, if any, are disclosed in Note 3.3.

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3.1. Investment income

Overview

Dividends on quoted shares are deemed to accrue when the relevant shareholding becomes ex-dividend/distribution. Differences between the fair values of investments at the end of the reporting period and their fair values at the end of the previous reporting period (or cost of acquisition, if acquired during the reporting period) are recognised as revenue in the Statement of Comprehensive Income.

Fund manager remuneration includes base and incentive fees which are generally paid quarterly.

	2019 $'000	2018 $'000
Net Realised gain/(loss) on sale of investments	193,515	(85,196)
Net Unrealised gain/(loss) on investments	1,097,269	531,074
Dividends/Distributions	144,395	271,882
Interest	243,763	256,896
Other income	(15,908)	(8,406)
Investment income	**1,663,034**	**966,250**
Investment management expense	(16,016)	(17,492)
Net investment revenue	**1,647,018**	**948,758**

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3.2. Investment assets and liabilities

	2019 $'000	2018 $'000
Investment assets		
Indexed and interest-bearing securities	8,536,998	8,182,274
Equities	210,691	91,056
Unit trusts	8,724,742	8,538,492
Derivatives	185,032	167,787
Total Investment assets	**17,657,463**	**16,979,609**
Investment receivables		
Interest, dividends and other investment income receivable	18,928	32,100
Trade proceeds yet to be settled (ii)	102,663	220,690
Margin calls	12,801	13,213
Total Investment receivables (refer note 2.6)	**134,392**	**266,003**
Total Investments	**17,791,855**	**17,245,612**
Investment liabilities		
Derivatives	59,725	51,844
Investment purchases	111,755	434,901
Collateral from Brokers	66,653	65,962
Total Investment liabilities	**238,133**	**552,707**
Net Investments	**17,553,722**	**16,692,905**

3.3. Fair value estimation

Overview

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

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3.3 Fair value estimation (continued)

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

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities. The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets of the Scheme is the current bid price;
- Level 2 – inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices). The fair value of financial instruments that are not traded in an active market (for example unit trusts and over-the-counter derivatives) is determined using valuation techniques. A variety of methods are used which include assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used to estimate fair value for debt securities for disclosure purposes. Evaluations of such securities are based on market data. Vendors utilise evaluated pricing models that vary by asset class and incorporate available trade, bid and other market information and for structured securities, cash flow and when available loan performance data. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the end of the reporting period. These instruments are included in level 2 and comprise debt instruments and derivative financial instruments; and
- Level 3 – inputs for the assets or liabilities that are not based on observable market data. The fair value of financial instruments that are not based on observable market data (for example unlisted property trusts and infrastructure debt) is determined using valuation techniques. The table below sets out information about significant unobservable inputs used at year end in measuring financial instruments categorised as Level 3 in the fair value hierarchy.

	2019				2018			
	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	294,601	8,129,681	112,716	8,536,998	454,642	7,616,230	111,402	8,182,274
Equities	210,691	-	-	210,691	91,039	-	17	91,056
Unit Trusts	-	6,966,077	1,758,665	8,724,742	-	7,189,466	1,349,026	8,538,492
Derivatives	544	184,488	-	185,032	35	167,752	-	167,787
	505,836	**15,280,246**	**1,871,381**	**17,657,463**	**545,716**	**14,973,448**	**1,460,445**	**16,979,609**
Other financial liabilities								
Derivatives	**14,127**	**45,598**	**-**	**59,725**	**18,410**	**33,434**	**-**	**51,844**

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3.3 Fair value estimation (continued)

Type	Description	Valuation technique	Significant unobservable inputs	Range of estimates (weighted avg) for unobservable input	Inter-relationship between significant unobservable inputs and fair value measurement
Unit Trusts	Units in unlisted wholesale property trusts	Adjusted net asset value	Published redemption prices	Lendlease property trusts 2019: $1,270-$2,000 2018: $1,198-$2,042 Other property trusts: 2019: $0.04-$1.94 2018: $0.04-$2.03	An increase in published redemption prices would result in a higher fair value.
Unit Trusts	Units in unlisted infrastructure trusts	Adjusted net asset value	Published redemption prices	2019:$0.91-$1.23 2018: $0.93-$1.12	An increase in published redemption prices would result in a higher fair value
Indexed and Interest Bearing	Private infrastructure debt	Valuations performed by	Discount for lack of marketability	2019: 2.00%-25.0% 2018: 10–20% (15%)	An increase in discount would
Securities		an independent business and debt valuer			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.

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Transfers between levels

The Scheme recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the transfer has occurred. The following table presents the transfers between levels for the year ended 30 June 2019:

	2019 $'000	2018 $'000
Opening balance	1,460,445	1,375,103
Transfers into Level 3	354,187	43,873
Purchases of securities	45,942	7,792
Sale of securities	(37,656)	(28,564)
Investment gains/(loss) (investment income)	48,463	62,241
Closing balance	**1,871,381**	**1,460,445**
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)	**48,463**	**62,241**

3.3.1. Valuation framework

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

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

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3.3.1 Valuation framework (continued)

Where third-party information, such as broker quotes or pricing services, are used to measure fair value, the outsourced service provider assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of accounting standards. This includes:

- Verifying that the broker or pricing service is approved by the Master Custodian of the Workers Compensation Insurance Fund (WCIF) for use in pricing the relevant type of financial instrument;
- Understanding how the fair value has been arrived at and the extent to which it represents actual market transactions;
- When prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement; and
- Where a number of quotes for the same financial instrument have been obtained, how fair value has been determined using those quotes.

Significant valuation issues are reported to the icare Board's Risk, Compliance and Audit Committee.

3.3.2. Financial assets pledged as collateral

Scheme's financial assets pledged as collateral are $nil (2018: $nil), apart from cash held in margin accounts with the brokers/counter parties across various markets for exchange traded derivatives (refer Note 3.2) and for over the counter securities.

Margin accounts for exchange traded derivatives are held by the relevant exchange to keep the derivative position open and are adjusted daily based on the underlying derivatives marked to market. For over the counter securities the Scheme pays cash to the counter party where the trade documents stipulated that collateral is required to be paid. This collateral is adjusted as stipulated by the terms of the trade document based on underlying derivatives marked to market.

Where the Scheme holds collateral, this is held only in cash.

As outlined previously the Scheme closes out its positions prior to maturity or settles positions in cash rather than physical delivery.

3.3.3. Master netting or similar agreements

The Scheme enters into derivative transactions under International Swaps and Derivatives Association (ISDA) master netting agreements. In general, under such agreements the amounts owed by each counterparty on a single day in respect of all transactions outstanding in the same currency are aggregated into a single net amount that is payable by one party to the other. In certain circumstances – e.g. when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is payable in settlement of all transactions.

The ISDA agreements do not meet the criteria for offsetting in the statement of financial position. This is because the Scheme does not have any currently legally enforceable right to offset recognised amounts, as the right to offset is enforceable only on the occurrence of future events such as a default on the bank loans or other credit events.

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3.3.4. Derivatives

The use of derivative financial instruments is governed by the Scheme's policies. The Scheme enters into derivative contracts for the purpose of gaining market and/or duration exposure or offsetting existing risk exposures.

The table on the following page shows the fair value of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of a derivative is measured. The notional amounts are indicative of the exposure of the Scheme to movements in the instrument underlying the derivatives. The notional amounts do not represent the credit risk of the derivative positions that is equal to the fair value.

The fair value amounts reported in the Statement of Financial Position, and the amounts reported in the following tables are the net value of individual swap positions where there is the ability to settle the swaps on a net basis and the Nominal Insurer intends to settle on this basis.

	Assets $'000	Liabilities $'000	Notional amount $'000
2019			
Interest rate futures	37	(13,894)	(1,375,051)
Share futures	507	(233)	6,188
Options:			
Options on Fixed Income	173,095	-	9,821,993
Forwards:			
Forward foreign exchange contracts	4,053	(10,559)	1,864,009
Swaps:			
Interest rate swaps	7,340	(35,039)	-
	185,032	**(59,725)**	**10,317,139**
2018			
Interest rate futures	35	(18,410)	945,086
Options:			
Options on Fixed Income	155,062	-	7,199,190
Options on index	-	-	-
Swaption	-	-	-
Forwards:			
Forward foreign exchange contracts	9,184	(23,016)	1,906,265
Swaps:			
Interest rate swaps	3,506	(10,418)	-
Inflation swaps	-	-	-
	167,787	**(51,844)**	**10,050,541**

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3.3.5. Involvement with unconsolidated structured entities

The Scheme does not have a controlling interest in any of the unlisted investment funds in which it invests.

These unconsolidated structured entities are included under unit trusts in Note 3.2. The maximum exposure or loss is limited to the net market value of the investment strategy as at 30 June 2019. 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 2019 $'000	Net Market Value as at 30 June 2018 $'000
Equity	4,198,555	3,775,487
Property	1,362,154	1,357,494
Alternatives	364,094	456,063
Emerging Markets	230,091	314,425
Infrastructure	396,510	335,968
Debt	1,082,758	929,568
Cash	1,090,580	1,369,487
Total	**8,724,742**	**8,538,492**

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4. Risk Management

Overview

The Scheme applies a consistent and integrated approach to enterprise risk management (ERM). The Scheme operates within icare's risk management framework which sets out the approach to managing key risks and meeting strategic objectives. The risk management framework is articulated in the Risk Management Strategy (RMS) which is approved annually by the Board.

The icare Board acting for the Nominal Insurer is ultimately responsible for identifying and controlling financial risks. This is done through the establishment of holistic strategies and policies which are cognisant of financial risk management.

The framework consists of complementary elements that are embedded throughout the business management cycle and culture of the organisation. Key aspects include: risk appetite, governance, risk management processes, risk reporting and insights, modelling and stress testing, management, monitoring and culture.

Risk management is a continuous process and an integral part of robust business management. The Scheme's approach is to integrate risk management into the broader management processes of the organisation. It is the Scheme's philosophy to ensure that risk management remains embedded in the business and that the risk makers or risk takers are themselves the risk managers. Specifically, the management of risk must occur at each point in the business management cycle.

The key risk categories used by the Scheme to classify financial risk:

- Insurance risk (note 4.1);
- Market risk (note 4.2);
- Interest rate risk (note 4.3);
- Foreign exchange risk (note 4.4);
- Liquidity risk (note 4.5); and
- Credit risk (note 4.6).

4.1. Insurance Risk

Overview

Insurance risk is the risk of fluctuations in the timing, frequency and severity of insured events and claims settlements, relative to expectations. Key drivers of insurance risk include natural or man-made catastrophic events, pricing of insurance contracts, reserving and insurance claims

The Nominal Insurer only provides workers compensation insurance to those NSW employers who are not covered by self or specialised insurance arrangements. The wide geographic area, number of employers provided with insurance and variety of industries provided with insurance, reduces the Scheme's risk volatility. Managing insurance risk is part of the Scheme's governance and management philosophy through:

- Detailed review of reserving actuaries, bi-annual actuarial valuation projections and cost drivers to enable early detection of emerging issues and cost pressures;
- Actively monitoring claims and expense patterns to detect increasing expenditure and ensure it is facilitating return to work strategies;
- Designing premium formulas that reflect the cost of injuries in particular industries and for larger employers related to their actual claims costs to encourage employers to reduce injuries and facilitate injured workers to return to work;
- Design of benefits that provide incentives to injured workers to work with the Scheme and employers to encourage a return to work;
- Partnering with regulators including the State Insurance Regulatory Authority (SIRA) to reduce injury rates and detect any fraudulent activities;
- Designing remuneration for Scheme Agents that encourages them to achieve Scheme objectives
- Investment allocation strategies that manage investment risks (refer Note 3 and 4); and
- Actively monitoring and projecting the Scheme's cashflow to ensure premiums are paid and injured worker entitlements are provided in a timely manner.

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4.1. Insurance Risk (continued)

The nature of the Scheme's insurance operations including the requirement of all employers in NSW to have a policy, the wide geographic/industry spread of risks, the level of Scheme Assets and the ability to amend future premiums, has resulted in the Scheme concluding that reinsurance of Scheme liabilities is not currently appropriate.

4.2. Market risk

Overview

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Market risk arises as a result of the Scheme holding and trading investments as part of its asset allocation.

The Scheme seeks to manage exposure to market risk so that it can generate sufficient returns to meet the Scheme's current and future liabilities. The Scheme's portfolio of investments is invested in accordance with its strategic asset allocation. The purpose of the strategic asset allocation is to construct a portfolio that achieves the Scheme's investment objectives, including a return in excess of the liability discount rate, while limiting the probability of large declines in the Scheme's funding ratio.

The actual asset allocations can deviate from the benchmark asset allocation due to:

- Scheme cash flows;
- Fluctuations in market prices; and
- Dynamic asset allocation decisions.

Dynamic asset allocation refers to medium term shifts away from the strategic asset allocation which are designed to capture market opportunities or to mitigate risks.

The deviations in actual versus benchmark asset allocation at the end of the reporting period were within the agreed tolerance limits for all asset classes.

Based on the asset allocation TCorp appoints investment managers in each asset class, following consultation with icare. Management of the Insurance Fund's assets is allocated to the appointed investment managers. Each investment manager is subject to restrictions in relation to the types of assets in which it may invest, and in relation to the composition of investments within certain asset types. These restrictions are expressed in formalised mandates typically contained in individually negotiated Investment Management Agreements or as described in Information Memoranda (or similar documents) issued by the relevant investment manager where the investment is via a pooled fund. The investment mandates are monitored on a daily basis to ensure that investment managers are compliant with their mandates and relevant agreements.

Each investment manager is responsible for managing security-specific risk using its distinct management style. Each investment manager is also responsible for constructing a portfolio that aims to achieve its own investment objectives while complying with the restrictions and guidelines contained in the mandate or Information Memorandum.

A risk budgeting framework is used to help determine an appropriate strategic asset allocation for the Scheme. This framework incorporates the risk and return characteristic of the different asset classes in the portfolio and additional factors such as inflation and interest rates. Within this framework, a number of risk measures are employed including the frequency of negative returns, the volatility of the investment portfolio relative to the value of the liability and Value-at-Risk (VaR) analysis.

TCorp, in conjunction with its asset consultant (Mercer), conducts the risk budgeting analysis utilising:

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4.2 Market risk (continued)

- Assumptions regarding the expected level of return, risk and correlations between price and wage inflation, bond yields and returns from different asset classes (for example equities, bonds, property and alternative assets); and
- Assumptions regarding the duration of inflation-linked and other liabilities consistent with those used by the Scheme Actuary.

The analysis incorporates scenario analysis to determine the risk and return of different investment strategies relative to the change in the liabilities over a period.

The analysis is primarily used to compare different investment strategies, and then to determine the investment strategy that has the appropriate level of risk, given the risk and return objectives of the Scheme.

The risk budgeting analysis is based on certain simplifying assumptions such as statistical characteristics of investment returns, volatilities and correlations that may not represent actual outcomes. It is also important to note that the analysis only allows for some economic factors such as inflation and bond yields, which affect the value of the Scheme liabilities. It does not allow for other factors such as the claims loss ratio, claims incidence and recovery rates, which also affect the value of the Scheme liabilities. As such, the analysis may not be accurate in its assessment of the liability.

The VaR risk measure seeks to estimate the potential investment loss over a given holding period at a specified confidence level. The VaR methodology is a statistically-defined, probability-based approach to risk assessment that takes into account market volatilities as well as risk diversification by identifying offsetting positions and correlations between financial instruments and markets. The VaR methodology allows risks to be measured consistently across all markets and financial instruments and to be aggregated into a single risk number.

VaR is calculated using simulated forward looking expected returns at the 95th percentile confidence level over a 12-month time period. This represents the minimum expected reduction in the value of the Scheme's investment portfolio which has a 5 per cent chance of being exceeded over a one-year period.

In addition to a VaR measure, the risk budgeting framework is also used to assess the following risk and return characteristics:

- Expected return on the investment portfolio;
- Probability of meeting return targets that incorporate measures of wage inflation; and
- The performance of the investment portfolio under different economic scenarios.

The most recent VaR analysis was conducted in July 2019 based on the June 2019 financial instruments and is computed via forward looking simulation using a 95 per cent confidence interval and a 1-year holding period.

VaR is calculated at the balance date and represents an estimate of the loss that can be expected over a 1-year period with a 5 per cent probability that this amount may be exceeded.

Given the Scheme's Statement of financial position at 30 June 2019, the minimum potential loss expected over a 1-year period is $451.4 million (June 2018: $381.6 million), with a 5 per cent probability that this minimum may be exceeded.

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4.3. Interest rate risk

Overview

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market interest rates. The value of the Scheme's liabilities is also affected by interest rate fluctuations.

4.3.1. Exposure

Interest rate risk arises as a result of the Scheme holding financial instruments which are subject directly or indirectly to changes in value as a result of interest rate fluctuations. Scheme liabilities are similarly subject directly or indirectly to changes in value as a result of interest rate fluctuations.

4.3.2. Risk management objective, policies and processes

The interest rate and inflation risk of the Insurance Fund is managed primarily through its strategic asset allocation and mandate objective setting. The Insurance Fund at 30 June 2019 had a 23.0 per cent (2018: 17 per cent) allocation to Australian Commonwealth and state government bonds and other interest bearing securities to mitigate interest rate risk of Scheme liabilities and a further 25.3 per cent (2018: 23 per cent) allocation to Australian Commonwealth and State government inflation linked bonds to mitigate inflation risk of Scheme liabilities.

4.3.3. Quantitative analysis of exposure

The table on the following page summarises the Scheme's exposure to interest rate risks. It includes the Scheme's indexed and interest-bearing financial assets and liabilities at fair values, categorised by the earlier of their contractual re pricing or maturity dates.

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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4.3.3 Quantitative analysis of exposure (continued)

2019

	Floating interest rate $'000	Fixed interest rate maturing in				Total $'000
		3 months or less $'000	4 to 12 months $'000	1 to 5 years $'000	Over 5 years $'000	
Class						
Cash	340,031	-	-	-	-	340,031
Money market deposits	12	-	-	-	-	12
Indexed and interest- bearing securities	3,960,314	-	21,413	460,400	4,094,871	8,536,998
Swap assets - FFX	(6,506)	-	-	-	-	(6,506)
Interest rate swaps	-	-	-	28	7,312	7,340
Options on fixed income	-	106,984	36,272	-	29,839	173,095
Interest rate futures	-	37	-	-	-	37
Share futures	-	-	506	-	-	506
Assets	**4,293,851**	**107,021**	**58,191**	**460,428**	**4,132,022**	**9,051,513**
Interest rate swap	-	-	-	(18)	(35,021)	(35,039)
Interest rate futures	-	(13,894)	-	-	-	(13,894)
Share futures	-	(233)	-	-	-	(233)
Liabilities	**-**	**(14,127)**	**-**	**(18)**	**(35,021)**	**(49,166)**

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4.3.3 Quantitative analysis of exposure (continued)

2018

	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	178,486	-	-	-	-	178,486
Money market deposits	2,818	-	-	-	-	2,818
Indexed and interest- bearing securities	4,657,157	1,160	7,093	248,940	3,267,924	8,182,274
Interest rate swaps	-	-	-	41	3,465	3,506
Options on fixed income	-	95,722	35,173	4,662	19,505	155,062
Interest rate futures	-	35	-	-	-	35
Assets	**4,838,461**	**96,917**	**42,266**	**253,643**	**3,290,894**	**8,522,181**
Interest rate swap	-	-	-	(2,020)	(8,398)	(10,418)
Interest rate futures	-	(18,410)	-	-	-	(18,410)
Liabilities	**-**	**(18,410)**	**-**	**(2,020)**	**(8,398)**	**(28,828)**

The Scheme's exposure to interest rate risk is considered a component of market risk and is quantified as part of the VaR analysis discussed under Market Risk.

The Scheme is exposed to interest rate cash flow risk on its floating rate interest bearing securities as interest income earned varies according to prevailing market interest rates.

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4.4. Foreign exchange risk

Overview

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

4.4.1. Exposure

The Scheme is exposed to foreign exchange risk as a result of the foreign currency denominated investments held as part of its asset allocation.

4.4.2. Risk management objective, policies and processes

Appointed investment managers manage foreign exchange risk, with one manager implementing a foreign currency overlay for international equity exposures. The investment managers in investment grade credit (developed markets), unlisted infrastructure, alternatives, bank loans, and global high yield bonds are required to fully hedge portfolio foreign currency exposures. An investment manager has been appointed to implement a currency hedge strategy for the developed markets' equity exposure. No hedging of foreign currency exposures to Australian dollars is undertaken on the value of assets invested in emerging markets.

The primary instruments used to achieve the foreign currency overlay are forward foreign exchange contracts.

The positions are reported on an ongoing basis by the Scheme's custodian, JPMorgan Investor Services, under a Service Level Agreement and reporting is provided both daily and monthly by the custodian to management for monitoring.

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4.4.3. Quantitative analysis of exposure

A summary of the Scheme's exposure to foreign exchange risk, including of foreign currency derivatives is shown in the table below:

	US Dollars $'000 AUD	Euro $'000 AUD	Japanese Yen $'000 AUD	Other Currencies $'000 AUD	Total $'000
2019					
International equities	42,042	2,056	-	160,476	204,574
Australian equities	-	-	-	6,114	6,114
International floating rate securities	2,819	-	-	3,131	5,950
International bonds	164,618	8,474	-	188,205	361,297
Cash	12,141	284	-	933	13,358
Foreign currency derivatives (Assets- options)	4,691	712	188	348	5,939
Foreign currency derivatives (Assets- futures)	27	7	-	3	37
Foreign currency derivatives (Liabilities- futures)	-	(27)	-	(9)	(36)
Swap derivative (Assets)	1,887	87	181	1,898	4,053
Swap derivative (Liability)	(5,075)	(1,163)	(1,537)	(2,784)	(10,559)
Investment purchases payable	(997)	(748)	-	(3,834)	(5,579)
Foreign exchange exposure position	**222,153**	**9,682**	**(1,168)**	**354,481**	**585,148**

Notes of financial statements

for the year ended 30 June 2019

4.4.3 Quantitative analysis of exposure (continued)

	US Dollars $'000 AUD	Euro $'000 AUD	Japanese Yen $'000 AUD	Other Currencies $'000 AUD	Total $'000
2018					
International equities	17,826	1,384	-	70,626	89,836
Australian equities	-	-	-	1,203	1,203
International floating rate securities	25,197	-	-	13,120	38,317
International bonds	154,501	3,351	-	143,625	301,477
Cash	11,455	279	-	613	12,347
Foreign currency derivatives (Assets- options)	6,131	2,002	1,065	667	9,865
Foreign currency derivatives (Assets- futures)	-	-	-	35	35
Foreign currency derivatives (Liabilities- futures)	(56)	(40)	-	-	(96)
Swap derivative (Assets)	2,639	1,914	605	4,026	9,184
Swap derivative (Liability)	(16,377)	(624)	(224)	(5,791)	(23,016)
Foreign exchange exposure position	**201,316**	**8,266**	**1,446**	**228,124**	**439,152**

Notes of financial statements

for the year ended 30 June 2019

4.5. Liquidity risk

Overview

Liquidity risk is the risk of insufficient liquid assets to meet liabilities as they fall due. The Scheme's liquidity risk arises due to the nature of insurance activities where the timing and amount of cash outflows are uncertain.

The Scheme is exposed to liquidity risk from holding financial assets that may not be readily convertible to cash to meet financial liabilities and claims costs.

4.5.1. Exposure

The financial assets of the Scheme that may not be readily convertible to cash are largely premium receivables (refer Note 2.6) and investments in over-the-counter or thinly traded investments, principally unlisted property trusts and infrastructure debt.

4.5.2. Risk management objective, policies and processes

The Scheme maintains adequate liquidity to meet the daily cash requirements for claims payments and other operating costs.

To assist in meeting its liquidity risk management objectives, the Scheme maintains a cash balance and invests most of its assets in investments that are traded in active markets that can be readily disposed of. The Scheme also has the ability to borrow in the short term to ensure settlement of amounts due if required.

The Scheme invests a proportion of its assets in less liquid listed investments or investments that are not traded on active markets and this is strictly controlled in accordance with the asset allocation together with a policy which limits exposure to illiquid investments.

Each investment manager is responsible for cashflow management of the assets that have been mandated to them. That is, each investment manager is responsible for managing settlement liquidity risk. The custodian supplies daily reporting to each investment manager to assist them in this process.

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 2018.

The other Scheme liabilities are either claims related (maturity is disclosed in Note 2.3.4) or are related to insurance operations and have a maturity of less than 12 months.

Cash due to brokers is payable on demand. Interest and other payables are typically settled within 30 days. If the derivative positions are closed out prior to maturity by entering into offsetting transactions, the Scheme settles its derivative obligations in cash rather than physical delivery.

Notes of financial statements

for the year ended 30 June 2019

4.5.3 Quantitative analysis of exposure (continued)

Liability maturity

All of the Scheme's financial liabilities relate to derivatives whose maturity is listed below:

	Less than 1 month $'000	2 to 12 months $'000	Greater than 12 months $'000	Total $'000
2019				
Derivatives	8,917	15,770	35,038	59,725
2018				
Derivatives	14,830	3,261	31,976	50,067

4.6. Credit risk

Overview

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

4.6.1. Exposure

Credit risk arises from the Scheme's investments when investment managers trade with various counterparties who are subsequently unable to meet their obligations. The Scheme's main credit risk concentration is spread between cash, indexed and interest-bearing investments and over-the-counter, in-the-money derivatives.

Credit risk also arises from the Scheme's receivables.

Recoveries arise principally where a worker is injured in a motor vehicle accident and is not at fault. The majority of the costs of these claims are recovered from the third party motor vehicle insurers. The credit quality of these recoveries is considered high as these insurers are licensed by the Australian Prudential Regulation Authority, which imposes strict limits on capital adequacy of these insurers. The Scheme's consulting actuaries assess the amount of recovery potential for the Scheme.

4.6.2. Risk management objective, policies and processes

Credit Guidelines ensure the Scheme has controlled levels of credit concentration. These guidelines are at a total Insurance Fund level, with further asset class specific restrictions in investment managers' mandates where applicable. In addition, where possible, collateral arrangements may be implemented to reduce the Scheme's exposure.

The exposure is reported against set guidelines both from an individual managers' compliance and at a total Insurance Fund level. Reporting is provided by the Scheme's custodian and delivered to management for monitoring.

Notes of financial statements

for the year ended 30 June 2019

Credit risk arising on financial instruments is mitigated by investing primarily in rated instruments as determined by Standard's and Poor's, Moody's or Fitch. The Insurance Fund minimises its credit risk by monitoring counterparty creditworthiness.

4.6.3. Indexed and interest-bearing investments

The majority of the indexed and interest-bearing investments held by the Scheme are held with issuers rated investment grade by Standard and Poor's, Moody's or Fitch. The ratings assigned to the Scheme's indexed and interest-bearing investments at the end of the reporting period were as follows:

	2019 $'000	2019 %	2018 $'000	2018 %
AAA/aaa	6,949,932	81	6,497,813	79
AA/Aa	826,517	10	691,334	8
A/A	79,238	1	207,807	3
BBB	122,716	1	171,307	2
BB	49,808	1	65,518	1
Rated below BB	508,787	6	548,495	7
Total	**8,536,998**	**100**	**8,182,274**	**100**

The Scheme's maximum credit risk exposure at balance date in relation to each class of recognised financial asset, other than derivative financial instruments, is the carrying amount of those assets as indicated in the Statement of Financial Position.

In relation to over the counter derivative financial instruments, credit risk arises from the potential failure of counterparties to meet their obligations under the contract or arrangement.

Notes of financial statements

for the year ended 30 June 2019

5. Other

Overview

This section includes other information that must be disclosed to comply with the Australian Accounting Standards.

5.1. Cash and cash equivalents

Overview

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions and bank overdrafts that are repayable on demand.

The Scheme holds short-term term deposits with major Australian Banks as security for the payment of premiums by large employers who participate in the optional alternative premium method commonly known as the Retro-Paid Loss Premium. These term-deposits are not included in cash and cash equivalents. Instead they are included in Prepayments and Other Assets as upon the payment of all potential premium debts or when the security is in excess of the amount of maximum unpaid premium, the security is returned to the employer. (Refer Note 5.4).

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.

	2019 $'000	2018 $'000
Money Market Deposits	12	2,818
Cash at bank	340,031	178,486
Total cash and cash equivalents	340,043	181,304
Bank overdraft	(7,598)	(5,540)
Balance as per Statement of Cash Flows	**332,445**	**175,764**

Notes of financial statements

for the year ended 30 June 2019

5.1 Cash and cash equivalents (continued)

Reconciliation of Net cash provided by/(used in) operating activities to Net result

	2019 $'000	2018 $'000
Net cash flows from operating activities	**219,129**	**(108,104)**
Amortisation expense	(16,489)	(9,728)
(Increase) in actuarially assessed claim liabilities	(1,865,808)	(310,205)
(Increase) in unearned premiums	(64,890)	(6,988)
(Increase)/decrease in unexpired risk liability	(69,319)	(43,867)
Unrealised (loss)/gain on investments	1,277,613	423,335
Net investment purchases/(sales)	(416,794)	(49,632)
Increase/(decrease) in receivables	101,447	194,958
Increase/(Decrease) in payables	(38,801)	1,368
(Increase)/decrease in Security deposits payable	(1,824)	(2,312)
Decrease in restoration provisions	-	118
Net result	**(875,736)**	**88,943**

Interest rate risk exposure

Details of the Scheme's exposure to interest rate changes on bank overdraft are set out in Note 4.3.

Fair value disclosures

The carrying amount of the Scheme's borrowings approximates their fair value.

Bank overdraft

The bank overdraft may be drawn at any time and is non-interest bearing.

Notes of financial statements

for the year ended 30 June 2019

5.2. Intangible assets

Overview

The Scheme recognises intangible assets only if it is probable that future economic benefits will flow to the Scheme and the cost of the asset can be measured reliably. Intangible assets are measured initially at cost. Where an asset is acquired at no or nominal cost, the cost is its fair value as at the date of acquisition.

The capitalisation threshold for intangible assets is one hundred thousand dollars and above (including direct allocation of personnel service costs).

All research costs are expensed. Development costs are only capitalised when certain criteria are met.

The useful lives of intangible assets are assessed to be finite. The Scheme charges amortisation on intangible assets using a straight–line method over a period of five years.

Intangible assets are subsequently measured at fair value only if there is an active market. As there is no active market for the Scheme's intangible assets, the assets are carried at cost less any accumulated amortisation and impairment losses.

Intangible assets are tested for impairment where an indicator of impairment exists. If the recoverable amount is less than its carrying amount, the carrying amount is reduced to the recoverable amount and the reduction is recognised as an impairment loss.

	At 30 June 2019 - fair value $'000	At 30 June 2018 - fair value $'000
Software WIP		
Cost (gross carrying amount)	25,116	43,790
Accumulated amortisation and impairment	-	-
Net carrying amount	**25,116**	**43,790**
Computer software		
Cost (gross carrying amount)	129,764	48,642
Accumulated amortisation and impairment	(26,217)	(9,728)
Net carrying amount	103,547	38,914
Total	**128,663**	**82,704**

Notes of financial statements

for the year ended 30 June 2019

5.2 Intangible assets (continued)

Reconciliation

A reconciliation of the carrying amount of each class of intangible assets at the beginning and end of the current and previous reporting periods is set out below:

	Year ended 30 June 2019 $'000	Year ended 30 June 2018 $'000
Software WIP		
Net carrying amount at start of year	43,790	43,815
Additions – Internal development	62,448	48,617
Transfers from Software WIP	(81,122)	(48,642)
Net carrying amount at end of year	**25,116**	**43,790**
Computer software		
Net carrying amount at start of year	38,914	-
Additions – Internal development	-	-
Transfers from Software WIP	81,122	48,642
Amortisation expense	(16,489)	(9,728)
Net carrying amount at end of year	**103,547**	**38,914**
Total	**128,663**	**82,704**

Notes of financial statements

for the year ended 30 June 2019

5.3. Commitments

Overview

The Scheme had no lease commitments at 30 June 2019 (30 June 2018: Nil).

As at the 30 June 2019 the Scheme was required to contribute $249.4 million to the Workers Compensation Operational Fund to fund the State Insurance Regulatory Authority and Safework NSW. (2018: $249.4 million) in monthly installments by 30th June 2020.

As at the 30 June 2019 the Scheme was required to contribute $52.9 million (2018: $50 million) to the Workers Compensation Dust Diseases Authority in monthly installments by 30th June 2020.

As at the 30 June 2019 the Scheme was required to contribute $9.4 million (2018: $8 million) to the NSW Department of Primary Industries for the Mine Safety Levy in four (4) equal quarterly installments by 30 June 2020.

5.4. Security deposits and bank guarantees

Since 30 June 2009, large employers may apply to have their workers compensation premium calculated under an alternative premium method, called the Retro-Paid Loss Premium Method (RPL). The RPL methodology was amended at 30 June 2016 and renamed Loss Prevention and Recovery (LPR). This methodology change gave employer groups the option of providing security or the payment of a Renewal Premium adjustment (RPA).

Employers are qualified to participate in the Schemes providing they meet specified work health and safety, injury management and financial criteria. Under both methodologies employers pay a deposit premium for the insured period, with subsequent adjustments made over the next three to four years to reflect the actual cost of claims incurred plus a contribution to those costs for very high value claims that are shared across all employers in the group.

Under section 172A of the *Workers Compensation Act 1987*, the Scheme administers security deposits, bank guarantees and securities lodged by employers who elect to participate in the RPL Premium Method or chose the security option of the LPR Premium method.

As at 30 June 2019, the Scheme held deposits of $71 million (2018: $69 million) and bank guarantees of $554 million (2018: $654 million). These deposits are held in trust for payment of their workers compensation premium liability.

Earnings on funds deposited with the Scheme for this purpose are paid directly to the employer group that lodged the Security Deposit provided that the security held meets the security requirements of the employer group.

Notes of financial statements

for the year ended 30 June 2019

6. Capital management

Capital management is an integral part of icare's risk management framework. One of the key objectives of the Workers Insurance Scheme is to have sufficient capital to meet its obligations to its customers, even under adverse conditions.

The Board of icare has set a Capital Management Policy which defines a Target Capital Ratio and Target Operating Zone for the Scheme.

To determine the Scheme's Target Capital Ratio and Target Operating Zone, consideration was given to the following:

- The unique nature of the business from both various perspectives- internal (financial and operational) and external (economic and political);
- The liabilities of the Scheme are not included in the NSW Government's Statement of financial position and there is no explicit Government guarantee to cover any funding shortfall;
- The Scheme's strategic objectives and the risks of not achieving them; and
- The regulatory requirements of the Australian Prudential Regulation Authority (APRA), consistency with the insurance industry and best practice.

Under this policy the Scheme will be managed towards holding excess capital above the Minimum Capital Requirement within a defined range as set out in the Target Capital Ratio Policy.

The Board has determined that the Target Operating Zone for the Scheme is between 110-130% at an 80% Probability of Adequacy (PoA). This means that the Scheme's Policy Capital Ratio defined as the ratio of the Scheme's assets to liabilities where the liabilities include a risk margin aimed at a 80% Probability of Adequacy (PoA) should be between 110-130%. The actual funding ratio at 30 June 2019 at the 80% PoA level was 108.9% (2018: 115.3%).

The Scheme's liabilities reported in these financial statements are at an 80% PoA.

The Capital Management policy details actions required where the Policy Capital Ratio falls outside of the target operating zone.

The Capital Management Framework is reviewed annually by Management or as directed by the Board or the Audit and Risk Committee (ARC) of the Board. Any recommendations for change are endorsed by the ARC and approved by the Board.

END OF AUDITED FINANCIAL STATEMENTS

Sporting Injuries Insurance

Sporting Injuries Insurance Financial statements

for the year ended 30 June 2019

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Notes to the financial statements

pwc

SPORTING INJURIES SCHEME

Actuarial Certificate
Outstanding claims liabilities at 30 June 2019

PricewaterhouseCoopers Consulting (Australia) Pty Ltd (PwC) has been contracted by Insurance & Care NSW (icare) acting for the Sporting Injuries Compensation Authority (SICA) to make estimates of the outstanding claims liabilities as at 30 June 2019 of the Sporting Injuries Scheme.

Data

PwC has relied on data supplied by icare without audit or independent verification. We did, however, review this information for reasonableness and internal consistency, where possible. The accuracy of our results is dependent upon the accuracy and completeness of the underlying data.

Basis of Our Estimates

The Sporting Injuries Scheme consists of the Sporting Injuries Insurance Scheme ("Main Scheme") and the Supplementary Sporting Injuries Benefits Scheme ("Supplementary Scheme"). For both schemes, we have made central estimates of the outstanding claims liabilities, meaning that our assumptions have been selected to yield estimates that are not knowingly above or below the ultimate liabilities. Our estimates include allowances:

- Future inflation and discounting for the time value of money; and
- Includes a loading for future expenses to meet the cost of management of claims outstanding (including claims incurred but yet to be reported) as at 30 June 2019.

Our recommended outstanding claims liabilities provision for the Main Scheme consists of the central estimate of the outstanding claims liabilities and risk margins for a 75% probability of adequacy.

Our recommended outstanding claims liabilities provision for the Supplementary Scheme consists of only the central estimate of the outstanding claims liabilities. We have not included any allowance for a risk margin for the Supplementary Scheme as instructed by icare.

Valuation Results

The PwC estimated outstanding claims liabilities provision as at 30 June 2019 for the Main Scheme is $1.62 million. For the Supplementary Scheme, the estimated outstanding claims liabilities as at 30 June 2019 is $0.17 million.

The following table summarises the outstanding claims liabilities.

PricewaterhouseCoopers Consulting (Australia) Pty Ltd, ABN 20 607 773 295
One International Towers Sydney, Watermans Quay, Barangaroo NSW 2000,
GPO BOX 2650 Sydney NSW 2001
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

pwc

	Main Scheme	Supplementary Scheme	Total
	$000	$000	$000
Central estimate	974	140	1,114
Expenses	195	28	223
Risk margin	453	Not Included	453
Outstanding claims liability	1,622	168	1,790

It is a decision for the SICA as to the amount adopted in the accounts.

Uncertainty

There is a limitation upon the accuracy of the estimates in this certificate in that there is an inherent uncertainty in any estimate of insurance liabilities. This is due to the fact that the ultimate liability is subject to the outcome of events yet to occur. These include, but are not limited to, the number of participants accepted into the scheme and the injury profile of those participants.

In our judgement, we have employed techniques and assumptions that are appropriate, and we believe the conclusions presented herein are reasonable, given the information currently available.

Valuation Report

Full details of data, methodology, assumptions and results are set out in our valuation report dated 6 September 2019.

Relevant Standards

Our estimates and reports were prepared in compliance with the Actuaries Institute's Professional Standard 300, which relates to estimation of outstanding claims liabilities.

icare have informed us that the financial statements for the Main Scheme are intended to comply with Accounting Standard AASB 1023 and those for the Supplementary Scheme are intended to comply with Accounting Standard AASB 137. The latter requires the determination of a best estimate. For both the Main Scheme and the Supplementary Scheme we have been instructed by icare to prepare a central estimate and our report includes the determination of a risk margin intended to achieve higher probabilities of adequacy.

Andrew Smith
FIAA
6 September 2019

Gavin Moore
FIAA
6 September 2019

Statement by the chairman and chief executive officer

for the year ended 30 June 2019

Sporting Injuries Compensation Authority

Certificate under Section 41C(1B) and 41C(1C) of the *Public Finance and Audit Act 1983* and Clause 7 of the *Public Finance and Audit Regulation 2015*.

In the opinion of the Board of Directors:

1. the financial statements of Sporting Injuries Compensation Authority have been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2015* and the NSW Treasurer's Directions. They have also been prepared in accordance with Australian Accounting Standards (which include Australian Accounting Interpretations) and other authoritative pronouncements of the Australian Accounting Standards Board;
2. the financial statements for the year ended 30 June 2019 exhibit a true and fair view of the position and transactions of the Sporting Injuries Compensation Authority; and
3. the directors are not aware of any circumstances as at the date of this certificate which would render any particulars included in the financial statements misleading or inaccurate.

Signed on behalf of the Board of Directors of Insurance and Care NSW.

Michael Carapiet
Chairman
Insurance and Care NSW
23 September 2019

John Nagle
Chief Executive Officer and
Managing Director
Sporting Injuries Compensation Authority &
Insurance and Care NSW
23 September 2019

INDEPENDENT AUDITOR'S REPORT

Sporting Injuries Compensation Authority

To Members of the New South Wales Parliament

Opinion

I have audited the accompanying financial statements of the Sporting Injuries Compensation Authority (the Authority), which comprise the Statement of Comprehensive Income for the year ended 30 June 2019, the Statement of Financial Position as at 30 June 2019, the Statement of Changes in Equity and the Statement of Cash Flows for the year then ended, and notes comprising 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 2019, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards
- are in accordance with section 41B of the *Public Finance and Audit Act 1983* (PF&A Act) and the Public Finance and Audit Regulation 2015.

My opinion should be read in conjunction with the rest of this report.

Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under the standards are described in the 'Auditor's Responsibilities for the Audit of the Financial Statements' section of my report.

I am independent of the Authority in accordance with the requirements of the:

- Australian Auditing Standards
- Accounting Professional and Ethical Standards Board's APES 110 'Code of Ethics for Professional Accountants' (APES 110).

I have fulfilled my other ethical responsibilities in accordance with APES 110.

Parliament promotes independence by ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of public sector agencies
- precluding the Auditor-General from providing non-audit services.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Level 19, Darling Park Tower 2, 201 Sussex Street, Sydney NSW 2000
GPO Box 12, Sydney NSW 2001 | **t** 02 9275 7101 | **f** 02 9275 7179 | mail@audit.nsw.gov.au | audit.nsw.gov.au

Other Information

The Authority's annual report for the year ended 30 June 2019 includes other information in addition to the financial statements and my Independent Auditor's Report thereon. The Chief Executive Officer of the Authority is responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprises the Statement by the Chairman and Chief Executive Officer.

My opinion on the financial statements does not cover the other information. Accordingly, I do not express any form of assurance conclusion on the other information.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude there is a material misstatement of the other information, I must report that fact.

I have nothing to report in this regard.

The Chief Executive Officer's Responsibilities for the Financial Statements

The Chief Executive Officer is responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards and the PF&A Act, and for such internal control as the Chief Executive Officer determines is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Executive Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting, unless it is not appropriate to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to:

- obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions users take based on the financial statements.

A description of my responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_responsibilities/ar4.pdf. The description forms part of my auditor's report.

My opinion does *not* provide assurance:

- that the Authority carried out its activities effectively, efficiently and economically
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.

D Daniels

David Daniels
Director, Financial Audit Services

Delegate of the Auditor-General for New South Wales

27 September 2019
SYDNEY

Statement of comprehensive income

for the year ended 30 June 2019

	Notes	2019 $'000	2018 $'000
Gross Written Premium		864	761
Unearned premium movement		(48)	(14)
Gross earned premium		**816**	**747**
Hindsight adjustments		-	(6)
Net Earned premiums (a)		**816**	**741**
Claims expense	2.2	(293)	2
Unexpired risk liability expense	2.3.6.2	(18)	(3)
Net claims expense (b)		**(311)**	**(1)**
Underwriting and other expenses (c)		(227)	(271)
Underwriting result (a+b+c)		**278**	**469**
Investment Revenue	3.1	116	158
Investment management expenses	3.1	(16)	(46)
Net investment revenue		100	112
Levies		50	49
Net Result		**428**	**630**
Other Comprehensive Income			
Items that will not be reclassified to net result		-	-
Total Other comprehensive income		-	-
Total Comprehensive Income		**428**	**630**

Statement of financial position

as at 30 June 2019

	Notes	2019 $'000	2018 $'000
Assets			
Cash and cash equivalents	5.1	399	628
Investments	3.2	4,457	3,877
Receivables	2.3.7	456	237
Total assets		**5,312**	**4,742**
Liabilities			
Payables	2.3.8	134	120
Unearned premiums	2.3.6.1	461	412
Unexpired risk	2.3.6.2	49	31
Provision for outstanding claims	2.3.1	1,622	1,561
Total liabilities		**2,266**	**2,124**
Net assets		**3,046**	**2,618**
Equity			
Accumulated funds		3,046	2,618
Total Equity		**3,046**	**2,618**

Statement of changes in equity

for the year ended 30 June 2019

	2019 $'000	2018 $'000
Accumulated funds		
Balance at the beginning of financial year	2,618	1,988
Net Result for the year	428	630
Other Comprehensive Income	-	-
Total other comprehensive income	**-**	**-**
Total comprehensive income for the year	**428**	**630**
Balance at the end of the financial year	**3,046**	**2,618**

Statement of cash flows

for the year ended 30 June 2019

	Notes	2019 $'000	2018 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Premiums received		691	752
Claims paid		(231)	(630)
Net Cash Flow from premiums less claims		**460**	**122**
Receipts			
Proceeds from sale of Investments		5,856	4,870
Levies received		51	72
Interest received		76	74
Receipts Excluding Authority Activities		**5,983**	**5,016**
Payments			
Purchases of Investments		(6,399)	(4,535)
Service fees		(152)	(233)
Other payments		(121)	(121)
Payments Excluding Authority Activities		**(6,672)**	**(4,889)**
NET CASH FLOWS (USED IN)/FROM OPERATING ACTIVITIES	5.1	**(229)**	**249**
Opening cash and cash equivalents		628	379
CLOSING CASH AND CASH EQUIVALENTS	5.1	**399**	**628**

Notes to the financial statements

for the year ended 30 June 2019

1. Overview

1.1. About the Scheme

Sporting Injuries Compensation Authority (the Authority) is a NSW government entity. The Authority is a not-for-profit entity (as profit is not its principal objective) and it has no cash generating units. The reporting entity is consolidated as part of the NSW Total State Sector Accounts.

The Authority manages the Sporting Injuries Insurance Scheme. The Scheme covers registered participants of sporting organisations for injury while engaged in specific activities or events. The Scheme provides capital lump sum benefits for injuries that lead to a prescribed percentage of permanent loss of use or fatality.

The Sporting Injuries Compensation Authority was established on 1 September 2015 in accordance with the *State Insurance and Care Governance Act 2015*.

icare was established on 1 September 2015 in accordance with the *State Insurance and Care Governance Act 2015*. Its functions include the monitoring of performance of the insurance or compensation schemes in respect of which it provides services. The Authority is one such scheme.

These financial statements for the year ended 30 June 2019 have been authorised for issue by the Chairman of the Board of icare and the Chief Executive Officer and Managing Director of the Authority on behalf of the Board of Directors of icare on 23 September 2019.

1.2. About this report

This Financial Report includes the consolidated financial statements of the Authority.

The Financial Report includes the four primary statements, namely the statement of comprehensive income (which comprises profit or loss and other comprehensive income), statement of financial position, statement of changes in equity and statement of cash flows as well as associated notes as required by Australian Accounting Standards. Disclosures have been grouped into the following categories in order to assist users in their understanding of the financial statements:

1. **Overview** contains information that impacts the Financial Report as a whole.
2. **Underwriting activities** brings together results and statement of financial position disclosures relevant to the Authority's insurance activities.
3. **Investment activities** includes results and statement of financial position disclosures relevant to the Authority's investments.
4. **Risk management** provides commentary on the Authority's exposure to various financial and capital risks, explaining the potential impact on the results and statement of financial position and how the Authority manages these risks.
5. **Other** includes additional disclosures required in order to comply with Australian Accounting Standards.

Where applicable within each note, disclosures are further analysed as follows:

- **Overview** provides some context to assist users in understanding the disclosures and the accounting policies relevant to an understanding of the numbers;
- **Disclosures** (both numbers and commentary) provides analysis of balances as required by Australian Accounting Standards; and
- **Critical accounting judgements and estimates** explains the key estimates and judgements applied by the Authority in determining the numbers.

Notes to the financial statements

for the year ended 30 June 2019

1.2. About this report (continued)

The notes include information which the directors believe is required to understand the financial statements and is material and relevant to the operations, statement of financial position and results of the Authority.

Information is considered material and relevant if:

- the amount in question is significant because of its size or nature;
- it is important to assist in understanding the results of the Authority;
- it helps to explain the impact of significant changes in the Authority's business; or
- it relates to an aspect of the Authority's operations that is important to its future performance.

1.2.1. Basis of preparation

These financial statements are general purpose financial statements which have been prepared using the accrual basis of accounting and are in accordance with:

- requirements of the *Public Finance and Audit Act 1983* and the *Public Finance and Audit Regulation 2015*;
- applicable Australian Accounting Standards (which include Australian Accounting Interpretations); and the NSW Treasurer's directions

These financial statements have been presented on a liquidity basis following receipt of an exemption from TC 19-04 by NSW Treasury that statements are presented on a current and non-current basis.

All amounts are rounded to the nearest one thousand dollars and are expressed in Australian currency which is the functional currency of the reporting entity. Tables may not add in all instances due to rounding.

1.2.2. Statement of compliance

The financial statements and notes comply with Australian Accounting Standards, which include Australian Accounting Interpretations.

1.2.3. Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

Judgements, key assumptions and estimations management has made are disclosed in the relevant notes to the financial statements.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised. Actual results may differ from these estimates.

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following notes:

- Note 3 & 4 – Investments;
- Note 2.3 – Outstanding Claims liability; and
- Note 2.3.6 - Unearned premiums and unexpired risk liability.

1.2.4. Taxation

The Authority is exempt from income tax under Division 50 of the *Income Tax Assessment Act 1997*.

Income, expenses and assets are recognised net of the amount of associated GST, except that the:

- amount of GST incurred by the Authority as a purchaser that is not recovered from the Australian Taxation Office is recognised as part of an asset's cost of acquisition or as part of an item of expense; and
- receivables and payables are stated with the amount of GST included.

Notes to the financial statements

for the year ended 30 June 2019

1.2.4 Accounting for the Goods and Services Tax (GST) (continued)

Cash flows are included in the statement of cash flows on a gross basis. However, the GST components of

cash flows arising from investing and financing activities which are recoverable from, or payable to, the Australian Taxation Office are classified as operating cash flows.

1.2.5. Comparative information

Except when an Australian Accounting Standard permits or requires otherwise, comparative information is disclosed in respect of the previous reporting period for all amounts reported in the financial statements.

Where necessary, comparatives have been reclassified to conform to changes in presentation in the current year.

1.2.6. Accounting Standards issued but not yet effective

Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the reporting year ending 30 June 2019. The following new Standards will not have a material impact on the financial performance or position of the Authority:

- AASB 15, AASB 2014-5, AASB 2015-8 and AASB 2016-3 regarding *Revenue from Contracts with Customers*;
- AASB 16 regarding *Leases*;
- AASB 1058 *Income of Not-for-profit Entities*;
- AASB 2016-8 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities;
- AASB 2017-1 Amendments to Australian Accounting Standards – Transfer of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments; and
- AASB 2018-1 Amendments to Australian Accounting Standards – Annual improvements 2015-2017 cycle

The Authority has commenced a program to assess the financial impact of AASB 17 Insurance Contracts on the financial results. This assessment is planned to be concluded by June 2020.

In relation to certain new accounting standards and interpretations that have been published that are not mandatory for 30 June 2019 reporting period. the following information on their impact is provided:

- AASB 15 *Revenue from Contracts with Customers*, AASB 2014-5 *Amendments to Australian Accounting Standards* arising from AASB 15 and AASB 1058 *Income of Not-for-Profits*
  - AASB 15 *Revenue from Contracts with Customers* (AASB 15) is effective for reporting periods commencing on or after 1 January 2019. AASB 15 establishes a five-step model to account for revenue arising from contracts with customers. Revenue is recognised when control of goods or services is transferred to the customer at amounts that reflect the consideration to which the Authority expects to be entitled in exchange for transferring the goods or services to the customer. Under AASB 118 Revenue (AASB 118), revenue recognition is currently based on when risks and rewards are transferred.
  - AASB 1058 *Income of Not-for-Profits* (AASB 1058) is effective for reporting periods commencing on or after 1 January 2019 and will replace most of the existing requirements in AASB 1004 *Contributions* (AASB 1004). The scope of AASB 1004 is now limited mainly to parliamentary appropriations, administrative arrangements and contributions by owners. Under AASB 1058, the Authority will need to determine whether a transaction is consideration received below fair value principally to enable the Authority to further its objectives (accounted for under AASB 1058) or a revenue contract with a customer (accounted for under AASB 15).

Notes to the financial statements

for the year ended 30 June 2019

1.2.6 Accounting Standards issued but not yet effective (continued)

- ◦ The standards will result in the identification of separate performance obligations that will not change the timing of recognition for some revenues, including revenues relating to sales of goods and services and specific purpose grants and subsidies.
- ◦ Under AASB 1058, the Authority will recognise as liabilities, obligations for funding received where there is an obligation to construct recognisable non-financial assets controlled by the Authority. AASB 1058 will not have any impact on the Authority because it does not receive this type of funding.
- ◦ The Authority will adopt AASB 15 and AASB 1058 on 1 July 2019 through application of the full retrospective transition approach. Recognition and measurement principles of the new standards will be applied for the current year and comparative year as though AASB 15 and AASB 1058 had always applied.
- ◦ The impacts to balances resulting from the adoption of AASB 15 and AASB 1058 have been assessed by the Authority as not being significant.

- AASB 9 *Financial Instruments*
  AASB 9 *Financial Instruments* replaces AASB 139 Financial Instruments: Recognition and Measurement and is effective for the Authority from 1 July 2018.

  The standard makes changes to the classification of financial assets for the purpose of determining their measurement basis, as well as the recognition of changes in fair value. The standard replaces the incurred loss model of AASB 139 with a new expected loss model which can result in the acceleration of impairment recognition on financial instruments.

  The standard requires the Authority to account for expected credit losses on financial instruments at the point at which the financial instruments are first recognised and to estimate the expected loss applicable to those financial instruments over the period for which they are held. This requirement can result in expected losses on financial instruments being recognised in full much earlier than would have been the case under AASB 139. The Authority has performed an assessment and concluded that no transitional adjustments were required as a result of complying with the new requirements. The majority of the Authority's assets are already measured at fair value through profit and loss as required by AASB 1023 *General Insurance Contracts* and as permitted under both AASB 1023 and AASB 9.

2. Underwriting activities

Overview

This section provides analysis and commentary on the Authority's underwriting activities. Underwriting, in simple terms, is the agreement by the insurer to assume insurance risk in return for a premium paid by the insured. The underwriter assesses the quality of the risk and prices it accordingly.

2.1. Revenue

Premiums of the Sporting Injuries Insurance Scheme comprise amounts charged to sporting organisations declared to be members of the Scheme. Premiums are assessed on an estimate of the number of participants expected to register for the sporting year and on completion of that year adjustments are made in accordance with actual registrations.

Premium income is treated as earned from the date of attachment of risk. The earned portion of premiums received or receivable relating to the financial year is recognised as income.

Notes to the financial statements

for the year ended 30 June 2019

2.2. Net Claims expense

Overview

The largest expense for the Authority is net claims, which is the difference between the net outstanding claims liability (Note 2.3) at the beginning and the end of the financial year plus any claims incurred and settled in the financial year and the movement in the unexpired risk liability.

Claims incurred is:

- the amount incurred on claims by the Authority during the year;
- plus the amount, which the consulting actuary has estimated as at 30 June 2019 as being the movement in the amount required to meet the cost of claims reported but not yet paid.

There are no recoveries in the Sporting Injuries Insurance Scheme.

	2019 $'000	2018 $'000
Claims paid	232	560
Finance costs (refer note 2.3.1)	24	29
Other movements in claims liabilities (refer note 2.3.1)	37	(591)
Net claims expense	**293**	**(2)**

	2019			2018
	Current Year $'000	Prior Years $'000	Total $'000	Total $'000
Direct business				
Gross claims incurred and related expenses – undiscounted	700	(443)	257	(29)
Discount and discount movement – gross claims incurred	(13)	49	36	27
Net claims incurred	**687**	**(394)**	**293**	**(2)**

Notes to the financial statements

for the year ended 30 June 2019

2.3. Net Outstanding claims liability

Overview

Provisions are recognised when the Authority has a present obligation as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

The net outstanding claims liability comprises the elements described below:

The net central estimate (Note 2.3.1). This is the provision for expected future claims payments and includes claims reported but not yet paid, claims incurred but which have not yet been reported (IBNR), claims incurred but not enough reported (known as IBNER) and estimated claims handling costs;

Less an amount to reflect the discount to present value using risk-free rates of return. The net central estimate is discounted to present value recognising that the claim may not be settled for some time. The expected future payments are discounted to a present value at the reporting date using discount rates based on the market yields on Commonwealth Government securities; and

Plus a risk margin (Note 2.3.2). A risk margin is added to reflect the inherent uncertainty in the net discounted central estimate of outstanding claims.

2.3.1. Discounted net outstanding claims

Overview

The provision for outstanding claims is actuarially determined. It is measured as the estimate of the expected future payments required to settle the present obligation at the reporting date, including the expenses associated with the settlement.

The expected future payments are estimated on the basis of the ultimate cost of the settling of claims, which is affected by factors arising during the period to settlement such as normal inflation and "superimposed inflation". Superimposed inflation refers to factors such as trends in court awards, for example increases in the level and period of compensation for injury or above inflation increases in the cost of obtaining medical services.

Notes to the financial statements

for the year ended 30 June 2019

2.3.1 Discounted net outstanding claims (continued)

	2019 $'000	2018 $'000
Opening balance	1,561	2,123
Discount unwind	24	29
Expected claim payments (prior years only)	(383)	(497)
CHE on expected claim payments (prior years only)	(77)	(99)
Release of Risk Margin on claim payments (prior years only)	(205)	(245)
Adjustment arising from change in (prior years only):		
- Actuarial assumptions*	45	(294)
- Discount/inflation rates	25	4
- Risk margins	(55)	43
Net outstanding claims in current year	687	497
Net outstanding claims per actuarial report	**1,622**	**1,561**
*** Breakdown of Actuarial assumptions**		
Actual vs Expected Payments	154	(132)
Change in experience	33	(224)
Change in actuarial assumptions	(142)	62
CHE = Claims handling expenses		

Notes to the financial statements

for the year ended 30 June 2019

2.3.2. Risk Margin

Overview

A probability of adequacy is determined by the Board to reflect the inherent uncertainty in the net discounted central estimate.

The risk margin and the net discounted central estimate are key inputs in the determination of the probability of adequacy, which is a statistical measure of the relative adequacy of the outstanding claims liability to ultimately be able to pay claims. For example, a 75 per cent probability of adequacy indicates that the net discounted central estimate is expected to be adequate seven and a half years in 10.

The overall risk margin was determined allowing for the relative uncertainty of the outstanding claims estimate. Uncertainty was analysed using stochastic modelling and also taking into account potential uncertainties relating to the actuarial models and assumptions, the quality of the underlying data used in the models, the general insurance environment, the underlying characteristics of business written and the impact of legislative reform.

The estimate of uncertainty is greater for long tailed classes when compared to short tailed classes due to the longer time until settlement of the outstanding claims.

Uncertainty in estimation process

The estimated cost of claims includes direct expenses to be incurred in settling claims. The Authority takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of claims incurred but not reported ('IBNR') is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Authority, where more information about the claim event is generally available. IBNR claims may often not be apparent to the insured until many years after the incident giving rise to the claim. In calculating the estimated cost of unpaid claims the Authority uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

- the high level of severe injury claims reported in the latest accident years;
- the change in mix of sporting injuries over time;
- limitations of historical information;
- outcomes remain dependent on future events, including legislative, social and economic forces; and
- inherent volatility in the portfolio due to the small number of claims.

Uncertainty can also arise from the process of selecting a simplified model and assumptions since it is difficult to reflect reality completely in a model. Erroneous data can cause additional issues with selecting appropriate assumptions. The inherent randomness in the claims process means that experience can differ to expected even if the modeling and assumptions were perfect.

The assumptions regarding uncertainty were applied to the central estimates of the liability for the Sporting Injuries Insurance Scheme only and are intended to result in a 75 per cent probability of adequacy. The overall risk margin applied is 38.8 per cent (2018 45 per cent).

Notes to the financial statements

for the year ended 30 June 2019

2.3.3. Core claims liability variables

Overview

The actuarial valuation at 30 June 2019 was performed by Pricewaterhouse Coopers (Australia) (PwC). The assumptions used by PwC in determining the outstanding claims liabilities as at 30 June 2019 were:

	2019 $'000	2018 $'000
Claims handling expense	20%	20%
Discount rate	1.0%	2.2%
Inflation	0%	0%
Superimposed inflation	0%	0%

Claims handling expense assumptions have been expressed as a claim cost as a percentage of claim payments. The expected cost to settle future claims has been applied to the projected payments to estimate the outstanding claims handling expense liability.

Discount Rate

Discount rates are derived from market yields on Commonwealth Government securities.

Inflation

No allowance has been made for future claims inflation. Past claims are fixed by the benefit schedules as specified by the *Sporting Injuries Insurance Act 1978* and the Authority has assumed that there are no future legislation changes that will affect the level of benefits paid in respect of past claims. The introduction of the *Sporting Injuries Regulation 2014* has had no impact on the level of benefits as it only changed the impairment thresholds for a person to qualify for benefits.

Superimposed Inflation

Superimposed inflation occurs due to non-economic effects such as court settlements increasing at a faster rate than wages or CPI inflation. As the benefits are fixed by legislation, the Authority has not made an allowance for superimposed inflation. Hence to the extent that they are present in the historic experience, the valuation methodology makes an implicit allowance for superimposed inflation in claims cost.

2.3.4. Impact of changes in key variables on the net outstanding claims liability

Overview

The Authority conducts a sensitivity analysis to quantify the exposure to risk of changes in the key underlying variables. The valuations included in the reported results are calculated using certain assumptions about these variables as disclosed above. The movement in any key variable will impact the performance and equity of the Authority. The tables below describe how a change in each assumption will affect the insurance liabilities and show an analysis of the sensitivity of the net result and equity to changes in these assumptions. There are no recoveries in the Sporting Injuries Insurance Scheme.

Notes to the financial statements

for the year ended 30 June 2019

A sensitivity analysis of the key assumption changes for and their impact on the net central estimate is shown in the following tables:

	Movement in variable	2019 Impact on Net Result $'000	2019 Impact on Liabilities $'000
Expenses	5%	(68)	68
Expenses	(5%)	68	(68)
Discount rate	1%	30	(30)
Discount rate	(1%)	(32)	32

	Movement in variable	2018 Impact on Net Result $'000	2018 Impact on Liabilities $'000
Expenses	5%	(65)	65
Expenses	(5%)	65	(65)
Discount rate	1%	29	(29)
Discount rate	(1%)	(31)	31

The weighted average expected term to settlement from the reporting date of the outstanding claims is estimated to be 1.93 years for the Authority (2018- 1.96 years).

2.3.5. Claims development

Overview

A significant portion of the Authority's liabilities relate to claim liabilities of past years that will be settled in future years.

The following table shows the development of undiscounted outstanding claims relative to the ultimate expected claims for the most recent accident years for the Authority.

Notes to the financial statements

for the year ended 30 June 2019

2.3.5. Claims development (continued)

Accident year	2009 & prior $'000	2010 $'000	2011 $'000	2012 $'000	2013 $'000	2014 $'000	2015 $'000	2016 $'000	2017 $'000	2018 $'000	2019 $'000	Total $'000
Estimate of ultimate claims cost												
At end of accident year					365	712	731	504	736	298	420	
One year later				260	378	755	852	556	741	404		
Two years later			231	320	385	679	753	375	658			
Three years later		441	203	308	541	570	766	299				
Four years later		330	171	190	459	545	709					
Five years later	455	342	146	194	427	526						
Six years later	403	272	121	187	426							
Seven years later	373	262	114	176								
Eight years later	350	271	105									
Nine years later	327	262										
Ten years and later	327											
Current estimate of cumulative claims cost	327	262	105	176	426	526	709	299	658	404	420	4,312
Cumulative payments	327	262	96	157	407	489	658	248	489	207	-	3,340
Outstanding claims – undiscounted												972
Discount												(20)
2009 and prior												22
Claims handling expenses												195
Outstanding claims excluding risk margin												1,169
Risk Margin												453
Outstanding claims including risk margin												1,622

Notes to the financial statements

for the year ended 30 June 2019

2.3.6. Unearned premium and unexpired risk liability

Overview

Unearned premium

Gross written premium is earned in profit or loss in accordance with the pattern of incidence of risk of the related business. The unearned premium liability is that portion of gross written premium that the Authority has not yet earned in profit or loss as it represents insurance coverage to be provided by the Authority after the balance date.

Unexpired risk liability

At the reporting date, a liability adequacy test (LAT) is performed by the Fund Actuaries for the Authority.

At the balance date, the Authority recognises a liability in respect of outstanding claims and assesses the adequacy of its unearned premium liability. As required under AASB 1023 *General Insurance Contracts*, a LAT is undertaken to determine the adequacy of the unearned premium liability against current estimates of the present value of the expected future cash flows relating to future claims arising from the rights and obligations under current insurance contracts.

	2019 $'000	2018 $'000
Unearned premium income	461	412
Unexpired risk liability	49	31
	510	**443**

2.3.6.1. Reconciliation of unearned premiums

A reconciliation of the carrying amount of unearned premiums at the beginning and end of the reporting periods is set out below.

	2019 $'000	2018 $'000
Year ended 30 June		
Net carrying amount at start of year	412	399
Deferral of premiums written in current year	864	760
Premiums earned during the year	(815)	(747)
Net carrying amount at end of year	**461**	**412**

Notes to the financial statements

for the year ended 30 June 2019

2.3.6.2. Reconciliation of unexpired risk liability

	2019 $'000	2018 $'000
Unexpired risk liability as at 1 July	31	28
Movement in the unexpired risk liability recognised in the Statement of Comprehensive Income	18	3
Unexpired risk liability as at 30 June	**49**	**31**

	2019 $'000	2018 $'000
Unearned premium liability relating to contracts issued under the Sporting Injuries Insurance Scheme (A)	461	412
Central estimate of the present value of expected future cash flows arising from future claims on contracts issued under the Sporting Injuries Insurance Scheme	340	296
Risk Margin (75% Probability of Sufficiency)	170	147
(B)	510	443
Unexpired risk liability (B)-(A) (zero minimum)	49	31

The process for determining the overall risk margin, including the way in which diversification of risks has been allowed for is discussed in Note 2.3.2. As with outstanding claims, the overall risk margin is intended to achieve a 75 per cent probability of adequacy.

Notes to the financial statements

for the year ended 30 June 2019

2.3.7. Trade and other receivables

Overview

Trade and other receivables are principally amounts owed to the Authority by policyholders or on investments. Investment receivables are amounts due from investment counterparties in settlement of transactions.

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They include trade and other receivables and are recognised at their amortised cost less impairment losses, which approximates fair value.

Receivables are recognised at amortised cost using the effective interest method, less any allowance for expected credit losses. The Authority has applied a simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, receivables have been grouped based on days overdue.

Details regarding credit risk, liquidity risk, and market risk, including financial assets that are either past due or impaired, are disclosed in Note 4.

The collection of receivables is reviewed on an ongoing basis. An allowance for impairment is established when there is objective evidence that not all amounts due will be collectable. Bad debts are written off when there is objective evidence that the chance of collecting an amount is unlikely.

	2019 $'000	2018 $'000
Premiums receivable	380	234
Investments receivable	5	3
Injury prevention levies receivable	27	-
GST receivable	4	-
Other	40	-
Total Receivables	**456**	**237**

Notes to the financial statements

for the year ended 30 June 2019

2.3.8. Trade and other payables

Overview

Trade and other payables represent liabilities for services provided to the Authority prior to the end of financial year, which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

These amounts represent liabilities for goods and services provided to the Authority and other amounts. Payables are recognised initially at fair value, usually based on the transaction cost or face value. Subsequent measurement is at amortised cost using the effective interest method which approximates fair value. Short-term payables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial.

The payables are recognised for amounts due to be paid in the future for goods or services received, whether or not invoiced. Amounts owing to suppliers (which are unsecured) are settled in accordance with the policy set out in Treasury Circular 11/12.

Details regarding credit risk, liquidity risk, and market risk, including a maturity analysis of the above payables are disclosed in Note 4.

	2019 $'000	2018 $'000
Unearned Injury Prevention levies	18	18
Accrued Operating Expenses	90	89
Service fees payable	26	13
Total Payables	**134**	**120**

3. Investment activities

Overview

Investments in New South Wales Treasury Corporation's Funds (TCorpIM Funds) and the managed asset portfolio are designated as fair value through profit or loss. The investments within the Funds are unit holdings. The value of the Funds is based on the Authority's share of the value of the underlying assets of the Fund, based on the market value. All of the Funds are valued at redemption price.

The fair value quoted market price for similar instruments and the underlying value are provided by Portfolio manager, TCorp.

The movement in the fair value of the Funds incorporates distributions received as well as realised and unrealised movements in fair value and is reported as investment revenue in the statement of comprehensive income.

Purchases or sales of investments are recognised on the trade date i.e. the date the entity commits itself to purchase or sell the asset.

Refer to Note 4 for further information regarding fair value measurement, credit risk, liquidity risk and market risk arising from financial assets at fair value.

Notes to the financial statements

for the year ended 30 June 2019

All investments are held to back insurance liabilities. As part of its investment strategy the Authority actively manages its investment portfolio to ensure that investment liquidity is in accordance with the expected pattern of future cash flows arising from insurance liabilities.

3.1. Investment income

Overview

Investment revenue includes interest income, distributions, realised and unrealised gains or loss. Interest income is recognised on an accrual basis.

Realised and unrealised gains or losses are recognised on a change in fair value basis.

Differences between the fair values of investments at the end of the reporting period and their fair values at the end of the previous reporting period (or cost of acquisition, if acquired during the reporting period) are recognised as revenue in the statement of comprehensive income.

	2019 $'000	2018 $'000
Distributions	68	37
TCorp Fixed variable interest discrete portfolio	29	-
Interest Income other	8	36
Realised gains /(losses) other	(2)	80
Unrealised gains /(losses) TCorp	13	5
Total Investment income	116	158
Investment management expense	(16)	(46)
Net Investment income	100	112

3.2. Investment assets and liabilities

	2019 $'000	2018 $'000
Indexed and interest-bearing securities	1,138	1,112
TCorp IM Funds	3,319	2,765
Total financial assets at fair value	4,457	3,877

All investments are held to fund outstanding claims liabilities.

Details regarding credit risk, liquidity risk, and market risk on investments are disclosed in Note 4.

Notes to the financial statements

for the year ended 30 June 2019

3.3. Fair value estimation

Overview

The carrying amounts of the Authority's financial assets and liabilities at the end of the reporting period approximated their fair values as all financial assets and liabilities held were either at fair value at the end of the reporting period ('marked to market') or were short term in nature.

The Authority uses the following hierarchy for disclosing the fair value of financial instruments by valuation technique:

- Level 1 – derived from quoted prices in active markets for identical assets / liabilities that the entity can access at measurement date;
- Level 2 – derived from inputs other than quoted prices that are observable directly or indirectly; and
- Level 3 – derived from valuation techniques that include inputs for the asset / liability not based on observable market data (unobservable inputs).

	2019				2018			
	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets at fair value								
Indexed and interest-bearing securities	1,138	-	-	1,138	1,112	-	-	1,112
TCorpIM Funds	-	3,319	-	3,319	-	2,765	-	2,765
Derivatives	-	-	-	-	-	-	-	-
	1,138	**3,319**	**-**	**4,457**	**1,112**	**2,765**	**-**	**3,877**

(The tables above include only financial assets, as no financial liabilities were measured at fair value in the statement of financial position).

The value of the Investments is based on the entity's share of the value of the underlying assets of the fund, based on the market value. All of the facilities are valued using 'redemption' pricing.

Transfer between levels

The Authority recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the transfer has occurred. There were no transfers during the year ended 30 June 2019 (Nil- 2018).

Notes to the financial statements

for the year ended 30 June 2019

4. Risk Management

Overview

The Authority applies a consistent and integrated approach to enterprise risk management (ERM). The Authority operates within icare's risk management framework which sets out the approach to managing key risks and meeting strategic objectives. The risk management framework is articulated in the Risk Management Strategy (RMS) which is approved annually by the Board.

The icare Board is ultimately responsible for identifying and controlling financial risks. This is done through the establishment of holistic strategies and policies which are cognisant of financial risk management.

The framework consists of complementary elements that are embedded throughout the business management cycle and culture of the organisation. Key aspects include: risk appetite, governance, risk reporting and insights, modelling and stress testing, management, monitoring and culture.

Risk management is a continuous process and an integral part of robust business management. The Authority's approach is to integrate risk management into the broader management processes of the organisation. It is the Authority's philosophy to ensure that risk management remains embedded in the business and that the risk makers or risk takers are themselves the risk managers. Specifically, the management of risk must occur at each point in the business management cycle.

The key risk categories used by the Authority to classify financial risk:

- Insurance risk (Note 4.1);
- Market risk (Note 4.2);
- Interest rate risk (Note 4.3);
- Other price risk (Note 4.4);
- Liquidity risk (Note 4.5); and
- Credit risk (Note 4.6).

In accordance with the *State Insurance and Care Governance Act 2015* the Board of Insurance and Care NSW has overall responsibility for the establishment and oversight of risk management and reviews and agrees policies for managing each of these risks. Risk management policies are established to identify and analyse the risks faced by the Authority, to set risk limits and controls and to monitor risk. Compliance with policies is reviewed by sub Committees of the Board on a continual basis.

NSW Treasury Corporation (TCorp) has been appointed to provide investment management, advisory and administration services to icare managed investment funds. TCorp is engaged through a Master Financial Services Agreement (MFSA) which details, amongst other things, the service and reporting provisions. Service levels and compliance to the MFSA are monitored through icare's Finance & Services team. Ministerial Orders that were introduced in December 2016, outline the key responsibilities of TCorp including, yet not limited to, the appointment of investment managers and service providers such as the custodian.

The Authority's principal financial instruments are outlined below. These financial instruments arise directly from the Authority's operations and are required to finance these operations. The Authority does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The main purpose of these financial instruments is to derive income and investment gains which are used to fund insurance liabilities.

Notes to the financial statements

for the year ended 30 June 2019

4. Risk Management (continued)

Financial instrument categories

	Note	Category	2019 $'000	2018 $'000
Financial Assets				
Cash and cash equivalents	5.1	N/A	399	628
Receivables[1]	2.3.7	Loans and receivables at amortised cost	425	237
		-		
Investments	3.2	At fair value through profit or loss	4,457	3,877
Financial Liabilities			**-**	**-**
Payables[2]	2.3.8	Financial liabilities measured at amortised cost	116	102

[1] Excludes statutory receivables and prepayments (i.e. not within the scope of AASB 7).

[2] Excludes statutory payables and unearned revenue (i.e. not within scope of AASB 7).

4.1. Insurance Risk

Overview

Insurance risk is the risk of fluctuations in the timing, frequency and severity of insured events and claims settlements, relative to expectations. Key drivers of insurance risk include natural or man-made catastrophic events, pricing of insurance contracts, reserving and insurance claims.

4.2. Market risk

Overview

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Authority's exposures to market risk are primarily through other price risk associated with the movement in the unit price of the TCorpIM Funds.

The effect on net result and equity due to a reasonably possible change in risk variable is outlined in the information below, for interest rate risk and other price risk (refer Note 4.4). A reasonably possible change in risk variable has been determined after taking into account the economic environment in which the Authority operates and the time frame for the assessment (i.e. until the end of the next annual reporting year).

Notes to the financial statements

for the year ended 30 June 2019

4.3. Interest rate risk

Overview

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Exposure to interest rate risk arises primarily through the Authority's cash deposits held at other financial institutions. TCorp manages the portfolio to agreed benchmarks to minimise the fair value interest rate risk.

The following table provides the sensitivity analysis of interest rate risk affecting applicable financial assets on the operating result and equity of the Authority. A reasonably possible change of +/- 1 per cent is used, consistent with current trends in interest rates (based on official RBA interest rate volatility over the last five years). The basis will be reviewed annually and amended where there is a structural change in the level of interest rate volatility.

	Carrying Amount $'000	-1% Profit $'000	-1% Equity $'000	+1% Profit $'000	+1% Equity $'000
2019					
Cash and cash equivalents	399	(4)	(4)	4	4
2018					
Cash and cash equivalents	628	(6)	(6)	6	6

4.4. Other price risk

Overview

Exposure to "other price risk" primarily arises through the investment in the TCorpIM Funds which are held for strategic rather than trading purposes. The Authority has no direct equity investments. The Authority holds units in the following Fund:

TCorpIM Fund	Investment Section	Investment Horizon	2019 $'000	2018 $'000
Cash	Cash and money market instruments	Up to 1.5 years	4,457	3,877

The unit price of each fund is equal to the total fair value of net assets held by the fund divided by the number of units on issue for that fund. Unit prices are calculated and published daily.

Notes to the financial statements

for the year ended 30 June 2019

4.4 Other price risk (continued)

TCorp as trustee for each of the above funds is required to act in the best interest of the unit holders and to administer the trusts in accordance with the trust deeds. As trustee, TCorp has appointed external managers to manage the performance and risks of each facility in accordance with a mandate agreed by the parties. TCorp's Cash and Fixed Income Investments team also manages certain cash and fixed income assets for the Funds. A significant portion of the administration of the funds is outsourced to an external custodian.

Investment in the funds limits the Authority's exposure to risk, as it allows diversification across a pool of funds, with different investment horizons and a mix of investments.

TCorp provides sensitivity analysis information for each of the investment funds, using historically based volatility information collected over a ten-year year, quoted at two standard deviations (i.e. 95 per cent probability). The TCorp investment funds are designated at fair value through profit or loss and therefore any change in unit price impacts directly on profit (rather than equity). A reasonably possible change is based on the percentage change in unit price (as advised by TCorp) multiplied by the redemption value as at 30 June each year for each fund (balance from investment fund statement).

TCorpIM Fund		Change in Unit Price 2019%	Impact on Net Result 2019 $'000	Change in Unit Price 2018%	Impact on Net Result 2018 $'000
Cash	+/-	1	45	1	39

4.5. Liquidity risk

Overview

Liquidity risk is the risk of insufficient liquid assets to meet liabilities as they fall due. The Authority's liquidity risk arises due to the nature of insurance activities where the timing and amount of cash outflows are uncertain.

The Authority continuously manages risk through monitoring of future cash flows and maturities planning to ensure adequate holding of high quality liquid assets. The objective is to maintain a balance between continuity of funding and flexibility through the use of overdrafts, loans and other advances, if applicable.

The Authority does not have any loans payable and no assets have been pledged as collateral. The Authority's exposure to liquidity risk is deemed insignificant based on current assessment of risk.

The liabilities are recognised for amounts due to be paid in the future for goods or services received, whether or not invoiced. Amounts owing to suppliers (which are unsecured) are settled in accordance with the policy set out in NSW Treasury Circular 11/12.

The table below summarises the maturity profile of the Authority's financial liabilities, together with the interest rate exposure.

Notes to the financial statements

for the year ended 30 June 2019

Maturity analysis and interest rate exposure of financial liabilities

Weighted Average Effective Interest Rate		Nominal Amount (1) $'000	Interest Rate Exposure $'000			Maturity Dates $'000		
			Fixed rate	Variable rate	Non-interest bearing	<1 year	1-5 years	>5 years
2019	**%**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Payables	N/A	116	-	-	116	116	-	-
2018								
Payables	N/A	102	-	-	102	102	-	-

Notes:
1. The amounts disclosed are the contractual undiscounted cash flows of each class of financial liabilities based on the earliest date on which the Authority can be required to pay. The tables include both interest (if applicable) and principal cash flows and therefore may not reconcile to the statement of financial position.

4.6. Credit risk

Overview

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Credit risk arises from the financial assets of the Authority, which comprise cash and cash equivalents, receivables and financial assets at fair value. No collateral is held by the Authority. The Authority has not granted any financial guarantees. The Authority's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments at balance date.

Financial assets and liabilities arising from insurance contracts are stated in the statement of financial position at the amount that best represents the maximum credit risk exposure at balance date.

Credit risk associated with the Authority's financial assets, other than receivables, is managed through the selection of counterparties and establishment of minimum credit rating standards. The Authority's exposure to credit risk is considered to be minimal.

4.6.1. Cash

Cash comprises cash on hand and term deposits with a maturity of less than 3 months and bank balances within the NSW Treasury Banking System. Interest is earned on daily bank balances on funds in the NSW Treasury Banking System at the Reserve Bank of Australia's prevailing cash rate. The TCorpIM Cash Fund is discussed in Note 4.4.

Notes to the financial statements

for the year ended 30 June 2019

4.6.2. Receivables – trade debtors

Collectability of trade debtors is reviewed on an ongoing basis. Procedures have been established to recover outstanding amounts, including letters of demand. Debts which are known to be uncollectible are written off. An allowance for impairment is raised when there is objective evidence that the Authority will not be able to collect the amount due. This evidence includes past experience, and current and expected changes in economic conditions and debtor credit ratings.

There were no debtors past due or considered impaired at 30 June 2019 (30 June 2018- Nil).

There are no debtors past due or impaired whose terms have been re-negotiated.

4.6.3. Financial assets at fair value

Financial assets at fair value include investments in TCorp's Funds and the managed assets portfolio. The investments within the Funds are unit holdings, and as such, do not give rise to credit risk. Credit risk within the Funds is managed by ensuring there is a wide spread of risks. TCorp, as trustee, contracts with specialist investment managers and requires the mandates to include a series of controls over the concentration and credit quality of assets.

5. Other

Overview

This section includes other information that must be disclosed to comply with the Australian Accounting Standards.

5.1. Cash and cash equivalents

Overview

Cash and cash equivalents include cash at bank and short term money market investments held at TCorp.

For the purposes of the statement of cash flows, cash and cash equivalents includes cash at bank, term deposits with a maturity of less than 3 months and highly liquid investments.

	2019 $'000	2018 $'000
Cash at bank	399	623
Short term deposits		
- Cash Other	-	5
	399	**628**

Notes to the financial statements

for the year ended 30 June 2019

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:

	2019 $'000	2018 $'000
Cash and cash equivalent assets (per statement of financial position)	399	628
Closing cash and cash equivalents (per statement of cash flows)	**399**	**628**

Refer to Note 4 for further information regarding credit risk, liquidity risk and market risk arising from financial instruments.

Reconciliation of Net Cash Flows from Operating Activities to Net Result

	2019 $'000	2018 $'000
Net cashflows from operating activities	(229)	249
Net cashflows from investment operating activities	580	(250)
Change in assets and liabilities		
Increase/(Decrease) in receivables	219	(38)
Decrease/(Increase) in payables	(14)	123
Decrease/(increase) in unearned premium income	(49)	(13)
(Increase) in unexpired risk	(18)	(3)
Decrease/ (Increase) in provisions for outstanding claims	(61)	562
Net result	**428**	**630**

5.2. Contingent liabilities and contingent assets

The Authority does not have any known contingent liabilities or assets at reporting date.

End of Audited Financial Statements

icare

Dust Diseases Care

Lifetime Care

Insurance for NSW

HBCF

Workers Insurance

Sporting Injuries Insurance

● **BIG Corp**

BIG Corp

BIG Corp
Financial statements

for the year ended 30 June 2019

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finity

Actuarial and Insurance Consultants

Actuarial Certificate
Outstanding Claims Liabilities at 30 June 2019

Finity Consulting Pty Ltd (Finity) has been contracted by Insurance & Care NSW (icare) to estimate the outstanding claims liabilities of the Building Insurers' Guarantee Corporation (BIG Corp) as at 30 June 2019.

Data

Finity has relied on the completeness and accuracy of the data provided by icare for this valuation. We have also placed significant reliance on the information provided for previous valuations undertaken for BIG Corp. We have not independently audited the data but it was reviewed for reasonableness and internal consistency. The accuracy of our results is dependent on the accuracy and completeness of the underlying data.

Basis of our Estimates

We have made central estimates of the outstanding claims liabilities; this means that the valuation assumptions have been selected such that our estimates of these liabilities contain no deliberate overstatement or understatement. Our estimates:

- Are discounted, using a risk-free discount rate, to allow for the time value of money
- Contain an allowance for associated claims handling expenses.

Given the inherent uncertainty in any central estimate of insurance liabilities, icare may choose to hold an additional margin when reporting the provision in the accounts. Furthermore, icare can decide on the level of margin to hold in the accounts. We understand that under icare's policy, the accounting provision for BIG Corp is required to be a central estimate, i.e. with a zero risk margin.

Valuation Results

Finity estimates the outstanding claims liability for BIG Corp to be $7.0 million. The components of the outstanding claims liability are shown in Table 1.

Table 1 – Outstanding Claims Liability at 30 June 2019 ($'000)

Undiscounted:	
Case Estimates	6,648
Future Development	61
Sub Total	6,709
CHE	335
Undiscounted Total	7,044
Discounting	(36)
Discounted Total	7,008

It is a decision for icare to determine the amount adopted in the accounts.

Actuarial and Insurance Consultants

Uncertainty

There is inherent uncertainty in estimates of outstanding claims liabilities. Claims outcomes remain dependent on future events, including legislative, social and economic forces. A key source of the uncertainty in the valuation is that as the BIG Corp scheme is now deep into run-off, individual large claims drive the outcome.

We have prepared our estimates on the basis that they represent our current assessment of the likely future experience of BIG Corp. However, potentially material deviations of the actual experience from our estimates are normal and to be expected.

Reports

Full details of data, analysis and results for the valuation of BIG Corp's claims liabilities are set out in a letter titled "Review of the Building Insurers' Guarantee Corporation at 30 June 2019", dated 2 September 2019.

Relevant Standards

Our estimates and letter are prepared in accordance with Australian Accounting Standard AASB137 and the Actuaries Institute's Professional Standard 300.

Yours sincerely

Kane Boulton

Stephen Lee

Fellows of the Institute of Actuaries of Australia

2 September 2019

Statement by the chairman and chief executive officer

for the year ended 30 June 2019

Building Insurers' Guarantee Corporation

Certificate under Section 41C(1B) and 41C(1C) of the *Public Finance and Audit Act 1983* and Clause 7 of the Public *Finance and Audit Regulation 2015.*

In the opinion of the Board of Directors:

1. the financial statements of the Building Insurers' Guarantee Corporation have been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2015* and the Treasurer's Directions. They have also been prepared in accordance with Australian Accounting Standards (which include Australian Accounting Interpretations) and other authoritative pronouncements of the Australian Accounting Standards Board;
2. the financial statements for the year ended 30 June 2019 exhibit a true and fair view of the position and transactions of the Building Insurers' Guarantee Corporation; and
3. the directors are not aware of any circumstances as at the date of this certificate which would render any particulars included in the financial statements misleading or inaccurate.

Signed on behalf of the Board of Directors of Insurance and Care NSW.

Michael Carapiet
Chairman
Insurance and Care NSW
23 September 2019

John Nagle
Chief Executive Officer and
Managing Director
Building Insurers' Guarantee Corporation and
Insurance and Care NSW
23 September 2019

INDEPENDENT AUDITOR'S REPORT

Building Insurers' Guarantee Corporation

To Members of the New South Wales Parliament

Opinion

I have audited the accompanying financial statements of the Building Insurers' Guarantee Corporation (the Corporation), which comprise the Statement of Comprehensive Income for the year ended 30 June 2019, the Statement of Financial Position as at 30 June 2019, the Statement of Changes in Equity and the Statement of Cash Flows for the year then ended, and notes comprising 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 2019, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards
- are in accordance with section 41B of the *Public Finance and Audit Act 1983* (PF&A Act) and the Public Finance and Audit Regulation 2015.

My opinion should be read in conjunction with the rest of this report.

Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under the standards are described in the 'Auditor's Responsibilities for the Audit of the Financial Statements' section of my report.

I am independent of the Corporation in accordance with the requirements of the:

- Australian Auditing Standards
- Accounting Professional and Ethical Standards Board's APES 110 'Code of Ethics for Professional Accountants' (APES 110).

I have fulfilled my other ethical responsibilities in accordance with APES 110.

Parliament promotes independence by ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of public sector agencies
- precluding the Auditor-General from providing non-audit services.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Level 19, Darling Park Tower 2, 201 Sussex Street, Sydney NSW 2000
GPO Box 12, Sydney NSW 2001 | **t** 02 9275 7101 | **f** 02 9275 7179 | mail@audit.nsw.gov.au | audit.nsw.gov.au

Other Information

The Corporation's annual report for the year ended 30 June 2019 includes other information in addition to the financial statements and my Independent Auditor's Report thereon. The Chief Executive Officer of the Corporation is responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprises the Statement by the Chairman and the Chief Executive Officer.

My opinion on the financial statements does not cover the other information. Accordingly, I do not express any form of assurance conclusion on the other information.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude there is a material misstatement of the other information, I must report that fact.

I have nothing to report in this regard.

The Chief Executive Officer's Responsibilities for the Financial Statements

The Chief Executive Officer is responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards and the PF&A Act, and for such internal control as the Chief Executive Officer determines is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Executive Officer is responsible for assessing the Corporation's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting, unless it is not appropriate to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to:

- obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions users take based on the financial statements.

A description of my responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_responsibilities/ar4.pdf. The description forms part of my auditor's report.

My opinion does *not* provide assurance:

- that the Corporation carried out its activities effectively, efficiently and economically
- about the assumptions used in formulating the budget figures disclosed in the financial statements
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.

David Daniels
Director, Financial Audit Services

Delegate of the Auditor-General for New South Wales

27 September 2019
SYDNEY

Statement of comprehensive income

for the year ended 30 June 2019

	Notes	2019 $'000	2018 $'000
Revenue			
Recoveries		7	-
Interest income		713	834
Total Revenue		**720**	**834**
Expenses excluding losses			
Claims released	2.1	(3,489)	(5,899)
Service fees		237	169
Other expenses		65	34
Total expenses excluding losses		**(3,187)**	**(5,696)**
Net result		**3,907**	**6,530**
TOTAL COMPREHENSIVE INCOME/(LOSS)		**3,907**	**6,530**

The accompanying notes form part of these financial statements.

Statement of financial position

as at 30 June 2019

	Notes	2019 $'000	2018 $'000
Assets			
Cash and cash equivalents	4.1	46,272	49,126
Receivables		4	85
Total Assets		**46,276**	**49,211**
Liabilities			
Payables		53	112
Outstanding claims	2.2	7,008	13,791
Total Liabilities		**7,061**	**13,903**
Net Assets		**39,215**	**35,308**
Equity			
Accumulated funds		**39,215**	**35,308**

The accompanying notes form part of these financial statements.

Statement of changes in equity

for the year ended 30 June 2019

	2019 $'000	2018 $'000
Balance at beginning of year	**35,308**	**28,778**
Net Result for the year	3,907	6,530
Total comprehensive income for the year	**3,907**	**6,530**
Balance at 30 June	**39,215**	**35,308**

The accompanying notes form part of these financial statements.

Statement of cash flows

for the year ended 30 June 2019

	Notes	2019 $'000	2018 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Recoveries		7	-
Claims paid		(3,294)	(12,287)
Net Cash Flows from Scheme Activities		**(3,287)**	**(12,287)**
Interest received		713	1,271
Service fees paid		(244)	(304)
Other expenses paid		(36)	(77)
Net Cash Flow used in Operating Activities	4.1	**(2,854)**	**(11,397)**
Net decrease in cash and cash equivalents		**(2,854)**	**(11,397)**
Opening cash and cash equivalents		**49,126**	**60,523**
Closing cash and cash equivalents	4.1	**46,272**	**49,126**

The accompanying notes form part of these financial statements.

Notes of financial statements

for the year ended 30 June 2019

1. Overview

1.1. About the Scheme

Building Insurers' Guarantee Corporation (the Corporation) is a reporting entity established under the *Home Building Act, 1989*. It was established by the NSW Government in 2001 after the collapse of HIH Insurance Limited (HIH)/FAI Insurance (FAI) as a rescue package to protect home owners who were covered by HIH/FAI Home Warranty Insurance policies.

The Corporation is a not-for-profit entity (as profit is not its principal objective) and it has no cash generating units. The reporting entity is consolidated as part of the NSW Total State Sector Accounts.

Effective 1 July 2016 the Chief Executive Officer of NSW Self Insurance Corporation is also the Chief Executive Officer of the Corporation.

icare was established on 1 September 2015 in accordance with the *State Insurance and Care Governance Act 2015*. Its functions include the monitoring of performance of the insurance or compensation schemes in respect of which it provides services. The Corporation is one such scheme.

The financial statements for the year ended 30 June 2019 have been authorised for issue by the Chairman of the Board of icare and the Chief Executive Officer and Managing Director of icare on behalf of the Board of Directors of icare on 23 September 2019.

1.2. About this report

This Financial Report includes the financial statements of the Corporation.

The Financial Report includes the four primary statements, namely the statement of comprehensive income (which comprises profit or loss and other comprehensive income), statement of financial position, statement of changes in equity and statement of cash flows as well as associated notes as required by Australian Accounting Standards. Disclosures have been grouped into the following categories in order to assist users in their understanding of the financial statements:

1. **Overview** contains information that impacts the Financial Report as a whole.
2. **Scheme activities** brings together results and statement of financial position disclosures relevant to the Corporation's scheme activities.
3. **Risk management** provides commentary on the Corporation's exposure to various financial and capital risks, explaining the potential impact on the results and statement of financial position and how the Corporation manages these risks.
4. **Other** includes additional disclosures required in order to comply with Australian Accounting Standards.

Where applicable within each note, disclosures are further analysed as follows:

- **Overview** provides some context to assist users in understanding the disclosures and the accounting policies relevant to an understanding of the numbers.
- **Disclosures** (both numbers and commentary) provides analysis of balances as required by Australian Accounting Standards.
- **Critical accounting judgements and estimates** explains the key estimates and judgements applied by the Corporation in determining the numbers.

Notes of financial statements

for the year ended 30 June 2019

1.2. About this report (continued)

The notes include information which the directors believe is required to understand the financial statements and is material and relevant to the operations, statement of financial position and results of the Corporation.

Information is considered material and relevant if:

- the amount in question is significant because of its size or nature;
- it is important to assist in understanding the results of the Corporation;
- it helps to explain the impact of significant changes in the Corporation's business; or
- it relates to an aspect of the Corporation's operations that is important to its future performance.

1.2.1. Basis of preparation

The Corporation's financial statements are general purpose financial statements which have been prepared on an accruals basis and in accordance with:

- applicable Australian Accounting Standards (which include Australian Accounting Interpretations); and
- the requirements of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2015* and the NSW Treasurer's Directions.

These financial statements have been presented on a liquidity basis following receipt of an exemption from TC19-04 by NSW Treasury that statements are presented on a current and non-current basis.

All amounts are rounded to the nearest one thousand dollars and are expressed in Australian currency.

1.2.2. Statement of compliance

The financial statements and notes comply with Australian Accounting Standards, which include Australian Accounting Interpretations.

1.2.3. Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

Judgements, key assumptions and estimations management has made are disclosed in the relevant notes to the financial statements.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised. Actual results may differ from these estimates.

In particular information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following notes:

- Note 2.2 – Outstanding Claims

1.2.4. Taxation

The Corporation is exempt from income tax under Division 50 of the *Income Tax Assessment Act 1997*.

Revenue, expenses and assets are recognised net of Goods and Services Tax (GST), except that:

- the amount of GST incurred by the Corporation as a purchaser that is not recoverable from the Australian Tax Office is recognised as part of the cost of acquisition of an asset or as part of an item of expense; and
- Receivables and payables are stated in the statement of financial position inclusive of GST.

Cash flows are included in the statement of cash flows on a gross basis. However, the GST components of cash flows arising from investing activities and financing activities which are recoverable from, or payable to, the Australian Tax Office are classified as operating cash flows.

Notes of financial statements

for the year ended 30 June 2019

1.2.5. Comparative figures

Except where an Australian Accounting Standard permits, comparative information is disclosed in respect of the previous period for all amounts reported in the financial statements.

Where necessary, comparatives have been reclassified to conform to changes in presentation in the current year.

1.2.6. Changes in accounting policy, including new or revised Australian Accounting Standards.

Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the reporting year ending 30 June 2019. The following new Standards will not have a material impact on the financial performance or position of the Corporation:

- AASB 15, AASB 2014-5, AASB 2015-8 and AASB 2016-3 regarding *Revenue from Contracts with Customers*;
- AASB 16 regarding *Leases*;
- AASB 17 regarding *Insurance Contracts*;
- AASB 1058 *Income of Not-for-profit Entities*;
- AASB 2016-8 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities;
- AASB 2017-1 Amendments to Australian Accounting Standards – Transfer of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments; and
- AASB 2018-1 Amendments to Australian Accounting Standards – Annual improvements 2015-2017 cycle.

In relation to certain new accounting standards and interpretations that have been published that are not mandatory for 30 June 2019 reporting period. the following information on their impact is provided:

- AASB 15 *Revenue from Contracts with Customers*, AASB 2014-5 *Amendments to Australian Accounting Standards* arising from AASB 15 and AASB 1058 *Income of Not-for-Profits*
    - AASB 15 *Revenue from Contracts with Customers* (AASB 15) is effective for reporting periods commencing on or after 1 January 2019. AASB 15 establishes a five-step model to account for revenue arising from contracts with customers. Revenue is recognised when control of goods or services is transferred to the customer at amounts that reflect the consideration to which the Corporation expects to be entitled in exchange for transferring the goods or services to the customer. Under AASB 118 *Revenue* (AASB 118), revenue recognition is currently based on when risks and rewards are transferred.
    - AASB 1058 *Income of Not-for-Profits* (AASB 1058) is effective for reporting periods commencing on or after 1 January 2019 and will replace most of the existing requirements in AASB 1004 *Contributions* (AASB 1004). The scope of AASB 1004 is now limited mainly to parliamentary appropriations, administrative arrangements and contributions by owners. Under AASB 1058, the Corporation will need to determine whether a transaction is consideration received below fair value principally to enable the Corporation to further its objectives (accounted for under AASB 1058) or a revenue contract with a customer (accounted for under AASB 15).
    - The standards will result in the identification of separate performance obligations that will not change the timing of recognition for some revenues, including revenues relating to sales of goods and services and specific purpose grants and subsidies.

Notes of financial statements

for the year ended 30 June 2019

1.2.6 Changes in accounting policy, including new or revised Australian Accounting Standards (continued)

- Under AASB 1058, the Corporation will recognise as liabilities, obligations for funding received where there is an obligation to construct recognisable non-financial assets controlled by the Corporation. AASB 1058 will not have any impact on the Corporation because it does not receive this type of funding.
- The Corporation will adopt AASB 15 and AASB 1058 on 1 July 2019 through application of the full retrospective transition approach. Recognition and measurement principles of the new standards will be applied for the current year and comparative year as though AASB 15 and AASB 1058 had always applied.
- The impacts to balances resulting from the adoption of AASB 15 and AASB 1058 have been assessed by the Corporation as not being significant.

- AASB 9 *Financial Instruments*
  AASB 9 *Financial Instruments* replaces AASB 139 *Financial Instruments: Recognition and Measurement* and is effective for the Corporation from 1 July 2018.

  The standard makes changes to the classification of financial assets for the purpose of determining their measurement basis, as well as the recognition of changes in fair value. The standard replaces the incurred loss model of AASB 139 with a new expected loss model which can result in the acceleration of impairment recognition on financial instruments.

  The standard requires the Corporation to account for expected credit losses on financial instruments at the point at which the financial instruments are first recognised and to estimate the expected loss applicable to those financial instruments over the period for which they are held. This requirement can result in expected losses on financial instruments being recognised in full much earlier than would have been the case under AASB 139. The Corporation has performed an assessment and concluded that no transitional adjustments were required as a result of complying with the new requirements. The majority of the Corporation's assets are already measured at fair value through profit and loss as required by AASB 9.

2. Scheme activities

Overview

This section provides analysis and commentary on the Corporation's scheme activities. Scheme activities involve all activities undertaken in relation to the provision of compensation to the Corporation's claimants.

2.1. Claims released

Overview

The largest expense for the Corporation is Scheme costs or claims expense.
Scheme costs are:

- the amount of claims paid by the Corporation during the year;
- plus the amount, which the consulting actuary has estimated as at 30 June 2019 as being the movement in the amount required to meet the cost of claims expenses reported; and
- the escalation in reported and reopened claims expenses.

Claim payments are funded by drawings collected from the Building Insurers' Guarantee Fund in accordance with Section 103P(3b) of the *Home Building Act, 1989*.

Notes of financial statements

for the year ended 30 June 2019

2.1 Claims released (continued)

Under section 16D of the *Insurance Protection Tax Act 2001*, the Policy Holders Protection Fund must be applied to meet expenditure from the Building Insurers Guarantee Fund.

	2019 $'000	2018 $'000
Claims expenses	3,271	12,100
Claims handling	23	194
Movement in outstanding claims provision	(7,019)	(18,643)
Finance cost	236	450
	(3,489)	**(5,899)**

2.2. Outstanding claims

Overview

Provisions are recognised when the Corporation has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The net outstanding claims liability comprises the elements described below:

- The net central estimate (Note 2.2.1). This is the provision for expected future claims payments and includes claims reported and estimated claims handling costs. The liability for the outstanding claims expenses is estimated as the inflated values of the expected future payments, reflecting the fact that these payments will be spread over future years. The expected future payments are estimated on the basis of the ultimate cost of claims expenses which is affected by factors arising during the period to settlement.
- Less an amount to reflect the discount to present value using risk-free rates of return. The net central estimate is discounted to present value recognising that the claim and/or recovery may not be settled for some time.

The expected future payments are estimated on the basis of the ultimate cost of the settling of claims, which is affected by factors arising during the period to settlement such as normal inflation and "superimposed inflation".

Superimposed inflation refers to factors such as in court awards, to increase at levels in excess of economic inflation. The expected future payments are then discounted to a present value at the reporting date.

Notes of financial statements

for the year ended 30 June 2019

2.2.1. Outstanding claims liability

Overview

The liabilities for claims are valued by the Actuaries as at the end of the financial year. They are measured as the present value of the expected future payments for all claims up to year end.

	2019 $'000	2018 $'000
Outstanding claims liabilities		
Expected future gross claims payments	6,712	13,384
Gross claims handling	335	670
Gross outstanding claims liabilities	7,047	14,054
Discount on central estimate	(37)	(250)
Discount on claims handling expenses	(2)	(13)
Total discount on claims liabilities	(39)	(263)
Claims liabilities 30 June	**7,008**	**13,791**

The table below analyses the movement in the net outstanding claims liability.

	2019 $'000	2018 $'000
Opening Balance	13,791	31,984
Less: Claims Provision released	(3,725)	(6,349)
Less: Claims paid	(3,294)	(12,294)
Add: Finance Costs	236	450
Carrying amount at end of year	**7,008**	**13,791**

The finance costs above represent the increase in the liability for outstanding claims from the end of the previous financial year to the end of the current financial year which is due to discounted claims not settled being one period closer to settlement.

Notes of financial statements

for the year ended 30 June 2019

2.2.2. Core claims liability variables

Overview

The following average inflation rates and discount rates were used in measuring the liability for outstanding claims:

	2019 %	2018 %
Inflation rate		
Current year	1.83%	2.36%
Future years	2.26-2.30%	2.36-2.41%
Superimposed inflation	0.0%	3.0%
Discount rate	1.04%	1.97%

The weighted average expected term to settlement from the balance date of the outstanding claims is estimated to be 0.5 years (2018: 1.0 years). The timing of claim settlement and payments is very uncertain, so there may be considerable variation in the actual emergence of payments from year to year.

2.2.3. Impact of changes in key variables on the net outstanding claims liability

Overview

The core variables that drive the Corporation's liabilities are movements in case estimates on open claims and the timing of future payments.

The actuarial review has noted significant uncertainty variations may occur between the outstanding claim estimate and ultimate cost of claims due to various factors including:

- As the scheme is now deep into run-off, individual large claims drive the outcome; and
- The number of settlements and the volume of claim payments continue to fluctuate, making it more difficult to estimate outstanding amounts at future balance dates.

3. Risk Management

Overview

The Corporation applies a consistent and integrated approach to enterprise risk management (ERM). The Corporation operates within icare's risk management framework which sets out the approach to managing key risks and meeting strategic objectives. The risk management framework is articulated in the Risk Management Strategy (RMS) which is approved annually by the Board.

The icare Board is ultimately responsible for identifying and controlling financial risk. This is done through the establishment of holistic strategies and policies which are cognisant of financial risk management.

The framework consists of complementary elements that are embedded throughout the business management cycle and culture of the organisation. Key aspects include: risk appetite, governance, risk management processes, risk reporting and insights, modelling and stress testing, management, monitoring and culture.

Notes of financial statements

for the year ended 30 June 2019

3. Risk Management (continued)

Risk management is a continuous process and an integral part of robust business management. The Corporation's approach is to integrate risk management into the broader management processes of the organisation. It is the Corporation's philosophy to ensure that risk management remains embedded in the business and that the risk makers or risk takers are themselves the risk managers. Specifically, the management of risk must occur at each point in the business management cycle.

The key risk categories used by the Corporation to classify financial risk:

- Market risk (Note 3.1);
- Interest rate risk (Note 3.2);
- Liquidity risk (Note 3.3); and
- Credit risk (Note 3.4).

The Corporation's principal financial instruments are outlined below. These financial instruments arise directly from the Corporation's operations or are required to finance those operations. The Corporation does not enter into financial instruments, including derivative financial instruments, for speculative purposes.

The Corporation's main risks arising from financial instruments are outlined below, together with the Corporation's objectives, policies and processes for measuring and managing risk. Further quantitative and qualitative disclosures are included through these financial statements.

Management has overall responsibility for the establishment and oversight of risk management, and reviews and sets policies for managing each of these risks. Risk management policies are in place to establish frameworks and processes that identify and analyse the risks faced by the Corporation, set risk limits and controls, and monitor risks.

Financial instrument categories

	Note	Category	Carrying Amount 2019 $'000	Carrying Amount 2018 $'000
Financial Assets				
Cash and cash equivalents	4.1	N/A	46,272	49,126
Receivables*		Receivables (measured at amortised cost)	-	-
Financial Liabilities				
Payables**		Payables (measured at amortised cost)	53	112

* Excludes statutory receivables and prepayments (i.e. not within the scope of AASB 7)

** Excludes statutory payables and unearned income (i.e. not within the scope of AASB 7)

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for the year ended 30 June 2019

3.1. Market risk

Overview

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Corporation has no significant exposure to market risk as it does not hold any investments or securities traded in the market.

3.2. Interest rate risk

Overview

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market interest rates. The value of the Corporation's liabilities is also affected by interest rate fluctuations.

The following table provides the sensitivity analysis of interest rate risk affecting applicable financial assets on the operating result and equity of the Corporation. A reasonably possible change of +/- 1% is used, consistent with current trends in interest rates. The basis will be reviewed annually and amended where there is a structural change in the level of interest rate volatility.

	Carrying amount $'000	-1%		+1%	
		Net Result $'000	Equity $'000	Net Result $'000	Equity $'000
2019					
Cash and cash equivalents	46,272	(463)	(463)	463	463
2018					
Cash and cash equivalents	49,126	(491)	(491)	491	491

Notes of financial statements

for the year ended 30 June 2019

3.3. Liquidity Risk

Overview

Liquidity risk is the risk that the Corporation will be unable to meet its payment obligations when they fall due. The Corporation continuously manages risk through monitoring future cash flows and maturities planning to ensure adequate holding of high quality liquid assets. The objective is to maintain a balance between continuity of funding and flexibility through the use of overdrafts, loans and other advances, if applicable.

The Corporation does not have any loans payable and no assets have been pledged as collateral. The Corporation's exposure to liquidity risk is deemed insignificant based on prior periods' data and current assessment of risk.

During the current year, there were no defaults on payables. No assets have been pledged as collateral.

The payables are recognised for amounts due to be paid in the future for services received, whether or not invoiced. Amounts owing to suppliers (which are unsecured) are settled in accordance with the policy set out in Treasury Circular TC11/12. If trade terms are not specified, payment is made no later than the end of the month following the month in which an invoice or a statement is received.

The table below summarises the maturity profile of the Corporation's financial liabilities.

	Weighted average effective interest rate %	Nominal amount $'000	Interest rate exposure			Maturity dates		
			Fixed interest rate $'000	Variable interest rate $'000	Non-interest bearing $'000	< 1 year $'000	1-5 years $'000	> 5 years $'000
2019								
Payables	-	53	-	-	-	53	-	-
Total financial liabilities	**-**	**53**	**-**	**-**	**-**	**53**	**-**	**-**
2018								
Payables	-	112	-	-	-	112	-	-
Total financial liabilities	**-**	**112**	**-**	**-**	**-**	**112**	**-**	**-**

3.4. Credit risk

Credit risk arises when there is the possibility of the Corporation's debtors defaulting on their contractual obligations, resulting in a financial loss to the Corporation. The maximum exposure to credit risk is generally represented by the carrying amount of the financial assets (net of any allowance for impairment).

Credit risk arises from the financial assets of the Corporation, including cash and receivables. Cash is held within the NSW Treasury Banking System (TBS.) Interest is earned on daily bank balances at the TBS interest rate.

Notes of financial statements

for the year ended 30 June 2019

3.4.1. Cash

Cash comprises cash on hand and bank balances within the NSW Treasury Banking System. Interest is earned on daily bank balances at the Reserve Bank of Australia's cash rate.

3.4.2. Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They include trade and other receivables and are recognised at their amortised cost less impairment losses, which approximates fair value.

Receivables are recognised at amortised cost using the effective interest method, less any allowance for expected credit losses. The Corporation has applied a simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, receivables have been grouped based on days overdue.

The Corporation does not receive any collateral for receivables.

The financial assets that are past due or considered impaired are included in the table below.

	Total	Neither past due nor impaired $'000	Past due but not impaired $'000			Considered impaired $'000
	$'000		< 3 months overdue	3-6 months overdue	> 6 months overdue	
2019						
Receivables	-	-	-	-	-	-
2018						
Receivables	85	85	-	-	-	-

	AAA $'000	AA+ $'000	AA $'000	AA- $'000	A+ $'000	A $'000	Other Ratings $'000	Total $'000
2019								
Receivables	-	-	-	-	-	-	-	-
2018								
Receivables	85	-	-	-	-	-	-	85

At 30 June 2019, receivable of the Corporation is concentrated only to the Government sector.

Notes of financial statements

for the year ended 30 June 2019

4. Other

Overview

This section includes other information that must be disclosed to comply with the Australian Accounting Standards.

4.1. Cash and Cash Equivalents

Overview

Cash and cash equivalents includes cash at bank and short-term deposits of less than 3 months duration.

Refer to Note 3 for details regarding credit risk, liquidity risk and market risk arising from financial instruments.

	2019 $'000	2018 $'000
Cash at bank	46,272	49,126

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:

	2019 $'000	2018 $'000
Cash and cash equivalent assets (per Statement of financial position)	46,272	49,126
Closing cash and cash equivalents (per Statement of cash flows)	**46,272**	**49,126**

Reconciliation of Cash Flows from Operating Activities to Net Result

	2019 $'000	2018 $'000
Net cash flow provided by/(used) in operating activities	**(2,854)**	**(11,397)**
Decrease in provisions	6,783	18,193
(Decrease)/increase in receivables	(82)	(451)
Decrease/(increase) in payables	60	185
Net Result	**3,907**	**6,530**

Notes of financial statements

for the year ended 30 June 2019

4.2. Budget Review

Statement of Comprehensive Income

	Notes	Actual 2019 $'000	Budget 2019 $'000
Revenue			
Recoveries		7	-
Interest income		713	641
Total Revenue		**720**	**641**
Expenses excluding losses			
Claims released	2.1	(3,489)	200
Service fees		237	173
Other expenses		65	116
Total expenses excluding losses		**(3,187)**	**489**
Net result		**3,907**	**152**
Total Comprehensive Income		**3,907**	**152**

Commentary

Net result for the year is favourable to budget driven by claims experience where four claims were finalised at significantly lower costs than previously estimated.

Notes of financial statements

for the year ended 30 June 2019

4.2 Budget Review (continued)

Statement of Financial Position

	Notes	Actual 2019 $'000	Budget 2019 $'000
Assets			
Cash and cash equivalents	4.1	46,272	35,510
Receivables		4	45
Total Assets		**46,276**	**35,555**
Liabilities			
Payables		53	(18)
Outstanding claims	2.2	7,008	6,248
Total Liabilities		**7,061**	**6,230**
Net Assets		**39,215**	**29,325**
Equity			
Accumulated funds		**39,215**	**29,325**

Commentary

Cash and cash equivalents favourable to budget due to lower than expected payments on open and finalised claims. The small number of open claims means that payment experience in a year can be volatile versus expectations.

Provisions represent actuarial estimate of liabilities. The unfavourable position in provisions against budget is due to actual claim payments being lower than budgeted, leading to more cost remaining outstanding than budgeted.

Total net assets favourable to budget due to timing of claims payments.

Notes of financial statements

for the year ended 30 June 2019

4.2 Budget Review (continued)

Statement of Cash Flows

	Notes	Actual 2019 $'000	Budget 2019 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Recoveries		7	-
Claims paid		(3,294)	(11,574)
Total Scheme		**(3,287)**	**(11,574)**
Interest received		713	641
Service fees paid		(244)	(173)
Other expenses paid		(36)	(316)
Net Cash used in Operating Activities	**4.1**	**(2,854)**	**(11,422)**
Net decrease in cash and cash equivalents		**(2,854)**	**(11,422)**
Opening cash and cash equivalents		**49,126**	**46,932**
Closing cash and cash equivalents	**4.1**	**46,272**	**35,510**

Commentary

Cash and cash equivalents favourable to budget due to lower than expected payments on open and finalised claims.

4.3. Events after the Reporting Date

The Corporation is in the process of settling one of the three remaining outstanding claims. Agreement has not been reached on the final amount this claim will be settled for as at the date of signing the financial statements.

All remaining funds held by the Corporation at the settlement of all outstanding claims must be returned to the Policyholders Protection Fund (PPF) in line with the section 16F of the *Insurance Protection Tax Act 2001*. The potential reduction will increase the amount of funds available to be returned to the PPF when all outstanding claims are finalised.

End of audited financial statements

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icare
Insurance and Care NSW

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A copy of this report is available at **icare.nsw.gov.au**