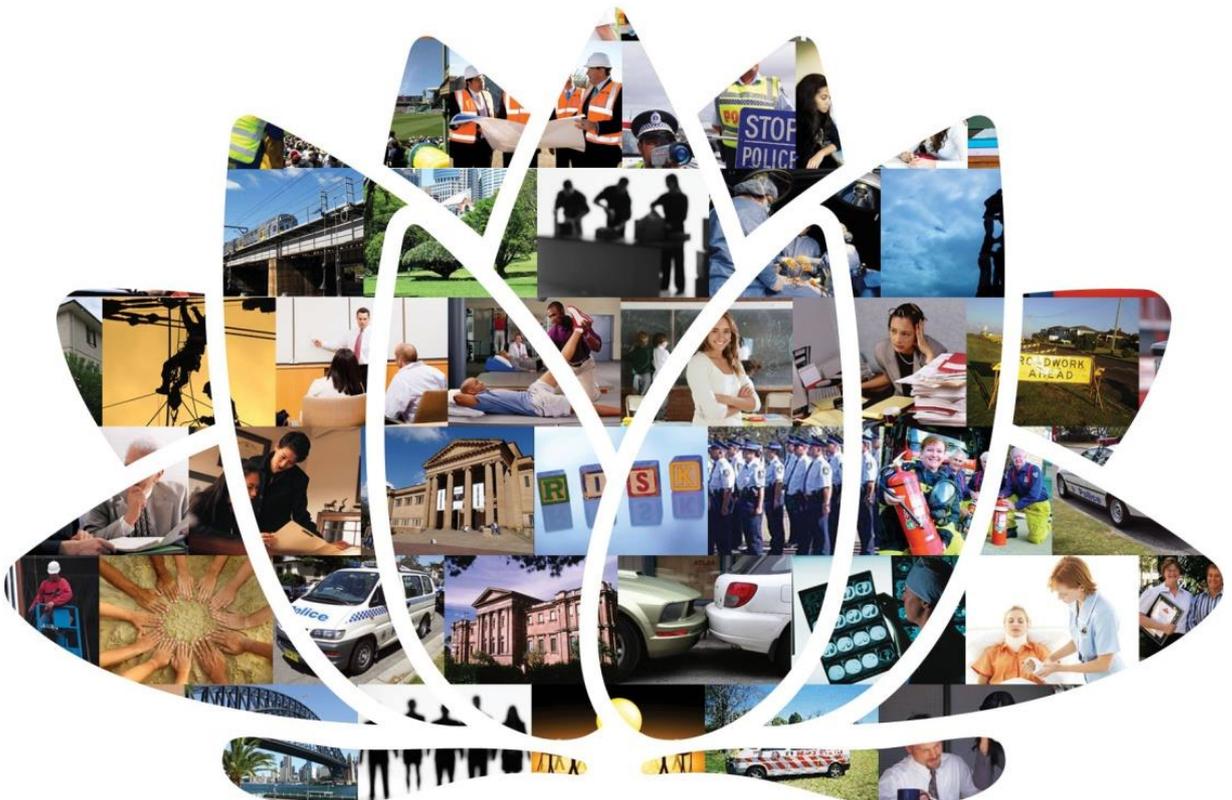




The
Treasury
NSW Self Insurance Corporation

BUILDING INSURERS' GUARANTEE CORPORATION

Annual Report
2011-12



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ISSN: 1832-1593





Finance
& Services

The Hon Dominic Perrottet MP
NSW Finance and Services
Governor Macquarie Tower
1 Farrer Place
SYDNEY NSW 2000

Dear Minister

I have pleasure in submitting in this single volume the annual report of the Building Insurers' Guarantee Corporation for the financial year ended 30 June 2012.

The reports have been prepared for presentation to the NSW Parliament in accordance with the *Annual Reports (Statutory Bodies) Act 1984* and of the statutory reporting requirements of the *Home Building Act 1989*.

Yours sincerely

John Hubby
Acting Chief Executive
NSW Office of Finance and Services
29 October 2014



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Overview

Building Insurers' Guarantee Corporation

The Building Insurers' Guarantee Corporation (BIG Corp) is a statutory body administered by NSW Treasury (Treasury). The services of BIG Corp are managed within the NSW Self Insurance Corporation (SICorp), a branch of Treasury.

Annual reporting information relevant to BIG Corp therefore appears in two forms:

- *in this volume* – separate financial reports and simple activity report
- *in the 2011-12 Annual Report of Treasury* – information on the management, human resources, business support and financial administration

Late Presentation

The 2011-12 Annual Report has been presented late to the New South Wales Parliament as the Financial Statements and Independent Auditor's Report were signed on 6 September and 16 September 2014 respectively. The delay in signing related to resolution of complex accounting issues.

Access

NSW Self Insurance Corporation's head office is:
Level 17, 201 Elizabeth Street
PO Box A2615, Sydney South, NSW 1235
Website address is <http://www.sicorp.nsw.gov.au>
Telephone: (02) 9228 3951

Annual Report Production

No external costs have been incurred in the writing, preparation or printing of this annual report. Printing of minimal quantities has been accomplished by laser printing and photocopying as required. Non-printed copies are available through the NSW Self Insurance Corporation website.

Website availability

The NSW Self Insurance Corporation home page is at:
<http://www.sicorp.nsw.gov.au> (from the home page go to: Publications/ Annual Reports)

Charter, Aims and Objectives

BIG Corp and the Building Insurers' Guarantee Fund (BIG Fund) were set up on 30 June 2001 to function as the Government's rescue package for consumers of insured builders who were affected by the financial collapse of the HIH Insurance Group in March 2001. This collapse had significant implications for holders of HIH and FAI home warranty insurance policies.

The collapse of HIH created, among other things, many serious home warranty difficulties for consumers, builders and developers in New South Wales. Consumers with unfinished or faulty building work found themselves unable to claim against what had become worthless policies. Builders, contractors and developers found themselves without current home warranty insurance coverage which was required under the *Home Building Act 1989* (the HB Act).

BIG Corp is administered within SICorp, drawing upon the Policyholders Protection Fund administered by Treasury for its claims payment capital. It may accept claims or notifications of claims for incomplete work for one year after work has ceased and for defective work, up to seven years from the date of completion of the work that is the subject of the claim.

The legislative framework for the package was introduced through the *Insurance (Policyholders Protection) Legislation Amendment Act 2001*, commencing on 30 June 2001, as an amendment to the HB Act. In particular, the HB Act established the BIG Fund to be administered by BIG Corp.

The BIG Fund provides insurance cover for homeowners to the same extent that would be applied under home warranty policies issued by the HIH Group. Builders and Developers are expressly prevented from claiming on the State indemnity.

Apart from claims processing within the scope of the respective parts of the Act, BIG Corp is not intended to have any other role in relation to residential home building in NSW.



Management and Structure

BIG Corp is managed within SICorp. SICorp's management and structure can be found in the SICorp Annual Report 2011-12 at <http://www.sicorp.nsw.gov.au>.

Management and Activities

BIG Corp's primary function is to receive and determine claims for indemnity from eligible HIH and FAI home warranty insurance policy holders. Once a claim is assessed, BIG Corp is required to pay to claimants the amount which it determines the claimant is entitled from the BIG Fund. The BIG Fund also pays the costs and expenses of the administration of BIG Corp including claims costs, litigation costs and staff expenditure.

Summary of Operations

As a corporation managing the end of a long-tail indemnity scheme, BIG Corp's active focus has been ensuring an orderly wind-down through the proactive management of claims and related litigation to resolution.

On 5 October 2011, responsibility for BIG Corp transferred from NSW Fair Trading to SICorp in Treasury.

Claims Processing

Information on claims administered during 2011-12 is given below.

Statistics for the 2011/12 Financial Year	
New Claims	0
Number of current claims as at 30 June 2012	64
Number of claim payments	39
Value of claims paid	\$17.4m

Risk Management

The risk management of BIG Corp is undertaken under the auspices of the Treasury and SICorp and BIG Corp operates under Treasury and SICorp risk management policies and procedures.

Consumer Response

There were no complaints made to BIG Corp in this reporting period.



INDEPENDENT AUDITOR'S REPORT

Building Insurers' Guarantee Corporation

To Members of the New South Wales Parliament

I have audited the accompanying financial statements of the Building Insurers' Guarantee Corporation (the Corporation), which comprise the statement of financial position as at 30 June 2012, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information.

Opinion

In my opinion, the financial statements:

- give a true and fair view of the financial position of the Corporation as at 30 June 2012, 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* (the PF&A Act) and the Public Finance and Audit Regulation 2010.

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

Measurement of Claims Liability

Without modification to the opinion expressed above, I draw attention to the outstanding claims provision in Note 8. The provision arises from the Corporation's administration of the Building Insurers' Guarantee Fund. Whilst the liability is calculated using a standard actuarial approach, there is significant uncertainty associated with the estimate of the provision and related expense item. This uncertainty arises mainly because of:

- limitations in the reliability of case estimates
- the complexity of remaining claims
- the potential impact of the settlement of individual large claims
- the potential impact of individual court decisions.

The Chief Executive of Office of Finance and Services' Responsibility for the Financial Statements

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



Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with Australian Auditing Standards. Those Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation of the financial statements that give a true and fair view in order to design audit procedures appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Chief Executive, as well as evaluating the overall presentation of the financial statements.

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

My opinion does *not* provide assurance:

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

Independence

In conducting my audit, I have complied with the independence requirements of the Australian Auditing Standards and other relevant ethical pronouncements. The PF&A Act further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of public sector agencies, but precluding the provision of non-audit services, thus ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by the possibility of losing clients or income.



Chris Clayton
Director, Financial Audit Services

16 September 2014
SYDNEY



BUILDING INSURERS' GUARANTEE CORPORATION

Financial Statements for the year ended 30 June 2012

BUILDING INSURERS' GUARANTEE CORPORATION

Pursuant to Sections 41C (1B) of the *Public Finance and Audit Act 1983*, I declare that in my opinion:

1. The accompanying financial statements exhibit a true and fair view of the financial performance and the financial position of the Building Insurers' Guarantee Corporation as at 30 June 2012; and
2. The financial statements have been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2010* and the Financial Reporting Directions published in the Financial Reporting Code for NSW General Government Sector Entities or issued by the Treasurer.

Further, I am not aware of any circumstances which would render any particulars included in the financial statements to be misleading or inaccurate.



John Hubby
Acting Chief Executive
Office of Finance and Services
6 September 2014

BUILDING INSURERS' GUARANTEE CORPORATION

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BUILDING INSURERS' GUARANTEE CORPORATION

**Statement of Comprehensive Income
for the year ended 30 June 2012**

	Notes	2012 \$'000	2011 \$'000
Expenses			
Operating expenses			
Personnel services	3 (a)	674	-
Other operating expenses	3 (b)	261	7,565
Other expenses	3 (c)	697	(6,074)
Finance costs	3 (d)	6,863	6,074
TOTAL EXPENSES		<u>8,495</u>	<u>7,565</u>
Revenue			
Grants and Contributions	4 (a)	-	40,746
Investment revenue	4 (b)	234	25
Other	4 (c)	13,612	24,634
Total revenue		<u>13,846</u>	<u>65,405</u>
Net Result		<u>5,351</u>	<u>57,840</u>
Other comprehensive income		<u>-</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME		<u>5,351</u>	<u>57,840</u>

The accompanying notes form part of these financial statements.

BUILDING INSURERS' GUARANTEE CORPORATION

**Statement of Financial Position
as at 30 June 2012**

	Notes	2012 \$'000	2011 \$'000	1st July 2010* \$'000
ASSETS				
Current assets				
Cash and cash equivalents	5	21,738	538	245
Receivables	6	<u>125,547</u>	<u>133,904</u>	<u>125,628</u>
Total current assets		<u>147,285</u>	<u>134,442</u>	<u>125,873</u>
Non-current assets				
Receivables	6	<u>88,078</u>	<u>118,430</u>	<u>63,621</u>
Total non-current assets		<u>88,078</u>	<u>118,430</u>	<u>63,621</u>
Total assets		<u>235,363</u>	<u>252,872</u>	<u>189,494</u>
LIABILITIES				
Current liabilities				
Payables	7	147	202	105
Provisions	8	<u>25,203</u>	<u>26,502</u>	<u>36,950</u>
Total current liabilities		<u>25,350</u>	<u>26,704</u>	<u>37,055</u>
Non-current liabilities				
Provisions	8	<u>105,359</u>	<u>126,865</u>	<u>110,976</u>
Total non-current liabilities		<u>105,359</u>	<u>126,865</u>	<u>110,976</u>
Total liabilities		<u>130,709</u>	<u>153,569</u>	<u>148,031</u>
Net assets		<u>104,654</u>	<u>99,303</u>	<u>41,463</u>
EQUITY				
Accumulated funds		<u>104,654</u>	<u>99,303</u>	<u>41,463</u>
Total equity		<u>104,654</u>	<u>99,303</u>	<u>41,463</u>

* Refer Note 12 'Prior year adjustments & reclassification'

The accompanying notes form part of these financial statements.

BUILDING INSURERS' GUARANTEE CORPORATION

**Statement of Changes in Equity
for the year ended 30 June 2012**

	Notes	Accumulated funds \$'000	Total equity \$'000
Balance at 1 July 2011		99,303	99,303
Net result for the year		5,351	5,351
Other comprehensive income		-	-
Total comprehensive income for the year		<u>5,351</u>	<u>5,351</u>
Transactions with owners in their capacity as owners		-	-
Balance at 30 June 2012		<u>104,654</u>	<u>104,654</u>
Balance at 1 July 2010		41,463	41,463
Net result for the year		57,840	57,840
Other comprehensive income		-	-
Total comprehensive income for the year		<u>57,840</u>	<u>57,840</u>
Transactions with owners in their capacity as owners		-	-
Balance at 30 June 2011		<u>99,303</u>	<u>99,303</u>

The accompanying notes form part of these financial statements.

BUILDING INSURERS' GUARANTEE CORPORATION

**Statement of Cash Flows
for the year ended 30 June 2012**

	Notes	2012 \$'000	2011 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments			
Claims and expenses paid		18,472	9,674
Insurance recoveries		<u>(933)</u>	<u>(128)</u>
Total payments		<u>17,539</u>	<u>9,546</u>
Receipts			
Interest received		93	26
Grants and contributions		34,300	9,800
Other		<u>4,346</u>	<u>13</u>
Total receipts		<u>38,739</u>	<u>9,839</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	9	<u>21,200</u>	<u>293</u>
NET INCREASE IN CASH		<u>21,200</u>	<u>293</u>
Opening cash and cash equivalents		538	245
CLOSING CASH AND CASH EQUIVALENTS	5	<u>21,738</u>	<u>538</u>

The accompanying notes form part of these financial statements.

BUILDING INSURERS' GUARANTEE CORPORATION

Notes to the Financial Statements for the year ended 30 June 2012

1. Building Insurers' Guarantee Corporation Information

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.

On 5th October, 2011, the NSW Treasury took over the administration of the Corporation from NSW Fair Trading. The reporting entity's business address is Level 17, 201 Elizabeth Street, Sydney NSW 2000.

The Corporation does not generate income. Claim payments are funded by drawings collected from the Building Insurers' Guarantee Fund in accordance with Section 103P(3b) of the *Home Building Act, 1989*. Under section 16D of the *Insurance Protection Tax Act 2001*, the Policy Holders Protection Fund must be applied to meet expenditure from the Building Insurers Guarantee Fund.

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.

2. Summary of Significant Accounting Policies

Basis of preparation

The entity's financial statements are general purpose financial statements which have been prepared in accordance with:

- Applicable Australian Accounting Standards (which include Australian Accounting Interpretations)
- The requirements of the *Public Finance & Audit Act 1983* and *Regulation* and
- The Financial Reporting Directions published in the Financial Reporting Code for NSW General Government Sector Entities or issued by the Treasurer.

The financial statements are presented in Australian dollars and all amounts are rounded to the nearest thousand dollars (\$'000).

These financial statements were authorised for issue by the Acting Chief Executive of the Office of Finance and Services on the date the accompanying statement by the Acting Chief Executive was signed.

Use of estimates and judgements

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made.

BUILDING INSURERS' GUARANTEE CORPORATION

Notes to the Financial Statements for the year ended 30 June 2012

2. Summary of Significant accounting Policies (continued)

Comparative Information

Comparative figures have been reclassified and repositioned in the financial statements, where necessary, to conform to the basis of presentation and classification used in the current year (Refer to Note 12).

Statement of compliance

The financial statements comply with applicable Australian Accounting Standards including Australian accounting Interpretations.

New standards and interpretations not yet effective

Certain new standards and interpretations have recently been issued or amended but are not yet effective for the annual reporting period ended 30 June 2012. The impact of adopting these standards is not expected to have a significant impact.

The Corporation has not early adopted any new accounting standards, amendments and interpretations in compliance with NSW Treasury mandates per Treasury Circular NSW TC 12/04.

New, revised or amending standards and interpretations

The Corporation has adopted all of the new, revised or amending Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are relevant and effective for the current reporting year.

The adoption of these standards and interpretations did not have any impact on the financial performance or position of the Building Insurers' Guarantee Corporation.

BUILDING INSURERS' GUARANTEE CORPORATION

Notes to the Financial Statements for the year ended 30 June 2012

2. Summary of Significant Accounting Policies (continued)

REVENUE RECOGNITION

Grants and Contributions

Grants and contributions from other bodies are recognised as revenue when the Corporation obtains control over the relevant assets or receipts of cash.

Recoveries revenue

The Corporation is entitled to the recovery revenue benefits due to insolvent insurers under the *Home Building Act, 1989*.

Recoveries are recognised as revenue when it is virtually certain the recovery will be made.

Other recoveries include recoveries of claims paid.

Investment revenue

Investment revenue includes interest revenue. Interest revenue is recognised as interest accrues.

ASSETS

Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position comprise cash at bank only.

Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Other recoveries receivable are assessed on an ongoing basis by the claims managers. They are recognised when recovery is virtually certain to take place.

An allowance for impairment is established when there is objective evidence that not all amounts due will be collectable. Bad debts are written off as incurred.

Other receivables represent amounts receivable from the Policyholders Protection Fund. The other receivables balance is assessed each year to determine that it is the lesser of the amount held within the Policyholders Protection Fund or the balance of the provision for outstanding claims (after allowing for cash receipts from the Crown Entity not yet applied for claim payments). When the other receivables balance is greater than that of the Policyholders Protection Fund, the other receivables balance is reduced with a corresponding charge to other expenses. An increase in the available funds of the Policyholders Protection Fund, allowing for an increase in other receivables, is recognised as Grants and Contributions revenue.

BUILDING INSURERS' GUARANTEE CORPORATION

Notes to the Financial Statements for the year ended 30 June 2012

2. Summary of Significant Accounting Policies (continued)

LIABILITIES

Provisions

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 liability for claims includes:

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

There are no claims incurred but not reported (IBNR).

The liability for outstanding claims is measured as the central estimate of the present value of expected future payments against claims incurred at reporting date. When it is virtually certain that some or all of a provision will be reimbursed, the reimbursement is recognised as a separate asset.

Where there is a material effect due to the time value of money, a provision is discounted.

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 using discount rates based on investment opportunities available on the amounts of funds sufficient to meet claims as they become payable. The details of rates applied are included in Note 8.

Trade and other payables

Trade and other payables are carried at cost and are liabilities for goods and services provided, but not paid for as at the reporting date. This occurs when the Corporation becomes obliged to make future payments in respect of goods and services, even if it has not been billed for them.

Like receivables, these are short-term and are carried at original invoice amount as the effect of discounting is immaterial.

BUILDING INSURERS' GUARANTEE CORPORATION

Notes to the Financial Statements for the year ended 30 June 2012

2. Summary of Significant Accounting Policies (continued)

It is accountable for the transaction relating to those administered activities but does not have the discretion, for example, to deploy the resources for the achievement of the Corporation's own objectives.

Transactions and balances relating to the administered activities are not recognised as the Corporation's revenues, expenses, assets and liabilities, but are disclosed in the accompanying note as "Administered Items".

The accrual basis of accounting and applicable accounting standards have been adopted.

Employee arrangements

The Building Insurers' Guarantee Corporation has no employees. Its work is done by staff from NSW Treasury. Building Insurers' Guarantee Corporation reimburses NSW Treasury for the staff costs incurred and recognises them as "Personnel Services".

Goods and Service Taxes

Revenue, expenses and assets are recognised net of Goods and Services Tax (GST), except, where the GST is either part of the cost of acquiring an asset, or part of an item of expense not recoverable from the Australian Tax Office.

Receivables and payables are stated in the Statement of Financial Position inclusive of GST.

Cash flows are included in the Statement of Cash Flows on a gross basis.

Correction of Prior Period Errors and Reclassifications

The comparative financial information has been revised to reflect corrections of prior period errors in accordance with AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors.

AASB 108 requires the correction of material prior period errors retrospectively, subject to certain limitations, to permit comparability with the current year. The retrospective adjustment occurs by restating the comparative amount in the prior period, or, if the event occurred before the earliest reporting prior period presented, by restating the opening balance of assets, liabilities, and equity for the earliest prior period presented.

Note 12 to this report includes the extracts from the 2009-10 and 2010-11 financial statements with the line items affected by corrections of prior period errors, and an explanation of the material differences for the amounts reported in the audited 2009-10 and 2010-11 financial statements.

Comparative figures are, where appropriate, reclassified to conform with the basis of presentation and classification used in the current year.

Refer to Note 12 for restated comparative information.

BUILDING INSURERS' GUARANTEE CORPORATION

**Notes to the Financial Statements
for the year ended 30 June 2012**

3. Operating Expenses

	2012	2011
	\$'000	\$'000
(a) Personnel Services		
Personnel Services	<u>674</u>	<u>-</u>
	674	-
(b) Operating Expenses		
Actuarial expenses	45	-
Audit fees - audit of financial statements	31	31
Debt recovery expense	-	-
Decrease in Allowance for doubtful debts	(50,508)	(3,236)
Bad Debts written off	50,648	8,819
Administrative Service Fee	-	1,893
Other	<u>45</u>	<u>58</u>
	261	7,565
(c) Other Expenses		
Movement in outstanding claims provision	(12,273)	7,152
Movement in receivables	<u>12,970</u>	<u>(13,226)</u>
	697	(6,074)
(d) Finance Costs		
Finance Costs	<u>6,863</u>	<u>6,074</u>
	6,863	6,074

BUILDING INSURERS' GUARANTEE CORPORATION

**Notes to the Financial Statements
for the year ended 30 June 2012**

4 Revenue

	2012	2011
	\$'000	\$'000
(a) Grants and Contributions		
Grants from Policyholders Protection Fund administered by the Crown Entity	-	40,746
	<u>-</u>	<u>40,746</u>
(b) Interest revenue		
Interest received on Bank account	234	25
	<u>234</u>	<u>25</u>
(c) Other		
Recoveries revenue	13,612	24,621
Legal costs recovered	-	2
Bad debts recovered	-	11
	<u>13,612</u>	<u>24,634</u>
Total income	<u>13,846</u>	<u>65,405</u>

5. Current Assets – Cash and Cash Equivalents

Cash at bank and on hand	21,738	538
	<u>21,738</u>	<u>538</u>

BUILDING INSURERS' GUARANTEE CORPORATION

**Notes to the Financial Statements
for the year ended 30 June 2012**

6. Current / Non-Current Assets – Receivables

	2012	2011
	\$'000	\$'000
Current		
Recoveries receivable	301	-
Prepayments	55	-
GST receivable	194	21
Accrued Interest	152	12
Other Receivables	124,845	133,871
	<u>125,547</u>	<u>133,904</u>
Non - current		
Recoveries receivable	-	51,794
Less: allowance for impairment	-	(50,508)
Net recoveries receivable	-	1,286
Other Receivables	88,078	117,144
	<u>88,078</u>	<u>118,430</u>
Total receivables	<u>213,625</u>	<u>252,334</u>
Movement in the allowance for impairment		
Balance at 1 July	(50,508)	(53,745)
Amounts written off during the year	50,648	8,819
Increase in allowance recognised in comprehensive income	(140)	(5,582)
Balance at 30 June	<u>-</u>	<u>(50,508)</u>

Details regarding credit risk, liquidity risk and market risk including financial assets that are either past due or impaired, are disclosed in Note 10.

7. Current liabilities - Payables

Accrued Expenses	147	194
Input Taxes	-	8
	<u>147</u>	<u>202</u>

Details regarding credit risk, liquidity risk and market risk including maturity analysis on payables are disclosed in Note 10.

BUILDING INSURERS' GUARANTEE CORPORATION

**Notes to the Financial Statements
for the year ended 30 June 2012**

8. Provision for Outstanding Claims

	2012	2011
	\$'000	\$'000
Case estimates	102,330	121,726
IBNER	24,572	40,018
Claims handling expenses	12,386	13,232
Discount to present value	(8,726)	(21,609)
Central estimate	<u>130,562</u>	<u>153,367</u>
Current	25,203	26,502
Non-current	105,359	126,865
Total	<u>130,562</u>	<u>153,367</u>
Opening Balance:	153,367	147,926
Movement in provision	(12,273)	7,152
Finance costs*	6,863	6,074
Claims paid	(17,395)	(7,785)
Carrying amount at end of year	<u>130,562</u>	<u>153,367</u>

*Finance costs comprise the unwinding of the discount.

Finity Consulting Pty Limited carried out an Actuarial Review of claims as at 30 June 2012. The purpose of this review was to estimate the claims liability of the Building Insurers' Guarantee Corporation. The outstanding claim estimate of \$130.6 million (\$153.4 million 2011) represents the central estimate and does not include a risk margin. The claim estimate includes allowances for the cost of claims administration.

The actuarial review has noted significant uncertainty between the outstanding claim estimate and ultimate cost of claims due to various factors including:

- Limitations in the reliability of case estimates
- The complexity of the remaining claims
- The potential impact of the settlement of individual large claims
- The potential impact of individual court decisions

The weighted average expected term to settlement from the balance date of the outstanding claims is estimated to be 2.6 years.

BUILDING INSURERS' GUARANTEE CORPORATION

**Notes to the Financial Statements
for the year ended 30 June 2012**

8. Provision for Outstanding Claims (continued)

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

	2012	2011
	%	%
Inflation rate	2.5%	3.0%
Superimposed inflation	5.0%	5.0%
Discount rate	2.6%	4.9%

The decrease in the discount rate from 4.9% in 2011 to 2.6% in 2012, increased the provision by \$6.4 million as advised by the 30 June 2012 Actuarial Review carried out by Finity Consulting Pty Limited.

9. Reconciliation of Cash Flows from Operating Activities to Net Result

	2012	2011
	\$'000	\$'000
Net cash used on operating activities	21,200	293
Decrease/(Increase) in outstanding claims	22,805	(5,441)
(Decrease)/Increase in receivables	(38,709)	63,085
Decrease/(Increase) in creditors	55	(97)
Net Result	<u>5,351</u>	<u>57,840</u>

BUILDING INSURERS' GUARANTEE CORPORATION

Notes to the Financial Statements for the year ended 30 June 2012

10. Financial Instruments

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. Note 2 details the key accounting policies and methods which include the recognition criteria, the basis of measurement and the income and expenses recognition for each class of financial instrument.

Financial instrument categories

Note	Category	Carrying amount 2012 \$'000	Carrying amount 2011 \$'000
Financial Assets			
	Cash and cash equivalents	21,738	538
	Receivables*	213,376	252,313
			(measured at amortised cost)
Financial liabilities			
	Payables**	147	194
			(measured at amortised cost)

* Excludes statutory receivables and prepayments

** Excludes statutory payables and unearned income

Risk management

The activities of The Corporation expose it to a variety of financial risks. These are:

- Market risks
 - i. interest rate risk
- Credit risk
- Liquidity risk

BUILDING INSURERS' GUARANTEE CORPORATION

Notes to the Financial Statements for the year ended 30 June 2012

10. Financial Instruments (continued)

Market risks

The effects on the Corporation'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 each risk variable has been determined after taking into account the economic environment in which the Corporation 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 is performed on the same basis for 2011. The analysis assumes that all other variables remain constant.

- *Interest rate risk*

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

The following table provides the sensitivity analysis of interest rate risk affecting applicable financial assets on the operating result and equity of 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.

	\$'000				
	Carrying amount	-1% Profit	Equity	+1% Profit	Equity
2012					
Cash and cash equivalents	21,738	(217)	-	217	-
2011					
Cash and cash equivalents	538	(5)	-	5	-

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 Treasury Banking system. Interest is earned on daily bank balances at the monthly average NSW Treasury Corporation 11am unofficial cash rate adjusted for a management fee to Treasury. Deposits held by NSW Treasury Corporation are guaranteed by the State.

BUILDING INSURERS' GUARANTEE CORPORATION

**Notes to the Financial Statements
for the year ended 30 June 2012**

10. Financial Instruments (continued)

Receivables

Receivables include recoveries receivable.

The Corporation does not receive any collateral for receivables.

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

	Total \$'000's	Past due but not impaired \$'000's			Considered impaired \$'000's
		< 3 months overdue	3-6 months overdue	> 6 months overdue	
2012					
Receivables	301		-	301	-
2011					
Receivables	51,794		-	1,286	50,508

Credit risk applicable to receivables is detailed in the tables below.

Concentration of credit risk

By credit rating	AAA	AA+	AA	AA-	A+	A	Other ratings*	Total
	\$000's						\$000's	\$000's
2012								
Receivables	213,075						301	213,376
2011								
Receivables	251,027						1,286	252,313

*Short term ratings of A-2 or better, when counterparty has no long term rating or the long term rating is A or lower.

	By classification of counterparty			Total \$000's
	Governments	Commercial insurers	Other	
	\$000's	\$000's	\$000's	
2012				
Receivables	213,075	0	301	213,376
2011				
Receivables	251,027	0	1,286	252,313

BUILDING INSURERS' GUARANTEE CORPORATION

**Notes to the Financial Statements
for the year ended 30 June 2012**

10. Financial Instruments (continued)

Liquidity Risk

During the current year, there were no defaults on payables. No assets have been pledged as collateral. The Corporation's exposure to liquidity risk is deemed insignificant based on 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 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. Treasury Circular TC11/12 allows the Minister to award interest for late payment. There has been no interest awarded for late payment to date.

The table below summarises the maturity profile of 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
2012								
Payables	-	147	-	-	-	147	-	-
Total financial liabilities	-	147	-	-	-	147	-	-
2011								
Payables	-	194	-	-	-	194	-	-
Total financial liabilities	-	194	-	-	-	194	-	-

BUILDING INSURERS' GUARANTEE CORPORATION

Notes to the Financial Statements for the year ended 30 June 2012

11. Contingent Liabilities

The Corporation is currently involved in nil (30 June 2011: 37) legal matters where financial settlement and costs may be awarded against it. It is estimated that these costs may total \$nil (30 June 2011: \$2,445,600).

12. Prior year adjustments and reclassification

Prior Period Errors:

In accordance with the *Insurance Protection Tax Act, 2001* the Corporation is entitled to claim reimbursement from the Policyholders Protection Fund for claims expenditure. Previous financial statements did not recognise a receivable from the Policyholders Protection Fund to the extent that claim reimbursements were virtually certain. The Corporation's 2009-10 financial statements incorrectly did not recognise this entitlement, and reported a net asset deficiency on the Statement of Financial Position of \$146,659,000. A receivable from the Policyholders Protection Fund should have been recognised in that financial year. Effective 1 July 2010 an amount was retrospectively adjusted through equity reflecting receivables due from the Policyholders Protection Fund in relation to previous financial years.

Previous financial statements also incorrectly treated reinsurance recoveries and scheme distribution payments received from the Scheme Administrators of the HIH group of companies. The payments received were treated as administered revenue, with the cash remitted to the State's Consolidated Fund. Under the *Home Building Act, 1989*, these payments received should have been paid into the Building Insurers Guarantee Fund, and therefore recognised as revenue of the Corporation. Effective 1 July 2010, an amount was retrospectively adjusted through equity reflecting a receivable for money incorrectly remitted to the State's Consolidated Fund in previous financial years.

A correction of error has been made in these financial statements, being an increase in 'Receivables' as at 1 July 2010 of \$188,122,000 and an adjustment against equity of the same amount. The 2010-11 comparative financial information has also been adjusted to correct the error.

The below section shows the restatement of each line item affected by the error.

BUILDING INSURERS' GUARANTEE CORPORATION

**Notes to the Financial Statements
for the year ended 30 June 2012**

**Note 12. Restatement of Financial Statements as a result of Correction of Prior Period Error
– Continued**

Financial Statement Line item / Balance Affected	Note	Actual 2011 \$'000	Correction of Error Adj \$'000	Restated Actual 2011 \$'000
Statement of Comprehensive Income (Extract)				
Expenses				
Operating expenses				
Administrative Services		1,893	(1,893)	-
Other operating expenses		1,974	5,591	7,565
Other expenses			(6,074)	(6,074)
Finance costs			6,074	6,074
Net Insurance Claims and Provisions		11,024	(11,024)	-
TOTAL EXPENSES		14,891	(7,326)	7,565
Revenue				
Grants and Contributions		9,800	30,946	40,746
Investment revenue		25	-	25
Other		13	24,621	24,634
Total revenue		9,838	55,567	65,405
Net Result		(5,053)	62,893	57,840
Other comprehensive income		-	-	-
TOTAL COMPREHENSIVE INCOME		(5,053)	62,893 *	57,840

The correction of error adjustment (\$62,893,000) includes an increase in receivables due to the increase in available funds of the Policyholders Protection Fund (\$30,946,000) and the recognition of HIH distributions (\$24,621,000) as at 30 June 2011.

BUILDING INSURERS' GUARANTEE CORPORATION

**Notes to the Financial Statements
for the year ended 30 June 2012**

**Note 12. Restatement of Financial Statements as a result of Correction of Prior Period Error
– Continued**

Financial Statement Line item / Balance Affected	Actual 2011 \$'000	Correction of Error Adj \$'000	Restated Actual 2011 \$'000
Statement of Financial Position (Extract)			
Current assets			
Receivables	33	133,871	133,904
Total Current Assets	571	133,871	134,442
Non-Current Assets			
Receivables	1,286	117,144	118,430
Total Non-Current Assets	1,286	117,144	118,430
Total Assets	1,857	251,015	252,872
Net Assets	(151,712)	251,015	99,303
Equity			
Accumulated Funds	(151,712)	251,015	99,303
Total Equity	(151,712)	251,015	99,303

1 July 2010 (Comparative year opening balances)

Financial Statement Line item / Balance Affected	Actual 2010 \$'000	Correction of Error Adj \$'000	Restated Actual 2010 \$'000
Statement of Financial Position (Extract)			
Current assets			
Receivables	30	125,598	125,628
Total Current Assets	275	125,598	125,873
Non-Current Assets			
Receivables	1,097	62,524	63,621
Total Non-Current Assets	1,097	62,524	63,621
Total Assets	1,372	188,122	189,494
Net Assets	(146,659)	188,122	41,463
Equity			
Accumulated Funds	(146,659)	188,122	41,463
Total Equity	(146,659)	188,122	41,463

BUILDING INSURERS' GUARANTEE CORPORATION

**Notes to the Financial Statements
for the year ended 30 June 2012**

13. Events after the Reporting Date

The Corporation is not aware of any circumstances that occurred after balance date that would render particulars in the financial statements to be misleading.

End of audited financial statements

Appendix

Invoice Processing Performance

Finance officers of the Crown Asset and Liability Management branch (CALM) in the Office of Financial Management (OFM) provide the financial accounting services to BIGCorp.

The payment process requires verification and approval by delegated BIGCorp officers before payment is processed at CALM. The two business areas operate at different locations.

BIGCorp consistently ensures that all accounts are paid promptly in accordance with the requirements of the Public Finance and Audit Regulation 2010, the Annual Reports legislation and the Treasurer's Direction.

The following table reports on the total time taken by BIGCorp and CALM officers to administer payments.

Value of outstanding invoices by age at the end of each quarter

Quarter	Less than 30 days overdue \$	Between 30 and 60 days overdue \$	Between 60 and 90 days overdue \$	More than 90 days overdue \$
Sep-11	-	-	-	-
Dec-11	2,704,448	-	-	-
Mar-12	4,546,804	-	-	-
Jun-12	13,907,714	-	-	-

Accounts paid on time during each quarter

Quarter	Target %	Total Accounts Paid on Time		\$	Total Amount Paid (\$)
		Actuals %			
		By Number	By Value		
Sep-11	90%	100%	100%	-	-
Dec-11	90%	100%	100%	2,704,448	2,704,448
Mar-12	90%	100%	100%	4,546,804	4,546,804
Jun-12	90%	100%	100%	13,907,714	13,907,714

Under the NSW Treasury Circular 11/12, agencies are required to pay small business suppliers with turnover of less than \$2 million within 30 days upon receipt of interest and pay interest on overdue amounts. In 2011-12 there were no instances where penalty interest was awarded for late payment.

During the year the target for total accounts paid on time was set at 90 per cent. Payment performances in terms of number are in line with the target bench mark. Payment performances by value well exceed the target bench mark of 90 per cent.

Spend on Consultants

There was no expenditure on consultants for the year ended 30 June 2012.

Legislation and Legal Changes

BIG Corp performs its functions under Part 6A of the *Home Building Act 1989* (HBA) and other legislation relevant to its roles, including the *Public Finance and Audit Act 1983*.

There were no changes to Part 6A of the HBA during the reporting period, however there were significant amendments to other parts of the Act which were passed on 25 October 2011. The majority of changes came into effect immediately with others taking effect on 26 April 2012. Those changes clarified the extent of certain insurance and statutory warranty aspects of the Act but did not materially alter BIG Corp's liabilities.



Internal Audit and Risk Management Statement for the 2011-2012 Financial Year for NSW Treasury

I, the Secretary of NSW Treasury, am of the opinion that during 2011-12 Treasury had internal audit and risk management processes in place that were, excluding the exceptions described below, compliant with the core requirements set out in Treasury Circular NSW TC 09/08 *Internal Audit and Risk Management Policy*.

I, the Secretary of NSW Treasury, am of the opinion that the internal audit and risk management processes for Treasury departed from the following core requirements set out in Treasury Circular NSW TC 09/08 during 2011-12, and that (a) the circumstances giving rise to these departures were determined by the Treasurer and (b) Treasury implemented the following practicable alternative measures to achieve a level of assurance equivalent to the requirement:

Ministerially Determined Departure	Reason for Departure and Description of Practicable Alternative Measures Implemented
<p><u>Core Requirement 1</u></p> <p>The department head must establish an Audit & Risk Committee to oversee and monitor governance, risk and control issues affecting the operations of the department.</p>	<p>The strict application of the Policy (TPP09-05) would mean separate audit and risk management committees for each of the entities listed in Annexure 1 of the Audit & Risk Committee's Charter. However, these entities are so closely managed by Treasury it is not considered value for money to provide them with individual audit committees and functions.</p>
<p>The Treasurer has determined:</p> <p>That, for the purposes of its audit and risk functions, "Treasury" is determined to include the agency of that name, the Crown Entity, the NSW Self Insurance Corporation and such other entities as are named in Annexure 1 of the agency's Audit & Risk Committee Charter, which is publicly available on Treasury's website. Treasury Corporation is to maintain its own audit and risk functions, separate from those of Treasury. This exception is to be regarded as permanent unless explicitly revoked by myself or a future Treasurer.</p>	
<p><u>Core Requirement 3</u></p> <p>An Audit & Risk Committee Chair must be appointed for a period of at least three years, with a maximum term of four years.</p> <p>For members, the initial term must not exceed four years. There is an option for reappointment for a further term of maximum four years.</p>	<p>TPP 09-05 also requires that wherever possible, departures from a Committee should be staggered to ensure that knowledge loss is minimised at any one time.</p> <p>Prior to TPP 09-05, terms of membership were not limited, thus some members of the Committee must either exceed their new maximum terms, or leave within a short time of other members' review dates.</p>
<p>The Treasurer has determined:</p> <p>That an exception is granted to enable the departures of Jim Mitchell (Chair), Christine Feldmanis and Mark Ronsisvalle from the Committee to be separated by enough time to maintain stability within the Committee. This exception will remain in force until Mr Ronsisvalle is replaced in October 2012, after which full compliance will be achieved.</p>	
<u>Ministerially Determined Departure</u>	Reason for Departure and Description of Practicable Alternative Measures Implemented
<p><u>Core Requirement 5</u></p> <p>An enterprise risk management process that is appropriate to the department must be established.</p>	<p>As at 30 June 2012 most of the elements of enterprise risk management were in place, but documentation of the overarching framework remained in draft. Finalisation is expected by September 2012.</p>

The Treasurer has determined:

That an exception is granted to enable Treasury to finalise its enterprise risk management framework to appropriate standards. Treasury expects it will be able to attest to full compliance in this area before the end of September 2012.

I, the Secretary of NSW Treasury, am of the opinion that the Audit & Risk Committee for Treasury is constituted and operates in accordance with the independence and governance requirements of Treasury Circular NSW TC 09/08, other than as detailed in the exceptions above. The Chair and Members of the Audit & Risk Committee in 2011-12 were:

- Jim Mitchell, independent Chair (appointed 2008, extended 2011: last meeting 23 March 2012)
- Peter Lucas, independent Chair (18 April 2012 to June 2015)
- Christine Feldmanis, independent member (term extended in 2010: last meeting 28 June 2012)
- Carolyn Burlew, independent member (appointed 2009: extended in September 2011 to September 2015)
- Mark Ronsisvalle, non-independent member (appointed 2004: extended in 2011 to October 2012 by Ministerial exception)
- Sue Power, non-independent member (2009 to July 2013)

I, the Secretary of NSW Treasury, declare that this Internal Audit and Risk Management Attestation is made on behalf of the following agencies and controlled entities:

- Treasury
- Crown Entity
- NSW Self Insurance Corporation, including the Home Warranty Insurance Fund
- Electricity Tariff Equalisation Ministerial Corporation
- State Rail Authority Residual Holding Corporation
- Liability Management Ministerial Corporation
- Building Insurers' Guarantee Corporation

Treasury's Audit & Risk Committee and risk management processes also cover the preparation of the Total State Sector Accounts.



Philip Gaetjens, Secretary

Date: 18 July 2012



Treasury contact officer:

Nadia Fletcher, Chief Audit Executive, ext 4445

Date: 18 July 2012

Human Resources

BIG Corp staff are employed by NSW Treasury to carry out BIG Corp's functions therefore statutory reporting in relation to BIG Corp staff is reported in the annual report of NSW Treasury. BIG Corp's staff adhere to Treasury policies and procedures which all staff have access to via the Treasury intranet

The items reported in the NSW Treasury Annual Report include:

- Number of officers and employees by category
- Disability Plan
- Workforce Diversity
- Multicultural Policies and Services Program
- Public Interest Disclosure
- Occupational Health and Safety

The NSW Treasury Annual Report can be located at <http://www.treasury.nsw.gov.au>

Public Interest Disclosure

Reporting obligations under the *Public Interest Disclosures Act 1994* commenced on 1 January 2012. BIG Corp was part of Treasury for the purpose of complying with the Act during 2011-12. There were no public interest disclosures at BIG Corp during the reporting period.

Government Information (Public Access) Act 2009

During the reporting period, BIG Corp processed one access application under the *Government Information (Public Access) Act 2009* (GIPA Act). The application was granted access in full, save for a redaction of certain personal information.

Information about making information access requests can be found on the SICorp website <http://www.sicorp.nsw.gov.au> under Right to Information (GIPA).

Energy and Waste Management

BIG Corp's operations are run out to the same facilities as the SICorp operations. SICorp's energy management and waste management plans are listed in the SICorp Annual report. This report can be accessed at: <http://www.sicorp.nsw.gov.au>.

List of Acronyms Used

BIG Corp – Building Insurers' Guarantee Corporation
GIPA Act – *Government Information (Public Access) Act 2009*
HBA – *Home Building Act 1989*
HWIF – NSW Home Warranty Insurance Fund (administered by SICorp)
SICorp – NSW Self Insurance Corporation

Websites References

- SICorp website – <http://www.sicorp.nsw.gov.au>
- HWIF website – <http://www.homewarranty.nsw.gov.au>
- Treasury website - <http://www.treasury.nsw.gov.au>