



# **Insurance and Care NSW**

**Annual Report 2019-20**

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● **icare**

Dust Diseases Care

Lifetime Care

Insurance for NSW

HBCF

Workers Insurance

Sporting Injuries  
Insurance

BIG Corp

**icare**

# icare

## Financial statements

for the year ended 30 June 2020

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# Statement by the chairman and chief executive officer

for the year ended 30 June 2020

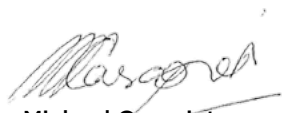
## Insurance and Care NSW

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 2020 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  
25 September 2020



**Don Ferguson**  
A/Chief Executive Officer and  
Managing Director  
Insurance and Care NSW  
25 September 2020



## 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 comprises the statement of comprehensive income for the year ended 30 June 2020, the statement of financial position as at 30 June 2020, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements comprising the Basis of preparation 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 2020, 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 icare in accordance with the requirements of the:

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

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

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

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

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

#### Other Information

icare's annual report for the year ended 30 June 2020 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 comprise the Statement by the Chairman and Chief Executive.



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

In preparing the financial statements, the Directors are responsible for assessing icare's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting.

### **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](http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf). The description forms part of my auditor's report.



The scope of my audit does *not include, nor* provide assurance:

- that icare carried out its activities effectively, efficiently and economically
- about the 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.

A handwritten signature in dark ink, appearing to read "D Daniels".

David Daniels  
Director, Financial Audit Services

Delegate of the Auditor-General for New South Wales

1 October 2020  
SYDNE



# Statement of comprehensive income

for the year ended 30 June 2020

	Notes	2020 \$'000	2019 \$'000
<b>REVENUE</b>			
Service fee revenue	2.1	788,730	664,287
Investment revenue		67	183
Other revenue		177	142
<b>Total Revenue</b>		<b>788,974</b>	<b>664,612</b>
<b>EXPENSES</b>			
Employee related	2.2	170,780	127,335
Other operating expenses	2.3	599,646	528,680
Grants	2.4	13,124	8,597
<b>Total Expenses</b>		<b>783,550</b>	<b>664,612</b>
Gain on disposal of assets		11	-
Impairment losses		(5,435)	-
<b>Net result</b>		<b>-</b>	<b>-</b>

The accompanying notes form part of these financial statements

## Statement of financial position

as at 30 June 2020

	Notes	2020 \$'000	2019 \$'000
<b>ASSETS</b>			
Cash and cash equivalents	4.1	7,853	8,259
Receivables and prepayments	2.5	208,902	136,363
Property, plant and equipment	4.2	11,440	16,374
Intangible assets		-	18
Right of use assets	4.3	42,458	-
<b>Total Assets</b>		<b>270,653</b>	<b>161,014</b>
<b>LIABILITIES</b>			
Payables	2.6	179,448	123,898
Provisions	4.4	29,351	24,037
Lease liabilities	4.3	48,775	-
<b>Total Liabilities</b>		<b>257,574</b>	<b>147,935</b>
<b>Net Assets</b>		<b>13,079</b>	<b>13,079</b>
<b>EQUITY</b>			
Accumulated funds		13,079	13,079
<b>Total Equity</b>		<b>13,079</b>	<b>13,079</b>

The accompanying notes form part of these financial statements

## Statement of changes in equity

for the year ended 30 June 2020

	2020 \$'000	2019 \$'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 2020

	Notes	2020 \$'000	2019 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Receipts</b>			
Service fees		760,575	633,648
Interest received		67	183
Other receipts		168	163
<b>Total Receipts</b>		<b>760,810</b>	<b>633,994</b>
<b>Payments</b>			
Agent remuneration		(420,130)	(354,789)
Employee related		(161,855)	(132,187)
Grants		(13,124)	(8,597)
Other payments		(164,874)	(152,872)
<b>Total Payments</b>		<b>(759,983)</b>	<b>(648,445)</b>
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>4.1</b>	<b>827</b>	<b>(14,451)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from sale of property, plant and equipment	4.2	20	-
Purchases of property, plant and equipment and intangibles	4.2	(1,253)	(265)
<b>NET CASH FLOWS USED IN INVESTING ACTIVITIES</b>		<b>(1,233)</b>	<b>(265)</b>
<b>NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(406)</b>	<b>(14,716)</b>
Opening cash and cash equivalents		8,259	22,975
<b>CLOSING CASH AND CASH EQUIVALENTS</b>	<b>4.1</b>	<b>7,853</b>	<b>8,259</b>

The accompanying notes form part of these financial statements

# Notes to the financial statements

for the year ended 30 June 2020

## 1. Overview

### 1.1. About the Entity

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

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

The financial statements have not been normalised for the impact of COVID-19.

These financial statements for the year ended 30 June 2020 have been authorised by the Chairman of the Board of icare and the Acting Chief Executive Officer and Managing Director of icare on behalf of the Board of Directors of icare on 25 September 2020.

### 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 to the financial statements

for the year ended 30 June 2020

## 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 TC20-01 by NSW Treasury that statements are presented on a current and non-current basis.

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

## 1.2.2. Statement of compliance

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

## 1.2.3. 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.

# Notes to the financial statements

for the year ended 30 June 2020

## 1.2.5. Intangibles (continued)

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

Amortisation is provided on a straight-line basis for all intangible assets so as to write off the depreciable amount of each asset as it is consumed over its 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 2020. The following are new Australian Accounting Standards or amendments which have been issued but are not yet effective and are not expected to have a material impact on the financial performance or position of icare:

- AASB 1059 *Service Concession Arrangements: Grantors*
- AASB 2018-5 *Amendments to Australian Accounting Standards – Deferral of AASB 1059*
- AASB 2018-6 *Amendments to Australian Accounting Standards – Definition of a Business*
- AASB 2018-7 *Amendments to Australian Accounting Standards – Definition of Material*
- AASB 2019-1 *Amendments to Australian Accounting Standards – References to the Conceptual Framework*
- AASB 2019-2 *Amendments to Australian Accounting Standards – Implementation of AASB 1059*
- AASB 2019-3 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform*

icare applied AASB 15 *Revenue from Contracts with Customers*, AASB 1058 *Income of Not-for-Profit Entities*, and AASB 16 *Leases* for the first time in 2019-20. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

Several other amendments and interpretations apply for the first time in FY2019-20, but do not have an impact on the financial statements of icare.

- AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of Not-for-Profits*
  - AASB 15 *Revenue from Contracts with Customers* (AASB 15) supersedes AASB 111 *Construction Contracts*, AASB 118 *Revenue* and related interpretations. It applies, with limited exceptions, to all revenue arising from contracts with customers. 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.
  - AASB 1058 *Income of Not-for-Profits* (AASB 1058) replaces 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 needs 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).
  - 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 to the financial statements

for the year ended 30 June 2020

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

- icare adopted AASB 15 and AASB 1058 from 1 July 2019 through application of the full retrospective transition approach. Recognition and measurement principles of the new standards were applied for the current year and comparative year as though AASB 15 and AASB 1058 had always applied.

The adoption of AASB 15 and AASB 1058 did not have a material impact on the Statement of Comprehensive Income, Statement of Financial Position, Other Comprehensive Income and the Statement of Cash Flows for the financial year.

- AASB 16 *Leases*
  - AASB 16 supersedes AASB 117 *Leases*, Interpretation 4 *Determining whether an Arrangement contains a Lease*, Interpretation 115 *Operating Leases – Incentives* and Interpretation 127 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the Statement of Financial Position.
  - For lessees, AASB 16 results in most leases being recognised on the Statement of Financial Position, as the distinction between operating and finance leases is largely removed. Under AASB 16 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 therefore increased assets and liabilities reported on the Statement of Financial Position. It also increased depreciation and interest expenses and reduced operating lease rental expenses on the Statement of Comprehensive Income.

- icare has adopted 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 has adopted the practical expedient whereby the fair value of the right-of use asset is the same as the lease liability at 1 July 2019.
- Further details of the impact on icare of AASB 16 can be found in Notes 2.3 and 4.3.

## 1.2.7. Coronavirus (COVID-19) pandemic

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

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

### Accounting Estimates and judgement:

The ongoing COVID-19 pandemic has increased the estimation uncertainty in the preparation of these financial statements. icare has developed various accounting estimates in these financial statements based on forecasts of economic conditions which reflect expectations and assumptions as at 30 June 2020 about future events that we believe are reasonable in the circumstances. There is a considerable degree of judgement involved in preparing these forecasts. The underlying assumptions are also subject to uncertainties which are often outside the control of icare. Accordingly, actual economic conditions may be different from those forecast since anticipated events may not occur as expected, and the effect of those differences may significantly impact accounting estimates included in these financial statements.



# Notes to the financial statements

for the year ended 30 June 2020

## 1.2.7. Coronavirus (COVID-19) pandemic (continued)

The significant accounting estimates particularly impacted by these associated uncertainties are predominantly related to the valuation of right of use lease assets as noted in note 4.3.

### Risk Management

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

As the impacts of the virus and associated responses evolve, so too will the associated risks. icare is committed to appropriately managing those risks at all levels.

## 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

	2020 \$'000	2019 \$'000
Lifetime Care and Support Authority of NSW	44,137	33,158
New South Wales Self Insurance Corporation	193,531	166,940
NSW Workers Insurance Scheme	538,569	452,094
Sporting Injuries Compensation Authority	170	125
Workers Compensation (Dust Diseases) Authority	11,944	11,249
Building Insurers' Guarantee Corporation	303	237
Generators and Transgrid	76	484
	<b>788,730</b>	<b>664,287</b>

## Notes to the financial statements

for the year ended 30 June 2020

### 2.2. Employee related

	2020 \$'000	2019 \$'000
Salaries and wages (including Annual leave)	145,083	112,455
Agency short-term staff	410	1,113
Long service leave	2,052	(4,885)
Superannuation	11,972	9,413
Payroll tax and fringe benefit tax	8,986	7,559
Allowances	1,774	1,219
Workers' compensation insurance	503	461
	<b>170,780</b>	<b>127,335</b>

# Notes to the financial statements

for the year ended 30 June 2020

## 2.3. Other operating expenses

	2020 \$'000	2019 \$'000
Agent remuneration	272,271	254,432
Fees paid to outsourced service providers	120,354	106,451
Advertising, promotion and publicity	2,008	2,708
Auditor's remuneration - Audit Office of NSW - audit of financial statements	1,526	258
Other external audits	1,425	90
Internal audit and reviews	1,613	1,311
Building maintenance, repairs and management	253	(105)
Board and Committee fees	1,342	1,215
Consultants - Actuarial fees	9,079	9,009
Consultants - Other	5,712	3,763
Contractors	26,503	14,961
Communication expenses	3,390	3,599
Depreciation and amortisation expense	13,112	6,389
Fees Hosted Contingent workers	30,677	19,961
ICT Services- Managed Service	9,121	18,971
Insurance	501	425
Interest expense on leased liabilities	1,068	-
Legal Fees	1,274	1,896
Other miscellaneous	7,619	7,398
Operating lease rental expense		
- minimum lease payments	22	5,811
- other related expenses	3,878	4,423
Other repairs and maintenance	111	(55)
Reinsurance administration fees	1,399	1,444
Printing	3,984	3,916
Risk Consulting Services	11,737	11,566
Service Fees received from other icare entities	5,200	4,723
Service NSW Service fees	13,624	12,127
Software Licences	46,123	26,510
Stores	1,810	1,504
Training	2,186	3,057
Travel and vehicle expenses	724	922
	<b>599,646</b>	<b>528,680</b>

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 to the financial statements

for the year ended 30 June 2020

## 2.3. Other operating expenses (continued)

AASB 16 *Leases* is effective from 1 July 2019. This standard requires depreciation to be recognised on right of use assets and for previous operating lease rental expenses to be allocated between the lease liability created under AASB 16 and the interest expenses on those lease liabilities. (refer Note 4.3). The impact of these changes is seen in the above other operating expenses by the increase in depreciation and a new interest expense on lease liabilities category. There has also been a reduction in operating lease rental expenses minimum lease payments.

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

In prior financial years audit fees were incurred in the respective entity's financial statements. In 2019/20 they have been centralised into icare.

## 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.

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

	2020 \$'000	2019 \$'000
Grants	13,124	8,597

## 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 2020 quarter in relation to the insurance activities of icare and the entities it supports.

No receivables are considered impaired (2019 \$nil).

# Notes to the financial statements

for the year ended 30 June 2020

## 2.5. Receivables (continued)

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.

	2020 \$'000	2019 \$'000
<b>Service fees receivable from relevant entities</b>		
Lifetime Care and Support Authority of NSW	5,114	2,394
MAITC	182	-
New South Wales Self Insurance Corporation	20,623	16,400
NSW Workers Insurance Scheme	98,842	79,487
Sporting Injuries Compensation Authority	12	26
Workers Compensation (Dust Diseases) Authority	1,462	1,218
Building Insurers' Guarantee Corporation	25	15
Generators and Transgrid	754	712
Prepayments	76,412	35,509
Receivables – other	887	194
GST receivable	4,589	408
	<b>208,902</b>	<b>136,363</b>

## 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.

	2020 \$'000	2019 \$'000
Agents remuneration	102,576	89,177
Trade Creditors	67,600	29,207
Accrued salaries, wages and on-costs (Refer Note 4.4.1)	9,272	5,514
<b>Total Payables</b>	<b>179,448</b>	<b>123,898</b>

# Notes to the financial statements

for the year ended 30 June 2020

## 3. Risk Management

### Overview

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

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

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

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

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

# Notes to the financial statements

for the year ended 30 June 2020

## 3. Risk Management (continued)

### Financial instrument categories

	Note	Category	Carrying Amount 2020 \$'000	Carrying Amount 2019 \$'000
<b>Financial Assets</b>				
<b>Class:</b>				
Cash and cash equivalents	4.1	N/A	7,853	8,259
Receivables <sup>1</sup>	3.4	Loans and Receivables – at amortised cost	127,901	100,446
<b>Financial Liabilities</b>				
<b>Class:</b>				
Payables <sup>2</sup>	3.3	Financial liabilities – at amortised cost	179,448	123,898

Notes:

<sup>1</sup> Excludes statutory receivables and prepayments (i.e. not within scope of AASB 7)

<sup>2</sup> Excludes statutory payables and unearned revenue (i.e. not within scope of AASB 7).

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

### 3.1. Market risk

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

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

### 3.2. Interest rate risk

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

# Notes to the financial statements

for the year ended 30 June 2020

## 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
<b>2020</b>					
Cash and cash equivalents	7,853	(79)	(79)	79	79
<b>2019</b>					
Cash and cash equivalents	8,259	(83)	(83)	83	83

	Floating Interest Rate	Fixed Interest Rates		
		< 1 year \$'000	1-5 years \$'000	> 5 years \$'000
<b>2020</b>				
<b>Class</b>				
Cash	7,853	-	-	-
<b>Assets</b>	<b>7,853</b>	-	-	-
<b>2019</b>				
<b>Class</b>				
Cash	8,259	-	-	-
<b>Assets</b>	<b>8,259</b>	-	-	-



# Notes to the financial statements

for the year ended 30 June 2020

## 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 nil interest to small business suppliers for late payment of invoices in accordance with Government guidelines. (2019: \$1,347)

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
<b>2020</b>				
Payables	179,448	-	-	179,448
<b>2019</b>				
Payables	123,898	-	-	123,898

### Maturity Analysis of financial liabilities

	Interest Rate Exposure		
	< 1 year \$'000	1-5 years \$'000	> 5 years \$'000
<b>2020</b>			
Payables	179,448	-	-
<b>2019</b>			
Payables	123,898	-	-

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.

# Notes to the financial statements

for the year ended 30 June 2020

## 3.4. Credit risk

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

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

### 3.4.1. Cash

Cash comprises cash on hand, bank balances within the NSW Treasury Banking System and term deposits with a maturity of less than 3 months. Interest is earned on daily bank balances at the 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 icare's financial assets and liabilities at the end of the reporting year approximated their fair values as all financial assets and liabilities held were either at fair value at the end of the reporting year or were short term in nature.

## 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.

	2020 \$'000	2019 \$'000
Cash at bank and on hand	7,853	8,259
	<b>7,853</b>	<b>8,259</b>

	2020 \$'000	2019 \$'000
Cash and cash equivalent assets (per statement of financial position)	7,853	8,259
<b>Closing cash and cash equivalents (per statement of cash flows)</b>	<b>7,853</b>	<b>8,259</b>

# Notes to the financial statements

for the year ended 30 June 2020

## 4.1. Cash and cash equivalents (continued)

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

	2020 \$'000	2019 \$'000
<b>Net cash flow from operating activities</b>	827	(14,451)
Depreciation and amortisation	(13,112)	(6,388)
Gain/(loss) on disposal of assets	11	-
Increase/(decrease) in receivables	72,539	3,380
(Increase)/decrease in payables	(55,550)	13,661
(Increase) in provisions	(5,313)	3,798
(Increase)/Decrease in Right of use asset and liability	598	-
<b>Net result per Statement of Comprehensive Income</b>	-	-

## 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.

# Notes to the financial statements

for the year ended 30 June 2020

## 4.2 Property, plant and equipment (continued)

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:

	2020 %	2019 %
	per annum	per annum
Office machines and equipment	20.0	20.0
Computer hardware	20.0-33.3	20.0-33.3
Motor Vehicle	20.0	20.0

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

### Restoration costs

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

	Capital Work in Progress \$'000	Leasehold Improvements \$'000	Office Machines and Equipment \$'000	Computer Hardware \$'000	Motor Vehicles \$'000	Total \$'000
<b>At 1 July 2019 fair value</b>						
Gross carrying amount	-	32,446	323	154	31	32,954
Accumulated depreciation and impairment	-	(16,218)	(215)	(129)	(18)	(16,580)
<b>Net carrying amount</b>	<b>-</b>	<b>16,228</b>	<b>108</b>	<b>25</b>	<b>13</b>	<b>16,374</b>
<b>At 30 June 2020 fair value</b>						
Gross carrying amount	1,253	32,446	323	154	-	34,176
Accumulated depreciation and impairment	-	(22,317)	(277)	(142)	-	(22,736)
<b>Net carrying amount</b>	<b>1,253</b>	<b>10,129</b>	<b>46</b>	<b>12</b>	<b>-</b>	<b>11,440</b>

# Notes to the financial statements

for the year ended 30 June 2020

## 4.2 Property, plant and equipment (continued)

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

	Capital Work in Progress \$'000	Leasehold Improvements \$'000	Office Machines and Equipment \$'000	Computer Hardware \$'000	Motor Vehicles \$'000	Total \$'000
Net carrying amount at start of the year	-	16,228	108	25	13	16,374
Additions	1,253	-	-	-	-	1,253
Disposals	-	-	-	-	(31)	(31)
Depreciation writeback on disposal	-	-	-	-	22	22
Depreciation expense	-	(6,099)	(62)	(13)	(4)	(6,178)
<b>Net carrying amount at end of the year</b>	<b>1,253</b>	<b>10,129</b>	<b>46</b>	<b>12</b>	<b>-</b>	<b>11,440</b>

	Capital Work in Progress \$'000	Leasehold Improvements \$'000	Office Machines and Equipment \$'000	Computer Hardware \$'000	Motor Vehicles \$'000	Total \$'000
<b>At 1 July 2018 fair value</b>						
Gross carrying amount	211	32,166	323	154	31	32,885
Accumulated depreciation and impairment	-	(10,356)	(152)	(116)	(10)	(10,634)
<b>Net carrying amount</b>	<b>211</b>	<b>21,810</b>	<b>171</b>	<b>38</b>	<b>21</b>	<b>22,251</b>
<b>At 30 June 2019 fair value</b>						
Gross carrying amount	-	32,446	323	154	31	32,954
Accumulated depreciation and impairment	-	(16,218)	(215)	(129)	(18)	(16,580)
<b>Net carrying amount</b>	<b>-</b>	<b>16,228</b>	<b>108</b>	<b>25</b>	<b>13</b>	<b>16,374</b>

## Notes to the financial statements

for the year ended 30 June 2020

### 4.2 Property, plant and equipment (continued)

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

	Capital Work in Progress \$'000	Leasehold Improvements \$'000	Office Machines and Equipment \$'000	Computer Hardware \$'000	Motor Vehicles \$'000	Total \$'000
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)
<b>Net carrying amount at end of the year</b>	<b>-</b>	<b>16,228</b>	<b>108</b>	<b>25</b>	<b>13</b>	<b>16,374</b>

### 4.3. Leases

AASB 16 *Leases* (AASB 16) is effective from 1 July 2019.

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

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

The impact of AASB 16 is to recognise depreciation and interest expenses on these leases and reduce the operating lease rental in the Statement of Comprehensive Income.

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

# Notes to the financial statements

for the year ended 30 June 2020

## 4.3. Leases (continued)

### Right-of-use assets under leases

	2020 \$'000	2019 \$'000
<b>Right of use asset</b>		
Cost (gross carrying amount)	49,373	-
Accumulated amortisation	(6,915)	-
<b>Total right of use asset</b>	<b>42,458</b>	<b>-</b>

### Reconciliation

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

	2020 \$'000	2019 \$'000
<b>Balance at 1 July</b>	<b>-</b>	<b>-</b>
Additions	54,808	-
Impairment	(5,435)	-
Depreciation	(6,915)	-
<b>Balance at 30 June</b>	<b>42,458</b>	<b>-</b>

### Lease liabilities

The following table presents liabilities under leases:

	2020 \$'000	2019 \$'000
<b>Balance at 1 July</b>	<b>-</b>	<b>-</b>
Additions	54,808	-
Interest expenses	1,068	-
Payments	(7,101)	-
<b>Balance at 30 June</b>	<b>48,775</b>	<b>-</b>

# Notes to the financial statements

for the year ended 30 June 2020

## 4.3 Leases (continued)

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

	2020 \$'000	2019 \$'000
<b>Outstanding lease liability</b>		
Not later than one year	7,158	-
Later than one year but not later than five years	28,036	-
Later than five years	24,992	-
Total (including GST)	<b>60,186</b>	-
Less: GST recoverable from Australian Tax Office	(5,471)	-
<b>Total (excluding GST)</b>	<b>54,715</b>	-

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

	2020 \$'000	2019 \$'000
Total minimum finance lease payments	54,715	-
Less: future finance charges	(5,940)	-
<b>Present value of minimum lease payments as per Statement of financial position</b>	<b>48,775</b>	-



# Notes to the financial statements

for the year ended 30 June 2020

## 4.4. 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.

	2020 \$'000	2019 \$'000
<b>Employee benefits and related on-costs</b>		
Annual leave entitlements including on-costs	13,940	10,123
Long service leave entitlements including on-costs	13,107	11,610
Restoration provision	2,304	2,304
<b>Total Provisions</b>	<b>29,351</b>	<b>24,037</b>
<b>Aggregate employee benefits and related on-costs</b>		
Annual leave entitlements including on-costs	13,940	10,123
Long service leave entitlements including on-costs	13,107	11,610
Accrued salaries, wages and on-costs	9,272	5,514
	<b>36,319</b>	<b>27,247</b>

### Employee Benefits and Other Provisions

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

	2020 \$'000	2019 \$'000
<b>Expected to be settled no more than twelve months</b>		
Annual leave and related on-costs	13,940	10,123
Long service leave and related on-costs	1,284	1,183
	<b>15,224</b>	<b>11,306</b>
<b>Expected to be settled after more than twelve months</b>		
Long service leave and related on-costs	<b>11,823</b>	<b>10,427</b>

## Notes to the financial statements

for the year ended 30 June 2020

### 4.4.1. 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.

### 4.4.2. 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.

### 4.4.3. 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.

### 4.4.4. 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.

	2020 \$'000	2019 \$'000
Carrying amount at the beginning of financial year	2,304	2,140
Additional provisions	-	361
Disposals	-	(197)
<b>Carrying amount at end of financial year</b>	<b>2,304</b>	<b>2,304</b>

# Notes to the financial statements

for the year ended 30 June 2020

## 4.5. 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.

## 4.6. Related party disclosures

### Overview

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

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

	2020 \$'000	2019 \$'000
<b>Short term employee benefits</b>		
Salaries	6,960	7,732
Other monetary allowances	-	-
Non-monetary benefits	-	-
Other long-term employee benefits	45	363
Post-employment benefits	-	-
Termination benefits	285	731
<b>Total Remuneration</b>	<b>7,290</b>	<b>8,826</b>

## 4.7. Post balance date events

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

**End of audited financial statements**

icare

● **Dust Diseases Care**

Lifetime Care

Insurance for NSW

HBCF

Workers Insurance

Sporting Injuries  
Insurance

BIG Corp

# Dust Diseases Care

# Dust Diseases Care Financial statements

for the year ended 30 June 2020

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## WORKERS COMPENSATION DUST DISEASES AUTHORITY OF NSW

### Actuarial Certificate Outstanding claims liabilities at 30 June 2020

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 2020.

#### 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 2020 is **\$2,018.8 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	892.4
Future Claims	1,126.4
<b>Total Liability*</b>	<b>2,018.8</b>

\*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**

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Liability limited by a scheme approved under Professional Standards Legislation.



## Uncertainty

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

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

In our judgement, we have employed techniques and assumptions that are appropriate, and we believe the conclusions presented herein are reasonable, given the information currently available. However, it should be recognised that future claim 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 01 September 2020.

## Relevant Standards

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

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

A handwritten signature in black ink, appearing to read 'A Smith', written over a light blue horizontal line.

Andrew Smith  
FIAA  
01 September 2020

A handwritten signature in black ink, appearing to read 'G Moore', written over a light blue horizontal line.

Gavin Moore  
FIAA  
01 September 2020

## Statement by the chairman and chief executive officer

for the year ended 30 June 2020

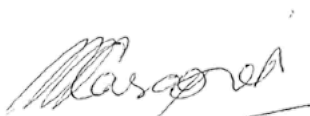
### Workers Compensation (Dust Diseases) Authority

**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 2020 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  
25 September 2020



**Don Ferguson**  
A/Chief Executive Officer and Managing Director  
Workers Compensation (Dust Diseases) Authority  
and Insurance and Care NSW  
25 September 2020





## INDEPENDENT AUDITOR'S REPORT

### Workers Compensation (Dust Diseases) Authority

To Members of the New South Wales Parliament

### Opinion

I have audited the accompanying financial statements of the Workers Compensation (Dust Diseases) Authority (the Authority), which comprises the statement of comprehensive income for the year ended 30 June 2020, the statement of financial position as at 30 June 2020, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements comprising the Basis of preparation 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 2020, 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 (including Independence Standards)' (APES 110).

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

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

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

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

## Other Information

The Authority's annual report for the year ended 30 June 2020 includes other information in addition to the financial statements and my Independent Auditor's Report thereon. The Directors of the Authority are responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprise the Statement by the Chairman and Chief Executive Officer.

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

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

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

I have nothing to report in this regard.

## The Board's Responsibilities for the Financial Statements

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

In preparing the financial statements, the Directors are responsible for assessing the Authority's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting.

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

My objectives are to:

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

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

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

The scope of my audit does not include, nor provide assurance:

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



David Daniels  
Director, Financial Audit Services

Delegate of the Auditor-General for New South Wales

1 October 2020  
SYDNEY

# Statement of comprehensive income

for the year ended 30 June 2020

	Notes	2020 \$'000	2019 \$'000
<b>Revenue</b>			
Fees and levies	2.1	62,525	71,173
Net investment revenue	3.1	10,262	105,057
Other revenue	5.1	6,559	21,870
<b>Total Revenue</b>		<b>79,346</b>	<b>198,100</b>
<b>Expenses excluding losses</b>			
Scheme costs	2.2	54,548	193,560
Service fees	5.2	11,954	11,176
Transformation expenses	1.2.9	1,313	3,504
Other operating expenses		4,706	3,172
Grants and subsidies		6,521	5,729
<b>Total expenses excluding losses</b>		<b>79,042</b>	<b>217,141</b>
Movement in allowance for impairment of financial assets	2.3.5	(2)	70
Impairment of right of use asset		(302)	-
Gain on disposal of assets	5.4	-	7,944
<b>Net result</b>		<b>-</b>	<b>(11,027)</b>
<b>Other comprehensive income</b>			
Items that will not be reclassified to the net result			
Net decrease in property, plant and equipment revaluation reserve		-	(2,598)
<b>Total other comprehensive income/(loss)</b>		<b>-</b>	<b>(2,598)</b>
<b>TOTAL COMPREHENSIVE INCOME/(LOSS)</b>		<b>-</b>	<b>(13,625)</b>

The accompanying notes form part of these financial statements

# Statement of financial position

as at 30 June 2020

	Notes	2020 \$'000	2019 \$'000
<b>ASSETS</b>			
Cash and cash equivalents	5.3	21,031	10,304
Investments	3.2	1,176,987	1,242,829
Receivables	2.3.5	882,326	697,997
Property, plant and equipment	1.2.6	3,374	4,957
Intangibles	1.2.7	4,528	6,549
Right of use asset	5.6	1,171	-
<b>Total Assets</b>		<b>2,089,417</b>	<b>1,962,636</b>
<b>LIABILITIES</b>			
Payables	2.3.6	4,186	13,066
Investments	3.2	111	197
Outstanding claims	2.3.1	2,083,521	1,949,293
Lease liabilities	5.6	1,519	-
Restoration Provision		80	80
<b>Total Liabilities</b>		<b>2,089,417</b>	<b>1,962,636</b>
<b>Net Assets</b>		<b>-</b>	<b>-</b>
<b>EQUITY</b>		<b>-</b>	<b>-</b>
Accumulated funds		-	-
<b>Total Equity</b>		<b>-</b>	<b>-</b>

The accompanying notes form part of these financial statements

## Statement of changes in equity

for the year ended 30 June 2020

	Accumulated Funds \$'000	Asset Revaluation Surplus \$'000	Total \$'000
<b>Balance at 1 July 2019</b>	-	-	-
<b>Net Result for the year</b>	-	-	-
<b>Other comprehensive income</b>			
Net decrease in property, plant and equipment revaluation reserve	-	-	-
<b>Total other comprehensive income/(loss)</b>	-	-	-
<b>Total comprehensive income/(loss) for the year</b>	-	-	-
<b>Balance at 30 June 2020</b>	-	-	-
Balance at July 2018	11,027	2,598	13,625
Net Result for the year	(11,027)	-	(11,027)
<b>Other comprehensive income</b>			
Net decrease in property, plant and equipment revaluation reserve	-	(2,598)	(2,598)
<b>Total other comprehensive income/(loss)</b>	-	(2,598)	(2,598)
<b>Total comprehensive income/(loss) for the year</b>	(11,027)	-	(11,027)
<b>Balance at 30 June 2019</b>	-	-	-

The accompanying notes form part of these financial statements.

# Statement of cash flows

for the year ended 30 June 2020

	Notes	2020 \$'000	2019 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Fees and levies received		70,109	66,471
Compensation payments		(110,871)	(106,894)
<b>Net Cash Flows from Scheme Activities</b>		<b>(40,762)</b>	<b>(40,423)</b>
<b>Receipts</b>			
Proceeds from sale of investments		69,995	54,637
Distributions/interest investments income		6,170	407
Other		4,766	3,082
<b>Total Receipts Excluding Scheme Activities</b>		<b>80,931</b>	<b>58,126</b>
<b>Payments</b>			
Purchases of investments		-	(10,230)
Service fees		(21,147)	(3,852)
Other operating expenses		(1,764)	(7,755)
Grants and subsidies		(6,521)	(5,729)
<b>Total Payments Excluding Scheme Activities</b>		<b>(29,432)</b>	<b>(27,566)</b>
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>5.3</b>	<b>10,737</b>	<b>(9,863)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from sale of property, plant and equipment		-	13,317
Purchases of plant and equipment		(10)	(12,343)
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>		<b>(10)</b>	<b>974</b>
<b>NET INCREASE/(DECREASE) IN CASH &amp; CASH EQUIVALENTS</b>		<b>10,727</b>	<b>(8,889)</b>
<b>Opening cash and cash equivalents</b>		<b>10,304</b>	<b>19,193</b>
<b>CLOSING CASH AND CASH EQUIVALENTS</b>	<b>5.3</b>	<b>21,031</b>	<b>10,304</b>

The accompanying notes form part of these financial statements.

# Notes to the financial statements

for the year ended 30 June 2020

## 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.

The financial statements have not been normalised for the impact of COVID-19.

These financial statements for the year ended 30 June 2020 have been authorised for issue by the Chairman of the Board of icare and the Acting Chief Executive Officer and Managing Director of the Authority on behalf of the Board of Directors of icare on 25 September 2020.

### 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.



# Notes to the financial statements

for the year ended 30 June 2020

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

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 TC20-01 by NSW Treasury that statements are presented on a current and non-current basis.

## 1.2.2. Statement of compliance

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

## 1.2.3. Judgements, key assumptions and estimations

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

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

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

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

- Note 3 & 4 – Investing Activities and Risk Management;
- Note 2.3 – Net Outstanding Claims liability. and
- Note 2.3.5 – Receivables

# Notes to the financial statements

for the year ended 30 June 2020

## 1.2.4. Taxation

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

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

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

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

## 1.2.5. Equity and reserves

### Accumulated funds

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

## 1.2.6. Property, plant and equipment

### Overview

Property, plant and equipment are recorded at cost on acquisition.

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

## 1.2.6.1. Fair value

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

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

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

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

# Notes to the financial statements

for the year ended 30 June 2020

## 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	2020 %	2019 %
	per annum	per annum
Motor vehicles: passenger cars	20	20
Motor vehicles: mobile respiratory unit	10	10
Office equipment	20	20
Scientific and medical equipment	5-12.5	5-12.5

## 1.2.7. Intangibles

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

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

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

2019-20 is the final 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. The discovery work for transitioning the Care schemes onto the Guidewire Claims System is commencing with a view to moving Dust Diseases Care first.

Transformation costs include development of the new SDM for Dust Diseases Care through to the end of FY20.

# Notes to the financial statements

for the year ended 30 June 2020

## 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 2020.

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

- AASB 1059 *Service Concession Arrangements: Grantors*
- AASB 2018-5 *Amendments to Australian Accounting Standards – Deferral of AASB 1059*
- AASB 2018-6 *Amendments to Australian Accounting Standards – Definition of a Business*
- AASB 2018-7 *Amendments to Australian Accounting Standards – Definition of Material*
- AASB 2019-1 *Amendments to Australian Accounting Standards – References to the Conceptual Framework*
- AASB 2019-2 *Amendments to Australian Accounting Standards – Implementation of AASB 1059*
- AASB 2019-3 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform*

The Authority applied AASB 15 *Revenue from Contracts with Customers*, AASB 1058 *Income of Not-for-Profit Entities*, and AASB 16 *Leases* for the first time in 2019-20. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

Several other amendments and interpretations apply for the first time in FY2019-20, but do not have an impact on the financial statements of the Authority.

- AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of Not-for-Profits*
  - AASB 15 *Revenue from Contracts with Customers* (AASB 15) supersedes AASB 111 *Construction Contracts*, AASB 118 *Revenue* and related interpretations. It applies, with limited exceptions, to all revenue arising from contracts with customers. 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.
  - AASB 1058 *Income of Not-for-Profits* (AASB 1058) replaces 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 needs 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).
  - 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.

# Notes to the financial statements

for the year ended 30 June 2020

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

- The Authority adopted AASB 15 and AASB 1058 from 1 July 2019 through application of the full retrospective transition approach. Recognition and measurement principles of the new standards were applied for the current year and comparative year as though AASB 15 and AASB 1058 had always applied.

The adoption of AASB 15 and AASB 1058 did not have any impact on the Statement of Comprehensive Income, Statement of Financial Position, Other Comprehensive Income and the Statement of Cash Flows for the financial year.

- AASB 16 *Leases*
  - AASB 16 supersedes AASB 117 *Leases*, Interpretation 4 *Determining whether an Arrangement contains a Lease*, Interpretation 115 *Operating Leases – Incentives* and Interpretation 127 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the Statement of Financial Position.
  - For lessees, AASB 16 results in most leases being recognised on the Statement of Financial Position, as the distinction between operating and finance leases is largely removed. Under AASB 16 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 therefore increased assets and liabilities reported on the Statement of Financial Position. It also increased depreciation and interest expenses and reduced operating lease rental expenses on the Statement of Comprehensive Income.

- The Authority adopted 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.
- Further details of the impact on the Authority of AASB 16 can be found in Note 5.6.

## 1.2.11. Coronavirus (COVID-19) pandemic

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

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

# Notes to the financial statements

for the year ended 30 June 2020

## Accounting Estimates and judgement:

The ongoing COVID-19 pandemic has increased the estimation uncertainty in the preparation of these financial statements. The Authority has developed various accounting estimates in these financial statements based on forecasts of economic conditions which reflect expectations and assumptions as at 30 June 2020 about future events that we believe are reasonable in the circumstances. There is a considerable degree of judgement involved in preparing these forecasts. The underlying assumptions are also subject to uncertainties which are often outside the control of the Authority. Accordingly, actual economic conditions may be different from those forecast since anticipated events may not occur as expected, and the effect of those differences may significantly impact accounting estimates included in these financial statements.

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

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

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

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

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

- Right of use lease asset – please refer to note 5.6

## Risk Management

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

The immediate impacts on the Authority have been from market volatility creating lower investment returns and increases in insurance liabilities. As the impacts of the virus and associated responses evolve, so too will the associated risks. The Authority is committed to appropriately managing those risks at all levels.

## 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.

# Notes to the financial statements

for the year ended 30 June 2020

## 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.

	2020 \$'000	2019 \$'000
<b>Levy contributions</b>		
- NSW Self Insurance Corporation	3,768	5,013
- Specialised insurer and other self insurers	7,045	8,221
- NSW Workers Insurance Scheme	51,712	57,939
<b>Total fees and levies</b>	<b>62,525</b>	<b>71,173</b>

## 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 2020 as being the movement in the amount required to meet the cost of compensation expenses reported but not yet paid;
- compensation expenses incurred which are yet to be reported; and
- the escalation in reported and reopened compensation expenses.



# Notes to the financial statements

for the year ended 30 June 2020

## 2.2 Scheme costs (continued)

	2020 \$'000	2019 \$'000
<b>(i) Compensation payments made during the year</b>		
Compensation to workers	23,820	22,068
Compensation to dependents	39,850	39,244
Lump sum awards to dependents	25,089	24,963
Healthcare services and funeral benefits	20,138	17,026
	<b>108,897</b>	<b>103,301</b>
<b>(ii) Medical examination of workers</b>		
Medical fees and other related supplies	1,240	922
Workers travelling expenses	22	19
	<b>1,262</b>	<b>941</b>
<b>(iii) Movement in provision for compensation (Refer note 2.3.1)</b>		
Finance costs	17,733	32,499
Movement in provision for compensation - known claims	39,859	(61,977)
Movement in provision for compensation - estimated future	76,636	151,843
<b>Total net movement during the year</b>	<b>134,228</b>	<b>122,365</b>
<b>Total Scheme costs</b>	<b>244,387</b>	<b>226,607</b>
Movement in contributions from insurers yet to be levied (Note 2.3.5)	(189,839)	(33,047)
<b>Total Scheme costs including movement in contribution receivable</b>	<b>54,548</b>	<b>193,560</b>

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



# Notes to the financial statements

for the year ended 30 June 2020

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

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

# Notes to the financial statements

for the year ended 30 June 2020

## 2.3.1. Outstanding claims liability

### 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 2020, liabilities for compensation payments and estimated compensation for future claims were valued by the actuaries Pricewaterhouse Coopers consulting (Australia) (PwC) up to valuation date. The valuation does not include an explicit risk margin but the calculation inherently considers risk in the valuation.

	2020 \$'000	2019 \$'000
<b>Outstanding claims liabilities</b>		
Expected future gross claims payments	2,354,771	2,314,510
Gross claims handling	352,447	407,579
Gross outstanding claims liabilities	2,707,218	2,722,089
Discount on central estimate	(536,330)	(650,096)
Discount on claims handling expenses	(87,367)	(122,700)
Total discount on claims liabilities	(623,697)	(772,796)
<b>Claims liabilities</b>	<b>2,083,521</b>	<b>1,949,293</b>
Gross claims recoveries	82,301	84,201
Discount on claims recoveries	(17,598)	(21,864)
<b>Claims recoveries</b>	<b>64,703</b>	<b>62,337</b>
<b>Net claims liabilities at 30 June</b>	<b>2,018,818</b>	<b>1,886,956</b>

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

	2020 \$'000	2019 \$'000
<b>Claims provisions</b>		
Provision for compensation - known claims	892,369	835,811
Provision for compensation - estimated future claims	1,126,449	1,051,145
<b>Total claims provisions</b>	<b>2,018,818</b>	<b>1,886,956</b>

# Notes to the financial statements

for the year ended 30 June 2020

## 2.3.1 Outstanding claims liability (continued)

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

	2020 \$'000	2019 \$'000
<b>Movements in the provision for compensation during the financial year are set out below:</b>		
Carrying amount at start of financial year	1,886,956	1,784,149
Addition/(Reduction) in provision	196,847	90,370
Less: Service Fees - refer Note 5.2	(11,954)	(11,176)
Transformation expenses	(1,313)	(3,504)
Other operating expenses (excluding depreciation and amortisation)	(485)	(1,807)
Compensation payments made during the year - refer note 2.2(i)	(108,897)	(103,301)
Medical examination costs of workers - refer note 2.2(ii)	(1,261)	(941)
Add: Compensation recoveries - refer note 5.1	3,646	1,581
Change in discount rate	37,546	99,086
Finance cost (unwinding of discount - refer note 2.2(iii))	17,733	32,499
<b>Carrying amount at end of financial year</b>	<b>2,018,818</b>	<b>1,886,956</b>

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 \$1,126,449 Thousand (2019: \$1,051,145 Thousand). This figure is shown in the statement of financial position as a liability with the corresponding outstanding contributions receivable asset (net of cumulative surplus or deficit to date) representing the right to levy employers for these outstanding claims.

# Notes to the financial statements

for the year ended 30 June 2020

## 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.

	2020 %	2019 %
<b>Compensation expected to be paid</b>		
<b>Not later than one year</b>		
Wages inflation rate	1.05	2.33
Discount rate	0.23	1.00
<b>Later than one year</b>		
Wages inflation rate *	1.73	2.06
Discount rate *	1.71	1.90

\*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;

	2020 \$'000	2019 \$'000
Not later than one year	122,006	110,989
Later than one year but not later than five years	457,636	426,837
Later than five years	1,439,176	1,349,130
	<b>2,018,818</b>	<b>1,886,956</b>

# Notes to the financial statements

for the year ended 30 June 2020

## 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% (2019: 75%) the outstanding claims liability would increase by \$458m to \$2,477m. (2019: \$428m to \$2,315m)

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 1 September 2020 have used an incidence and severity model to estimate the compensation payable for claims yet to be lodged. Estimated future claims are inflated and discounted, allowing for expected mortality and estimates around characteristics of each claimant.

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

	30 June 2020 Liability \$'000	Effect On 30 June 2020 Liability \$'000	Percentage Effect %
Central estimate of the Authority's liability	2,018,818		
All valuation assumptions used			
<b>Economic assumptions</b>			
Increase inflation rate by 1% but with long-term gap of 1.5%	2,130,753	111,935	6
Decrease inflation rate by 1% but with long-term gap of 1.5%	1,912,837	(105,981)	(5)
Decrease discount rate by 1% but with long-term gap of 1.5%	2,138,039	119,221	6
Increase discount rate by 1% but with long-term gap of 1.5%	1,908,605	(110,213)	(5)

## Notes to the financial statements

for the year ended 30 June 2020

### 2.3.5. Receivables

#### Overview

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

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

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

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

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

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

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

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

# Notes to the financial statements

for the year ended 30 June 2020

## 2.3.5 Receivables (continued)

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

	2020 \$'000	2019 \$'000
Contributions from insurers	804,726	614,887
Recoveries receivable	64,703	62,337
Other receivables	10,820	10,478
less: Allowance for impairment	(1,502)	(1,504)
Dust Diseases levy hindsight	-	7,926
GST receivable	102	911
Service fees	32	256
Investment receivables (as per note 3.2)	3,394	2,657
Prepayments & other assets	51	49
<b>Total Receivables</b>	<b>882,326</b>	<b>697,997</b>
<b>Movement in the allowance for impairment</b>		
Balance at 1 July	1,504	1,574
Increase/(Decrease) in allowance recognised in profit or loss	(2)	(70)
<b>Balance at 30 June</b>	<b>1,502</b>	<b>1,504</b>

# Notes to the financial statements

for the year ended 30 June 2020

## 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.

	2020 \$'000	2019 \$'000
Service fees	1,537	10,963
Accrued expenses and other creditors	2,649	2,103
<b>Total Payables</b>	<b>4,186</b>	<b>13,066</b>

## 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.

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.



# Notes to the financial statements

for the year ended 30 June 2020

## 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.

	2020 \$'000	2019 \$'000
Interest revenue from bank interest and TCorpIM cash fund	176	407
Other investment facilities	5,568	7,938
Distribution	39,293	14,406
Realised Gains/(Losses) on investments	27,527	6,806
Unrealised Gains/(Losses) on investments	(61,344)	76,079
<b>Total Investment revenue</b>	<b>11,220</b>	<b>105,636</b>
Investment management fees	(958)	(579)
<b>Net investment revenue</b>	<b>10,262</b>	<b>105,057</b>

## 3.2. Investments

	2020 \$'000	2019 \$'000
TCorp Managed Trusts	945,638	999,887
TCorp Fixed/Variable interest discrete portfolio	230,850	242,744
Derivatives	499	198
<b>Total investment assets</b>	<b>1,176,987</b>	<b>1,242,829</b>
Investment receivables		
Investment receivables (refer note 2.3.5)	3,394	2,657
<b>Total investment assets including receivables</b>	<b>1,180,381</b>	<b>1,245,486</b>
<b>Investments payable</b>		
Investments payable	111	197
<b>Net Investments</b>	<b>1,180,270</b>	<b>1,245,289</b>

# Notes to the financial statements

for the year ended 30 June 2020

## 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 return to meet the Authority's current and future liabilities and mitigate the risk that the assets will be insufficient to meet their liabilities. Designation of investments at fair value through profit or loss is consistent with this risk management strategy as it allows for these investments to be recorded at fair value and for any gains or losses in the movement in their fair value to be recognised in the net result for the year.

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

## 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.

# Notes to the financial statements

for the year ended 30 June 2020

## 3.3 Fair value estimation (continued)

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.

	2020				2019			
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Other financial assets</b>								
Indexed and interest-bearing securities	-	230,850	-	230,850	-	242,744	-	242,744
Unit Trusts	-	767,364	178,274	945,638	-	812,626	187,261	999,887
Derivatives	467	32	-	499	97	101	-	198
	<b>467</b>	<b>998,246</b>	<b>178,274</b>	<b>1,176,987</b>	<b>97</b>	<b>1,055,471</b>	<b>187,261</b>	<b>1,242,829</b>
<b>Other financial liabilities</b>								
Derivatives	<b>92</b>	<b>19</b>	<b>-</b>	<b>111</b>	<b>96</b>	<b>101</b>	<b>-</b>	<b>197</b>

## Notes to the financial statements

for the year ended 30 June 2020

### 3.3.1. Transfer between levels

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

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

	2020 \$'000	2019 \$'000
Opening balance	187,261	197,543
Transfers into Level 3	-	-
Purchases of securities	7,525	3,240
Sale of securities	-	(15,076)
Gain / (loss) in Profit & Loss (investment income)	(16,512)	1,554
<b>Closing balance</b>	<b>178,274</b>	<b>187,261</b>
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)	<b>(16,512)</b>	<b>1,554</b>

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

Type	Description	Valuation technique	Significant unobservable inputs	Range of estimates (weighted avg) for unobservable input	Inter-relationship between significant unobservable inputs and fair value measurement
Unit Trusts	Units in unlisted wholesale property trusts	Adjusted net asset value	Published redemption prices	2020: \$1.42 2019: \$1.59	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	2020: \$1.30 2019: \$1.37	An increase in published redemption prices would result in a higher fair value.

# Notes to the financial statements

for the year ended 30 June 2020

## 3.3.2. Valuation framework

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

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

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

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

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

# Notes to the financial statements

for the year ended 30 June 2020

## 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 2020 \$'000	Net Market Value as at 30 June 2019 \$'000
Equity- Listed	386,069	448,896
Equity- Unlisted	32,690	69,011
Property	112,434	121,792
Alternatives	30,056	35,228
Emerging Markets	62,869	63,394
Infrastructure	65,840	65,469
Debt	110,012	89,831
Cash	145,668	106,266
<b>Total</b>	<b>945,638</b>	<b>999,887</b>

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 2020. 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 Offer Document and investment mandates with respective underlying investment managers. The investment decisions in the mandate are based on the analysis conducted by the investment manager. The return of the portfolio is exposed to the variability of the performance of the underlying investments

# Notes to the financial statements

for the year ended 30 June 2020

## 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, advisory and administrative services to icare managed investment funds. TCorp is engaged through a Master Financial Services Agreement (MFSA) which details, amongst other things, the service and reporting provisions. Service levels and compliance to the MFSA are monitored through icare's Organisational Performance team. Ministerial Orders that were introduced in December 2016, outline the key responsibilities of TCorp including, but not limited to, the appointment of investment managers and service providers such as the custodian, in addition to TCorp's role as primary advisor to icare.

# Notes to the financial statements

for the year ended 30 June 2020

## 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 2020 \$'000	Carrying Amount 2019 \$'000
<b>Financial Assets</b>				
<b>Class:</b>				
Cash and cash equivalents	5.3	N/A	21,031	10,304
Receivables <sup>1</sup>	2.3.5	Loans and receivables (at amortised cost)	3,426	2,913
Investments	3.2	Fair value through profit or loss	1,176,987	1,242,829
<b>Financial Liabilities</b>				
<b>Class:</b>				
Payables <sup>2</sup>	2.3.6	Financial Liabilities (at amortised cost)	4,297	13,263

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).

### 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 return 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 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.



# Notes to the financial statements

for the year ended 30 June 2020

## 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. TCorp is responsible for determining and implementing dynamic asset allocation positions, within pre-determined ranges set by the Board.

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

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

As Trustee or a direct investment manager, TCorp is responsible for ensuring that each investment manager is managing security specific risk using its distinct management style. TCorp is responsible for ensuring that each investment manager also constructs a portfolio that aims to achieve its own investment objectives while complying with restrictions and guidelines contained in the mandate or Information Memorandum.

A risk budgeting framework is used to 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 (supported by its asset consultant) and icare's independent asset consultant, Mercer Investments (Australia) Limited (Mercer), utilising:

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

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

The risk budgeting analysis is based on certain simplifying assumptions such as statistical characteristics of 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.

# Notes to the financial statements

for the year ended 30 June 2020

## 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 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 by TCorp was conducted in July 2020 based on the June 2020 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 2020, the minimum potential loss expected over a one year period is \$72.9 million (June 2019: \$58.2 million), with a 5 per cent probability that this minimum may be exceeded.

## 4.2. Interest rate risk

### Overview

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

### 4.2.1. Exposure

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

### 4.2.2. Risk management objective, policies and processes

The interest risk of the Authority is managed primarily through its strategic asset allocation and mandate objective setting. At 30 June 2020 the Authority had a 20 per cent (2019: 19.5 per cent) allocation to Australian Commonwealth and state government bonds and other interest-bearing securities to partially mitigate interest rate risk of the Authority's liabilities and diversify the risk of growth assets.

# Notes to the financial statements

for the year ended 30 June 2020

## 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	
<b>2020</b>						
Cash	21,031	-	-	-	-	21,031
Indexed and interest- bearing securities	54,674	-	-	26,308	149,868	230,850
Derivative assets	32	467	-	-	-	499
Derivative liabilities	(19)	(92)	-	-	-	(111)
<b>Assets</b>	<b>75,718</b>	<b>375</b>	<b>-</b>	<b>26,308</b>	<b>149,868</b>	<b>252,269</b>
<b>2019</b>						
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)
<b>Assets</b>	<b>68,020</b>	<b>1</b>	<b>-</b>	<b>35,872</b>	<b>149,156</b>	<b>253,049</b>

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

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

# Notes to the financial statements

for the year ended 30 June 2020

## 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 2019.

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

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

# Notes to the financial statements

for the year ended 30 June 2020

## 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	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
<b>2020</b>								
Payables	N/A	4,297	-	-	4,297	4,297	-	-
<b>2019</b>								
Payables	N/A	13,263	-	-	13,263	13,263	-	-

### 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.

# Notes to the financial statements

for the year ended 30 June 2020

## 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
<b>2020</b>					
Cash	-	90	-	1,214	1,304
Indexed and interest-bearing securities	-	-	-	-	-
Derivate Assets – Swaps	29	-	-	3	32
Derivate Assets – Futures	155	39	-	50	244
Derivate Liabilities – Swaps		(3)	(1)	(15)	(19)
Derivate Liabilities – Futures	(47)	-	(35)	(5)	(87)
<b>Foreign exchange exposure position</b>	<b>137</b>	<b>126</b>	<b>(36)</b>	<b>1,247</b>	<b>1,474</b>
<b>2019</b>					
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)
Derivate Liabilities – Futures	-	-	-	-	-
<b>Foreign exchange exposure position</b>	<b>43</b>	<b>10</b>	<b>(1)</b>	<b>9</b>	<b>61</b>

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

# Notes to the financial statements

for the year ended 30 June 2020

## 4.5. Credit risk

### Overview

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

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

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

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

### 4.5.1. Exposure

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

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

### 4.5.2. Risk management objective, policies and processes

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

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

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

### 4.5.3. Quantitative analysis of exposure

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

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



## Notes to the financial statements

for the year ended 30 June 2020

### 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
<b>2020 Options</b>			
Options on Fixed Income	32	(19)	7,883
Forward foreign exchange contracts	467	(92)	(4,380)
	<b>499</b>	<b>(111)</b>	<b>3,503</b>
<b>2019 Options</b>			
Options on Fixed Income	97	(96)	(31,909)
Forward foreign exchange contracts	101	(101)	13,281
	<b>198</b>	<b>(197)</b>	<b>(18,628)</b>



# Notes to the financial statements

for the year ended 30 June 2020

## 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:

	2020 \$'000	2020 %	2019 \$'000	2019 %
AAA/aaa	173,931	75	202,287	83
AA/Aa	56,919	25	40,457	17
A/A	-	-	-	-
BBB	-	-	-	-
BB	-	-	-	-
Rated below BB	-	-	-	-
<b>Total</b>	<b>230,850</b>	<b>100</b>	<b>242,744</b>	<b>100</b>

## 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.

## Notes to the financial statements

for the year ended 30 June 2020

### 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.

	Total <sup>1,2</sup> \$'000	Past Due but not impaired <sup>1,2</sup> \$'000	Considered impaired <sup>1,2</sup> \$'000
<b>2020</b>			
< 3 months overdue	16	16	-
3 months – 6 months overdue	9	9	-
> 6 months overdue	273	-	273
<b>2019</b>			
< 3 months overdue	72	72	-
3 months – 6 months overdue	35	35	-
> 6 months overdue	521	350	171

Notes:

<sup>1</sup> Each column in the table reports 'gross receivables'.

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

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

# Notes to the financial statements

for the year ended 30 June 2020

## 5. Other

### Overview

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

### 5.1. Other revenue

	2020 \$'000	2019 \$'000
Compensation recoveries under Section 8E of the Act	3,646	1,581
Scheme recoveries	2,367	19,557
Rendering of services - Occupational respiratory health assessments	394	564
Solicitor's production fees	6	44
Employee Related Service Fee - Income	146	124
<b>Total other revenue</b>	<b>6,559</b>	<b>21,870</b>

### 5.2. Service fees

#### Overview

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

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

Audit fees for the audit of the financial statements were paid by icare in 2020 and are included as part of the service fee. The amount incurred was \$179,000.

## Notes to the financial statements

for the year ended 30 June 2020

### 5.3. Cash and cash equivalents

#### Overview

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

	2020 \$'000	2019 \$'000
Cash at bank and on hand	6,206	1,547
Cash - Other	14,825	8,757
<b>Total cash and cash equivalents</b>	<b>21,031</b>	<b>10,304</b>

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

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

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

	2020 \$'000	2019 \$'000
Cash and cash equivalent assets (per Statement of financial position)	21,031	10,304
<b>Closing cash and cash equivalents (per Statement of cash flows)</b>	<b>21,031</b>	<b>10,304</b>

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

# Notes to the financial statements

for the year ended 30 June 2020

## 5.3 Cash and cash equivalents (continued)

	2020 \$'000	2019 \$'000
<b>Reconciliation of Net Cash Flows from Operating Activities to net result</b>		
Net cash provided by/ (used in) operating activities	10,737	(9,863)
Profit on disposal of fixed assets	-	7,944
Depreciation and amortisation	(4,223)	(1,362)
Net investment purchases	(65,843)	59,984
Net cashflows from investment operating activities	-	-
<b>Change in assets and liabilities</b>		
Increase in receivables	184,329	59,155
Decrease/(Increase) in payable	8,967	(4,520)
Increase in claims provisions	(134,228)	(122,365)
Increase in Right of use asset and liability	261	-
<b>Net result</b>	<b>-</b>	<b>(11,027)</b>

## 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 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.

	2020 \$'000	2019 \$'000
Buildings		
<b>At 30 June 2019</b>		
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
<b>Closing balance</b>	<b>-</b>	<b>-</b>

## Notes to the financial statements

for the year ended 30 June 2020

### 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 (2020:\$48,000 2019:\$63,000).

There were no transfers between Level 1 and 2 during the year ended 30 June 2020 (2019: 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. Leases

AASB 16 Leases (AASB 16) is effective from 1 July 2019.

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

Under this standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised at the commencement of the lease in the Statement of Financial Position. The only exceptions are short-term and low-value leases. If the Authority has any of these leases they will be expensed directly into the Statement of Comprehensive Income over the period of the lease.

The impact of AASB 16 is to recognise depreciation and interest expenses on these leases and reduce the operating lease rental in the Statement of Comprehensive Income.

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

# Notes to the financial statements

for the year ended 30 June 2020

## 5.6 Leases (continued)

### Right-of-use assets under leases

	At 30 June 2020 - fair value \$'000	At 30 June 2019 - fair value \$'000
<b>Right of use asset</b>		
Cost (gross carrying amount)	1,780	-
Accumulated depreciation	(609)	-
<b>Total right of use asset</b>	<b>1,171</b>	<b>-</b>

### Reconciliation

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

	2020 \$'000	2019 \$'000
<b>Balance at 1 July</b>		
Additions	2,082	-
Impairment	(302)	-
Depreciation	(609)	-
<b>Balance at 30 June</b>	<b>1,171</b>	<b>-</b>

### Lease liabilities

The following table presents liabilities under leases:

	2020 \$'000	2019 \$'000
<b>Balance at 1 July</b>		
Additions	2,082	-
Interest expenses	43	-
Payments	(606)	-
<b>Balance at 30 June</b>	<b>1,519</b>	<b>-</b>

## Notes to the financial statements

for the year ended 30 June 2020

### 5.6 Leases (continued)

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

	2020 \$'000	2019 \$'000
<b>Outstanding lease liability</b>		
Not later than one year	693	-
Later than one year but not later than five years	1,027	-
Later than five years	-	-
Total (including GST)	<b>1,720</b>	-
Less: GST recoverable from Australian Tax Office	(156)	-
<b>Total (excluding GST)</b>	<b>1,564</b>	-

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

	2020 \$'000	2019 \$'000
Total minimum finance lease payments	1,564	-
Less: future finance charges	(45)	-
<b>Present value of minimum lease payments as per Statement of financial position</b>	<b>1,519</b>	-



# Notes to the financial statements

for the year ended 30 June 2020

## 5.7. 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 (2019: nil).

## 5.8. Budget review

### 5.8.1. Statement of comprehensive income

	Actual 2020 \$'000	Budget 2020 \$'000
<b>Revenue</b>		
Levies	62,525	63,509
Investment Revenue	10,262	63,385
Other revenue	6,559	3,054
<b>Total Revenue</b>	<b>79,346</b>	<b>129,948</b>
<b>Expenses excluding losses</b>		
Scheme costs	54,548	96,390
Service fees	11,954	13,144
Transformation expenses	1,313	-
Other operating expenses	4,706	10,760
Grants and subsidies	6,521	9,432
<b>Total expenses excluding losses</b>	<b>79,042</b>	<b>129,726</b>
Movement in allowance for impairment	(2)	(250)
Impairment of right of use asset	(302)	-
<b>Net result</b>	<b>-</b>	<b>(28)</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>-</b>	<b>(28)</b>

### Comment

Investment revenue is \$53.1 million unfavourable compared to budget largely as a result of weaker investment markets.

Expenses are favourable compared to budget driven by lower than budgeted grants spend and savings made in employment cost, contractors and consultants during the year offset by higher transformation costs.

# Notes to the financial statements

for the year ended 30 June 2020

## 5.8 Budget review (continued)

### 5.8.2. Statement of financial position

	Actual 2020 \$'000	Budget 2020 \$'000
<b>ASSETS</b>		
Cash and cash equivalents	21,031	18,047
Investments	1,176,987	1,162,132
Receivables	882,326	525,632
Property, plant and equipment	3,374	3,915
Intangibles	4,528	-
Right of use asset	1,171	-
<b>Total Assets</b>	<b>2,089,417</b>	<b>1,709,726</b>
<b>LIABILITIES</b>		
Payables	4,186	25,958
Investments payable	111	-
Claims Provision	2,083,521	1,670,171
Lease liability	1,519	-
Provisions	80	-
<b>Total Liabilities</b>	<b>2,089,417</b>	<b>1,696,129</b>
<b>Net Assets</b>	<b>-</b>	<b>13,597</b>
<b>EQUITY</b>		
Accumulated funds	-	13,597
<b>Total Equity</b>	<b>-</b>	<b>13,597</b>

#### Comment

Total assets were \$379.7 million favourable compared to budget mainly driven by higher investments and an increase in contributions from insurers as a result of an increase in the outstanding claims provision and unfavourable investment revenue.

Total liabilities were \$393.3 million unfavourable to budget mainly due to the increases in the provision for outstanding claims liability attributable to both actuarial valuation assumptions and economic assumptions.

# Notes to the financial statements

for the year ended 30 June 2020

## 5.8 Budget review (continued)

### 5.8.3. Statement of Cash flows

		Actual 2020 \$'000	Budget 2020 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Levies received		70,109	63,509
Compensation payments		(110,871)	(102,408)
<b>Net Cash Flows from Scheme Activities</b>		<b>(40,762)</b>	<b>(38,899)</b>
<b>Receipts</b>			
Proceeds from sale of investments		69,995	25,284
Interest received		6,170	37,257
Other		4,766	6,336
<b>Total Receipts</b>		<b>80,931</b>	<b>68,877</b>
<b>Payments</b>			
Service fees		(21,147)	(13,144)
Other operating expenses		(6,521)	(9,232)
Grants and subsidies		(1,764)	(9,432)
<b>Total Payments</b>		<b>(29,432)</b>	<b>(31,808)</b>
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		<b>10,737</b>	<b>(1,830)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of plant and equipment		(10)	(40)
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>		<b>(10)</b>	<b>(40)</b>
<b>NET INCREASE/(DECREASE) IN CASH</b>		<b>10,727</b>	<b>(1,870)</b>
Opening cash and cash equivalents		10,304	19,917
<b>CLOSING CASH AND CASH EQUIVALENTS</b>		<b>21,031</b>	<b>18,047</b>

#### Comment

Cash and equivalents held as at 30 June 2020 are \$2.9 million higher than budget mainly due to higher levies received, higher proceeds from sale of investments \$44.7 million and lower grants paid offset by lower interest received \$31.1 million and higher compensation payments.

## Notes to the financial statements

for the year ended 30 June 2020

### 5.9. Post balance date events

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

**END OF AUDITED FINANCIAL STATEMENTS**

icare

Dust Diseases Care

● **Lifetime Care**

Insurance for NSW

HBCF

Workers Insurance

Sporting Injuries  
Insurance

BIG Corp

# Lifetime Care

# Lifetime Care Financial statements

for the year ended 30 June 2020

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## LIFETIME CARE AND SUPPORT SCHEME

### Actuarial Certificate Outstanding claims liabilities at 30 June 2020

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 2020 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;
- Fewer participants to emerge in the June 2020 accident quarter to reflect reduced road usage during the period of COVID-19 restrictions; 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 2020.

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 2020 is \$7,136 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**

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In preparing our liability estimates, we have made an explicit adjustment for the expected impact of COVID-19. There is clearly a degree of uncertainty on how the pandemic may impact claim outcomes.

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

### **Valuation Report**

Full details of data, methodology, assumptions and results are set out in our valuation report dated 1 September 2020.

### **Relevant Standards**

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

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

A handwritten signature in black ink, appearing to read 'A Smith'.

Andrew Smith  
FIAA  
1 September 2020

A handwritten signature in black ink, appearing to read 'G Moore'.

Gavin Moore  
FIAA  
1 September 2020





## MOTOR ACCIDENTS INJURIES TREATMENT AND CARE BENEFITS FUND

### Actuarial Certificate Outstanding claims liabilities at 30 June 2020

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 2020 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;
- Fewer participants to emerge in the June 2020 accident quarter to reflect reduced road usage during the period of COVID-19 restrictions; 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 2020.

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 2020 is \$218.4 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 preparing our liability estimates, we have made an explicit adjustment for the expected impact of COVID-19. There is clearly a degree of uncertainty on how the pandemic may impact claim outcomes.

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Liability limited by a scheme approved under Professional Standards Legislation.



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 1 September 2020.

### **Relevant Standards**

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

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

A handwritten signature in black ink, appearing to read 'A Smith'.

Andrew Smith  
FIAA  
1 September 2020

A handwritten signature in black ink, appearing to read 'G Moore'.

Gavin Moore  
FIAA  
1 September 2020

# Statement by the chairman and chief executive officer

for the year ended 30 June 2020

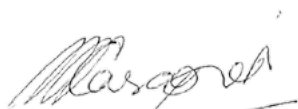
Lifetime Care and Support Authority of NSW

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 2020 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  
25 September 2020



**Don Ferguson**  
A/Chief Executive Officer and  
Managing Director  
Lifetime Care and Support Authority of NSW and  
Insurance and Care NSW  
25 September 2020



## 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 comprises the statement of comprehensive income for the year ended 30 June 2020, the statement of financial position as at 30 June 2020, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements comprising the Basis of preparation 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 2020, 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 (including Independence Standards)' (APES 110).

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

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

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

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

## Other Information

The Authority's annual report for the year ended 30 June 2020 includes other information in addition to the financial statements and my Independent Auditor's Report thereon. The Directors of the Authority are responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprise the Statement by the Chairman and Chief Executive.

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

In preparing the financial statements, the Directors are responsible for assessing the Authority's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting.

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

My objectives are to:

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

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

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

The scope of my audit does not include, nor provide assurance:

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

A handwritten signature in dark ink, appearing to read 'D Daniels'.

David Daniels  
Director, Financial Audit Services

Delegate of the Auditor-General for New South Wales

1 October 2020  
SYDNEY

# Statement of comprehensive income

for the year ended 30 June 2020

	Notes	2020 \$'000	2019 \$'000
<b>Revenue</b>			
Fees and Levies	2.1	531,573	515,964
Investment revenue	3.1	8,912	559,228
Share of profit or (loss) of associates	5.5	(1,501)	(297)
Other revenue	5.1	1,609	1,711
<b>Total Revenue</b>		<b>540,593</b>	<b>1,076,606</b>
<b>Expenses</b>			
Scheme costs	2.2	1,367,345	1,602,617
Service fee	5.2	41,315	33,362
Transformation expenses	5.3	6,105	14,256
Other operating expenses		3,326	2,671
<b>Total Expenses</b>		<b>1,418,091</b>	<b>1,652,906</b>
Profit (Loss) on disposal of assets		82	(7)
<b>Net result</b>		<b>(877,416)</b>	<b>(576,307)</b>
<b>Other comprehensive income</b>			
Items that will not be reclassified to the net result			
Net increase/(decrease) in property, plant and equipment revaluation surplus		(530)	(270)
<b>Total other comprehensive income</b>		<b>(530)</b>	<b>(270)</b>
<b>TOTAL COMPREHENSIVE INCOME / (LOSS)</b>		<b>(877,946)</b>	<b>(576,577)</b>

The accompanying notes form part of these financial statements.

# Statement of financial position

as at 30 June 2020

	Notes	2020 \$'000	2019 \$'000
<b>ASSETS</b>			
Cash and cash equivalents	5.4	153,820	89,965
Investments	3.2	6,809,106	6,585,957
Receivables	2.3.5	95,074	89,877
Property, plant and equipment	5.6	8,832	9,433
Intangibles	5.7	477	346
Investments accounted for using the equity method	5.5	-	1,501
<b>Total Assets</b>		<b>7,067,309</b>	<b>6,777,079</b>
<b>LIABILITIES</b>			
Payables	2.3.6	7,196	9,354
Investments	3.2	3,948	1,406
Outstanding claims	2.3.1	7,354,119	6,186,327
<b>Total Liabilities</b>		<b>7,365,263</b>	<b>6,197,087</b>
<b>Net Assets</b>		<b>(297,954)</b>	<b>579,992</b>
<b>EQUITY</b>			
Reserves		-	530
Accumulated funds		(297,954)	579,462
<b>Total Equity</b>		<b>(297,954)</b>	<b>579,992</b>

The accompanying notes form part of these financial statements.



# Statement of changes in equity

for the year ended 30 June 2020

	Accumulated Funds \$'000	Asset Revaluation Surplus \$'000	Total \$'000
<b>Balance at 1 July 2019</b>	<b>579,462</b>	<b>530</b>	<b>579,992</b>
<b>Net result for the year</b>	<b>(877,416)</b>	<b>-</b>	<b>(877,416)</b>
<b>Other comprehensive income</b>			
Net decrease in property, plant and equipment revaluation surplus	-	(530)	(530)
<b>Total other comprehensive income</b>	<b>-</b>	<b>(530)</b>	<b>(530)</b>
<b>Total comprehensive income for the year</b>	<b>(877,416)</b>	<b>(530)</b>	<b>(877,946)</b>
<b>Balance at 30 June 2020</b>	<b>(297,954)</b>	<b>-</b>	<b>(297,954)</b>
<b>Balance at 1 July 2018</b>	<b>1,155,769</b>	<b>800</b>	<b>1,156,569</b>
<b>Net result for the year</b>	<b>(576,307)</b>	<b>-</b>	<b>(576,307)</b>
<b>Other comprehensive income</b>			
Net decrease in property, plant and equipment revaluation surplus	-	(270)	(270)
<b>Total other comprehensive income</b>	<b>-</b>	<b>(270)</b>	<b>(270)</b>
<b>Total comprehensive income for the year</b>	<b>(576,307)</b>	<b>(270)</b>	<b>(576,577)</b>
<b>Balance at 30 June 2019</b>	<b>579,462</b>	<b>530</b>	<b>579,992</b>

The accompanying notes form part of these financial statements.

# Statement of cash flows

for the year ended 30 June 2020

	Notes	2020 \$'000	2019 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Fees and levies received		527,648	518,174
Compensation payments		(199,554)	(166,566)
<b>Net Cash Flows from Scheme Activities</b>		<b>328,094</b>	<b>351,608</b>
<b>Receipts</b>			
Proceeds from sale of investments		10,197	76,068
Interest received		146	246
Other		1,609	1,712
<b>Total Receipts Excluding Scheme Activities</b>		<b>11,952</b>	<b>78,026</b>
<b>Payments</b>			
Purchases of investments		(229,003)	(323,331)
Service Fees		(34,583)	(43,563)
Other		(12,053)	(25,288)
<b>Total Payments Excluding Scheme Activities</b>		<b>(275,639)</b>	<b>(392,182)</b>
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	5.4	<b>64,407</b>	<b>37,452</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from sale of property, plant and equipment		135	-
Purchases of property, plant and equipment		(372)	-
Purchases of intangible assets		(315)	3,829
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>		<b>(552)</b>	<b>3,829</b>
<b>NET INCREASE/(DECREASE) IN CASH</b>		<b>63,855</b>	<b>41,281</b>
<b>Opening cash and cash equivalents</b>		<b>89,965</b>	<b>48,684</b>
<b>CLOSING CASH AND CASH EQUIVALENTS</b>	5.4	<b>153,820</b>	<b>89,965</b>

The accompanying notes form part of these financial statements

# Notes to the financial statements

for the year ended 30 June 2020

## 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.

The financial statements have not been normalised for the impact of COVID-19.

These financial statements for the year ended 30 June 2020 have been authorised for issue by the Chairman of the Board of icare and the Acting Chief Executive Officer and Managing Director of the Authority on behalf of the Board of Directors of icare on 25 September 2020.

### 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.

# Notes to the financial statements

for the year ended 30 June 2020

## 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

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 NSW Treasurer's Directions.

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

These financial statements have been presented on a liquidity basis following receipt of an exemption from TC20-01 by NSW Treasury that statements are presented on a current and non-current basis.

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

### 1.2.2. Going concern basis

These financial statements have been prepared on a going concern basis. Despite the accumulated deficit, the Authority can pay its current known debts as and when they fall due. Refer to Note 5.12 for more information on the Authority's Target Operating Zone for capital management.

### 1.2.3. Statement of compliance

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

### 1.2.4. Use of estimates and judgements

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

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

# Notes to the financial statements

for the year ended 30 June 2020

## 1.2.5. Taxation

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

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

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

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

## 1.2.6. Equity and reserves

### Asset Revaluation reserve

The revaluation reserve is used to record increments and decrements on the revaluation of property, plant and equipment. This accords with the Authority's policy on the revaluation of property, plant and equipment as discussed in note 5.6.

### Accumulated funds

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

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

Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the reporting year ending 30 June 2020.

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

- AASB 1059 *Service Concession Arrangements: Grantors*
- AASB 2018-5 *Amendments to Australian Accounting Standards – Deferral of AASB 1059*
- AASB 2018-6 *Amendments to Australian Accounting Standards – Definition of a Business*
- AASB 2018-7 *Amendments to Australian Accounting Standards – Definition of Material*
- AASB 2019-1 *Amendments to Australian Accounting Standards – References to the Conceptual Framework*
- AASB 2019-2 *Amendments to Australian Accounting Standards – Implementation of AASB 1059*
- AASB 2019-3 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Refo*

The Authority applied AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of Not-for-Profit Entities* for the first time in 2019-20. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

Several other amendments and interpretations apply for the first time in FY2019-20, but do not have an impact on the financial statements of the Authority.

# Notes to the financial statements

for the year ended 30 June 2020

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

- AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of Not-for-Profits*
  - AASB 15 *Revenue from Contracts with Customers* (AASB 15) supersedes AASB 111 *Construction Contracts*, AASB 118 *Revenue* and related interpretations. It applies, with limited exceptions, to all revenue arising from contracts with customers. 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.
  - AASB 1058 *Income of Not-for-Profits* (AASB 1058) replaces 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 needs 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).
  - 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 adopted AASB 15 and AASB 1058 from 1 July 2019 through application of the full retrospective transition approach. Recognition and measurement principles of the new standards were applied for the current year and comparative year as though AASB 15 and AASB 1058 had always applied.

The adoption of AASB 15 and AASB 1058 did not have any impact on the Statement of Comprehensive Income, Statement of Financial Position, Other Comprehensive Income and the Statement of Cash Flows for the financial year.

## 1.2.8. Coronavirus (COVID-19) pandemic

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

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

### Accounting Estimates and judgement:

The ongoing COVID-19 pandemic has increased the estimation uncertainty in the preparation of these financial statements. The Authority has developed various accounting estimates in these financial statements based on forecasts of economic conditions which reflect expectations and assumptions as at 30 June 2020 about future events that we believe are reasonable in the circumstances. There is a considerable degree of judgement involved in preparing these forecasts. The underlying assumptions are also subject to uncertainties which are often outside the control of the Authority. Accordingly, actual economic conditions may be different from those forecast since anticipated events may not occur as expected, and the effect of those differences may significantly impact accounting estimates included in these financial statements.

# Notes to the financial statements

for the year ended 30 June 2020

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

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

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

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

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

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

### Risk Management

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

The immediate impacts on the Authority have been from market volatility creating lower investment returns and increases in insurance liabilities. As the impacts of the virus and associated responses evolve, so too will the associated risks. The Authority is committed to appropriately managing those risks at all levels.

## 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 on NSW roads, regardless of who was at fault.

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

The LTCS scheme extends coverage to eligible injured motorists who are unable to establish the fault of a third party, and consequently would not be eligible to long term compensation under the CTP scheme, although they would be entitled to up to six months worth of benefits.

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



# Notes to the financial statements

for the year ended 30 June 2020

## 1.3 Fund information (continued)

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

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

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

The Authority can make agreements with insurers to transfer treatment and care during the first 5 years after an incident to the Authority. Where an insurer enters into such agreements they must pay the Authority the amounts determined to cover the treatment and care costs as they arise.

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

### Disaggregated Financial Statements

#### Statement of Comprehensive Income - June 2020

	LTCS \$'000	MAITC \$'000	2020 \$'000
<b>Revenue</b>			
Fees and Levies	464,993	66,580	531,573
Investment revenue	9,537	(625)	8,912
Share of (loss) of associates	(1,501)	-	(1,501)
Other revenue	1,609	-	1,609
<b>Total Revenue</b>	<b>474,638</b>	<b>65,955</b>	<b>540,593</b>
<b>Expenses excluding losses</b>			
Scheme costs	1,273,448	93,897	1,367,345
Service fee	39,963	1,352	41,315
Transformation expenses	6,105	-	6,105
Other operating expenses	2,618	708	3,326
<b>Total Expenses excluding losses</b>	<b>1,322,134</b>	<b>95,957</b>	<b>1,418,091</b>
Profit / (Loss) on disposal of assets	82	-	82
<b>Net result</b>	<b>(847,414)</b>	<b>(30,002)</b>	<b>(877,416)</b>
<b>Other comprehensive income</b>			
Items that will not be reclassified to the net result			
Net increase in property, plant and equipment revaluation surplus	(530)	-	(530)
<b>Total other comprehensive income</b>	<b>(530)</b>	<b>-</b>	<b>(530)</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>(847,944)</b>	<b>(30,002)</b>	<b>(877,946)</b>



# Notes to the financial statements

for the year ended 30 June 2020

## 1.3 Fund information (continued)

### Statement of Comprehensive Income - June 2019

	LTCS \$'000	MAITC \$'000	2019 \$'000
<b>Revenue</b>			
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
<b>Total Revenue</b>	<b>1,012,508</b>	<b>64,098</b>	<b>1,076,606</b>
<b>Expenses excluding losses</b>			
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
<b>Total Expenses excluding losses</b>	<b>1,565,559</b>	<b>87,347</b>	<b>1,652,906</b>
Profit / (Loss) on disposal of assets	(7)	-	(7)
<b>Net result</b>	<b>(553,058)</b>	<b>(23,249)</b>	<b>(576,307)</b>
<b>Other comprehensive income</b>			
Items that will not be reclassified to the net result			
Net increase in property, plant and equipment revaluation surplus	(270)	-	(270)
<b>Total other comprehensive income</b>	<b>(270)</b>	<b>-</b>	<b>(270)</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>(553,328)</b>	<b>(23,249)</b>	<b>(576,577)</b>

# Notes to the financial statements

for the year ended 30 June 2020

## 1.3 Fund information (continued)

### Statement of Financial Position - June 2020

	LTCS \$'000	MAITC \$'000	2020 \$'000
<b>ASSETS</b>			
Cash and cash equivalents	145,469	8,351	153,820
Investments	6,660,388	148,718	6,809,106
Receivables	88,299	6,775	95,074
Property, plant and equipment	8,832	-	8,832
Intangible assets	477	-	477
Investments accounted for using the equity method	-	-	-
<b>Total Assets</b>	<b>6,903,465</b>	<b>163,844</b>	<b>7,067,309</b>
<b>LIABILITIES</b>			
Payables	6,991	205	7,196
Investments	3,948	-	3,948
Outstanding claims	7,135,721	218,398	7,354,119
<b>Total Liabilities</b>	<b>7,146,660</b>	<b>218,603</b>	<b>7,365,263</b>
<b>Net Assets</b>	<b>(243,195)</b>	<b>(54,759)</b>	<b>(297,954)</b>
<b>EQUITY</b>			
Reserves	-	-	-
Accumulated funds	(243,195)	(54,759)	(297,954)
<b>Total Equity</b>	<b>(243,195)</b>	<b>(54,759)</b>	<b>(297,954)</b>

# Notes to the financial statements

for the year ended 30 June 2020

## 1.3 Fund information (continued)

### Statement of Financial Position - June 2019

	LTCS \$'000	MAITC \$'000	2019 \$'000
<b>ASSETS</b>			
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
<b>Total Assets</b>	<b>6,676,883</b>	<b>100,196</b>	<b>6,777,079</b>
<b>LIABILITIES</b>			
Payables	8,902	452	9,354
Investments	1,406	-	1,406
Outstanding claims	6,061,827	124,500	6,186,327
<b>Total Liabilities</b>	<b>6,072,135</b>	<b>124,952</b>	<b>6,197,087</b>
<b>Net Assets</b>	<b>604,748</b>	<b>(24,756)</b>	<b>579,992</b>
<b>EQUITY</b>			
Reserves	530	-	530
Accumulated funds	604,218	(24,756)	579,462
<b>Total Equity</b>	<b>604,748</b>	<b>(24,756)</b>	<b>579,992</b>

# Notes to the financial statements

for the year ended 30 June 2020

## 2. Scheme activities

### Overview

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

### 2.1. Fees and Levies

#### Overview

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

	2020 \$'000	2019 \$'000
Fees and Levies		
CTP premium levy	531,573	515,964
	531,573	515,964

### 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 valuation actuary has estimated as at 30 June 2020 as being the movement in the amount required to meet the cost of participants care and support expenses reported but not yet paid;
- participant care and support expenses incurred which are yet to be reported; and
- the escalation in reported and reopened participants care and support expenses.

# Notes to the financial statements

for the year ended 30 June 2020

## 2.2 Scheme costs (continued)

	2020 \$'000	2019 \$'000
<b>Participants' care and support expenses</b>		
- Attendant care	105,080	86,275
- Equipment	13,242	12,327
- Home modifications	7,786	6,220
- Hospital	16,250	14,459
- Medical	7,587	6,622
- Rehabilitation	30,426	25,899
- Other	14,217	9,051
	<b>194,588</b>	<b>160,853</b>
Movement in provision for future participant care and support services	1,106,917	1,348,063
Finance costs – unwinding of discount rate (refer Note 2.3.1)	60,874	90,931
Bulk billing fees – Ambulance Service of NSW	63	61
Bulk billing fees – NSW Ministry of Health	4,903	2,709
	<b>1,367,345</b>	<b>1,602,617</b>

# Notes to the financial statements

for the year ended 30 June 2020

## 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 treatment and care 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 participants treatment and care 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. Net Outstanding claims liability

#### Overview

The liabilities for participants' treatment and care 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.

	2020 \$'000	2019 \$'000
<b>Claims liabilities</b>		
Expected future gross claims payments	12,850,368	13,142,626
Gross claims handling	1,200,207	1,227,510
Gross outstanding claims liabilities	14,050,575	14,370,136
Discount on central estimate	(6,124,441)	(7,484,740)
Discount on claims handling expenses	(572,015)	(699,069)
Total discount on claims liabilities	(6,696,456)	(8,183,809)
<b>Claims liabilities 30 June</b>	<b>7,354,119</b>	<b>6,186,327</b>

# Notes to the financial statements

for the year ended 30 June 2020

## 2.3.1 Net Outstanding claims liability (continued)

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

	2020 \$'000	2019 \$'000
Opening balance	6,186,327	4,747,333
Discount unwind	60,874	90,931
Expected claim payments (prior years only)	(164,688)	(146,938)
Claims handling expense on expected claim payments (prior years only)	(15,382)	(13,724)
Adjustment arising from change in (prior years only):		
- Actuarial assumptions*	164,065	155,604
- Discount/inflation rates	373,229	595,756
Net outstanding claims arising in current year	749,694	757,365
<b>Net outstanding claims per actuarial report</b>	<b>7,354,119</b>	<b>6,186,327</b>
<b>Breakdown of Actuarial assumptions*</b>		
Change in experience	110,059	19,732
Change in actuarial assumptions	54,006	135,872
	<b>164,065</b>	<b>155,604</b>

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

# Notes to the financial statements

for the year ended 30 June 2020

## 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 2020	MAITC 2019	LTCS 2020	LTCS 2019
Discount rate 12 months or less	0.18%- 0.28%	1.00%- 1.09%	0.18%- 0.28%	1.00%- 1.09%
Discount rate greater than 12 months	0.25%- 4.50%	0.95%- 3.84%	0.25%- 4.50%	0.95%- 3.84%
Inflation rate 12 months or less	0.70%- 1.37%	1.72%- 2.48%	0.83%- 1.37%	2.22%- 2.48%
Inflation rate greater than 12 months	0.50%- 3.00%	0.30%- 3.00%	0.50%- 3.00%	0.80%- 3.00%
<b>Weighted mean term (years)</b>				
Uninflated, undiscounted	27.7	25.1	24.1	24.2
Inflated, discounted	23.9	23.9	21.3	21.0

## 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.

	2020 \$'000	2019 \$'000
Not later than one year	207,264	179,177
Later than one year but not later than five years	829,176	715,250
Later than five years	6,317,679	5,291,900
<b>Total</b>	<b>7,354,119</b>	<b>6,186,327</b>



# Notes to the financial statements

for the year ended 30 June 2020

## 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. If the Authority applied a risk margin to achieve the minimum level required by APRA (a 75 per cent probability of Sufficiency/Adequacy), this would result in the Authority's liabilities increasing by \$1,412 million (2019: \$1,189 million) and increasing the accumulated funds deficit to \$1,710 million (2019: deficit of \$609.5 million).

	30 June Liability \$M	Effect on 30 June Liability \$M	Percentage Effect %
<b>Central estimate of LTCSA Scheme</b>	7,136		
All valuation assumptions used			
Different long term gap assumptions:			
(a) One per cent per annum lower inflation for all future years	5,878	(1,258)	-18%
(b) One per cent per annum higher inflation for all future years	8,857	1,721	24%
(c ) One percent increase in the discount rate	5,865	(1,270)	-18%
(d) One percent decrease in the discount rate	8,907	1,771	25%
Discount rate held at flat 6% and inflation rate held at flat 4%	5,218	(1,918)	-27%

	30 June Liability \$M	Effect on 30 June Liability \$M	Percentage Effect %
<b>Central estimate of MAITC Scheme</b>	218		
Economics:			
(a) One per cent per annum lower inflation for all future years	174	(44)	-20.00%
(b) One per cent per annum higher inflation for all future years	278	60	28.00%
(c) One percent increase in the discount rate	174	(44)	-20.00%
(d) One percent decrease in the discount rate	278	60	28.00%

# Notes to the financial statements

for the year ended 30 June 2020

## 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 (2019: \$nil).

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

	2020 \$'000	2019 \$'000
Fees and levies	54,869	50,258
Service Fee Receivable	4,566	13,553
GST receivable	455	736
Receivables from participants	450	450
Other	6,104	7,480
Investment receivables (refer note 3.2)	28,630	17,400
	<b>95,074</b>	<b>89,877</b>

# Notes to the financial statements

for the year ended 30 June 2020

## 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.

	2020 \$'000	2019 \$'000
Service fee	5,358	8,063
Accrued expenses	1,838	1,291
	<b>7,196</b>	<b>9,354</b>

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

## 3. Investing activities

### Overview

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

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

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

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

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

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

# Notes to the financial statements

for the year ended 30 June 2020

## 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.

	2020 \$'000	2019 \$'000
Interest revenue from bank interest and TCorpIM Cash Fund	494	1,059
Other investment facilities	38,496	34,384
Realised Gains on investments	94,411	9,685
Unrealised (Loss)/Gains on investments	(328,385)	441,278
Distributions	208,379	76,164
<b>Total Investment revenue</b>	<b>13,395</b>	<b>562,570</b>
Investment management expense	(4,483)	(3,342)
<b>Net Investment revenue</b>	<b>8,912</b>	<b>559,228</b>

## 3.2. Investments

	2020 \$'000	2019 \$'000
<b>Investment assets</b>		
TCorp Managed Trusts	5,328,633	5,083,535
TCorp Fixed/Variable Interest discrete portfolio	1,325,500	1,408,145
TCorp IM Funds	148,719	93,359
Derivatives	6,254	918
<b>Total Investment assets</b>	<b>6,809,106</b>	<b>6,585,957</b>
<b>Investment receivables</b>		
Investments receivable (refer note 2.3.5)	28,630	17,400
<b>Total Investment assets including receivables</b>	<b>6,837,736</b>	<b>6,603,357</b>
<b>Investment liabilities</b>		
Investment liabilities	3,948	1,406
<b>Net Investments</b>	<b>6,833,788</b>	<b>6,601,951</b>

# Notes to the financial statements

for the year ended 30 June 2020

## 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, of the NSW Treasury Corporation (TCorp) managed unit trusts by TCorp 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 Authority's current and future liabilities and mitigate the risk that the assets will be insufficient to meet their liabilities. Designation of investments at fair value through profit or loss is consistent with this risk management strategy as it allows for these investments to be recorded at fair value and for any gains or losses in the movement in their fair value to be recognised in the net result for the year.

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

## 3.3. Fair value estimation

### Overview

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

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

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

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

# Notes to the financial statements

for the year ended 30 June 2020

## 3.3 Fair value estimation (continued)

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

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

2020					2019			
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	TOTAL \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	TOTAL \$'000
<b>Other Financial assets</b>								
Indexed and interest bearing securities	27,148	1,298,352	-	1,325,500	162,537	1,245,608	-	1,408,145
Tcorp Trusts and Funds		4,422,285	1,055,067	5,477,352	-	4,178,334	998,560	5,176,894
Derivatives	5,182	1,072	-	6,254	665	253	-	918
	<b>32,330</b>	<b>5,721,709</b>	<b>1,055,067</b>	<b>6,809,106</b>	<b>163,202</b>	<b>5,424,195</b>	<b>998,560</b>	<b>6,585,957</b>
<b>Other Financial liabilities</b>								
Derivatives	(1,081)	(2,867)	-	(3,948)	(744)	(662)	-	(1,406)

# Notes to the financial statements

for the year ended 30 June 2020

## 3.3 Fair value estimation (continued)

### Transfer between levels

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

The following 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.

	2020 \$'000	2019 \$'000
Opening balance	998,560	923,342
Purchases of securities	146,325	46,638
(Loss)/Gain in Profit & Loss (investment income)	(89,818)	28,580
<b>Closing balance</b>	<b>1,055,067</b>	<b>998,560</b>
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)	(89,918)	28,580

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	2020: \$1.42 2019: \$1.59	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	2020: \$1.30 2019: \$1.37	An increase in published redemption prices would result in a higher fair value.

## Notes to the financial statements

for the year ended 30 June 2020

### 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.



# Notes to the financial statements

for the year ended 30 June 2020

## 3.3.2. Involvement with unconsolidated structured entities

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

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

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

	Net Market Value as at 30 June 2020 \$'000	Net Market Value as at 30 June 2019 \$'000
Property	540,990	586,019
Shares	2,382,590	2,477,097
Equity - Unlisted	157,642	316,592
Cash	507,533	135,786
Infrastructure	514,077	412,540
Debt	606,082	588,495
Emerging Market	327,782	330,517
Alternatives	291,937	236,489
Unit trust (Medium term growth)	148,719	93,359
<b>Total</b>	<b>5,477,352</b>	<b>5,176,894</b>

These unconsolidated structured entities are included under TCorp Managed Trusts and IM Funds in Note 3.2. The maximum exposure or loss is limited to the net market value of the investment strategy as at 30 June 2020. The net market value of the exposure will change on a daily basis throughout the period and in the subsequent periods will cease once the investments are disposed.

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

# Notes to the financial statements

for the year ended 30 June 2020

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

### Financial Assets

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

# Notes to the financial statements

for the year ended 30 June 2020

## 4. Risk Management (continued)

### Financial instrument categories

		Category	Carrying Amount 2020 \$'000	Carrying Amount 2019 \$'000
<b>Financial Assets</b>				
<b>Class:</b>				
Cash and cash equivalents	5.4	N/A	153,820	89,965
Receivables <sup>1</sup>	2.3.5	Loans and receivables (at amortised cost)	39,750	38,883
Investments	3.2	At fair value through profit or loss – designated as such upon initial recognition	6,809,106	6,585,957
<b>Financial Liabilities</b>				
<b>Class:</b>				
Payables <sup>2</sup>	2.3.6	Financial liabilities (at amortised cost)	11,144	10,760

<sup>1</sup> Excludes statutory receivables and prepayments (i.e. not within scope of AASB 7).

<sup>2</sup> 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 return 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 and strategic asset allocation. The purpose of the strategic asset allocation is to construct a portfolio that achieves the Authority's investment objectives including a return in excess of the liability discount rate, while limiting the probability of large declines in the Authority's funding ratio.

# Notes to the financial statements

for the year ended 30 June 2020

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

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

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

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

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

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

# Notes to the financial statements

for the year ended 30 June 2020

## 4.1 Market risk (continued)

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

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

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

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

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

The most recent VaR analysis performed by TCorp was conducted in July 2020 based on the June 2020 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 2020, the minimum potential loss expected over a one year period is \$480.9 million (June 2019: \$343.6 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.

# Notes to the financial statements

for the year ended 30 June 2020

## 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 2020 the Authority had a 5.0 per cent (2019: 21.7 per cent) allocation to Australian Commonwealth and state government bonds and other interest bearing securities to partially mitigate interest rate risk of Authority liabilities. Of that allocation, 15.0 per cent (2019: 14.4 per cent) are an allocation to Australian Commonwealth and state government inflation linked bonds to partially mitigate inflation risk of Authority liabilities.

## 4.2.3. Quantitative analysis of exposure

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

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

Fixed interest rate maturing in:					
	Floating interest rate \$'000	3 months or less \$'000	1 to 5 years \$'000	Over 5 years \$'000	Total \$'000
<b>2020</b>					
Cash	153,820	-	-	-	153,820
Indexed and interest-bearing securities	1,011,264	-	26,252	287,984	1,325,500
Futures IR	-	5,183	-	-	5,183
Swaps IR	-	-	365	-	365
Swaps FFX	706	-	-	-	706
<b>Assets</b>	<b>1,165,790</b>	<b>5,183</b>	<b>26,617</b>	<b>287,984</b>	<b>1,485,574</b>
Futures IR	-	(1,081)	-	-	(1,081)
Swaps IR	-	-	-	(2,559)	(2,559)
Swaps FFX	-	(308)	-	-	(308)
<b>Liabilities</b>	<b>-</b>	<b>(1,389)</b>	<b>-</b>	<b>(2,559)</b>	<b>(3,948)</b>
<b>2019</b>					
Cash	89,965	-	-	-	89,965
Indexed and interest-bearing securities	1,089,156	-	47,220	271,769	1,408,145
Futures IR	-	(80)	-	-	(80)
Swaps FFX	(408)	-	-	-	(408)
<b>Assets</b>	<b>1,178,713</b>	<b>(80)</b>	<b>47,220</b>	<b>271,769</b>	<b>1,497,622</b>

# Notes to the financial statements

for the year ended 30 June 2020

## 4.2.3 Quantitative analysis of exposure (continued)

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.

## 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 2019-20.

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

## 4.3.1. Exposure

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

## 4.3.2. Risk management objective, policies and processes

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

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

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

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

# Notes to the financial statements

for the year ended 30 June 2020

## 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 2019.

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

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

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

### 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
<b>2020</b>								
Payables	N/A	11,144	-	-	11,144	11,144	-	-
<b>2019</b>								
Payables	N/A	10,760	-	-	10,760	10,760	-	-

Notes:

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



# Notes to the financial statements

for the year ended 30 June 2020

## 4.4. Credit risk

### Overview

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

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

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

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

### 4.4.1. Exposure

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

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

### 4.4.2. Risk management objective, policies and processes

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

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

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

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

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

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

# Notes to the financial statements

for the year ended 30 June 2020

## 4.4.3. Quantitative analysis of exposure

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

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

## 4.4.4. Derivatives

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

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

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

	Assets \$'000	Liabilities \$'000	Notional amount \$'000
<b>2020</b>			
<b>Futures:</b>			
Interest rate futures	5,183	(1,081)	153,668
Interest rate swaps	365	(2,559)	52,600
Swaps FFX	706	(308)	158,426
	<b>6,254</b>	<b>(3,948)</b>	<b>364,694</b>
<b>2019</b>			
<b>Futures:</b>			
Interest rate futures	665	(745)	(11,345)
Swaps FFX	253	(662)	93,071
	<b>918</b>	<b>(1,407)</b>	<b>81,726</b>

# Notes to the financial statements

for the year ended 30 June 2020

## 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:

	2020 \$'000	2020 %	2019 \$'000	2019 %
<b>Rating</b>				
AAA/aaa	1,129,044	83	1,174,167	83
AA/Aa	129,283	10	41,661	3
Other	67,173	7	192,317	14
<b>Total</b>	<b>1,325,500</b>	<b>100</b>	<b>1,408,145</b>	<b>100</b>

## 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.

## 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 (2019: nil).

# Notes to the financial statements

for the year ended 30 June 2020

## 5. Other

### Overview

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

### 5.1. Other revenue

	2020 \$'000	2019 \$'000
<b>Scheme recoveries</b>	-	-
<b>Scheme to scheme recoveries</b>	<b>977</b>	<b>1,213</b>
Employee related service fee - Income	67	223
Services provided to ACT Scheme	453	165
Sundry revenue	112	110
<b>Total other revenue</b>	<b>1,609</b>	<b>1,711</b>

### 5.2. Service Fees

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

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

Audit fees for the audit of the financial statements were paid by icare in 2020 and are included as part of the service fee. The amount incurred was \$157,536.

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

### 5.3. Transformation expenses

2019-20 is the final 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.

Transformation costs include transition to the new SDM through to the end of FY20 and the establishment of the initial MAITC operation.

# Notes to the financial statements

for the year ended 30 June 2020

## 5.4. 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.

	2020 \$'000	2019 \$'000
	-	-
<b>Cash at bank and on hand</b>	58,247	4,589
<b>Short-term deposits:</b>		
- Cash - Other Deposits at TCorp	19,305	305
- Cash - Other	76,268	85,071
	<b>153,820</b>	<b>89,965</b>

Cash at bank of \$8 million relating to MAITC is included within the cash balance (2019: \$734 thousand). This Fund was established in December 2017 (refer note 1.3).

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

	2020 \$'000	2019 \$'000
<b>Reconciliation of Net Cash Flows from Operating Activities to Net Result</b>		
Net cash provided by/(used on) operating activities	64,407	37,452
Depreciation and amortisation	(458)	(338)
Decrement on asset revaluation	(116)	-
Gain/(loss) on disposal of assets	82	(7)
Increase/(Decrease) in investments in Sargood	(1,501)	(297)
Net investment purchases	223,148	797,595
Net cashflows from investment operating activities	-	-
Change in assets and liabilities		
Increase/(decrease) in receivables	5,149	21,106
(Increase)/decrease in payables	(336)	7,145
Outstanding claims	(1,167,791)	(1,438,963)
<b>Net result</b>	<b>(877,416)</b>	<b>(576,307)</b>

## Notes to the financial statements

for the year ended 30 June 2020

### 5.5. 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.

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

The investment in associate Sargood is considered to be impaired as the operating model for the Centre will result in it making ongoing losses. Accordingly this investment is considered impaired and has been written off in 2019-20.

	2020 \$'000	2019 \$'000
Share of profit or (loss) of associates	(1,501)	(297)

# Notes to the financial statements

for the year ended 30 June 2020

## 5.6. 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).

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 2020 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	Motor Vehicles \$'000	Total \$'000
<b>At 1 July 2019 – fair value</b>			
Gross carrying amount	9,418	209	9,627
Accumulated depreciation and impairment	(55)	(139)	(194)
<b>Net carrying amount</b>	<b>9,363</b>	<b>70</b>	<b>9,433</b>
<b>At 30 June 2020 – fair value</b>			
Gross carrying amount	8,535	372	8,907
Accumulated depreciation and impairment	(32)	(43)	(75)
<b>Net carrying amount</b>	<b>8,503</b>	<b>329</b>	<b>8,832</b>

# Notes to the financial statements

for the year ended 30 June 2020

## 5.6 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 and prior reporting periods is set out below:

	Land and Buildings \$'000	Leasehold Improvements \$'000	Motor Vehicles \$'000	Total \$'000
<b>Year ended 30 June 2019</b>				
Net carrying amount at start of financial year	9,849	89	117	10,055
Additions	-	(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
<b>Net carrying amount at end of financial year</b>	<b>9,363</b>	<b>-</b>	<b>70</b>	<b>9,433</b>

	Land and Buildings \$'000	Motor Vehicles \$'000	Total \$'000
<b>Year ended 30 June 2020</b>			
Net carrying amount at start of financial year	9,363	70	9,433
Additions	-	372	372
Disposals	-	(209)	(209)
Net revaluation increment less revaluation decrements	(646)	-	(646)
Depreciation expense	(214)	(60)	(274)
Write-back of depreciation on disposal	-	156	156
<b>Net carrying amount at end of financial year</b>	<b>8,503</b>	<b>329</b>	<b>8,832</b>



# Notes to the financial statements

for the year ended 30 June 2020

## 5.6.1. Depreciation of property, plant and equipment

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

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

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

## 5.7. 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.

## Notes to the financial statements

for the year ended 30 June 2020

### 5.7 Intangibles (continued)

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
<b>At 1 July 2019</b>			
Cost (gross carrying amount)	346	4,861	5,207
Accumulated amortisation and impairment	-	(4,861)	(4,861)
<b>Net carrying amount</b>	<b>346</b>	<b>-</b>	<b>346</b>
<b>At 30 June 2020</b>			
Cost (gross carrying amount)	-	5,522	5,522
Accumulated amortisation and impairment	-	(5,045)	(5,045)
<b>Net carrying amount</b>	<b>-</b>	<b>477</b>	<b>477</b>

# Notes to the financial statements

for the year ended 30 June 2020

## 5.7 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
<b>Year ended 30 June 2019</b>			
Net carrying amount at start of financial year	4,168	-	4,168
Additions	3,122	-	3,122
Amortisation expense	(6,944)	-	(6,944)
<b>Net carrying amount at end of financial year</b>	<b>346</b>	<b>-</b>	<b>346</b>

	Capital Works in Progress \$'000	Computer Software \$'000	Total \$'000
<b>Year ended 30 June 2020</b>			
Net carrying amount at start of financial year	346	-	346
Additions	315	-	315
Transfers	(661)	661	-
Amortisation expense	-	(184)	(184)
<b>Net carrying amount at end of financial year</b>	<b>-</b>	<b>477</b>	<b>477</b>

## Notes to the financial statements

for the year ended 30 June 2020

### 5.8. 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
<b>2020</b>				
<b>Property, plant and equipment (Note 5.6)</b>				
Land and buildings (including WIP)	-	5,235	3,268	8,503
	-	<b>5,235</b>	<b>3,268</b>	<b>8,503</b>
<b>2019</b>				
<b>Property, plant and equipment (Note 5.6)</b>				
Land and buildings (including WIP)	-	5,376	3,987	9,363
	-	<b>5,376</b>	<b>3,987</b>	<b>9,363</b>

There were no transfers between Level 1, Level 2 and Level 3 during the year ended 30 June 2020 (2019: nil)

#### 5.8.1. Valuation techniques, inputs and processes

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

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

# Notes to the financial statements

for the year ended 30 June 2020

## 5.8.2. Reconciliation of recurring Level 3 fair value measurements

	2020		2019	
	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	4,028	4,028	4,095	4,095
Depreciation	(151)	(151)	(92)	(92)
Revaluation	(609)	(609)	25	25
<b>Fair value at 30 June</b>	<b>3,268</b>	<b>3,268</b>	<b>4,028</b>	<b>4,028</b>

## 5.9. 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 (2019: nil)

## 5.10. Administered assets and liabilities

### Overview

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

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

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

# Notes to the financial statements

for the year ended 30 June 2020

## 5.10 Administered assets and liabilities (continued)

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.

	2020 \$'000	2019 \$'000
<b>Revenue</b>		
Funding provided by ACT government to meet participant scheme costs	2,579	1,298
	<b>2,579</b>	<b>1,298</b>
<b>Expenses excluding losses</b>		
Participant scheme costs	2,579	1,298
	<b>2,579</b>	<b>1,298</b>
<b>Net result</b>	-	-
<b>Assets</b>		
Cash and cash equivalents	168	198
Receivable - from ACT government	86	41
	<b>254</b>	<b>239</b>
<b>Liabilities</b>		
Creditors	14	-
Income received in Advance	240	239
	<b>254</b>	<b>239</b>
<b>Net Assets</b>	-	-

## 5.11. 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 5.5 for further details).

# Notes to the financial statements

for the year ended 30 June 2020

## 5.12. 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);
- There is no explicit Government guarantee to cover and funding shortfall
- 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 the Capital Management 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 2020 was 96%. (2019: 109%)

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 ARC. The funding ratio for the Authority is expected to return above 100% within the 3 year period specified by the Authority's Capital Management Policy. Any recommendations for change are endorsed by the ARC and approved by the Board.

The capital ratio for the Authority calculated based on the long term discount and inflation rates of 6% and 4% as noted in note 2.3.4 is 130% as at 30 June 2020. The Authority will continue to focus on delivering services at a lower cost and has the option to adjust premiums, should investment returns not recover in the long term.

## 5.13. Post balance date events

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

**END OF AUDITED FINANCIAL STATEMENTS**

icare

Dust Diseases Care

Lifetime Care

● **Insurance for NSW**

HBCF

Workers Insurance

Sporting Injuries  
Insurance

BIG Corp

# Insurance for NSW



# Insurance for NSW Financial statements

for the year ended 30 June 2020

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## Actuarial Certificate

### Outstanding Claims Liabilities at 30 June 2020

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 2020.

#### 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.

Our estimates include allowances for the expected impacts of the COVID-19 pandemic and associated economic disruption. These allowances were set based on the situation as at the time of our work (June 2020), and implicitly assume NSW avoids a 'second wave' of infections and that there are no further economic shutdowns or major impacts on business confidence.

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 2020**

Central Estimate	\$m
Gross	5,682
Recoveries	(59)
Net Central Estimate	5,623
 Risk Margin	 -
 <b>Provision</b>	 <b>5,623</b>

#### 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

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possible to value or project long tail claims with certainty. IfNSW is a complex portfolio, and there are a number of cost drivers that have the potential to move the liabilities higher or lower than our estimates.

The uncertainty at this valuation is heightened by the impact of COVID-19 and the associated shutdowns. While we have made allowances that we consider to be reasonable, it is impossible to estimate the impact of COVID-19 on IfNSW's liabilities with any level of certainty at the current time. The actual impacts of COVID-19 may be materially different from what we have assumed.

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

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

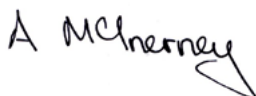
In our judgement, we have employed techniques and assumptions that are appropriate and the conclusions presented herein are reasonable given the information currently available. However, it should be recognised that future claim outcomes and costs will likely deviate, perhaps materially, from the estimates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

## 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 2020", dated 11 September 2020.

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



Andrew McInerney



Scott Collings

**Fellows of the Institute of Actuaries of Australia**

11 September 2020



Actuarial and Insurance Consultants

## Actuarial Certificate Solvency Fund – Outstanding Claims Liabilities at 30 June 2020

Finity Consulting Pty Ltd (Finity) has been requested by Insurance & Care NSW (icare) to estimate the outstanding claims liabilities for the Solvency Fund or Pre-Managed Fund (PMF) as at 30 June 2020.

### Data

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

### Basis of our Estimates

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

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

### Valuation Results

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

**Table 1 – Outstanding Claims Liability at 30 June 2020**

	\$m
<b>Central Estimate</b>	
Gross (incl. CHE) <sup>1</sup>	709.3
Recoveries	(17.6)
Net Central Estimate	691.7
<b>Risk Margin</b>	-
<b>Provision</b>	<b>691.7</b>

<sup>1</sup> Claims Handling Expenses (CHE)

### Uncertainty

There is considerable uncertainty in the projected outcomes of future claims costs, particularly for long tail claims, where payments are expected to occur many decades into the future; it is not possible to value or project long tail claims with certainty.

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

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

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

## Reports

Full details of data, analysis and results for the outstanding claims valuation are documented in our valuation report titled "Outstanding Claims Liabilities for the Solvency Fund at 30 June 2020", dated 31 August 2020.

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

Yours sincerely

A handwritten signature in black ink, appearing to read 'Estelle Pearson'.

Estelle Pearson

A handwritten signature in blue ink, appearing to read 'Luke Cassar'.

Luke Cassar

**Fellows of the Institute of Actuaries of Australia**

2 September 2020



Actuarial and Insurance Consultants

## Actuarial Certificate Transport Accidents Compensation Fund – Outstanding Claims Liabilities at 30 June 2020

Finity Consulting Pty Ltd (Finity) has been requested by Insurance & Care NSW (icare) to estimate the outstanding claims liabilities for the Transport Accidents Compensation Fund (TAC), as at 30 June 2020.

### Data

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

### Basis of our Estimates

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

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

### Valuation Results

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

**Table 1 – Outstanding Claims Liability at 30 June 2020**

	\$m
<b>Central Estimate</b>	
Gross (incl. CHE) <sup>1</sup>	344.6
Recoveries	(9.6)
Net Central Estimate	335.0
<b>Risk Margin</b>	-
<b>Provision</b>	<b>335.0</b>

<sup>1</sup> Claims Handling Expenses (CHE)

### Uncertainty

There is considerable uncertainty in the projected outcomes of future claims costs, particularly for long tail claims, where payments are expected to occur many decades into the future; it is not possible to value or project long tail claims with certainty.

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

- 97% of the liability relates to only 6 structured settlement claims. This means that the results are very sensitive to the experience of these individual claimants.
- TAC has the liability to meet the ongoing treatment and care costs of the structured settlement claimants over their remaining lifetime. This means payments are projected for many years – on average payments are expected to be paid 20 years in the future (with 15% of payments expected to be made more than 40 years into the future).
- The liability represents an ageing cohort of claimants. This means it is more likely that past experience may not be indicative of future care needs.
- Some structured settlement claims or reinsurance recoveries may be commuted in the future for amounts that differ from the estimates we have made in our valuation basis.

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

## Report

Full details of data, analysis and results for the outstanding claims valuation are documented in our valuation report titled “Outstanding Claims Liabilities for the Transport Accidents Compensation Fund at 30 June 2020”, dated 31 August 2020.

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

Yours sincerely



Estelle Pearson



John Jeaitani

**Fellows of the Institute of Actuaries of Australia**

2 September 2020



Actuarial and Insurance Consultants

## Actuarial Certificate Outstanding Claims Liabilities at 30 June 2020

Finity Consulting Pty Ltd (Finity) has been requested by Insurance & Care NSW (icare) to estimate the outstanding claims liabilities for the NSW Self Insurance Corporation (Insurance for NSW, or IfNSW) TMF General Lines portfolio as at 30 June 2020.

### Data

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

### Basis of our Estimates

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

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

### Valuation Results

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

**Table 1 – Outstanding Claims Liability at 30 June 2020**

	Liability	Property	Motor	Miscellaneous	TMF General Lines
	\$m	\$m	\$m	\$m	\$m
<b>Central Estimate</b>					
Gross (incl. CHE) <sup>1</sup>	3,823.3	859.9	20.9	148.8	4,852.9
Recoveries	(160.9)	(4.2)	(9.7)	(0.3)	(175.1)
Net Central Estimate	3,662.5	855.7	11.2	148.5	4,677.8
<b>Risk Margin</b>	-	-	-	-	-
<b>Provision</b>	<b>3,662.5</b>	<b>855.7</b>	<b>11.2</b>	<b>148.5</b>	<b>4,677.8</b>

### Uncertainty

There is considerable uncertainty in the projected outcomes of future claims costs, particularly for long tail claims, where payments are expected to occur many decades into the future; it is not possible to value or project long tail claims with certainty.

We have prepared our estimates on the basis that they represent our current assessment of the likely future experience of the TMF. Sources of uncertainty include the fact that outcomes remain

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dependent on future events, including legislative, social and economic forces. Key sources of uncertainty in the valuation include:

- COVID-19 restrictions – There is a high degree of uncertainty around the duration of lockdown and border restrictions and the impact on Business Interruption losses for Agencies.
- Cost of the 2019/20 NSW Bushfires – A reasonable proportion of claims are yet to be formally assessed. Coverage of undeclared fencing damaged in the bushfires would increase claims cost if payable by icare. Damage to undeclared fencing is estimated by icare to cost between \$200 million and \$550 million.
- Historical child abuse claims that are yet to be reported – there is limited information about the number of children who have experienced institutional child abuse and the impact of the National Redress Scheme on the civil claim experience is difficult to predict.

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

## Reports

Full details of data, analysis and results for the outstanding claims valuation are documented in our valuation report titled “Outstanding Claims Liabilities as at 30 June 2020 – NSW Treasury Managed Fund General Lines”, dated 2 September 2020.

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

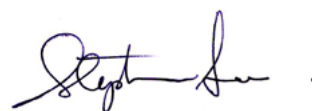
Yours sincerely



Estelle Pearson



Ashish Ahluwalia



Stephen Lee

**Fellows of the Institute of Actuaries of Australia**

2 September 2020



Actuarial and Insurance Consultants

## Actuarial Certificate Construction Risk Insurance Fund – Outstanding Claims Liabilities at 30 June 2020

Finity Consulting Pty Ltd (Finity) has been requested by Insurance & Care NSW (icare) to estimate the outstanding claims liabilities for the Construction Risk Insurance Fund (CRIF), as at 30 June 2020.

### Data

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

### Basis of our Estimates

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

At icare's direction our estimates have been prepared in accordance with accounting standard AASB 137, utilising risk free discount rates and a risk margin intended to provide a probability of sufficiency that the provisions held is at the 75<sup>th</sup> percentile.

### Valuation Results

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

**Table 1 – Outstanding Claims Liability at 30 June 2020**

	\$m
<b>Central Estimate</b>	
Gross (incl. CHE) <sup>1</sup>	42.8
Recoveries	(4.2)
Net Central Estimate	38.5
<b>Risk Margin</b>	7.7
<b>Provision</b>	<b>46.3</b>

<sup>1</sup> Claims Handling Expenses (CHE)

### Uncertainty

There is considerable uncertainty in the projected outcomes of future claims costs, particularly for long tail claims, where payments are expected to occur many decades into the future; it is not possible to value or project long tail claims with certainty.

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We have prepared our estimates on the basis that they represent our current assessment of the likely future experience of the CRIF. Sources of uncertainty include the fact that outcomes remain dependent on future events, including legislative, social and economic forces. The level of uncertainty is heightened by the potential impact of COVID-19 and the economic outlook.

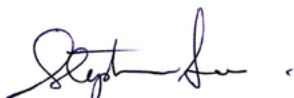
In our judgement, we have employed techniques and assumptions that are appropriate and the conclusions presented in our report are reasonable given the information currently available. However, it should be recognised that future claim outcomes and costs will likely deviate, perhaps materially, from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

## Reports

Full details of data, analysis and results for the outstanding claims valuation are documented in our valuation report titled "Actuarial Valuation Report as at 30 June 2020 – Construction Risk Insurance Fund", dated 28 August 2020.

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

Yours sincerely



Stephen Lee



Estelle Pearson

**Fellows of the Institute of Actuaries of Australia**

2 September 2020

## Statement by the chairman and chief executive officer

for the year ended 30 June 2020

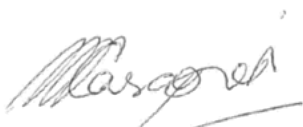
**New South Wales Self Insurance Corporation**

**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 2020 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  
25 September 2020



**Don Ferguson**  
A/Chief Executive Officer and  
Managing Director  
NSW Self Insurance Corporation and  
Insurance and Care NSW  
25 September 2020



## 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 2020, the statement of financial position as at 30 June 2020, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements comprising the Basis of preparation 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 2020, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards, and
- 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 (including Independence Standards)' (APES 110).

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

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

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

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

## Key Audit Matters

Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the financial statements for the year ended 30 June 2020. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, I do not provide a separate opinion on these matters.

Key Audit Matter	How my audit addressed the matter
<p><b>Valuation of outstanding claims liability</b></p> <p>At 30 June 2020, the Corporation recorded an outstanding claims liability balance of \$12.2 billion. The valuation of the outstanding claims liability involves significant judgement in determining the timing and value of expected future payments for claims incurred and related costs to settle the claims. In determining the valuation of the liabilities, the Corporation engages actuarial specialists to model and develop assumptions to estimate the outstanding claims liability.</p> <p>Valuation judgements at 30 June 2020 were impacted by bushfires, the COVID-19 pandemic and government responses to the pandemic. As the impact of the COVID-19 pandemic continues, there is heightened uncertainty with the financial outlook. This includes factors such as employment and salary levels, access to medical services, further government restrictions, the severity and duration of the economic recession and volatility in the investment markets.</p> <p>I considered this to be a key audit matter because of the:</p> <ul style="list-style-type: none"> <li>financial significance of the outstanding claims liability</li> <li>the degree of judgement in developing assumptions and the complexity of valuation models. The key inputs and judgements involved in estimating the outstanding claim liability include: <ul style="list-style-type: none"> <li>discount rates</li> <li>assumed rates of inflation</li> <li>assumptions as to the timing of reported claim payments</li> <li>assumptions over the number and size of claims incurred but not reported including the impacts of claims related to COVID-19 for which there is a lack of experience</li> <li>assumptions over the future costs of claims handling expenses</li> <li>assumptions over the reliability of the claim experience to inform future experience</li> <li>assumptions to reflect the relative uncertainty of the environment the Corporation operates in, including the building cycle for the Home Building Compensation Fund and assumptions on the timing and nature of government responses to COVID-19</li> </ul> </li> </ul>	<p>Key audit procedures included the following:</p> <ul style="list-style-type: none"> <li>with the assistance of an actuarial specialist: <ul style="list-style-type: none"> <li>evaluated the competence, capabilities and objectivity of the Corporation's actuaries</li> <li>gained an understanding of the work of the Corporation's actuaries and evaluated the appropriateness of their work, including their models</li> <li>assessed the valuation methods and approach used by the Corporation's actuaries against the requirements of accounting standards and consistency with industry practice and the underlying claims exposure</li> <li>assessed the assumption setting process, including data on the Corporation's statutory obligations to policyholders/beneficiaries and claims payment information used as inputs into the valuation models</li> <li>reviewed the results of the experience investigations carried out by the Corporation's actuaries, to determine how they inform the assumptions used</li> <li>evaluated the judgements made by the Corporation's actuaries in assessing the impact of the COVID-19 pandemic on assumptions including business interruption, event cancellation claims costs and changes to the building cycle</li> <li>evaluated the process undertaken by management in determining estimates of notified losses arising from 2019–20 NSW bushfires, which the Corporation's actuaries have relied upon in their determination of the liability</li> <li>evaluated the judgement used by the Corporation's actuaries in assessing the treatment of the notified losses in estimating the total liability for bushfires</li> <li>performed an overall assessment of the valuation methodology, key assumptions and models used to derive the valuation of the outstanding claims liabilities</li> </ul> </li> </ul>

**Key Audit Matter**

- allowance for risk in estimating future cash flows, including a risk margin for the Home Building Compensation Fund and Construction Risk Insurance Fund.

**How my audit addressed the matter**

- assessed the adequacy of the related financial statement disclosures against the requirements of applicable Australian Accounting Standards.

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

Details on the valuation techniques, inputs and assumptions are disclosed in Note 2.3.

**Outsourced claims activities**

For the year ended 30 June 2020, the Corporation outsourced a substantial component of the end to end claims management and payment process to external claim managers.

Claim managers process all of the Corporation's claims, including retaining the historical claim data provided to the Corporation's actuaries for the valuation of the outstanding claim liabilities.

Claim managers provide monthly and annual returns, which form the basis of accounting entries in the Corporation's financial reporting systems. They also provide an annual service organisation controls report where they respond to risks and control objectives provided by icare management on behalf of the Corporation.

I considered this to be a key audit matter because the claim managers' control environment is responsible for a material component of the reported claims expense and the policyholder data used in the calculation of the Corporation's outstanding claim liabilities

Key audit procedures included the following:

- tested the reconciliation of the annual claim manager returns to the Corporation's financial reporting systems at 30 June 2020
- with reference to Australian Auditing Standard *ASA 402 Auditing Considerations Relating to an Entity Using a Service Organisation*:
  - obtained an understanding of the services provided by claim managers and the internal controls relevant to the Corporation's financial statements
  - tested key controls over financial reporting within the claim managers' control environment
  - tested the completeness of the claim managers data and vouched a sample of key claim fields to supporting evidence
  - tested the reconciliation between the cost of claims on the annual return to the claim information submitted to the claim database for use by the Corporation's actuaries.

**Other Information**

The Corporation's annual report for the year ended 30 June 2020 includes other information in addition to the financial statements and my Independent Auditor's Report thereon. The Board of Directors of Insurance and Care NSW (icare), acting for the Corporation 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 Corporation 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 Corporation's ability to continue as a going concern, disclosing as applicable matters related to going concern and using the going concern basis of accounting.

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

My objectives are to:

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

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

A description of my responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at: [www.auasb.gov.au/auditors\\_responsibilities/ar6.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar6.pdf). The description forms part of my auditor's report.

The scope of my audit does not include, nor provide assurance:

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



David Daniels  
Director, Financial Audit

Delegate of the Auditor-General for New South Wales

1 October 2020  
SYDNEY



# Statement of comprehensive income

for the year ended 30 June 2020

	Notes	2020 \$'000	2019 \$'000
Gross written premium and contributions		1,556,030	1,551,161
Unearned premium and contribution movement		(67,762)	(110,848)
Net earned premium & contributions		1,488,268	1,440,313
Outwards reinsurance expense	2.1	(9,857)	(8,349)
<b>Gross Earned premium and contributions net of reinsurance (a)</b>	<b>2.1</b>	<b>1,478,411</b>	<b>1,431,964</b>
Gross Claims expenses	2.2	(4,035,581)	(2,518,064)
Recoveries revenue	2.2	93,203	73,351
Acquisition costs	2.2	(11,731)	(14,097)
Unexpired risk liability expense	2.3.7.2	(104,620)	(175,967)
<b>Net Claims expense (b)</b>		<b>(4,058,729)</b>	<b>(2,634,777)</b>
Underwriting and other expenses (c)	2.3.9	(265,374)	(232,315)
<b>Underwriting result (a+b+c)</b>		<b>(2,845,692)</b>	<b>(1,435,128)</b>
Hindsight adjustments	2.1	17,603	(90,529)
Transformation, transition and continuous improvement expenses	2.3.9.2	(7,468)	(8,393)
Investment revenue	3.1	68,933	775,244
Other revenue		455	859
<b>Insurance result</b>		<b>(2,766,169)</b>	<b>(757,947)</b>
Grants (to)/ from the Crown	5.2	2,022,211	1,163,496
<b>Net Result</b>		<b>(743,958)</b>	<b>405,549</b>
Other comprehensive income		-	-
<b>Total comprehensive income</b>		<b>(743,958)</b>	<b>405,549</b>

The accompanying notes form part of these financial statements

# Statement of financial position

as at 30 June 2020

	Notes	2020 \$'000	2019 \$'000
<b>ASSETS</b>			
Cash and cash equivalents	5.1	2,759,798	1,748,288
Investments	3.2	10,021,798	9,076,609
Trade and other receivables	2.3.10	418,518	429,241
Plant and equipment		2	3
Intangible assets		618	989
<b>Total Assets</b>		<b>13,200,734</b>	<b>11,255,130</b>
<b>LIABILITIES</b>			
Trade and other payables	2.3.11	87,083	52,897
Unearned premiums	2.3.7.1	441,967	417,675
Outstanding claims liabilities	2.3.1	12,228,716	9,702,252
Unexpired risk liability	2.3.7.2	569,141	464,521
<b>Total Liabilities</b>		<b>13,326,907</b>	<b>10,637,345</b>
<b>Net Assets</b>		<b>(126,173)</b>	<b>617,785</b>
<b>EQUITY</b>			
Accumulated funds		(126,173)	617,785
<b>Total Equity</b>		<b>(126,173)</b>	<b>617,785</b>

The accompanying notes form part of these financial statements

# Statement of changes in equity

for the year ended 30 June 2020

	2020 Accumulated Funds \$'000	2019 Accumulated Funds \$'000
<b>Balance at beginning of year</b>	<b>617,785</b>	<b>212,236</b>
Net Result for the year	(743,958)	405,549
Other comprehensive income	-	-
<b>Total comprehensive income for the year</b>	<b>(743,958)</b>	<b>405,549</b>
Transfers with owners in their capacity as owners	-	-
<b>Balance at 30 June</b>	<b>(126,173)</b>	<b>617,785</b>

The accompanying notes form part of these financial statements

# Statement of cash flows

for the year ended 30 June 2020

	Notes	2020 \$'000	2019 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Premiums & contributions received		1,583,141	1,351,930
Claims paid		(1,501,919)	(1,317,545)
Recoveries received		41,888	43,823
<b>Total Premiums/contributions less claims</b>		<b>123,110</b>	<b>78,208</b>
<b>Receipts</b>			
Proceeds from sale of investment		-	250,000
Investment income		623,437	565,526
Interest received		8,744	13,709
Grants from the Crown	5.2	2,022,211	1,253,496
Other income		455	859
<b>Total Receipts</b>		<b>2,654,847</b>	<b>2,083,590</b>
<b>Payments</b>			
Purchases of investments		(1,508,437)	(565,526)
Grants to the Crown	5.2	-	(90,000)
Service fees paid		(188,280)	(166,772)
Other payments		(69,306)	(96,662)
<b>Total Payments</b>		<b>(1,766,023)</b>	<b>(918,960)</b>
<b>Net cash flows from operating activities</b>	5.1	<b>1,011,934</b>	<b>1,242,838</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of PPE & Intangible Assets		(424)	(129)
<b>Net cash flows from investing activities</b>		<b>(424)</b>	<b>(129)</b>
<b>NET INCREASE / (DECREASE) IN CASH</b>		<b>1,011,510</b>	<b>1,242,709</b>
Opening cash and cash equivalents		1,748,288	505,579
<b>CLOSING CASH AND CASH EQUIVALENTS</b>	<b>5.1</b>	<b>2,759,798</b>	<b>1,748,288</b>

The accompanying notes form part of these financial statements

# Notes to the financial statements

for the year ended 30 June 2020

## 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 have not been normalised for the impact of COVID-19.

The financial statements for the year ended 30 June 2020 have been authorised for issue by the Chairman of the Board of icare and the Acting Chief Executive Officer and Managing Director of SI on behalf of the Board of Directors of icare on 25 September 2020.

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 to the financial statements

for the year ended 30 June 2020

## 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 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 *Public Finance and Audit Act 1983* (PFAA), the *Public Finance and Audit Regulation 2015* and the 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 TC20-01 by NSW Treasury that statements are presented on a current and non-current basis.

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

### 1.2.3. Statement of compliance

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

### 1.2.4. Use of estimates and judgments

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

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

# Notes to the financial statements

for the year ended 30 June 2020

## 1.2.4. Use of estimates and judgments (continued)

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 – Investment Activities & Risk Management;
- Note 2.3 – Outstanding Claims liability; and
- Note 2.3.7- Unearned premiums and unexpired risk liability.

## 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. SI has assessed that any difference between fair value and depreciated historical cost is unlikely to be material.

# Notes to the financial statements

for the year ended 30 June 2020

## 1.2.6.2. Revaluation of property, plant and equipment (continued)

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. 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 2020. The following are new Australian Accounting Standards or amendments which have been issued but are not yet effective and are not expected to have a material impact on the financial performance or position of SI:

- AASB 1059 Service Concession Arrangements: Grantors
- AASB 2018-5 *Amendments to Australian Accounting Standards - Deferral of AASB 1059*
- AASB 2018-6 *Amendments to Australian Accounting Standards - Definition of a Business*
- AASB 2018-7 *Amendments to Australian Accounting Standards - Definition of Material*
- AASB 2019-1 *Amendments to Australian Accounting Standards - References to the Conceptual Framework*
- AASB 2019-2 *Amendments to Australian Accounting Standards - Implementation of AASB 1059*
- AASB 2019-3 *Amendments to Australian Accounting Standards - Interest Rate Benchmark Reform*

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 2022.

SI applied AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of Not-for-Profit Entities*, for the first time in 2019-20. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.



# Notes to the financial statements

for the year ended 30 June 2020

## 1.2.8 Accounting Standards issued but not yet effective (continued)

Several other amendments and interpretations apply for the first time in FY2019-20, but do not have an impact on the financial statements of SI.

- AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of Not-for-Profits*
  - AASB 15 *Revenue from Contracts with Customers* (AASB 15) supersedes AASB 111 *Construction Contracts*, AASB 118 *Revenue* and related interpretations. It applies, with limited exceptions, to all revenue arising from contracts with customers. 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 SI expects to be entitled in exchange for transferring the goods or services to the customer.
  - AASB 1058 *Income of Not-for-Profits* (AASB 1058) replaces 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 needs 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).
  - 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 adopted AASB 15 and AASB 1058 from 1 July 2019 through application of the full retrospective transition approach. Recognition and measurement principles of the new standards were applied for the current year and comparative year as though AASB 15 and AASB 1058 had always applied.

The adoption of AASB 15 and AASB 1058 did not have any impact on the Statement of Comprehensive Income, Statement of Financial Position, Other Comprehensive Income and the Statement of Cash Flows for the financial year.

## 1.2.9. Coronavirus (COVID-19) pandemic

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

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

### Accounting Estimates and judgement:

The ongoing COVID-19 pandemic has increased the estimation uncertainty in the preparation of these financial statements. SI has developed various accounting estimates in these financial statements based on forecasts of economic conditions which reflect expectations and assumptions as at 30 June 2020 about future events that we believe are reasonable in the circumstances. There is a considerable degree of judgement involved in preparing these forecasts. The underlying assumptions are also subject to uncertainties which are often outside the control of SI. Accordingly, actual economic conditions may be different from those forecast since anticipated events may not occur as expected, and the effect of those differences may significantly impact accounting estimates included in these financial statements.

# Notes to the financial statements

for the year ended 30 June 2020

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

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

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

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

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

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

### Risk Management

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

The immediate impacts on SI have been from market volatility creating lower investment returns and increases in claims liabilities. As the impacts of the virus and associated responses evolve, so too will the associated risks. SI is committed to appropriately managing those risks at all levels.

## 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

# Notes to the financial statements

for the year ended 30 June 2020

## 1.3 Fund Information (continued)

### 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.

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

As TMF does not issue insurance contracts its claims liabilities are accounted for in accordance with AASB 137 *"Provisions, Contingent Liabilities and Contingent Assets"*.

### Home Building Compensation Fund (HBCF)

SI became the manager and underwriter of the HBCF from 1 July 2010 following the withdrawal of the commercial insurers in NSW. HBCF is the sole provider of insurance for home owners of residential building projects where a builder defaults on their contract. From 15 January 2015, the Home Warranty Insurance Fund was renamed as the Home Building Compensation Fund (HBCF).

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

### Construction Risk Insurance Fund (CRIF)

Treasury Circular 16/11 *'Mandatory principal arranged insurance (PAI) for all major capital works projects'* requires all government agencies, other than State Owned Corporations (SOC) to undertake Principal Arranged Insurance through SI for all major capital works projects with a contract value greater than \$10 million. This is to provide cost savings for the government capital works projects as well as to ensure that adequate insurance is in place with a reputable insurer and that the contractor's insurance arrangement remain current. The *NSW Self Insurance Corporation Act 2004* was amended to extend cover to non-government entities for the purpose of principal arranged insurance for major infrastructure projects where a NSW government entity is the Principal. The *NSW Self Insurance Corporation Amendment Bill 2013* was assented by the Parliament on 25 June 2013. The CRIF scheme was setup for operation in 2013-14.

CRIF's claims liabilities are accounted for in accordance with AASB 1023 *"General Insurance Contracts"*.

### Transport Accidents Compensation Fund (TAC)

The TAC pays for motor transport accident claims under the common law system which applied until 30 June 1987 and TransCover system claims costs from then until 30 June 1989. The Motor Accidents Scheme replaced TransCover from 1 July 1989.

As TAC does not issue insurance contracts its claims liabilities are accounted for in accordance with AASB 137 *"Provisions, Contingent Liabilities and Contingent Assets"*.

# Notes to the financial statements

for the year ended 30 June 2020

## 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 to the financial statements

for the year ended 30 June 2020

## 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	2020 Total \$'000
Gross written premium and contributions	1,331,643	136,479	18,895	-	-	-	-	63,202	5,799	12	1,556,030
Unearned premium movement	-	(26,935)	2,643	-	-	-	-	(48,289)	4,812	7	(67,762)
Net earned premiums	1,331,643	109,544	21,538	-	-	-	-	14,913	10,611	19	1,488,268
Outwards reinsurance expense	-	-	(9,857)	-	-	-	-	-	-	-	(9,857)
<b>Net earned premiums and contributions less reinsurance expense (a)</b>	<b>1,331,643</b>	<b>109,544</b>	<b>11,681</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>14,913</b>	<b>10,611</b>	<b>19</b>	<b>1,478,411</b>
Gross Claims expenses	(3,347,153)	(102,414)	(33,643)	(536,816)	(15,580)	24,397	(167)	(14,292)	(9,894)	(19)	(4,035,581)
Recoveries received	66,028	3,246	(1,234)	17,779	1,739	8,607	(3,215)	138	115	-	93,203
Acquisition costs	-	(11,731)	-	-	-	-	-	-	-	-	(11,731)
Unexpired risk liability	-	(104,620)	-	-	-	-	-	-	-	-	(104,620)
<b>Net Claims expense (b)</b>	<b>(3,281,125)</b>	<b>(215,519)</b>	<b>(34,877)</b>	<b>(519,037)</b>	<b>(13,841)</b>	<b>33,004</b>	<b>(3,382)</b>	<b>(14,154)</b>	<b>(9,779)</b>	<b>(19)</b>	<b>(4,058,729)</b>
Underwriting and other expenses (c)	(243,491)	(17,574)	(2,287)	(56)	(143)	(133)	(99)	(759)	(832)	-	(265,374)
<b>Underwriting result (a+b+c)</b>	<b>(2,192,973)</b>	<b>(123,549)</b>	<b>(25,483)</b>	<b>(519,093)</b>	<b>(13,984)</b>	<b>32,871</b>	<b>(3,481)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,845,692)</b>
Hindsight adjustments	17,603	-	-	-	-	-	-	-	-	-	17,603
Transformation, transition and continuous improvement expenses	(7,303)	(165)	-	-	-	-	-	-	-	-	(7,468)
Investment Revenue	59,494	2,858	515	-	(106)	2,653	3,519	-	-	-	68,933
Other Revenue	456	-	(1)	-	-	-	-	-	-	-	455
<b>Insurance profit/(loss)</b>	<b>(2,122,723)</b>	<b>(120,856)</b>	<b>(24,969)</b>	<b>(519,093)</b>	<b>(14,090)</b>	<b>35,524</b>	<b>38</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,766,169)</b>
Grants (to) and from the Crown	1,347,600	12,211	(10,000)	632,400	5,000	25,000	10,000	-	-	-	2,022,211
<b>Net Result</b>	<b>(775,123)</b>	<b>(108,645)</b>	<b>(34,969)</b>	<b>113,307</b>	<b>(9,090)</b>	<b>60,524</b>	<b>10,038</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(743,958)</b>
Other Comprehensive Income	-	-	-	-	-	-	-	-	-	-	-
<b>Total Comprehensive Income</b>	<b>(775,123)</b>	<b>(108,645)</b>	<b>(34,969)</b>	<b>113,307</b>	<b>(9,090)</b>	<b>60,524</b>	<b>10,038</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(743,958)</b>

# Notes to the financial statements

for the year ended 30 June 2020

## 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	2019 Total \$'000
Gross written premium	1,240,412	129,025	39,072	-	-	-	-	108,498	34,154	-	1,551,161
Unearned premium 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)
<b>Net earned premiums and contributions less reinsurance expense (a)</b>	<b>1,240,412</b>	<b>80,153</b>	<b>9,144</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>95,827</b>	<b>6,495</b>	<b>(67)</b>	<b>1,431,964</b>
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)
<b>Net Claims expense (b)</b>	<b>(2,023,685)</b>	<b>(300,822)</b>	<b>(8,374)</b>	<b>(108,452)</b>	<b>(14,187)</b>	<b>(53,889)</b>	<b>(24,522)</b>	<b>(95,188)</b>	<b>(5,725)</b>	<b>67</b>	<b>(2,634,777)</b>
Underwriting and other expenses (c)	(214,605)	(14,711)	(1,170)	(54)	(141)	(129)	(96)	(639)	(770)	-	(232,315)
<b>Underwriting result (a+b+c)</b>	<b>(997,878)</b>	<b>(235,380)</b>	<b>(400)</b>	<b>(108,506)</b>	<b>(14,328)</b>	<b>(54,018)</b>	<b>(24,618)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,435,128)</b>
Hindsight adjustments	(90,529)	-	-	-	-	-	-	-	-	-	(90,529)
Transformation, transition and continuous improvement expenses	(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
<b>Insurance profit/(loss)</b>	<b>(383,103)</b>	<b>(230,091)</b>	<b>584</b>	<b>(108,506)</b>	<b>(6,250)</b>	<b>(17,568)</b>	<b>(13,013)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(757,947)</b>
Grants (to) and from the Crown	1,115,000	28,496	(5,000)	100,000	10,000	(30,000)	(55,000)	-	-	-	1,163,496
<b>Net Result</b>	<b>731,897</b>	<b>(201,595)</b>	<b>(4,416)</b>	<b>(8,506)</b>	<b>3,750</b>	<b>(47,568)</b>	<b>(68,013)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>405,549</b>
Other Comprehensive Income	-	-	-	-	-	-	-	-	-	-	-
<b>Total Comprehensive Income</b>	<b>731,897</b>	<b>(201,595)</b>	<b>(4,416)</b>	<b>(8,506)</b>	<b>3,750</b>	<b>(47,568)</b>	<b>(68,013)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>405,549</b>

# Notes to the financial statements

for the year ended 30 June 2020

## 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	2020 Total \$'000
<b>ASSETS</b>											
Cash and cash equivalents	2,221,630	456,823	81,422	-	(2)	(75)	-	-	-	-	2,759,798
Investments	9,449,780	-	-	-	95,420	402,696	73,902	-	-	-	10,021,798
Trade and other receivables	269,175	27,432	31,464	17,586	4,913	9,639	12,004	(5,413)	51,527	191	418,518
Plant and equipment	2	-	-	-	-	-	-	-	-	-	2
Intangible assets	552	66	-	-	-	-	-	-	-	-	618
<b>Total Assets</b>	<b>11,941,139</b>	<b>484,321</b>	<b>112,886</b>	<b>17,586</b>	<b>100,331</b>	<b>412,260</b>	<b>85,906</b>	<b>(5,413)</b>	<b>51,527</b>	<b>191</b>	<b>13,200,734</b>
<b>LIABILITIES</b>											
Trade and other payables	936,981	3,499	16,017	(736,007)	(4,234)	(24,544)	(9,598)	(115,188)	20,153	4	87,083
Unearned premiums	-	399,966	42,001	-	-	-	-	-	-	-	441,967
Outstanding claims liabilities	10,534,917	257,279	51,553	709,281	104,515	344,647	85,188	109,775	31,374	187	12,228,716
Unexpired risk liability	-	569,141	-	-	-	-	-	-	-	-	569,141
<b>Total Liabilities</b>	<b>11,471,898</b>	<b>1,229,885</b>	<b>109,571</b>	<b>(26,726)</b>	<b>100,281</b>	<b>320,103</b>	<b>75,590</b>	<b>(5,413)</b>	<b>51,527</b>	<b>191</b>	<b>13,326,907</b>
<b>Net Assets</b>	<b>469,241</b>	<b>(745,564)</b>	<b>3,315</b>	<b>44,312</b>	<b>50</b>	<b>92,157</b>	<b>10,316</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(126,173)</b>
<b>EQUITY</b>											
Balance as at 1 July 2019	1,244,363	(636,918)	38,284	(68,995)	9,140	31,633	278	-	-	-	617,785
Net Result for the year	(775,122)	(108,646)	(34,969)	113,307	(9,090)	60,524	10,038	-	-	-	(743,958)
<b>Total Equity</b>	<b>469,241</b>	<b>(745,564)</b>	<b>3,315</b>	<b>44,312</b>	<b>50</b>	<b>92,157</b>	<b>10,316</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(126,173)</b>

# Notes to the financial statements

for the year ended 30 June 2020

## 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
<b>ASSETS</b>											
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
<b>Total Assets</b>	<b>9,958,768</b>	<b>420,274</b>	<b>112,986</b>	<b>-</b>	<b>101,584</b>	<b>445,325</b>	<b>156,621</b>	<b>18,623</b>	<b>40,789</b>	<b>160</b>	<b>11,255,130</b>
<b>LIABILITIES</b>											
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
<b>Total Liabilities</b>	<b>8,714,405</b>	<b>1,057,192</b>	<b>74,702</b>	<b>68,995</b>	<b>92,444</b>	<b>413,692</b>	<b>156,343</b>	<b>18,623</b>	<b>40,789</b>	<b>160</b>	<b>10,637,345</b>
	-	-	-	-	-	-	-	-	-	-	-
<b>Net Assets</b>	<b>1,244,363</b>	<b>(636,918)</b>	<b>38,284</b>	<b>(68,995)</b>	<b>9,140</b>	<b>31,633</b>	<b>278</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>617,785</b>
<b>EQUITY</b>											
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	731,898	(201,595)	(4,417)	(8,506)	3,750	(47,568)	(68,013)	-	-	-	405,549
<b>Total Equity</b>	<b>1,244,363</b>	<b>(636,918)</b>	<b>38,284</b>	<b>(68,995)</b>	<b>9,140</b>	<b>31,633</b>	<b>278</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>617,785</b>



# Notes to the financial statements

for the year ended 30 June 2020

## 2. Underwriting activities

### Overview

This section provides analysis and commentary on the SI's underwriting activities. Underwriting, in simple terms, is the agreement by the insurer to assume insurance risk in return for a premium paid by the insured. The underwriter assesses the quality of the risk and prices it accordingly.

### 2.1. Revenue

#### Overview

Revenue mainly comprises premiums and contributions charged for providing insurance coverage. They are classified as either:

- Premium and contributions

TMF revenue is received from member agencies and recognised as levied.

HBCF Premium provides insurance cover for periods up to 7 years commencing from the date of the insurance contract. Premiums are recognised in line with the expected loss pattern of the contract. The proportion of premium received not earned at reporting date is recognised as an unearned premium liability on the statement of financial position.

CRIF Premium is received from agencies for principal arranged insurance cover for government capital projects estimated to cost \$10 million or more and is recognised from the date of the insurance contract over the period of cover.

Premiums are exclusive of taxes and duties levied.

- 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 2019-20 include workers compensation final hindsight adjustments for 2014-15 and interim hindsight adjustments for 2016-17. Hindsight adjustments recognised in 2018-19 include workers compensation final hindsight adjustments for 2013-14 and interim hindsight adjustments for 2015-16.

From 2020-21 the hindsight adjustment will be replaced by a discretionary agency performance adjustment (APA). The purpose of the APA is to:

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

- Outwards reinsurance expense

Premiums ceded to reinsurers are recognised as an expense when the period of cover commences.

# Notes to the financial statements

for the year ended 30 June 2020

## 2.1 Revenue (continued)

	2020 \$'000	2019 \$'000
Gross written premium	155,374	168,097
Unearned premium movement	(24,292)	(70,451)
Reinsurance expense	(9,857)	(8,349)
Net earned premium (a)	121,225	89,297
Contributions	1,400,656	1,383,064
Unearned contribution movement	(43,470)	(40,397)
Net earned contributions (b)	1,357,186	1,342,667
Net earned premium and contributions (a+b)	1,478,411	1,431,964

## 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 actuaries has estimated as at 30 June 2020 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 to the financial statements

for the year ended 30 June 2020

## 2.2 Net claims expense (continued)

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).

	2020 \$'000	2019 \$'000
Claims and related expenses	1,509,116	1,317,545
Finance costs	87,163	150,078
Other movements in outstanding claims liabilities	2,439,302	1,050,441
Gross claims expenses	4,035,581	2,518,064
Recoveries revenue	(93,203)	(73,351)
Acquisition costs	11,731	14,097
Movement in unexpired risk liability	104,620	175,967
<b>Net claims expense</b>	<b>4,058,729</b>	<b>2,635,128</b>

Major drivers for the increase in claims expense were:

- The NSW Bushfires across December 2019 and January 2020 have resulted in \$507.5m estimated losses as at 30 June 2020 of NSW State assets covered by TMF.
- The lockdown restrictions as a result of the COVID-19 pandemic has resulted in significant interruption to certain NSW Government operations, such as Taronga Zoo, Opera House and Ports operations. This has resulted in estimated \$343m of claims cost as at 30 June 2020 largely driven by claims for revenue and consequential loss and event cancellations.
- The inclusion for the first time of an IBNR allowance for sensitive claims. This resulted in an IBNR allowance of \$376m in the TMF and \$452m in the PMF.

# Notes to the financial statements

for the year ended 30 June 2020

## 2.2 Net claims expense (continued)

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:

	2020 \$'000	2019 \$'000
<b>Unwinding of discounts on provision for outstanding claims see below:</b>		
NSW Treasury Managed Fund (TMF)	76,834	134,480
Pre Managed Fund (PMF)	1,933	3,143
Governmental Workers Compensation Account (GWC)	905	1,628
Home Building Compensation Fund (HBCF)	1,728	2,520
Construction Risk Insurance Fund (CRIF)	125	115
Transport Accidents Compensation Fund (TAC)	3,662	6,330
Residual Workers Compensation Liabilities of the Crown (SRA/RIC)	741	1,146
Bush Fire Fighters Compensation Fund (BFFF)	988	251
Emergency and Rescue Workers Compensation Fund (ERWF)	246	461
Supplementary Sporting Injuries Fund (SSIF)	1	4
<b>Finance costs</b>	<b>87,163</b>	<b>150,078</b>

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

# Notes to the financial statements

for the year ended 30 June 2020

## 2.2 Net claims expense (continued)

### (i) TMF Workers Compensation

	12 Months to 30 June 2020			12 Months to 30 June 2019		
	Current year \$'000	Prior Years \$'000	Total \$'000	Current year \$'000	Prior Years \$'000	Total \$'000
<b>Gross Claims Expense<sup>3</sup></b>						
Gross claims incurred – Undiscounted	1,230,867	(91,964)	1,138,903	1,003,509	(225,807)	777,702
Discount movement	(88,532)	245,958	157,426	(104,201)	611,916	507,715
	<b>1,142,335</b>	<b>153,994</b>	<b>1,296,329</b>	<b>899,308</b>	<b>386,109</b>	<b>1,285,417</b>
<b>Reinsurance and other recoveries revenue</b>						
Reinsurance and other recoveries revenue - undiscounted	(10,838)	5,559	(5,279)	(10,015)	(5,105)	(15,120)
Discount movement	426	(2,142)	(1,716)	677	(3,430)	(2,753)
	(10,412)	3,417	(6,995)	(9,338)	(8,535)	(17,873)
<b>Total Net Claims Incurred</b>	<b>1,131,923</b>	<b>157,411</b>	<b>1,289,334</b>	<b>889,970</b>	<b>377,574</b>	<b>1,267,544</b>

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

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

# Notes to the financial statements

for the year ended 30 June 2020

## 2.2 Net claims expense (continued)

### (ii) TMF General Lines

	12 Months to 30 June 2020			12 Months to 30 June 2019		
	Current year \$'000	Prior Years \$'000	Total \$'000	Current year \$'000	Prior Years \$'000	Total \$'000
<b>Gross Claims Expense<sup>3</sup></b>						
Gross claims incurred – Undiscounted	1,742,975	225,782	1,968,757	756,188	(172,850)	583,338
Discount movement	(35,558)	112,547	76,989	(50,254)	271,307	221,053
	<b>1,707,417</b>	<b>338,329</b>	<b>2,045,746</b>	<b>705,934</b>	<b>98,457</b>	<b>804,391</b>
<b>Reinsurance and other recoveries revenue</b>						
Reinsurance and other recoveries revenue - undiscounted	(52,394)	2,325	(50,069)	(42,835)	1,673	(41,162)
Discount movement	1,132	(5,018)	(3,886)	2,072	(9,160)	(7,088)
	<b>(51,262)</b>	<b>(2,693)</b>	<b>(53,955)</b>	<b>(40,763)</b>	<b>(7,487)</b>	<b>(48,250)</b>
<b>Total Net Claims Incurred</b>	<b>1,656,155</b>	<b>335,636</b>	<b>1,991,791</b>	<b>665,171</b>	<b>90,970</b>	<b>756,141</b>

# Notes to the financial statements

for the year ended 30 June 2020

## 2.2 Net claims expense (continued)

### (iii) Other

	12 Months to 30 June 2020			12 Months to 30 June 2019		
	Current year \$'000	Prior Years \$'000	Total \$'000	Current year \$'000	Prior Years \$'000	Total \$'000
<b>Gross Claims Expense<sup>3</sup></b>						
Gross claims incurred – Undiscounted	241,670	382,094	623,764	206,373	40,771	247,144
Discount movement	(2,983)	68,199	65,216	(6,262)	187,374	181,112
	<b>238,687</b>	<b>450,293</b>	<b>688,980</b>	<b>200,111</b>	<b>228,145</b>	<b>428,256</b>
<b>Reinsurance and other recoveries revenue</b>						
Reinsurance and other recoveries revenue - undiscounted	(6,517)	(22,857)	(29,374)	(4,868)	2,290	(2,578)
Discount movement	93	1,554	1,647	166	(4,816)	(4,650)
	<b>(6,424)</b>	<b>(21,303)</b>	<b>(27,727)</b>	<b>(4,702)</b>	<b>(2,526)</b>	<b>(7,228)</b>
<b>Total Net Claims Incurred</b>	<b>232,263</b>	<b>428,990</b>	<b>661,253</b>	<b>195,409</b>	<b>225,619</b>	<b>421,028</b>

<sup>3</sup> Gross outstanding claims movements include an estimate for claims handling expenses.

# Notes to the financial statements

for the year ended 30 June 2020

## 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.

### 2.3.1. Discounted net outstanding claims

#### Overview

The liability for outstanding claims is actuarially determined in consultation with the claims managers for TMF, TAC, GWC, SRA/RIC, CRIF, BFFF, ERWF and SSIF. It is measured as the estimate of the expected future payments required to settle the present obligation at the reporting date, including the expenses associated with the settlement.

The expected future payments are estimated on the basis of the ultimate cost of the settling of claims, which is affected by factors arising during the period to settlement such as normal inflation and "superimposed inflation". Superimposed inflation refers to growth/inflation above normal inflation, including factors such as trends in court awards, such as increases in the level and period of compensation for injury or above inflation increases in the cost of obtaining medical services.



# Notes to the financial statements

for the year ended 30 June 2020

## 2.3.1. Discounted net outstanding claims (continued)

	2020 \$'000	2019 \$'000
<b>Outstanding claims liabilities</b>		
Expected future gross claims payments	13,172,423	10,851,455
Gross claims handling	782,802	734,605
Gross risk margin	44,069	32,596
Gross outstanding claims liabilities	13,999,294	11,618,656
Discount on central estimate	(1,670,077)	(1,794,937)
Discount on claims handling expenses	(98,775)	(120,375)
Discount on risk margin	(1,726)	(1,092)
Total discount on claims liabilities	(1,770,578)	(1,916,404)
<b>Claims liabilities 30 June</b>	<b>12,228,716</b>	<b>9,702,252</b>
<b>Recoveries</b>		
Expected future actuarial assessment of reinsurance recoveries	17,373	6,953
Expected future actuarial assessment of other recoveries	307,699	266,067
Gross outstanding recoveries	325,072	273,020
Discount to present value reinsurance recoveries	(3,482)	(377)
Discount to present value other recoveries	(29,584)	(26,686)
Total discounted on recoveries	(33,066)	(27,063)
<b>Recoveries 30 June</b>	<b>292,006</b>	<b>245,957</b>
<b>Net outstanding claims liabilities</b>	<b>11,936,710</b>	<b>9,456,295</b>

The valuation of liabilities for inclusion in the accounts incorporates a full review of the assumptions behind the estimates. Included in this review are the economic assumptions used to inflate future payments and discount them back to the balance date. The discount rates adopted for TMF are based on the yields of Commonwealth Government bonds. The future inflation rates are based on market expectations in the short term and a fixed gap relative to the discount rates in the longer term.

# Notes to the financial statements

for the year ended 30 June 2020

## 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	2020 Total \$'000
<b>Net claims liabilities</b>											
Opening balance	8,307,505	14,305	247,970	93,198	374,327	77,299	209,507	105,274	26,741	169	9,456,295
Discount unwind	76,834	125	1,933	905	3,662	741	1,728	988	246	1	87,163
Expected claim payments (prior years only)	(1,130,007)	(2,613)	(99,496)	(5,217)	(7,546)	(6,216)	(58,742)	(11,389)	(3,463)	(51)	(1,324,740)
CHE on expected claim payments (prior years only)	(80,467)	(416)	(4,975)	-	(76)	-	(4,699)	(1,281)	(690)	(10)	(92,614)
Release of Risk Margin on claim payments (prior years only)	-	(757)	-	-	-	-	(9,516)	-	-	-	(10,273)
Adjustment arising from change in (prior years only):											
- Actuarial assumptions*	679,347	747	578,629	14,339	(29,032)	3,851	(15,534)	(23,887)	4,911	24	1,213,395
- Discount/inflation rates	(110,938)	(40)	(32,343)	(3,620)	(6,321)	(2,486)	(2,792)	(1,497)	(278)	2	(160,313)
- Risk margins	-	-	-	-	-	-	-	-	-	-	-
Net outstanding claims in current year	2,558,579	34,921	-	-	-	-	130,469	40,671	3,104	53	2,767,797
<b>Net outstanding claims per actuarial report</b>	10,300,853	46,272	691,718	99,605	335,014	73,189	250,421	108,879	30,571	188	11,936,710
<b>Breakdown of Actuarial assumptions*</b>											
Actual vs Expected Payments	66,241	294	24,208	(2,284)	-	(1,265)	22,358	3,336	(1,238)	51	111,701
Change in experience	138,539	1,976	91,578	2,298	(37,690)	1,421	(30,551)	(4,201)	6,997	2	170,369
Change in actuarial assumptions	461,588	(1,523)	469,718	14,325	8,658	3,695	(4,996)	(22,651)	(482)	(33)	928,299
Change in CHE	(2,844)	-	(6,875)	-	-	-	(2,345)	(371)	(366)	3	(12,798)
Other	15,823	-	-	-	-	-	-	-	-	1	15,824
	679,347	747	578,629	14,339	(29,032)	3,851	(15,534)	(23,887)	4,911	24	1,213,395

AY = Accident year CHE = Claims handling expense

# Notes to the financial statements

for the year ended 30 June 2020

## 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 20.05 per cent respectively (2019: 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 (2019: 75 per cent).

The risk margin for the HBCF was \$33.6 million (2019: \$27.3 million) and for the CRIF \$8.8 million (2019: \$4.2 million).

No risk margin is included in the outstanding claims liability for the TMF as management has determined the central estimate adequately allows for risk and uncertainty in the liability (2019 nil). The overall probability of sufficiency of the liability was 53 per cent at 30 June 2020 (2019: 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.

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

# Notes to the financial statements

for the year ended 30 June 2020

## 2.3.3. Core claims liability variables (continued)

	2020 %			2019 %		
Next 12 months	Inflation rate	Discount rate	Superimposed inflation	Inflation rate	Discount rate	Superimposed inflation
TMF Workers	0.89-0.99	0.19-0.24	0.70-1.04	1.80 - 2.10	0.7 - 0.9	1.00 - 1.10
TMF General	0.70-1.37	0.18-0.28	1.50-3.00	1.72 - 2.88	0.92 - 1.09	1.50 - 2.50
CRIF	0.70-1.07	0.18-0.28	-	1.72 - 1.98	0.92 - 1.09	-
PMF	0.83-1.37	0.18-0.28	2.00 for Dust Diseases; 3.00 for Child Abuse	2.32 - 2.88	0.92 - 1.09	2.00 (for Dust Diseases)
GWC	1.05	0.23	0-1.75	2.33 - 2.58	1.00	0 - 1.75
TAC	0.83-1.37	0.18-0.28	3.5	2.32 - 2.88	0.92 - 1.09	3.50
SRA/RIC	1.05	0.23	0-1.70	2.33 - 2.58	1.00	0 - 1.70
HBCF	0.68 - 3.13	0.18-0.28	0.00 - 4.50	1.05 - 3.13	1.00	2.25
ERWF	1.05	0.23	0	2.33	1.00	-
BFF	0.92-1.18	0.20-0.27	0-2.00	2.33	1.00	0 - 2.00
SSIF	-	0.70	-	-	1.00	-
<b>Greater than 12 months</b>						
TMF Workers	0.83-2.49	0.24-3.62	0.05-0.70	1.60 - 2.50	0.90 - 3.70	0.10 - 0.70
TMF General	0.50-3.50	0.25-4.50	1.50-3.00	0.30 - 3.50	0.89 - 4.50	1.50 - 2.50
CRIF	0.54-2.20	0.25-4.50	-	0.30 - 2.30	0.89 - 4.50	-
PMF	0.50-3.50	0.25-4.50	2.00 for Dust Diseases; 3.00 for Child Abuse	1.30 - 3.50	0.89 - 4.50	2.00 (for Dust Diseases)
GWC	0.58-3.50	0.26-4.50	0-1.75	0.85 - 3.50	0.90 - 4.50	0 - 1.75
TAC	0.50-3.50	0.25-4.50	3.5	1.30 - 3.50	0.89 - 4.50	3.50
SRA/RIC	0.58-3.50	0.26-4.50	0-1.70	0.85 - 3.50	0.90 - 4.50	0 - 1.70
HBCF	0.68 - 3.13	0.25 - 4.50	0.00 - 4.50	1.05 - 3.13	0.90 - 4.50	2.25
ERWF	0.58-3.00	0.26-4.50	-	0.85 - 3.00	0.90 - 4.50	-
BFF	0.58-3.00	0.25-4.50	0-2.00	0.85 - 3.00	0.90 - 4.50	0 - 2.00
SSIF	-	0.70	-	-	0.90 - 3.18	-

The weighted average expected term to settlement from the balance date of the outstanding claims is estimated to be 4.3 years for TMF General Lines, 7.5 years for TMF Workers Compensation (2019: 5.2 years and 7.94 years), 1.3 years for the CRIF (2019: 3.2 years), 10.3 years for GWC (2019: 10.5 years), 20.8 years for TAC (2019: 20.8 years), 9.0 years for SRA/RIC (2019: 9.3 years), 3.6 years for BFF (2019: 3.0 years), 9.3 years for ERWF (2019: 8.1 years), 3.8 years for PMF (2019: 1.9 years) and 2.1 years for HBCF (2019: 2.2 years).

# Notes to the financial statements

for the year ended 30 June 2020

## 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:

	2020 \$'000	2019 \$'000
<b>Outstanding claims net of recoveries maturing:</b>		
Within 1 year	2,169,957	1,420,701
2 to 5 years	4,937,621	3,580,787
More than 5 years	4,829,132	4,454,807
	<b>11,936,710</b>	<b>9,456,295</b>

## 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 86% (2019: 88%) 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 <sup>1</sup>		5,623,036		
Discount rate <sup>2</sup>	Discount rate -4.5%	4,494,566	(1,128,470)	-20%
Discount rate <sup>2</sup>	+1%	5,236,689	(386,347)	-7%
	-1%	6,077,642	454,605	8%
Inflation rate <sup>2</sup>	+1%	6,080,179	457,143	8%
	-1%	5,227,632	(395,404)	-7%

<sup>1</sup> The net central estimate is inflated and discounted, net of insurance and other recoveries and includes an allowance for claims handling expenses.

<sup>2</sup> returns to fixed inflation gap (1.5%) after 10 years, blended impact 5-10 years.

## Notes to the financial statements

for the year ended 30 June 2020

### 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 <sup>1</sup>		4,677,816		
Discount rate	Discount rate -4.5%	4,034,177	(643,639)	-13.8%
Discount Rate	+1	4,487,021	(190,795)	-4.1%
	-1	4,888,402	210,585	4.5%
Inflation rate	+1	4,890,981	213,165	4.6%
	-1	4,480,742	(197,075)	-4.2%
Superimposed Inflation rate	+1	4,886,822	209,006	4.5%
	-1	4,485,366	(192,450)	-4.1%

<sup>1</sup> 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 <sup>1</sup>		5,682,019		
Discount rate <sup>2</sup>	Discount rate -4.5%	4,544,318	(1,137,700)	-20.0%
Discount rate <sup>2</sup>	+1	5,292,906	(389,113)	-6.8%
	-1	6,139,688	457,669	8.1%
Inflation rate <sup>2</sup>	+1	6,142,407	460,389	8.1%
	-1	5,283,628	(398,391)	-7.0%

<sup>1</sup> The gross central estimate is inflated and discounted, gross of insurance and other recoveries and includes an allowance for claims handling expenses.

<sup>2</sup> returns to fixed inflation gap (1.5%) after 10 years, blended impact 5-10 years.

# Notes to the financial statements

for the year ended 30 June 2020

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

### (iv) TMF General lines

Variable	Movement in variable %	Net Central Estimate \$'000	Impact of Change \$'000	Impact %
Gross Central Estimate <sup>1</sup>		4,852,899		
Discount rate	Discount rate -4.5%	4,186,269	(666,630)	-13.7%
Discount Rate	+1	4,655,640	(197,259)	-4.1%
	-1	5,070,472	217,573	4.5%
Inflation rate	+1	5,073,157	220,258	4.5%
	-1	4,649,131	(203,768)	-4.2%
Superimposed Inflation rate	+1	5,069,148	216,249	4.5%
	-1	4,653,623	(199,276)	-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.

# Notes to the financial statements

for the year ended 30 June 2020

## 2.3.6 Claims development (continued)

### (i) TMF Workers Compensation

Accident Year	2011 & prior \$'000	2012 \$'000	2013 \$'000	2014 \$'000	2015 \$'000	2016 \$'000	2017 \$'000	2018 \$'000	2019 \$'000	2020 \$'000	Total \$'000
<b>Estimate of ultimate claims cost</b>											
At the end of accident year		806,693	766,805	742,282	675,108	674,813	762,098	793,708	921,123	1,132,509	
One year later		792,706	679,304	638,548	653,422	703,381	801,942	884,103	1,099,888		
Two years later		837,704	612,288	611,692	676,302	715,097	791,182	883,048			
Three years later		760,115	591,531	594,766	652,035	693,413	777,084				
Four years later		717,572	579,361	552,638	618,210	662,912					
Five years later		721,020	493,879	514,624	597,791						
Six years later		683,511	489,070	511,557							
Seven years later		646,976	459,306								
Eight years later		635,122									
Accumulated nine years and greater	9,603,941										
Current estimate of cumulative claim costs	9,603,941	635,122	459,306	511,557	597,791	662,912	777,084	883,048	1,099,888	1,132,509	16,363,158
Cumulative net claim payments	7,883,718	456,204	300,238	295,085	316,340	318,693	318,765	297,797	280,204	132,277	10,599,321
Undiscounted central estimate	1,720,223	178,918	159,068	216,472	281,451	344,219	458,319	585,251	819,684	1,000,232	5,763,837
Effect of discounting	(214,245)	(22,186)	(18,733)	(26,213)	(32,078)	(35,227)	(42,429)	(51,882)	(69,219)	(81,017)	(593,229)
Claims handling expense	131,773	13,714	12,279	16,648	21,820	27,037	36,390	46,670	65,666	80,431	452,428
Risk margin											-
<b>Net Outstanding claims liability at 30 June 2020</b>	<b>1,637,751</b>	<b>170,446</b>	<b>152,614</b>	<b>206,907</b>	<b>271,193</b>	<b>336,029</b>	<b>452,280</b>	<b>580,039</b>	<b>816,131</b>	<b>999,646</b>	<b>5,623,036</b>

For accident years prior to 2016, the estimated undiscounted ultimate cost of claims has tended to reduce as the years pass. The two main drivers of this are: (1) the 2012 legislative reforms leading to more favourable claims experience than the initial actuarial valuation assumptions for claims from non-emergency services agencies, and (2) the 2012 changes to NSW Police's Death and Disability scheme leading to more favourable claims experience. For accident years since 2017, annual costs have progressively increased due to a number of compounding factors: significant growth in the number of psychological injury claims; valuation strengthenings in response to claims remaining on benefits for longer durations, particularly for psychological injuries; above inflationary growth in medical costs; the re-emergence of high numbers of medical discharges for NSW Police; a growing proportion of claimants accessing work injury damages (common law).



# Notes to the financial statements

for the year ended 30 June 2020

## 2.3.6 Claims development (continued)

### (ii) TMF General Lines

Accident Year	2011 & prior \$'000	2012 \$'000	2013 \$'000	2014 \$'000	2015 \$'000	2016 \$'000	2017 \$'000	2018 \$'000	2019 \$'000	2020 \$'000	Total \$'000
<b>Estimate of ultimate claims cost</b>											
At the end of accident year		505,657	520,902	536,890	644,473	604,770	645,521	696,438	692,723	1,650,555	
One year later		483,945	493,576	528,947	588,976	638,931	635,203	655,324	721,649		
Two years later		463,759	536,375	543,330	624,003	654,920	577,888	638,756			
Three years later		525,668	527,084	551,632	559,785	697,905	570,675				
Four years later		493,300	516,985	553,665	541,945	666,976					
Five years later		449,825	481,169	518,189	530,279						
Six years later		423,722	447,922	518,577							
Seven years later		443,638	442,863								
Eight years later		434,728									
Accumulated nine years and greater	6,130,147										
Current estimate of cumulative claim costs	6,130,147	434,728	442,863	518,577	530,279	666,976	570,675	638,756	721,649	1,650,555	12,305,205
Cumulative net claim payments	5,465,688	295,066	304,163	356,038	305,929	314,369	191,723	181,718	142,041	97,222	7,653,957
Undiscounted central estimate	664,459	139,662	138,700	162,539	224,350	352,607	378,952	457,038	579,608	1,553,333	4,651,248
Effect of discounting	(24,179)	(7,829)	(7,257)	(7,411)	(9,035)	(12,060)	(13,479)	(17,638)	(23,772)	(32,900)	(155,560)
Claims handling expense	24,523	6,280	6,370	7,681	10,908	17,694	18,793	22,600	28,779	38,500	182,128
Risk margin											-
<b>Net Outstanding claims liability at 30 June 2020</b>	<b>664,803</b>	<b>138,113</b>	<b>137,813</b>	<b>162,809</b>	<b>226,223</b>	<b>358,241</b>	<b>384,266</b>	<b>462,000</b>	<b>584,615</b>	<b>1,558,933</b>	<b>4,677,816</b>

Uncertainty about the amount and timing of claims in the TMF property and motor vehicle portfolios is typically resolved within one year.

The claims presented in the development tables are undiscounted, gross of insurance recoveries and net of non-reinsurance recoveries. Insurance recoveries are nil in the TMF Workers Compensation portfolio and negligible in the TMF Public Liability portfolio.

# Notes to the financial statements

for the year ended 30 June 2020

## 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.

	2020 \$'000	2019 \$'000
Unearned premiums	441,967	417,675
Unexpired risk liability	569,141	464,521
	<b>1,011,108</b>	<b>882,196</b>

### 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.

	2020 \$'000	2019 \$'000
<b>Year ended 30 June</b>		
Net carrying amount at start of year	417,675	347,224
Deferral of premiums written in current year	155,374	168,097
Premiums earned during the year	(131,082)	(97,646)
<b>Net carrying amount at end of year</b>	<b>441,967</b>	<b>417,675</b>

# Notes to the financial statements

for the year ended 30 June 2020

## 2.3.7.2. Reconciliation of unexpired risk liability

At the reporting date, a LAT is performed by the Fund Actuaries for the HBCF and CRIF.

Any deficiency is first written down against the deferred acquisition costs (DAC). The remaining deficiency is recognised as an unexpired risk liability. It represents the extent that the unearned premium liability is insufficient to cover expected future claims.

### Reconciliation of unexpired risk liability:

	2020 \$'000	2019 \$'000
At beginning of year	464,521	288,554
Recognition of additional unexpired risk liability in the year	104,620	175,967
<b>At year ended 30 June</b>	<b>569,141</b>	<b>464,521</b>

As at the reporting date, the LAT identified a deficit of \$581 million (2019: \$479 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:

	2020 \$'000	2019 \$'000
Unearned premium liability	399,966	373,030
Deferred acquisition costs	(11,731)	(14,097)
	<b>388,235</b>	<b>358,933</b>
Central estimate of present value of expected future cash flows arising from future claims	801,024	703,824
Risk Margin	168,083	133,727
<b>Premium liability provision</b>	<b>969,107</b>	<b>837,551</b>
<b>Net Deficiency</b>	<b>580,872</b>	<b>478,618</b>

<sup>1</sup> Refer to Note 2.3.8 Other Assets – Deferred Acquisition Costs.

# Notes to the financial statements

for the year ended 30 June 2020

## 2.3.7.2 Reconciliation of unexpired risk liability (continued)

The premium liability provision represents the actuarial assessment of future claims payments and the expenses associated with settling them. The mean term to settlement of the undiscounted premium liability is 5.6 years (2019: 6.3 years).

	2020 \$'000	2019 \$'000
Gross movement in unexpired risk liability	(104,620)	(175,967)
Write down of deferred acquisition costs <sup>1</sup>	(11,731)	(14,097)
<b>Total deficiency recognised in the Statement of Comprehensive Income</b>	<b>(116,351)</b>	<b>(190,064)</b>

<sup>1</sup>Refer to Note 2.3.8 Other Assets – Deferred Acquisition Costs.

The probability of adequacy for HBCF was 75 per cent (2019: 75 per cent).

The actuarial assessment of the expected future cash flows relating to future claims arising from current general insurance contracts in the CRIF indicates that this estimate is lower than the current value of the unearned premium liability (net of deferred acquisition costs) and that there is therefore no deficiency in the unearned premium liability as at 30 June 2020 (30 June 2019: nil). The probability of adequacy for the CRIF was 75 per cent (2019: 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.

	2020 \$'000	2019 \$'000
Acquisition costs incurred during the year	11,731	14,097
Acquisition costs amortised during the year	-	-
Net deficiency write down <sup>1</sup>	(11,731)	(14,097)
<b>At year ended 30 June</b>	<b>-</b>	<b>-</b>

<sup>1</sup> Refer to Note 2.3.7.2 for details

# Notes to the financial statements

for the year ended 30 June 2020

## 2.3.9. Underwriting and other expenses

### Overview

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

	2020 \$'000	2019 \$'000
<b>Statutory levies:</b>		
State Insurance Regulatory Authority	24,445	22,845
Dust Diseases Authority	3,768	5,013
<b>Total Statutory levies</b>	<b>28,213</b>	<b>27,858</b>
Service fees to icare (2.3.9.1)	182,593	154,050
Insurance	52,718	47,049
Software licensing	498	4
Service transition fees	12	-
Depreciation and amortisation	795	798
Audit fees- other	(291)	694
Audit fees - audit of financial statements	-	427
Consultants	-	25
Contractors	457	1,315
Legal fees	-	3
Other expenses	379	92
<b>Underwriting and other expenses</b>	<b>265,374</b>	<b>232,315</b>
Transformation, transition and continuous improvement expenses	7,468	8,393
<b>Total underwriting and other expenses</b>	<b>272,842</b>	<b>240,708</b>

Audit fees for the audit of the financial statements were paid by icare in 2020 and are included as part of the service fee. The amount incurred was \$920.7 thousand.

# Notes to the financial statements

for the year ended 30 June 2020

## 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 \$11.7 million (2019: \$14.1 million) paid by icare has been treated as an acquisition cost rather than as a Service fee expense.

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

SI have the following commitments for levies in 2020-21:

- State Insurance Regulatory Authority and NSW Workers Compensation (Dust Diseases) Authority. The amount of these levies has not been finalised for 2020/21.

## 2.3.9.2. Transformation, transition and continuous improvement expenses

In 2019-20 the core focus of transformation has been on delivering a customer centric operating model for TMF workers compensation claims. Key achievements include implementation of the new icare TMF standard contract, including the icare service model and decision rights with selected service providers and mobilisation of Day 1 desired state for service providers and Agencies including new ways of working.

Another major achievement this year was the transitioning of CRIF policy and billing solution to icare's strategic platform in September 2019. This resulted in direct digital interaction for IfNSW CRIF agencies.

Incremental investment has also been directed towards enhancing IfNSW insights capability and enhanced access to the IfNSW claims data to support operations and agencies with claims insights. Also several continuous improvement enhancements have been undertaken across IfNSW technology, to improve the policy & billing system for CRIF and supporting processes to enhance operational efficiency.

## 2.3.10. Trade and other receivables

### Overview

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

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.

# Notes to the financial statements

for the year ended 30 June 2020

## 2.3.10. Trade and other receivables (continued)

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.

	2020 \$'000	2019 \$'000
Premium and contribution receivable	93,474	153,650
Insurance and other recoveries receivable <sup>1</sup>	302,685	251,370
GST receivable	1,911	-
Prepayments	20,436	24,167
Other	12	54
	<b>418,518</b>	<b>429,241</b>

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

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.

# Notes to the financial statements

for the year ended 30 June 2020

## 2.3.10 Trade and other receivables (continued)

The amount of insurance and other recoveries receivable is equal to the estimated gross incurred cost less the retention limit and insurance recoveries received to date. The receivable is recognised when recovery is virtually certain to take place when the corresponding obligation is settled. The measurement of these receivables is affected by factors such as normal inflation and the discount rate used for discounting of future expected receipts. The rates applied are consistent with those used in the valuation of provisions for outstanding claims (see Note 2.3.3).

	2020 \$'000	2019 \$'000
<b>Present value of insurance and other recoveries</b>		
Expected future recoveries (undiscounted)	325,072	273,020
Discount to present value	(33,066)	(27,063)
	<b>292,006</b>	<b>245,957</b>

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.

	2020 \$'000	2019 \$'000
Accrued expenses & other creditors	61,562	16,523
Service fee	22,986	17,490
Statutory fees	1,465	1,053
GST Payable	-	16,845
Other	1,070	986
	<b>87,083</b>	<b>52,897</b>

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



# Notes to the financial statements

for the year ended 30 June 2020

## 3. Investment activities

### Overview

Investments in New South Wales Treasury Corporation's Funds (TCorpIM Funds or the Funds) and the managed asset portfolio are designated as fair value through profit or loss. The majority of SI's investments are unit holdings. The value of the Funds is based on SI's share of the value of the underlying assets of the Fund, based on the market value. All of the Funds are valued at redemption price.

The fair value quoted market price for similar instruments and the underlying value are provided by 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 claims liabilities.

### 3.1. Investment income

#### Overview

Interest revenue and expenses are recognised on an accrual basis. Investment revenue includes interest income.

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

Differences between the fair values of investments at the end of the reporting period and their fair values at the end of the previous reporting period (or cost of acquisition, if acquired during the reporting period) are recognised as revenue in the statement of comprehensive income.

	2020 \$'000	2019 \$'000
Return on investment		
Revenue from financial assets held at fair value	623,437	565,526
Gains/(losses) from financial assets held at fair value	(563,248)	196,009
Interest	8,744	13,709
	<b>68,933</b>	<b>775,244</b>

# Notes to the financial statements

for the year ended 30 June 2020

## 3.2. Investment assets

	2020 \$'000	2019 \$'000
TCorpIM Funds	10,021,798	9,076,609
	<b>10,021,798</b>	<b>9,076,609</b>

## 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
<b>2020</b>				
<b>Financial assets at fair value</b>				
TCorpIM Funds	-	10,021,798	-	10,021,798
	<b>-</b>	<b>10,021,798</b>	<b>-</b>	<b>10,021,798</b>
<b>2019</b>				
<b>Financial assets at fair value</b>				
TCorpIM Funds	-	9,076,609	-	9,076,609
	<b>-</b>	<b>9,076,609</b>	<b>-</b>	<b>9,076,609</b>

There were no transfers between the levels during the period ended 30 June 2020 (2019: Nil). The value of the Funds is based on SI's share of the value of the underlying assets of the fund, based on the market value. All of the facilities are valued using redemption pricing.

# Notes to the financial statements

for the year ended 30 June 2020

## 4. Risk Management

### Overview

SI applies 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* (Act), overall responsibility for the establishment and oversight of risk management, risk reviews, policy setting and for managing each of these risks moved to NSW Treasury from Self Insurance Corporation. The risk management policies in place prior to the Act remain in place, with the purposes of:

- Establishing frameworks and processes that identify and analyse the risks faced by SI investment funds;
- Setting risk limits and controls; and
- Monitoring risks.

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

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).

SI Corp 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 claims liabilities.

# Notes to the financial statements

for the year ended 30 June 2020

## 4 Risk Management (continued)

### Financial instrument categories

	Note	Category	2020 \$'000	2019 \$'000
<b>Financial assets</b>				
Cash and cash equivalents	5.1	N/A	2,759,798	1,748,288
Investments	3.2	At fair value through profit and loss (designated as such upon initial recognition)	10,021,798	9,076,609
Receivables (i)	2.3.10	Receivables measured at amortised cost	93,486	153,704
<b>Financial liabilities</b>				
Payables (ii)	2.3.11	Payables measured at amortised cost	85,618	34,999

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

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

# Notes to the financial statements

for the year ended 30 June 2020

## 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;
- Risk registers that identify key risks and controls, residual risk exposures, and risk treatment and owner. Periodic attestations are performed on key compliance obligations and material exceptions are reported to the icare Board;
- 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 NSW Treasury.

## 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 2019. The analysis assumes that all other variables remain constant.

## Notes to the financial statements

for the year ended 30 June 2020

### 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
<b>2020</b>					
Cash and cash equivalents	2,759,798	(13,799)	(13,799)	13,799	13,799
<b>2019</b>					
Cash and cash equivalents	1,748,288	(8,741)	(8,741)	8,741	8,741

### 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 2020 SI has no transactional or structural currency exposures (2019: Nil).

# Notes to the financial statements

for the year ended 30 June 2020

## 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	2020 \$'000	2019 \$'000
Treasury Managed Fund Investment Portfolio	Cash, money market instruments, Australian Bonds, Listed and Unlisted Property, Australian, International and Emerging Markets shares, and Unlisted Infrastructure and Opportunistic	Long term	9,449,780	8,392,581
Long Term Growth Fund	Cash, money market instruments, Australian Bonds, Listed Property, Australian, International and Emerging Markets shares, Alternatives	7 years	572,018	684,028
			10,021,798	9,076,609

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.

# Notes to the financial statements

for the year ended 30 June 2020

## 4.5. Other price risk (continued)

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

Investment fund	Change in unit price		Impact on surplus/ (deficit)	
	2020 %	2019 %	2020 \$'000	2019 \$'000
Treasury Managed Fund Investment Portfolio	+/- 10.0	+/- 18.0	944,978	1,510,665
Long Term Growth Fund	+/- 10.0	+/- 15.0	57,202	102,604

## 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 7.6 per cent and 6.7 per cent of the Treasury Managed Fund Investment Portfolio as at the reporting date.

In accordance with the MoU, TCorp is required to take market turnover and liquidity risk into account at the time of constructing SI's investment asset allocation.

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

The payables are recognised for amounts due to be paid in the future for goods or services received, whether or not invoiced. Amounts owing to suppliers (which are unsecured) are settled in accordance with the policy set out in Treasury Circular 11/12. If trade terms are not specified, payment is made no later than the end of the month following the month in which an invoice or a statement is received.



# Notes to the financial statements

for the year ended 30 June 2020

## 4.6. Liquidity risk (continued)

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

Weighted average effective interest rate %	Nominal amount \$'000	Interest rate exposure			Maturity dates		
		Fixed Interest rate \$'000	Variable interest rate \$'000	Non-interest bearing \$'000	< 1 Year \$'000	1-5 Years \$'000	> 5 Years \$'000
<b>2020</b>							
Payables	-	85,618	-	-	85,618	-	-
<b>2019</b>							
Payables	-	34,999	-	-	34,999	-	-

## 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.

# Notes to the financial statements

for the year ended 30 June 2020

## 4.7. Credit risk (continued)

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

		Past due but not impaired \$'000			Considered impaired \$'000
	Total \$'000	< 3 months	3 - 6 months	> 6 months	
<b>2020</b>					
Receivables	19,517	3,634	6,602	9,281	-
<b>2019</b>					
Receivables	12,845	8,257	913	3,675	-

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

### Financial assets at fair value

Financial assets at fair value include investments in TCorpIM Funds and the managed assets portfolio. The investments within the Funds are unit holdings, and as such, do not give rise to credit risk. Credit risk within the Funds is managed by ensuring there is a wide spread of risks. TCorp, as trustee, contracts with specialist investment managers and requires the mandates to include a series of controls over the concentration and credit quality of assets.

# Notes to the financial statements

for the year ended 30 June 2020

## 5. Other

### Overview

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

### 5.1. Cash and cash equivalents

#### Overview

Cash and cash equivalents include cash at bank and short term money market investments held at TCorp.

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

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

	2020 \$'000	2019 \$'000
Cash at bank	2,759,798	1,748,288

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:

	2020 \$'000	2019 \$'000
Cash and cash equivalents (per statement of financial position)	2,759,798	1,748,288
Closing cash and cash equivalents (per statement of cash flows)	2,759,798	1,748,288

# Notes to the financial statements

for the year ended 30 June 2020

## 5.1. Cash and cash equivalents (continued)

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

	2020 \$'000	2019 \$'000
<b>Net cash flows from operating activities</b>	<b>1,011,934</b>	<b>1,242,838</b>
<b>Adjustments for:</b>		
Depreciation and amortisation	(795)	(798)
(Decrease)/Increase in investments	945,189	511,535
(Increase) in outstanding claims	(2,526,465)	(1,200,521)
Increase in unearned premiums	(24,292)	(70,451)
Decrease/(Increase) in payables	(32,225)	(11,591)
(Increase) in unexpired risk	(104,620)	(175,967)
Increase / (Decrease) in receivables	(12,684)	110,504
<b>Net Result</b>	<b>(743,958)</b>	<b>405,549</b>

# Notes to the financial statements

for the year ended 30 June 2020

## 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 was based on requirements assessed as at 31 March 2020 and has been approved and the funds transferred from 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.

The grant revenue received from the Crown this year is intended to cover bushfire property losses across Government, support for agencies who have lost revenue due to COVID-19 (such as Taronga Zoo, Sydney Olympic Park and Sydney Opera House), anticipated historic sensitive abuse claims and funding for losses incurred due to replacing the hindsight adjustment with an agency performance adjustment as noted in note 2.1.

	2020 \$'000	2019 \$'000
Grant to the Crown Entity [expense]	(10,000)	(90,000)
Grant from the Crown Entity [revenue]	2,032,211	1,253,496
<b>Net grant revenue</b>	<b>2,022,211</b>	<b>1,163,496</b>

# Notes to the financial statements

for the year ended 30 June 2020

## 5.3. Budget review

Statement of comprehensive income

	2020 actuals \$'000	2020 budget \$'000
Premium and contributions	1,556,030	1,508,596
Unearned premium movement	(67,762)	-
<b>Net Earned premiums</b>	<b>1,488,268</b>	<b>1,508,596</b>
Outwards reinsurance expense	(9,857)	(61,253)
<b>Net Earned premiums and contributions (a)</b>	<b>1,478,411</b>	<b>1,447,343</b>
Gross Claims expenses	(4,035,581)	(1,796,576)
Recoveries received	93,203	51,556
Acquisition costs	(11,731)	-
Unexpired risk liability expense	(104,620)	(1,656)
<b>Net Claims expense (b)</b>	<b>(4,058,729)</b>	<b>(1,746,676)</b>
Underwriting and other expenses (c)	(265,374)	(272,389)
<b>Underwriting result (a+b+c)</b>	<b>(2,845,692)</b>	<b>(571,722)</b>
Hindsight adjustments	17,603	89,092
Transformation Costs	(7,468)	-
Investment revenue	68,933	711,259
Other revenue	455	-
<b>Insurance profit</b>	<b>(2,766,169)</b>	<b>228,629</b>
Grants (to)/ from the Crown	2,022,211	12,155
<b>Net Result</b>	<b>(743,958)</b>	<b>240,784</b>
Other comprehensive income	-	-
<b>Total comprehensive income</b>	<b>(743,958)</b>	<b>240,784</b>

### Commentary

Net result for the year was \$985 million unfavourable to budget mainly due to higher net claims expenses than budget resulting from the June 2020 actuarial valuation of outstanding claims, and lower than expected investment revenue. The strengthening in the outstanding claims reserves was predominantly due to the inclusion of sensitive claims in TMF and PMF in the June 2020 valuation results, the losses related to the NSW bushfire events, and the impact of COVID-19 on the TMF general lines portfolio to support those government agencies who have lost revenue due to a lack of public access. This was partially offset by the grants from the Crown related to the Net Asset Holding Level Policy.

# Notes to the financial statements

for the year ended 30 June 2020

## 5.3 Budget review (continued)

### Statement of financial position

	2020 actuals \$'000	2020 budget \$'000
<b>ASSETS</b>		
Cash and cash equivalents	2,759,798	705,025
Investments	10,021,798	10,493,003
Trade and other receivables	418,518	331,823
Plant and equipment	2	222
Intangible assets	618	120
<b>Total Assets</b>	<b>13,200,734</b>	<b>11,530,193</b>
<b>LIABILITIES</b>		
Trade and other payables	87,083	18,618
Unearned premiums	441,967	481,271
Outstanding claims liabilities	12,228,716	9,445,625
Unexpired risk liability	569,141	352,375
<b>Total Liabilities</b>	<b>13,326,907</b>	<b>10,297,889</b>
<b>Net Assets</b>	<b>(126,173)</b>	<b>1,232,304</b>
<b>EQUITY</b>		
Accumulated funds	(126,173)	1,232,304
<b>Total Equity</b>	<b>(126,173)</b>	<b>1,232,304</b>

### Commentary

Total assets were \$1.7 billion favourable to budget mainly due the grants from the Crown related to the Net Asset Level Holding Policy. Total liabilities were \$3 billion unfavourable to budget mainly due to the increase in the provision for outstanding claims liabilities attributable to the inclusion of sensitive claims in TMF and PMF in the June 2020 valuation results, the losses related to the NSW bushfire events, and the impact of COVID-19 on the TMF general lines portfolio to support those government agencies who have lost revenue due to a lack of public access

# Notes to the financial statements

for the year ended 30 June 2020

## 5.3 Budget review (continued)

### Statement of cash flows

	2020 actuals \$'000	2020 budget \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Premiums received	1,583,141	1,646,454
Claims paid	(1,501,919)	(1,463,052)
Recoveries received	41,888	49,121
<b>Total Premiums/contributions less claims</b>	<b>123,110</b>	<b>232,523</b>
<b>Receipts</b>		
Proceeds from sale of investment	-	150,000
Investment Income	623,437	397,745
Interest received	8,744	13,911
Grants from the Crown	2,022,211	12,155
Other income	455	-
<b>Total Receipts</b>	<b>2,654,847</b>	<b>573,811</b>
<b>Payments</b>		
Purchases of investments	(1,508,437)	(1,432,745)
Service fees paid	(188,280)	(195,615)
Other payments	(69,306)	(137,001)
<b>Total Payments</b>	<b>(1,766,023)</b>	<b>(1,765,361)</b>
<b>Total cash flows from operating activities</b>	<b>1,011,934</b>	<b>(959,027)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of plant and equipment	-	(110)
Purchases of intangibles/software	(424)	(60)
<b>Total cash flows from investing activities</b>	<b>(424)</b>	<b>(170)</b>
<b>NET INCREASE / (DECREASE) IN CASH</b>	<b>1,011,510</b>	<b>(959,197)</b>
<b>Opening cash and cash equivalents</b>	<b>1,748,288</b>	<b>1,664,222</b>
<b>CLOSING CASH AND CASH EQUIVALENTS</b>	<b>2,759,798</b>	<b>705,025</b>

### Commentary

Cash and cash equivalents held as at 30 June 2020 were \$2.1 billion higher than budget mainly due to the grants from the Crown related to the Net Asset Holding Level Policy,



# Notes to the financial statements

for the year ended 30 June 2020

## 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.

A targeted review designed to identify and remediate, if necessary, instances of under payment of weekly compensation benefits as a result of issues with the calculation of Pre-Injury Average Weekly Earnings (PIAWE) benefits is being considered for the TMF. As this process is just commencing it is not possible to determine if a liability is required or what the quantum of that liability could be for the TMF as of 30 June 2020.

## 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 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. This effectively created two portfolios for HBCF:

- A portfolio of premiums issued prior to 1 July 2018 that were substantially underfunded. This has led to the current accumulated deficit and will require a long term funding agreement with the NSW Government. This is referred to as the pre reform portfolio. In 2019-20 the NSW Government approved a long term funding arrangement for the pre-reform HBCF portfolio. Under this arrangement NSW Treasury will fund in arrears the actual cash losses incurred by the pre reform portfolio until no further funding of these losses is required. The accumulated deficit in HBCF is largely due to the pre reform portfolio.
- Premiums issued after 1 July 2018 under the new pricing arrangements are expected to be self-sustaining. This excludes premiums for multi-unit dwellings. icare has staged the approved price increases for multi-unit dwellings in tranches through to 2020/21 in conjunction with SIRA. While the delay in the rate increase has increased the net deficit of HBCF, it is expected that the rate increase will make the entire portfolio post 1 July 2018 self sustaining and erode any associated accumulated deficit.

HBCF has also been approved to change its investment strategy which is expected to assist in eroding the overall deficit of the scheme. Please also refer to note 5.6 on the changes to the HBCF investment effective from 1 July 2020.

### Post balance day events

The icare Board has undertaken a review of the HBCF investment strategy which is 100% cash as at 30 June 2020. A recommendation was proposed to the Treasurer and endorsed by the NSW Treasury Asset & Liability Committee, that the investment strategy be revised to invest in the TCorpIM Medium Term Growth Fund. The Treasurer approved the change in strategy and the investment was made for the 2020/21 financial year.

### END OF AUDITED FINANCIAL STATEMENTS

icare

Dust Diseases Care

Lifetime Care

Insurance for NSW

● **HBCF**

Workers Insurance

Sporting Injuries  
Insurance

BIG Corp

**HBCF**

# HBCF

## Financial statements

for the year ended 30 June 2020

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## HOME BUILDING COMPENSATION FUND

### Actuarial Certificate Outstanding claims liabilities at 30 June 2020

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 2020 of the Home Building Compensation Fund.

#### Data

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

#### Basis of Our Estimates

We have made central estimates of the outstanding claims liabilities, meaning that our assumptions have been selected to yield estimates that are not knowingly above or below the ultimate liabilities. In addition to our central estimates, we have estimated the risk margin required in order to provide a probability of adequacy of 75%. Our estimates include allowances for:

- Future inflation and discounting for the time value of money;
- A loading for future expenses to meet the cost of managing the outstanding claims (including claims incurred but yet to be reported) as at 30 June 2020;
- Future expected recoveries;
- A reduction in insolvencies prior to 30 June 2020 given the Federal Government's changes to insolvency laws as a result of COVID-19; 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 2020, net of recoveries, including claims handling expenses and a risk margin of 15%, is \$250.4 million. This amount is made up as follows:

<b>Home Building Compensation Fund Outstanding Claims Liability at 30 June 2020</b>	<b>\$M</b>
Gross Outstanding Claims	257.3
Less Anticipated Recoveries	6.9
Net Outstanding Claims	250.4

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

**PricewaterhouseCoopers Consulting (Australia) Pty 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](http://www.pwc.com.au)  
 Liability limited by a scheme approved under Professional Standards Legislation.



### Uncertainty

There is a limitation upon the accuracy of the estimates in this certificate in that there is an inherent uncertainty in any estimate of outstanding claims liabilities. This is due to the fact that the ultimate liability for claims is subject to the outcome of events yet to occur. These include, but are not limited to, the impact of COVID-19 on the building cycle and its impact on claims experience, tail development of multi-unit claims, and the future claims experience for Duplexes/Triplexes.

In preparing our liability estimates, we have made an explicit adjustment for the expected impact of COVID-19. There is clearly a degree of uncertainty on how the pandemic may impact claim outcomes.

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

### Valuation Report

Full details of data, methodology, assumptions and results are set out in our valuation report dated 1 September 2020.

### Relevant Standards

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

icare have informed us that the financial statements for the Home Building Compensation Fund are intended to comply with Accounting Standard AASB 1023. We have been instructed by icare to prepare a central estimate and our report includes the determination of a risk margin intended to achieve a probability of adequacy of 75%.

Andrew Smith  
FIAA  
1 September 2020

James Richardson  
FIAA  
1 September 2020

## Statement by the chairman and chief executive officer

for the year ended 30 June 2020

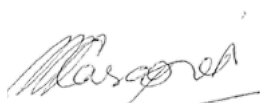
### Home Building Compensation Fund

**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 2020 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  
25 September 2020



**Don Ferguson**  
A/Chief Executive Officer and  
Managing Director  
NSW Self Insurance Corporation and  
Insurance and Care NSW  
25 September 2020



## 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 comprises the statement of comprehensive income for the year ended 30 June 2020, the statement of financial position as at 30 June 2020, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements comprising the Basis of preparation 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 2020, 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 (including Independence Standards)' (APES 110).

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

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

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

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

### Other Information

The Fund's annual report for the year ended 30 June 2020 includes other information in addition to the financial statements and my Independent Auditor's Report thereon. The Directors of the Fund are responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprise the Statement by the Chairman and Chief Executive.

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

In preparing the financial statements, the Directors are responsible for assessing the Fund's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting.

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

My objectives are to:

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

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

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

The scope of my audit does not include, nor provide assurance:

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



David Daniels  
Director, Financial Audit Services

Delegate of the Auditor-General for New South Wales

1 October 2020  
SYDNEY



# Statement of comprehensive income

for the year ended 30 June 2020

	Notes	2020 \$'000	2019 \$'000
Premium Written	2.1	136,480	129,025
Unearned premium movement		(26,935)	(48,872)
<b>Net Earned premium (a)</b>		<b>109,545</b>	<b>80,153</b>
Gross Claims expenses	2.2	(102,414)	(114,013)
Recoveries received		3,246	3,255
Acquisition costs		(11,731)	(14,097)
Unexpired risk liability expense	2.3.7	(104,620)	(175,967)
<b>Net Claims expense (b)</b>		<b>(215,519)</b>	<b>(300,822)</b>
<b>Underwriting and other expenses (c)</b>	2.3.9	(17,741)	(14,711)
<b>Underwriting result (a+b+c)</b>		<b>(123,715)</b>	<b>(235,380)</b>
Investment income		2,858	5,287
Other Revenue		-	2
<b>Insurance profit</b>		<b>(120,857)</b>	<b>(230,091)</b>
Grants (to) and from the Crown	4.3	12,211	28,496
<b>Net Result</b>		<b>(108,646)</b>	<b>(201,595)</b>

The accompanying notes form part of these financial statements.

## Statement of financial position

as at 30 June 2020

	Notes	2020 \$'000	2019 \$'000
<b>Assets</b>			
Cash and cash equivalents	4.1	456,823	393,761
Trade and other receivables	2.3.10	29,564	25,653
Intangible assets	4.2	66	860
<b>Total Assets</b>		<b>486,453</b>	<b>420,274</b>
<b>Liabilities</b>			
Trade and other payables	2.3.11	5,631	5,875
Unearned premiums	2.3.7	399,966	373,030
Outstanding claims liabilities	2.3.1	257,279	213,766
Unexpired risk liability	2.3.7.2	569,141	464,521
<b>Total Liabilities</b>		<b>1,232,017</b>	<b>1,057,192</b>
<b>Net Assets</b>		<b>(745,564)</b>	<b>(636,918)</b>
<b>Equity</b>			
Accumulated Deficit		(745,564)	(636,918)
<b>Total Equity</b>		<b>(745,564)</b>	<b>(636,918)</b>

The accompanying notes form part of these financial statements.

# Statement of changes in equity

for the year ended 30 June 2020

	Accumulated Deficit \$'000	Total Equity \$'000
<b>Balance at 1 July 2019</b>	<b>(636,918)</b>	<b>(636,918)</b>
Net result	(108,646)	(108,646)
Other comprehensive income	-	-
<b>Total comprehensive result for the year</b>	<b>(108,646)</b>	<b>(108,646)</b>
<b>Balance at 30 June 2020</b>	<b>(745,564)</b>	<b>(745,564)</b>
<b>Balance at 1 July 2018</b>	<b>(435,323)</b>	<b>(435,323)</b>
Net result	(201,595)	(201,595)
Other comprehensive income	-	-
<b>Total comprehensive result for the year</b>	<b>(201,595)</b>	<b>(201,595)</b>
<b>Balance at 30 June 2019</b>	<b>(636,918)</b>	<b>(636,918)</b>

The accompanying notes form part of these financial statements.

# Statement of cash flows

for the year ended 30 June 2020

	Notes	2020 \$'000	2019 \$'000
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Premiums received		135,168	139,000
Recoveries		647	1,318
Claims and expenses paid		(70,623)	(63,395)
<b>Total cash flow from premiums less claims</b>		<b>65,192</b>	<b>76,923</b>
<b>Receipts</b>			
Interest received		2,858	5,287
Grants received from Crown		12,211	28,496
Other Income		-	2
<b>Total Receipts</b>		<b>15,069</b>	<b>33,785</b>
<b>Payments</b>			
Service fees paid		(11,454)	(10,319)
Other payments		(5,745)	(5,861)
<b>Total Payments</b>		<b>(17,199)</b>	<b>(16,180)</b>
<b>Net cash from Operating Activities</b>	4.1	<b>63,062</b>	<b>94,528</b>
Net increase/(decrease) in cash and cash equivalents		63,062	94,528
Cash and cash equivalents at the beginning of the year		393,761	299,233
<b>Cash and cash equivalents at the end of the year</b>	4.1	<b>456,823</b>	<b>393,761</b>

The accompanying notes form part of these financial statements.

# Notes to the financial statements

for the year ended 30 June 2020

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

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

The financial statements have not been normalised for the impact of COVID-19.

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 2020 have been authorised for issue by the Chairman of the Board of icare and the Acting Chief Executive Officer and Managing Director of SI Corp on behalf of the Board of Directors of icare on 25 September 2020

### 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, statement of financial position, statement of changes in equity and statement of cash flows as well as associated notes as required by Australian Accounting Standards. Disclosures have been grouped into the following categories in order to assist users in their understanding of the financial statements:

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

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

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

# Notes to the financial statements

for the year ended 30 June 2020

## 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 HBCF.

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

### 1.2.1. Basis of preparation

HBCF's financial statements are general purpose financial statements and 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.

These financial statements have been presented on a liquidity basis following receipt of an exemption from TC20-01 by NSW Treasury that statements are presented on a current and non-current basis.

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

As HBCF is a fund established within SICorp under s8A of the SICorp Act, the financial statements are aggregated into SICorp's financial statements.

### 1.2.2. Going concern basis

These financial statements have been prepared on a going concern basis, despite the accumulated deficit. 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 – Net outstanding claims liability;
- Note 2.3.7- Unearned premiums and unexpired risk liability; and
- Notes 3 – Risk management.

# Notes to the financial statements

for the year ended 30 June 2020

## 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 2020. The following new Standards will not have a material impact on the financial performance or position of HBCF:

- AASB 1059 *Service Concession Arrangements: Grantors*
- AASB 2018-5 *Amendments to Australian Accounting Standards – Deferral of AASB 1059*
- AASB 2018-6 *Amendments to Australian Accounting Standards – Definition of a Business*
- AASB 2018-7 *Amendments to Australian Accounting Standards – Definition of Material*
- AASB 2019-1 *Amendments to Australian Accounting Standards – References to the Conceptual Framework*
- AASB 2019-2 *Amendments to Australian Accounting Standards – Implementation of AASB 1059*
- AASB 2019-3 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform*

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 2022.

## 1.2.8. Coronavirus (COVID-19) pandemic

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

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

# Notes to the financial statements

for the year ended 30 June 2020

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

### Accounting Estimates and judgement:

The ongoing COVID-19 pandemic has increased the estimation uncertainty in the preparation of these financial statements. HBCF has developed various accounting estimates in these financial statements based on forecasts of economic conditions which reflect expectations and assumptions as at 30 June 2020 about future events that we believe are reasonable in the circumstances. There is a considerable degree of judgement involved in preparing these forecasts. The underlying assumptions are also subject to uncertainties which are often outside the control of HBCF. Accordingly, actual economic conditions may be different from those forecast since anticipated events may not occur as expected, and the effect of those differences may significantly impact accounting estimates included in these financial statements.

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

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

### Risk Management

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

The immediate impact on HBCF has been the increases in claims liabilities. As the impacts of the virus and associated responses evolve, so too will the associated risks. HBCF is committed to appropriately managing those risks at all levels.



# Notes to the financial statements

for the year ended 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 2020 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 to the financial statements

for the year ended 30 June 2020

## 2.2. Net Claims expense (continued)

	2020 \$'000	2019 \$'000
Claims and related expenses	58,900	49,312
Finance costs (net)	1,728	2,520
Other movements in claims liabilities	41,786	62,181
Gross claims expenses	102,414	114,013
Recoveries revenue	(3,246)	(3,255)
Acquisition costs	11,731	14,097
Movement in unexpired risk liability	104,620	175,967
<b>Net claims expense</b>	<b>215,519</b>	<b>300,822</b>

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

An analysis of the claims expense for HBCF showing separately the amount relating to risks borne in the current period and the amount relating to a reassessment of risks borne in all previous periods is presented below:

	Current Year \$'000	Prior Year \$'000	2020 Total \$'000	2019 Total \$'000
Gross claims incurred & related expenses – undiscounted	153,434	(53,327)	100,107	110,769
Reinsurance & other recoveries – undiscounted	(3,215)	(541)	(3,756)	(2,990)
<b>Net claims incurred – undiscounted</b>	<b>150,219</b>	<b>(53,868)</b>	<b>96,351</b>	<b>107,779</b>
Discount & discount movement – gross claims incurred	(1,100)	3,963	2,863	2,992
Discount & discount movement – reinsurance & other recoveries	28	(74)	(46)	(13)
<b>Net discount movement</b>	<b>(1,072)</b>	<b>3,889</b>	<b>2,817</b>	<b>2,979</b>
<b>Net claims incurred</b>	<b>149,147</b>	<b>(49,979)</b>	<b>99,168</b>	<b>110,758</b>

## 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.

# Notes to the financial statements

for the year ended 30 June 2020

## 2.3. Net Outstanding claims liability (continued)

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 consulting 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.

# Notes to the financial statements

for the year ended 30 June 2020

## 2.3.1 Discounted net outstanding claims (continued)

	2020 \$'000	2019 \$'000
Outstanding claims liabilities		
Expected future gross claims payments	221,316	177,811
Gross claims handling	12,904	13,922
Gross risk margin	35,133	28,192
<b>Gross outstanding claims liabilities</b>	<b>269,353</b>	<b>219,925</b>
Discount on central estimate	(9,921)	(4,867)
Discount on claims handling expenses	(578)	(427)
Discount on risk margin	(1,575)	(865)
<b>Total discount on claims liabilities</b>	<b>(12,074)</b>	<b>(6,159)</b>
<b>Claims liabilities at 30 June</b>	<b>257,279</b>	<b>213,766</b>
Expected future actuarial assessment of other recoveries	(7,191)	(4,408)
Discount to present value other recoveries	333	149
<b>Recoveries 30 June (refer 2.3.10)</b>	<b>(6,858)</b>	<b>(4,259)</b>
<b>Net outstanding claim liabilities</b>	<b>250,421</b>	<b>209,507</b>

The movement in the net claims liabilities (excluding recoveries) at 30 June is shown in the below table:

	2020 \$'000	2019 \$'000
Net carrying amount at start of year	209,507	146,743
Expected claim payments (prior years only)	(58,742)	(35,026)
Unwinding of discounts	1,728	2,520
CHE on expected claims payments (prior year only)	(4,699)	(2,829)
Adjustments arising from change in (prior years only) incl. release of risk margin on claims payments	(27,842)	(18,436)
Net outstanding claims in current year	130,469	116,535
<b>Closing balance</b>	<b>250,421</b>	<b>209,507</b>

- 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.

# Notes to the financial statements

for the year ended 30 June 2020

## 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 (2019: 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 (2019: 75 per cent).

The discounted risk margin on outstanding claims for HBCF was \$33.6 million (2019: \$27.0 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:

	2020	2019
Discount rates		
- Not later than one year	0.18% - 0.28%	1.00%
- Later than one year	0.25% - 4.50%	0.90% - 4.50%
Inflation rates	0.68% - 3.13%	1.05% - 3.13%
Superimposed inflation rates	0.00% - 4.50%	2.25%
Weighted average term to settlement	2.1 years	2.2 years

## Notes to the financial statements

for the year ended 30 June 2020

### 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:

	2020 \$'000	2019 \$'000
<b>Outstanding claims net of recoveries maturing:</b>		
Less than one year	90,422	72,597
1 to 2 years	60,185	50,188
2 to 5 years	76,009	65,461
Over 5 years	23,805	21,261
<b>Total net outstanding claims liability</b>	<b>250,421</b>	<b>209,507</b>

### 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.

# Notes to the financial statements

for the year ended 30 June 2020

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

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

- Post the 30 June 2002 reforms, the private insurance industry exited the market in 2010 and the product became publicly underwritten by HBCF. This makes the building cycle effects on the new publicly underwritten arrangement uncertain as there are questions on the relevance of the past schemes data.
- The future building cycle is uncertain, especially the length and the severity of future economic downturns, and this will impact the emergence of future builder insolvencies and hence future claims costs;
- There is particular uncertainty around how defect claims are likely to emerge and develop, especially in respect to multi-unit covers; and
- The calculation of premiums requires the estimation of future expenses, which are a high proportion of the projected premium, and it is unclear the level of future expenses to be allowed for.

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					
		2020 Change in outstanding claims liability		2020 Change in insurance liability		Net Result *	Lat Deficiency
Variable		\$'000	%	\$'000	%	\$'000	\$'000
Base		250,421		1,219,528			580,072
Inflation rate	+1	5,261	2.1%	59,278	4.9%	(59,278)	634,889
	-1	(5,119)	-2.0%	(55,918)	-4.6%	55,918	530,072
Discount rate	+1	(5,107)	-2.0%	(55,768)	-4.6%	55,768	530,211
	-1	5,356	2.1%	60,328	4.9%	(60,328)	635,844
Largest builder failing		-	-	314,520	25.8%	(314,520)	895,392

\*Note: Net Result includes the estimated impact of a revised Liability Adequacy Test result.

# Notes to the financial statements

for the year ended 30 June 2020

## 2.3.6. Claims development

### Overview

A significant portion of HBCF's liabilities relate to claim liabilities of past years that will be settled in future years.

The following table shows the development of undiscounted outstanding claims relative to the ultimate expected claims for the most recent accident years for HBCF.

Underwriting year	2011 & prior \$'000	2012 \$'000	2013 \$'000	2014 \$'000	2015 \$'000	2016 \$'000	2017 \$'000	2018 \$'000	2019 \$'000	2020 \$'000	Total \$'000
<b>Estimate of ultimate claim cost</b>											
At the end of underwriting year	38,386	66,963	78,338	89,186	98,858	118,917	150,195	178,925	176,967	174,848	
One year later	85,728	77,575	67,677	82,364	88,800	125,694	159,223	190,149	168,113	-	
Two years later	87,257	70,492	72,070	80,577	100,558	132,049	168,601	187,699	-	-	
Three years later	79,862	77,698	70,668	79,353	102,473	141,755	177,027	-	-	-	
Four years later	83,291	74,818	67,071	84,423	113,074	144,287	-	-	-	-	
Five years later	81,403	78,899	67,363	93,011	113,598	-	-	-	-	-	
Six years later	86,724	76,859	68,758	96,370	-	-	-	-	-	-	
Seven year later	90,302	78,332	68,842	-	-	-	-	-	-	-	
Eight years later	85,215	75,493	-	-	-	-	-	-	-	-	
Nine years later	81,202										
Current estimate of cumulative claim costs	81,202	75,493	68,842	96,370	113,598	144,287	177,027	187,699	168,113	174,848	1,287,479
Cumulative net claim payments	70,101	57,100	36,962	38,592	28,524	30,127	26,294	17,811	6,509	611	312,631
Net undiscounted central estimate	11,101	18,393	31,880	57,778	85,074	114,160	150,733	169,888	161,604	174,237	974,848
Effect of discounting	(101)	(218)	(474)	(1,035)	(1,788)	(2,616)	(4,009)	(5,110)	(5,505)	(6,872)	(27,728)
Claims handling expense	700	1,196	2,142	4,038	6,111	8,319	11,129	12,627	12,121	13,278	71,661
Risk margin	1,883	3,247	5,866	11,163	17,010	23,233	31,192	35,465	34,136	37,552	200,747
<b>Total insurance liability at 30 June 2020</b>	<b>13,583</b>	<b>22,618</b>	<b>39,414</b>	<b>71,944</b>	<b>106,407</b>	<b>143,096</b>	<b>189,045</b>	<b>212,870</b>	<b>202,356</b>	<b>218,195</b>	<b>1,219,528</b>
Premium liability											969,107
Outstanding claims liability at 30 June 2020											250,421



# Notes to the financial statements

for the year ended 30 June 2020

## 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 \$580.9 million (2019: \$478.6 million). The deficit, after deducting the opening balance of the unexpired risk liability, is recognised as an expense in the statement of comprehensive income.

	2020 \$'000	2019 \$'000
Unearned premiums	399,966	373,030
Unearned risk liability	569,141	464,521
	<b>969,107</b>	<b>837,551</b>

### 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.

	2020 \$'000	2019 \$'000
As at 1 July	373,030	324,158
Deferral of premiums written in current year	136,480	129,025
Premiums earned during the year	(109,544)	(80,153)
<b>As at 30 June</b>	<b>399,966</b>	<b>373,030</b>

# Notes to the financial statements

for the year ended 30 June 2020

## 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.

	2020 \$'000	2019 \$'000
<b>Unexpired risk liability</b>		
Unexpired risk liability as at 1 July	464,521	288,554
Recognition of additional unexpired risk liability in the year	104,620	175,967
<b>Unexpired risk liability as at 30 June</b>	<b>569,141</b>	<b>464,521</b>
<b>Deficiency recognised in the Statement of Comprehensive Income</b>		
Gross movement in unexpired risk liability	(104,620)	(175,967)
Write down of deferred acquisition costs*	(11,731)	(14,097)
<b>Total deficiency recognised in the Statement of Comprehensive Income</b>	<b>(116,351)</b>	<b>(190,064)</b>
<b>Calculation of deficiency</b>		
Unearned premium liability	399,966	373,030
Acquisition costs*	(11,731)	(14,097)
	<b>388,235</b>	<b>358,933</b>
Central estimate of present value of expected future cash flows arising from future claims	801,024	703,824
Risk Margin (refer 2.3.2)	168,083	133,727
<b>Premium liability provision</b>	<b>969,107</b>	<b>837,551</b>
<b>Net Deficiency</b>	<b>580,872</b>	<b>478,618</b>

\*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 5.6 years (2019: 6.1 years).

# Notes to the financial statements

for the year ended 30 June 2020

## 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.

	2020 \$'000	2019 \$'000
<b>As at 1 July</b>		
Acquisition costs incurred during the year	11,731	14,097
Acquisition costs amortised during the year	-	-
Net deficiency write-down <sup>(1)</sup>	(11,731)	(14,097)
<b>As at 30 June</b>	-	-
<b>Acquisition costs recognised in the Statement of Comprehensive Income comprise:</b>		
Acquisition costs amortised during the year	-	-
Net deficiency write-down <sup>1</sup>	11,731	14,097
	<b>11,731</b>	<b>14,097</b>

<sup>1</sup> Refer to Note 2.3.7 Unearned Premium and Unexpired Risk Liability. Due to the unearned premium liability deficiency as identified by the LAT, deferred acquisition costs are written down.

## 2.3.9. Underwriting and other expenses

### Overview

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

	2020 \$'000	2019 \$'000
Statutory levies paid to State Insurance Regulatory Authority (SIRA) (2.3.9.1)	4,915	4,301
Service fees to icare (2.3.9.2)	11,282	8,240
Software support	-	4
Transformation	166	-
Consultancy & contractors	202	1,255
Audit fees - internal	17	107
Amortisation	794	793
Other	365	11
	<b>17,741</b>	<b>14,711</b>

## Notes to the financial statements

for the year ended 30 June 2020

### 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 \$11.7 million (2019 \$14.1 million) paid by icare has been treated as an acquisition cost rather than as a Service fee expense.

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

Audit fees for the audit of the financial statements were paid by icare in 2020 and are included as part of the service fee. The amount incurred was \$104,000.

# Notes to the financial statements

for the year ended 30 June 2020

## 2.3.10. Trade and other receivables

### Overview

Trade and other receivables are principally amounts owed to HBCF by policyholders. Unclosed premium receivables are estimated amounts due to HBCF in relation to business for which HBCF is on risk but where the policy is not billed to the counterparty at the balance date.

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

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

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

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

	2020 \$'000	2019 \$'000
Premiums receivable	22,706	21,395
Insurance and other recoveries	6,858	4,258
Service fees	-	-
	<b>29,564</b>	<b>25,653</b>

## 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.

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.

	2020 \$'000	2019 \$'000
Insurance duty payable	1,465	1,053
Service fees	1,932	2,006
Accrued expenses	103	1,052
Goods and Services Tax	2,131	1,764
	<b>5,631</b>	<b>5,875</b>

# Notes to the financial statements

for the year ended 30 June 2020

## 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.

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.

# Notes to the financial statements

for the year ended 30 June 2020

## Note 3. Risk Management Overview (continued)

### Financial instrument categories

	Note	Category	2020 Carrying Amount \$'000	2019 Carrying Amount \$'000
<b>Financial Assets</b>				
Cash and cash equivalents	4.1	N/A	456,823	393,761
Receivables <sup>1</sup>	2.3.10	Receivables (measured at amortised cost)	22,706	21,395
<b>Financial Liabilities</b>				
Payables <sup>2</sup>	2.3.11	Payables (measured at amortised cost)	2,035	3,058

Notes:

<sup>1</sup> Excludes statutory receivables

<sup>2</sup> Excludes statutory payables

## 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 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.

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

# Notes to the financial statements

for the year ended 30 June 2020

## 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
<b>2020</b>					
Cash and cash equivalents	456,823	(4,568)	(4,568)	4,568	4,568
<b>2019</b>					
Cash and cash equivalents	393,761	(3,938)	(3,938)	3,938	3,938

## 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.



# Notes to the financial statements

for the year ended 30 June 2020

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
%								
2020								
Payables	-	2,035	-	-	2,035	2,035	-	-
2019								
Payables	-	3,058	-	-	3,058	3,058	-	-

## 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.

### 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.

# Notes to the financial statements

for the year ended 30 June 2020

## 3.5. Credit risk (continued)

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

	Total \$'000	Past due but not impaired \$'000			Considered Impaired \$'000
		< 3 months overdue	3-6 months overdue	> 6 months overdue	
<b>2020</b>					
Receivables	5,153	4,166	402	585	-
<b>2019</b>					
Receivables	8,533	7,653	463	417	-

### 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
<b>2020</b>									
Receivables	-	-	-	-	-	-	-	22,706	22,706
<b>2019</b>									
Receivables	-	-	-	-	-	-	-	21,395	21,395

By classification of counterparty	Governments \$'000	Commercial insurer \$'000	Other \$'000	Total \$'000
<b>2020</b>				
Receivables	-	-	22,706	22,706
<b>2019</b>				
Receivables	-	-	21,395	21,395

During the year there were no defaults on receivables. HBCF's exposure to credit risk is deemed insignificant due to there being no requirement, to date, to write off bad debts.

# Notes to the financial statements

for the year ended 30 June 2020

## 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:

	2020 \$'000	2019 \$'000
Cash and cash equivalents (per statement of financial position)	456,823	393,761
Closing cash and cash equivalents (per statement of cash flows)	456,823	393,761
<b>Reconciliation of net cash flows from operating activities to net result for the period</b>		
<b>Net cash flows from operating activities</b>	<b>63,062</b>	<b>94,528</b>
Adjustments for:		
Amortisation	(794)	(793)
(Decrease)/Increase in receivables	3,910	(8,177)
Decrease/(Increase) in unearned premiums	(26,935)	(48,872)
Decrease/(Increase) in payables	245	2,388
Decrease/(Increase) in outstanding claims	(43,514)	(64,702)
Decrease/(Increase) in unexpired risk liability	(104,620)	(175,967)
<b>Net result for the year</b>	<b>(108,646)</b>	<b>(201,595)</b>

# Notes to the financial statements

for the year ended 30 June 2020

## 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.

	2020 \$'000	2019 \$'000
Gross carrying amount	3,968	3,968
Accumulated amortisation and impairment	(3,902)	(3,108)
<b>Net carrying amount at end of year</b>	<b>66</b>	<b>860</b>
<b>Reconciliation</b>		
A reconciliation of the carrying amount of intangible assets at the beginning and end of the reporting periods is set out below.		
<b>Year ended 30 June</b>		
Net carrying amount at start of year	860	1,653
Additions	-	-
Amortisation expense	(794)	(793)
<b>Net carrying amount at end of year</b>	<b>66</b>	<b>860</b>

# Notes to the financial statements

for the year ended 30 June 2020

## 4.3. Funding Accumulated deficit

### Overview

The accounts are prepared on a going concern basis specific to HBCF on the following grounds.

During the 2016/17 year the NSW Government approved a set of administrative reforms in respect of home warranty insurance in NSW under which HBCF can apply to the State Insurance Regulatory Authority to approve future risk-based premium rates intended to achieve full cost recovery

HBCF adjusted the premiums it charges on residential construction types excluding multi-unit dwellings effective 2 October 2018 with the intention of covering the losses and expenses associated with these policies. This effectively created two portfolios for HBCF:

- A portfolio of premiums issued prior to 1 July 2018 that were substantially underfunded. This has led to the current accumulated deficit. This is referred to as the pre reform portfolio. In 2019-20 the NSW Government approved a long term funding arrangement for the pre-reform HBCF portfolio. Under this arrangement NSW Treasury will fund in arrears the actual cash losses incurred by the pre reform portfolio until no further funding of these losses is required. The accumulated deficit in HBCF is largely due to the pre reform portfolio.
- Premiums issued after 1 July 2018 under the new pricing arrangements are expected to be self-sustaining. This excludes premiums for multi-unit dwellings icare has staged the approved price increases for multi-unit dwellings in tranches through to 2020/21 in conjunction with SIRA. While the delay in the rate increase has increased the net deficit of HBCF, it is expected that the rate increase will make the entire portfolio post 1 July 2018 self-sustaining and erode any associated accumulated deficit.

HBCF has also been approved to change its investment strategy which is expected to assist in eroding the overall deficit of the scheme. Please also refer to note 4.4 on the changes to HBCF's investment effective for the 2020/21 financial year.

## 4.4. Post balance day events

The icare Board has undertaken a review of the HBCF investment strategy which is 100% cash as at 30 June 2020. A recommendation was proposed to the Treasurer and endorsed by the NSW Treasury Asset & Liability Committee, that the investment strategy be revised to invest in the TCorpIM Medium Term Growth Fund. The Treasurer approved the change in strategy and the investment was made in July 2020.

**END OF AUDITED FINANCIAL STATEMENTS**

icare

Dust Diseases Care

Lifetime Care

Insurance for NSW

HBCF

● **Workers Insurance**

Sporting Injuries  
Insurance

BIG Corp

# Workers Insurance

# Workers Insurance Financial statements

for the year ended 30 June 2020

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Actuarial and Insurance Consultants

## Actuarial Certificate Outstanding Claims Liabilities at 30 June 2020

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 2020.

### 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.

Our estimates include allowances for the expected impacts of the COVID-19 pandemic and associated economic disruption. These allowances were set based on the situation as at the time of our work (June 2020), and implicitly assume NSW avoids a 'second wave' of infections and that there are no further economic shutdowns or major impacts on business confidence.

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 15.6%. 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 2020**

	\$m
<b>Central Estimate</b>	
Gross	15,530
Recoveries	(273)
Net Central Estimate	<u>15,256</u>
<b>Risk Margin</b>	2,380
<b>Provision</b>	<u><b>17,636</b></u>

It is a decision for icare to determine the amount adopted in the accounts.

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## Uncertainty

There is considerable uncertainty in the projected outcomes of future claims costs, particularly for long tail claims, where payments are expected to occur many decades into the future; it is not possible to value or project long tail claims with certainty.

The uncertainty at this valuation is heightened by the impact of COVID-19 and the associated shutdowns. While we have made allowances that we consider to be reasonable, it is impossible to estimate the impact of COVID-19 on the Nominal Insurers' liabilities with any level of certainty at the current time. The actual impacts of COVID-19 may be materially different from what we have assumed.

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 2020 – NSW Nominal Insurer", dated 11 September 2020.

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

Yours sincerely



Scott Collings



Francis Beens

**Fellows of the Institute of Actuaries of Australia**

11 September 2020

## Statement by the chairman and chief executive officer

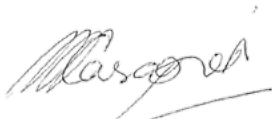
for the year ended 30 June 2020

### **NSW Workers Insurance Scheme Financial Statements for the year ended 30 June 2020**


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 2020 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**  
**25 September 2020**



**Don Ferguson**  
**A/Chief Executive Officer and**  
**Managing Director**  
**NSW Workers Insurance Scheme and Insurance and Care**  
**NSW**  
**25 September 2020**



## 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 2020, the statement of financial position as at 30 June 2020, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements comprising the Basis of preparation 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 2020, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards, and
- 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 (including Independence Standards)' (APES 110).

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

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

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

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

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## Key Audit Matters

Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the financial statements for the year ended 30 June 2020. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, I do not provide a separate opinion on these matters.

Key Audit Matter	How my audit addressed the matter
<p><b>Valuation of outstanding claims liability</b></p> <p>At 30 June 2020, the Scheme recorded an outstanding claims liability balance of \$18.0 billion. The valuation of the outstanding claims liability involves significant judgement in determining the timing and value of expected future payments for claims incurred and related costs to settle the claims. In determining the valuation of the liabilities, the Scheme engages actuarial specialists to model and develop assumptions to estimate the outstanding claims liability.</p> <p>Valuation judgements at 30 June 2020 were impacted by the COVID-19 pandemic and government responses to the pandemic. As the impact of the COVID-19 pandemic continues, there is heightened uncertainty with the financial outlook. This includes factors such as employment and salary levels, continued government financial support, access to medical services, further government restrictions, the severity and duration of the economic recession and volatility in the investment markets.</p> <p>I considered this to be a key audit matter because of the:</p> <ul style="list-style-type: none"> <li>• financial significance of the outstanding claims liability</li> <li>• degree of judgement in developing assumptions and the complexity of valuation models. The key inputs and judgements involved in estimating the outstanding claim liability include: <ul style="list-style-type: none"> <li>– discount rates</li> <li>– assumed rates of inflation</li> <li>– assumptions as to the timing of reported claim payments</li> <li>– assumptions over the number and size of claims incurred but not reported including the impacts of claims related to COVID-19 for which there is a lack of experience</li> <li>– assumptions over the future costs of claims handling expenses</li> <li>– allowance for risk in estimating future cash flows through the inclusion of a risk margin.</li> </ul> </li> </ul> <p>The level of judgement means that the valuation of the outstanding claims liability may change significantly and unexpectedly due to changes in assumptions.</p> <p>Details on the valuation techniques, inputs and assumptions are disclosed in Note 2.3.</p>	<p>Key audit procedures included the following:</p> <ul style="list-style-type: none"> <li>• with the assistance of an actuarial specialist: <ul style="list-style-type: none"> <li>– evaluated the competence, capabilities and objectivity of the Scheme's actuary</li> <li>– gained an understanding of the work of the Scheme's actuary and evaluated the appropriateness of their work, including their models</li> <li>– assessed the valuation methods and approach used by the Scheme's actuary against the requirements of accounting standards and consistency with industry practice and the underlying claims exposure</li> <li>– assessed the assumption setting process, including data on the Scheme's obligations to policyholders/beneficiaries and claims payment information used as inputs into the valuation models</li> <li>– reviewed the results of the experience investigations carried out by the Scheme's actuary, to determine how they inform the key assumptions adopted</li> <li>– evaluated the judgements made by the Scheme's actuary in assessing the impact of the COVID-19 pandemic on the assumptions adopted to determine the outstanding claims liabilities and the risk margin applied in response to the heightened estimation uncertainty</li> <li>– performed an overall assessment of the valuation methodology, key assumptions and models used to derive the valuation of the outstanding claims liabilities</li> </ul> </li> <li>• assessed the adequacy of the related financial statement disclosures against the requirements of applicable Australian Accounting Standards.</li> </ul>

Key Audit Matter	How my audit addressed the matter
<b>Valuation of investments</b>	
<p>At 30 June 2020, the Scheme held investments of \$1.9 billion classified as Level 3 assets within the fair value hierarchy under Australian Accounting Standards (i.e. where significant unobservable inputs are used in the valuation). These investments include:</p> <ul style="list-style-type: none"> <li>• unlisted wholesale property trusts</li> <li>• unlisted infrastructure trusts</li> <li>• private infrastructure debt.</li> </ul> <p>Level 3 assets require judgment to be applied in determining their fair value, as the valuation inputs for these assets are not based on observable market transactions or other readily available market data. The valuation of Level 3 assets has a greater degree of uncertainty and subjectivity as there are alternative assumptions and valuation methods that may result in a range of values.</p> <p>Valuation judgements at 30 June 2020 were impacted by uncertainty arising from the COVID-19 pandemic, the severity and duration of economic recession, the volatility in the investment markets and the response of governments to it. This resulted in a wider range of possible values than in previous valuations.</p> <p>Management of the Scheme exercised judgement to arrive at their best estimates of fair value of these assets. There is complexity in this process, as well as uncertainty associated with the valuation and modelling methodologies and the assumptions adopted.</p> <p>I considered this to be a key audit matter because of the:</p> <ul style="list-style-type: none"> <li>• value of the investments balance relative to total assets</li> <li>• degree of judgement and estimation uncertainty associated with the valuation.</li> </ul> <p>The level of judgement means that Level 3 asset values may change significantly and unexpectedly due to changes in assumptions.</p> <p>Details on the valuation techniques, inputs and assumptions are disclosed in Note 3.3.</p>	<p>Key audit procedures included the following:</p> <ul style="list-style-type: none"> <li>• obtained, for a sample of unit trust investments, the valuation statements provided by external investments managers and assessed the reliability of the information received including the: <ul style="list-style-type: none"> <li>– capabilities and objectivity of the investment manager</li> <li>– frequency of pricing and liquidity of the units of the trust</li> </ul> </li> <li>• assessed, for a sample of infrastructure debt investments, the Scheme's valuation and modelling methodologies and the key judgmental inputs used in the year-end valuations, including the discount rate and the terminal value, as applicable</li> <li>• assessed the methodology used by the external investment manager to adjust, where appropriate, for the impact of the COVID-19 pandemic on the investment valuation and their analysis of the sensitivity of the assumptions used</li> <li>• tested the mathematical accuracy of the valuation models and checked for consistency with the Scheme's documented methodology and assumptions</li> <li>• assessed the adequacy of the related financial statement disclosures against the requirements of applicable Australian Accounting Standards.</li> </ul>

Key Audit Matter	How my audit addressed the matter
<b>Operation of information technology (IT) systems and controls</b>	
<p>The financial reporting process is highly dependent on the recording and retention of financially relevant data in administration systems, the complete and accurate transfer of such data to financial reporting systems, and the correct embedding of accounting rules and controls in both financial reporting and administration systems.</p> <p>I considered this to be a key audit matter because of the volume of transactions processed through IT systems and the reliance on IT related controls for the purposes of financial reporting.</p>	<p>My approach is tailored based on the financial significance of the systems and whether there were automated processes supported by the systems. With the assistance of information technology audit specialists, key audit procedures included the following:</p> <ul style="list-style-type: none"> <li>assessed the controls: <ul style="list-style-type: none"> <li>relating to access to systems and data, as well as programme changes to systems relevant to financial reporting</li> <li>in place to address the risk of unauthorised or erroneous changes being made to the system and data</li> <li>in place to ensure transactions are recorded consistently with relevant accounting rules</li> </ul> </li> <li>reviewed system and organisation control (SOC) reports from the third party's auditor on the design and operating effectiveness of controls, where technology services are provided by a third party</li> <li>performed procedures to test the information produced from affected systems in response to any identified control design or effectiveness exceptions.</li> </ul>
<b>Outsourced claims activities</b>	
<p>For the year ended 30 June 2020, the Scheme outsourced a substantial component of the end to end claims management and payment process to external Scheme Agents.</p> <p>Scheme Agents manage and process a significant portion of the Scheme's claims, including retaining the historical claim data provided to the Scheme's actuary for the valuation of the outstanding claim liability.</p> <p>Scheme Agents provide monthly and annual returns which form the basis of accounting entries in the Scheme's financial reporting systems. They also provide a service organisation controls report where they respond to risks and control objectives provided by icare management on behalf of the Scheme.</p> <p>I considered this to be a key audit matter because the Scheme Agent's control environment is responsible for a material component of the reported claims expense and the policyholder data used in the calculation of the Scheme's outstanding claim liability.</p>	<p>Key audit procedures included the following:</p> <ul style="list-style-type: none"> <li>tested the reconciliation of the annual Scheme Agent returns to the Scheme's financial reporting systems at 30 June 2020</li> <li>with reference to Australian Auditing Standard ASA 402 <i>Auditing Considerations Relating to an Entity Using a Service Organisation</i>: <ul style="list-style-type: none"> <li>obtained an understanding of the services provided by the Scheme Agents and the internal controls relevant to the Scheme's financial statements</li> <li>tested key controls over financial reporting within the Scheme Agents' control environment</li> <li>tested the completeness of the Scheme Agent claim data and vouched a sample of key claim fields to supporting evidence</li> <li>tested the reconciliation between the cost of claims on the annual return to the claim information submitted to the claim database for use by the Scheme's actuary.</li> </ul> </li> </ul>

## Other Information

The Scheme's annual report for the year ended 30 June 2020 includes other information in addition to the financial statements and my Independent Auditor's Report thereon. The Board of Directors of Insurance and Care NSW (icare), acting for the Scheme are responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprise the Statement by the Chairman and Chief Executive Officer.

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

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

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

I have nothing to report in this regard.

## The Board's Responsibilities for the Financial Statements

The Board of Directors of Insurance and Care NSW, acting for the Scheme are responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards and the PF&A Act, and for such internal control as the Board of Directors determine is necessary to enable the preparation and fair presentation of 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.

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

My objectives are to:

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

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

A description of my responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at: [www.auasb.gov.au/auditors\\_responsibilities/ar6.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar6.pdf). The description forms part of my auditor's report.

The scope of my audit does not include, nor provide assurance:

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

A handwritten signature in dark ink, appearing to read 'D Daniels'.

David Daniels  
Director, Financial Audit

Delegate of the Auditor-General for New South Wales

1 October 2020  
SYDNEY



# Statement of comprehensive income

for the year ended 30 June 2020

	Notes	2020 \$'000	2019 \$'000
Gross Written Premium		2,727,790	2,586,019
Unearned premium movement		13,967	(64,890)
Gross earned premium		2,741,757	2,521,129
Hindsight adjustments		64,088	18,257
Net Earned premiums (a)	2.1	2,805,845	2,539,386
Gross Claims expense		(3,977,404)	(4,064,971)
Recoveries		69,731	70,526
Unexpired risk liability	2.4	(79,322)	(69,318)
Net claims expense (b)	2.2	(3,986,995)	(4,063,763)
Underwriting and other expenses (c)	2.5	(1,013,699)	(866,560)
<b>Underwriting result (a+b+c)</b>		<b>(2,194,849)</b>	<b>(2,390,937)</b>
Investment income		423,270	1,663,034
Investment management expense		(22,631)	(16,016)
Net investment revenue	3.1	400,639	1,647,018
Transformation, transition and continuous improvement expenses	2.5	(132,446)	(158,596)
Other income		32,281	26,779
<b>Net Result</b>		<b>(1,894,375)</b>	<b>(875,736)</b>
<b>Other Comprehensive Income</b>			
Items that will not be reclassified to net result		-	-
Items that may be reclassified to net result		-	-
<b>Total Comprehensive Income</b>		<b>(1,894,375)</b>	<b>(875,736)</b>

The accompanying notes form part of these financial statements.

# Statement of financial position

as at 30 June 2020

	Notes	2020 \$'000	2019 \$'000
<b>Assets</b>			
Cash and cash equivalents	5.1	377,130	340,043
Investments	3.2	17,195,746	17,657,463
Trade and other receivables	2.6	1,073,760	830,500
Recoveries receivable	2.3.1	315,780	311,103
Prepayments and other assets		57,880	65,095
Intangible assets	5.2	134,413	128,663
Right of use assets	5.5	41,010	-
<b>Total assets</b>		<b>19,195,719</b>	<b>19,332,867</b>
<b>Liabilities</b>			
Bank overdraft	5.1	5,119	7,598
Investment liabilities	3.2	405,842	238,133
Trade and other payables	2.7	191,453	192,412
Unearned premiums	2.4	541,622	555,589
Outstanding claims	2.3.1	17,973,134	16,502,677
Unexpired risk liability	2.4	266,577	187,255
Security deposits	5.4	79,506	71,002
Lease liabilities	5.5	48,640	-
<b>Total liabilities</b>		<b>19,511,893</b>	<b>17,754,666</b>
<b>Net assets</b>		<b>(316,174)</b>	<b>1,578,201</b>
<b>Equity</b>			
<b>Accumulated funds</b>		<b>(316,174)</b>	<b>1,578,201</b>

The accompanying notes form part of these financial statements

# Statement of changes in equity

for the year ended 30 June 2020

	2020 \$'000	2019 \$'000
<b>Accumulated funds</b>		
Balance at the beginning of financial year (1 July)	1,578,201	2,453,937
Net Result for the year	(1,894,375)	(875,736)
Other Comprehensive Income	-	-
<b>Total Comprehensive Income</b>	<b>(1,894,375)</b>	<b>(875,736)</b>
Transactions with owners in their capacity as owners	-	-
<b>Balance at the end of the financial year (30 June)</b>	<b>(316,174)</b>	<b>1,578,201</b>

The accompanying notes form part of these financial statements.

# Statement of cash flows

for the year ended 30 June 2020

	Notes	2020 \$'000	2019 \$'000
<b>Cash flows from operating activities</b>			
Premiums received		2,675,114	2,507,691
Recoveries received		65,287	72,364
Claims paid		(2,507,218)	(2,192,994)
<b>Total Premiums/Recoveries less claims</b>		<b>233,183</b>	<b>387,061</b>
<b>Receipts</b>			
Proceeds from sale of investments		920,547	800,618
Investment returns received		1,477	4,516
Security deposits received		16,501	5,508
Other receipts		29,316	25,157
<b>Total Receipts</b>		<b>967,841</b>	<b>835,799</b>
<b>Payments</b>			
Payments for investments		-	(2,918)
Security deposits paid		-	(9,516)
Service fees		(493,230)	(412,746)
Statutory levies paid		(297,295)	(302,139)
Other payments		(333,606)	(276,412)
<b>Total Payments</b>		<b>(1,124,131)</b>	<b>(1,003,731)</b>
<b>Net cash flows from operating activities</b>	5.1	<b>76,893</b>	<b>219,129</b>
<b>Cash flows from Investing activities</b>			
Purchases of intangible assets		(37,327)	(62,448)
<b>Net cash flows from investing activities</b>		<b>(37,327)</b>	<b>(62,448)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>39,566</b>	<b>156,681</b>
Cash and cash equivalents at the beginning of the financial year		332,445	175,764
<b>Cash and cash equivalents at the end of the financial year</b>	5.1	<b>372,011</b>	<b>332,445</b>

The accompanying notes form part of these financial statements.

# Notes to the financial statements

for the year ended 30 June 2020

## 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 which 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 have not been normalised for the impact of COVID-19.

The financial statements for the year ended 30 June 2020 have been authorised for issue by the Chairman of the Board of icare and the Acting Chief Executive Officer and Managing Director of the Scheme on behalf of the Board of Directors of icare on 25 September 2020.

# Notes to the financial statements

for the year ended 30 June 2020

## 1.2. About this report

This Financial Report includes the consolidated financial statements of the Scheme and controlled subsidiaries.

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

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

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).

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

# Notes to the financial statements

for the year ended 30 June 2020

## 1.2.2. Going concern basis

These financial statements have been prepared on a going concern basis. Despite the accumulated deficit, the Scheme can pay its known debts as and when they fall due. Refer to Note 6 for more information on the Scheme's Target Operating Zone for capital management.

## 1.2.3. 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.

## 1.2.4. Use of estimates and judgements

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

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

## 1.2.5. Taxation

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the Statement of Financial Position.

Cash flows are presented on a gross basis in the statement of cash flows.

The Australian Taxation Office has issued Private Rulings that the income of the Workers Compensation Nominal Insurer is not assessable income and that the Workers Compensation Insurance Fund is exempt from income tax from when these entities were established in 2005 to June 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.

## 1.2.6. Comparative information

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

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

# Notes to the financial statements

for the year ended 30 June 2020

## 1.2.7. Accounting Standards issued but not yet effective

Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the reporting year ending 30 June 2020. The following are new Australian Accounting Standards or amendments which have been issued but are not yet effective and are not expected to have a material impact on the financial performance or position of the Scheme:

- AASB 1059 *Service Concession Arrangements: Grantors*
- AASB 2018-5 *Amendments to Australian Accounting Standards – Deferral of AASB 1059*
- AASB 2018-6 *Amendments to Australian Accounting Standards – Definition of a Business*
- AASB 2018-7 *Amendments to Australian Accounting Standards – Definition of Material*
- AASB 2019-1 *Amendments to Australian Accounting Standards – References to the Conceptual Framework*
- AASB 2019-2 *Amendments to Australian Accounting Standards – Implementation of AASB 1059*
- AASB 2019-3 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform*

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 2022.

The Scheme applied AASB 15 *Revenue from Contracts with Customers*, AASB 1058 *Income of Not-for-Profit Entities*, and AASB 16 *Leases* for the first time in 2019-20. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

Several other amendments and interpretations apply for the first time in FY2019-20, but do not have an impact on the financial statements of the Scheme.

- AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of Not-for-Profits*
  - AASB 15 *Revenue from Contracts with Customers* (AASB 15) supersedes AASB 111 *Construction Contracts*, AASB 118 *Revenue* and related interpretations. It applies, with limited exceptions, to all revenue arising from contracts with customers. 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.
  - AASB 1058 *Income of Not-for-Profits* (AASB 1058) replaces 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 needs 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).
  - 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.



# Notes to the financial statements

for the year ended 30 June 2020

## 1.2.7. Accounting Standards issued but not yet effective (continued)

- The Scheme adopted AASB 15 and AASB 1058 from 1 July 2019 through application of the full retrospective transition approach. Recognition and measurement principles of the new standards were applied for the current year and comparative year as though AASB 15 and AASB 1058 had always applied.

The adoption of AASB 15 and AASB 1058 did not have any impact on the Statement of Comprehensive Income, Statement of Financial Position, Other Comprehensive Income and the Statement of Cash Flows for the financial year.

- AASB 16 *Leases*
  - AASB 16 supersedes AASB 117 *Leases*, Interpretation 4 *Determining whether an Arrangement contains a Lease*, Interpretation 115 *Operating Leases – Incentives and Interpretation 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the Statement of Financial Position.
  - For lessees, AASB 16 results in most leases being recognised on the Statement of Financial Position, as the distinction between operating and finance leases is largely removed. Under AASB 16 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 therefore increased assets and liabilities reported on the Statement of Financial Position. It also increased depreciation and interest expenses and reduced operating lease rental expenses on the Statement of Comprehensive Income.

- The Scheme adopted 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.
- Further details of the impact on the Scheme of AASB 16 can be found in Notes 2.5 and 5.5.

## 1.2.8. Coronavirus (COVID-19) pandemic

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

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

### Accounting Estimates and judgement:

The ongoing COVID-19 pandemic has increased the estimation uncertainty in the preparation of these financial statements. The scheme has developed various accounting estimates in these financial statements based on forecasts of economic conditions which reflect expectations and assumptions as at 30 June 2020 about future events that we believe are reasonable in the circumstances. There is a considerable degree of judgement involved in preparing these forecasts. The underlying assumptions are also subject to uncertainties which are often outside the control of the scheme. Accordingly, actual economic conditions may be different from those forecast since anticipated events may not occur as expected, and the effect of those differences may significantly impact accounting estimates included in these financial statements.

# Notes to the financial statements

for the year ended 30 June 2020

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

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

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

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

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

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

- Expected credit losses

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

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

## Risk Management

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

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

# Notes to the financial statements

for the year ended 30 June 2020

## 2. Underwriting activities

### Overview

This section provides analysis and commentary on the Scheme's underwriting activities. Underwriting, in simple terms, is the agreement by the insurer to assume insurance risk in return for a premium paid by the insured. The underwriter assesses the quality of the risk and prices it accordingly.

### 2.1. Revenue

Revenue mainly comprises premiums charged for providing insurance coverage. Premiums are classified as either:

- Written premium relates to amounts charged to policy holders on premiums written in the current financial year. Closed business relates to premium actually written issued and booked.
- Premiums received and receivable 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 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.

	2020 \$'000	2019 \$'000
Written premium on closed business	2,631,131	2,558,363
Written premium on unclosed business	96,659	27,653
Gross written premium	2,727,790	2,586,016
Hindsight adjustments	64,088	18,257
Unearned premium movement	13,967	(64,890)
Net earned premium	2,805,845	2,539,383

# Notes to the financial statements

for the year ended 30 June 2020

## 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;
- the amount, which the reserving actuary has estimated as at 30 June 2020 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),

Recoveries relate principally to amounts that the valuation 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.

	2020 \$'000	2019 \$'000
Claims and related expenses	2,506,947	2,199,164
Finance costs	139,474	241,931
Other movements in claims liabilities	1,330,983	1,623,876
Gross claims expense	3,977,404	4,064,971
Recoveries revenue	(69,731)	(70,526)
Net claims incurred	3,907,673	3,994,449
Movement in unexpired risk liability	79,322	69,318
<b>Net claims expense</b>	<b>3,986,995</b>	<b>4,063,763</b>
<b>Analysed as follows:</b>		
Movement in net discounted central estimate gross claims	3,705,293	3,763,142
Movement in net discounted claims handling expenses	14,495	57,052
Movement in net discounted risk margin	257,616	244,777
Recoveries	(69,731)	(70,526)
Movement in unexpired risk liability	79,322	69,318
<b>Net claims expense</b>	<b>3,986,995</b>	<b>4,063,763</b>

# Notes to the financial statements

for the year ended 30 June 2020

## 2.2 Net Claims expense (continued)

	Current accident year \$M	Prior accident year \$M	2020 Total \$M	2019 Total \$M
Gross claims incurred & related expenses – undiscounted	4,106	(387)	3,719	2,162
Other recoveries – undiscounted	(72)	9	(63)	(56)
<b>Net claims incurred – undiscounted</b>	<b>4,034</b>	<b>(378)</b>	<b>3,656</b>	<b>2,106</b>
Discount & discount movement – gross claims incurred	(401)	659	258	1,901
Discount & discount movement – other recoveries	2	(9)	(7)	(14)
<b>Net discount movement</b>	<b>(399)</b>	<b>650</b>	<b>251</b>	<b>1,887</b>
<b>Net claims incurred</b>	<b>3,635</b>	<b>272</b>	<b>3,907</b>	<b>3,993</b>

## 2.3. Net Outstanding claims liability

### Overview

The net outstanding claims liability comprises the elements described below:

- The net central estimate (note 2.3.1) This is the provision for expected future claims payments and includes claims reported but not yet paid, claims incurred but which have not yet been reported (IBNR), claims incurred but not enough reported (known as IBNER) and estimated claims handling costs;
- Less an amount to reflect the discount to present value using risk-free rates of return. The net central estimate is discounted to present value recognising that the claim and/or recovery may not be settled for some time. The discount rate represents a risk-free rate derived from market yields on Commonwealth government bonds; and
- Plus a risk margin (note 2.3.2). A risk margin is added to reflect the inherent uncertainty in the net discounted central estimate of outstanding claims and increase the probability that the reserves will ultimately turn out to be adequate.

The *Workers Compensation Legislation Amendment Act 2012* has resulted in claim payments being closely aligned to the pre-injury average weekly earnings of injured workers. Projected inflation factors take into account a number of relevant factors determined by the actuaries relating to future claims levels. The expected future payments are then discounted to a value at the end of the reporting period using rates of interest, which use appropriate risk-free discount rates, consistent with Australian Accounting Standard AASB 1023 *General Insurance Contracts*. Details of inflation and discount rates applied are included in Note 2.3.3.

## Notes to the financial statements

for the year ended 30 June 2020

### 2.3 Net Outstanding claims liability (continued)

The determination of the amounts that the Scheme will ultimately pay for claims arising under insurance contracts involves a number of critical assumptions. Whilst the 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:

- The Workers Compensation Act underwent significant reforms in 2012, and again in 2015. The reforms changed some benefits and made the degree of whole person impairment of an injured worker a key determinant of entitlement to ongoing benefits. These changes limit the relevance of historical data in guiding the selection of assumptions in the valuation.
- Changes in claimant behaviour, particularly in relation to the lodgement of lump sum claims, have altered the observed pattern of claim data and added further to the uncertainty inherent in valuation assumptions.
- Average Medical payment amounts, including attendant care rates for the most severe claims, have grown strongly in recent periods. The outstanding claims liability valuation has made some further allowance for this medical inflation but there remains considerable uncertainty around the future experience.
- The implementation of the new claims service model in 2018 has made the claims experience for the more recent accident years more complex to interpret.
- The proportion of eligible claimants that pursue a common law action has varied historically and the future experience is uncertain.
- Due to the long tail nature of many of the benefits payable, changes in future inflation and discount rate assumptions can have a significant effect on the liability.
- The COVID-19 pandemic creates uncertainty around the number of claims, the return to work prospects of new and existing claims, and has created additional uncertainty for future inflation rates. The unknown duration and severity of the pandemic and its impacts, including the potential for a “second wave”, adds further uncertainty.

# Notes to the financial statements

for the year ended 30 June 2020

## 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 recognise the ultimate expense of managing outstanding claims until they are finalised and closed. The percentage for claims handling expenses is 7.5 per cent. (2019 8.2 per cent).

	2020 \$'000	2019 \$'000
<b>Claims liabilities</b>		
Expected future gross claims payments	17,771,402	17,429,929
Gross claims handling	1,231,340	1,308,210
Gross risk margin	2,961,152	2,829,459
Gross outstanding claims liabilities	21,963,894	21,567,598
Discount on central estimate	(3,314,992)	(4,171,865)
Discount on claims handling expenses	(137,223)	(228,588)
Discount on risk margin	(538,545)	(664,468)
Total discount on claims liabilities	(3,990,760)	(5,064,921)
<b>Claims liabilities 30 June</b>	<b>17,973,134</b>	<b>16,502,677</b>
<b>Recoveries</b>		
Expected future actuarial assessment of recoveries	343,980	344,326
Discount to present value	(28,200)	(33,223)
Discounted actuarial assessment of recoveries	<b>315,780</b>	<b>311,103</b>
<b>Net outstanding claims</b>	<b>17,657,354</b>	<b>16,191,574</b>

# Notes to the financial statements

for the year ended 30 June 2020

## 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

	2020 \$'000	2019 \$'000
<b>Net claims liabilities</b>		
Opening balance	16,191,574	14,324,111
Discount unwind	139,474	241,931
Expected claim payments (prior years only)	(1,787,293)	(1,520,538)
CHE on expected claim payments (prior years only)	(231,798)	(138,748)
Release of Risk Margin on claim payments (prior years only)	(304,883)	(250,552)
Adjustment arising from change in (prior years only):		
- Actuarial assumptions*	380,731	(223,938)
- COVID-19	169,402	-
- Discount/inflation rates	(14,940)	947,230
- Risk margins	(62,505)	-
- PIAWE remediation allowance	21,000	-
Net outstanding claims in current year	3,156,592	2,812,078
<b>Net outstanding claims</b>	<b>17,657,354</b>	<b>16,191,574</b>
Breakdown of Actuarial assumptions*	<b>380,731</b>	<b>(223,938)</b>
Actual vs Expected Payments	(167,994)	(167,063)
Change in experience	284,540	367,302
Change in actuarial assumptions	329,519	(281,339)
Change in CHE	(65,334)	(142,838)

The PIAWE remediation allowance includes the current best estimate of the cost of the remediation program covering both potential underpayments and the cost of the program itself. This needs to be read in conjunction with Note 5.6.



# Notes to the financial statements

for the year ended 30 June 2020

## 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, an 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 2020 is 80 per cent (2019 80 per cent). The reserving actuary has assessed this requires a risk margin of 15.6 per cent (2019 15.1 per cent) or a discounted \$2.4 billion (2019 \$2.2 billion).

In arriving at this decision on the probability of adequacy required, the legislative provisions to set and retrospectively adjust premiums, and employers being required to fund any deficit as part of future premiums were taken into account.

## 2.3.3. Economic assumptions

### Overview

Two of the core variables that drive the Schemes liabilities are the inflation rate for benefits and the discount rate applied to the liabilities to reflect the earnings on Scheme investments. Income support benefits to injured workers are indexed half yearly while other payments such as medical costs are considered to increase at least in line with inflation.

Income support benefits are based on workers average weekly earnings. For claims incurred prior to 1 October 2012 income support benefits are indexed to the Labour Price Index (LPI), while claims incurred after that date are indexed to the Consumer Price Index (CPI). Other Scheme costs continue to align with movements in the LPI.

# Notes to the financial statements

for the year ended 30 June 2020

## 2.3.3. Economic assumptions (continued)

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

	2020 %p.a.	2019 %p.a.
<b>For the first succeeding year</b>		
Inflation rate		
LPI	1.05	2.33
CPI	0.83	1.83
Discount rate	0.23	1.00
<b>For subsequent years</b>		
Inflation rate		
LPI	0.50-3.00	0.80-3.00
CPI	0.54-2.20	0.30-2.30
Discount rate	0.25-4.50	0.89-4.50

The weighted average discounted expected term from the balance date to settlement of the outstanding claims is estimated to be 8.78 years (2019: 8.9 years).

## 2.3.4. Claims liability maturity

### Overview

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

	2020 \$'000	2019 \$'000
<b>Outstanding claims net of recoveries maturing:</b>		
Within 1 year	2,738,721	2,294,876
2 to 5 years	6,341,155	5,500,159
More than 5 years	8,577,478	8,396,539
	<b>17,657,354</b>	<b>16,191,574</b>

# Notes to the financial statements

for the year ended 30 June 2020

## 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 valuation 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 %	2020 Impact on All Durations		2020 Impact with fixed gap beyond 10 years		2019 Impact with fixed gap beyond 10 years	
		Profit/(Loss) \$'000	Liabilities \$'000	Profit/(Loss) \$'000	Liabilities \$'000	Profit/(Loss) \$'000	Liabilities \$M
Inflation	+1	(1,694,388)	1,694,388	(801,304)	801,304	(752,624)	752,624
Rate	-1	1,399,291	(1,399,291)	761,046	(761,046)	714,630	(714,630)
Discount	+1	1,381,008	(1,381,008)	745,033	(745,033)	703,707	(703,707)
Rate	-1	(1,698,989)	1,698,989	(799,890)	799,890	(755,597)	755,597

## 2.3.6. Claims development

### Overview

The Scheme provides ongoing income support benefits to injured workers who are unable to return to pre-injury levels of work up to retirement age, (or if injured after retirement age one year after the date of claim). This results in a significant portion of Scheme liabilities relating to accidents from past years that will be settled in future years.

Under the 2012 reforms the maximum number of years an injured worker who is not seriously injured can remain on income support benefits is 5 years, with medical benefits to continue for a year after the weekly benefits end. The 2015 reforms changed the medical benefit cap from 1 year to 2 or 5 years depending on the severity of the injury.

The following table shows the development of undiscounted net outstanding claims relative to the ultimate expected claims for the most recent accident years for the Nominal Insurer.

# Notes to the financial statements

for the year ended 30 June 2020

## 2.3.6 Claims development (continued)

Accident year	2011 & prior \$'m	2012 \$'m	2013 \$'m	2014 \$'m	2015 \$'m	2016 \$'m	2017 \$'m	2018 \$'m	2019 \$'m	2020 \$'m	Total \$'m
<b>Estimate of ultimate claims cost</b>											
At end of accident year		3,361	3,326	2,610	2,506	2,482	2,515	2,790	2,965	3,287	
One year later		3,278	2,368	2,338	2,409	2,357	2,638	3,010	3,384		
Two years later		2,720	2,233	2,345	2,075	2,391	2,567	3,182			
Three years later		2,337	2,131	2,129	2,124	2,279	2,641				
Four years later		2,222	1,984	2,091	1,981	2,231					
Five years later		2,033	1,885	1,919	1,886						
Six years later		1,976	1,737	1,801							
Seven years later		1,855	1,599								
Eight years later		1,793									
Nine years later	43,628										
Ten years and later											
<b>Current estimate of cumulative claims cost</b>	<b>43,628</b>	<b>1,793</b>	<b>1,599</b>	<b>1,801</b>	<b>1,886</b>	<b>2,231</b>	<b>2,641</b>	<b>3,182</b>	<b>3,384</b>	<b>3,287</b>	<b>65,432</b>
<b>Cumulative payments</b>	<b>(38,645)</b>	<b>(1,390)</b>	<b>(1,155)</b>	<b>(1,089)</b>	<b>(1,117)</b>	<b>(1,193)</b>	<b>(1,237)</b>	<b>(1,244)</b>	<b>(985)</b>	<b>(478)</b>	<b>(48,533)</b>
<b>Outstanding claims – undiscounted</b>	<b>4,983</b>	<b>403</b>	<b>444</b>	<b>712</b>	<b>769</b>	<b>1,038</b>	<b>1,404</b>	<b>1,938</b>	<b>2,399</b>	<b>2,809</b>	<b>16,899</b>
Discount											(2,716)
Claims handling expenses											1,094
<b>Net Outstanding claims excluding risk margin</b>											<b>15,277</b>
Risk Margin											2,380
<b>Final Net Outstanding claims including risk margin</b>											<b>17,657</b>

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

# Notes to the financial statements

for the year ended 30 June 2020

## 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.

	2020 \$'000	2019 \$'000
Unearned premium income	541,622	555,589
Unexpired risk liability	266,577	187,255
	<b>808,199</b>	<b>742,844</b>
<b>(a) Unexpired risk liability</b>		
Unexpired risk liability as at 1 July	187,255	117,937
Movement in the unexpired risk liability recognised in the Statement of Comprehensive Income	79,322	69,318
<b>Unexpired risk liability at Valn date</b>	<b>266,577</b>	<b>187,255</b>
<b>(b) Calculation of unexpired risk liability</b>		
Unearned premium liability (A)	541,622	555,589
Central estimate of the present value of expected future cash flows arising from future claims on contracts issued	695,524	653,337
Risk Margin (80% Probability of Sufficiency)	112,675	89,507
(B)	<b>808,199</b>	<b>742,844</b>
Unexpired risk liability (B)-(A) (zero minimum)	<b>266,577</b>	<b>187,255</b>

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.

## Notes to the financial statements

for the year ended 30 June 2020

### 2.5. Underwriting, transformation and other expenses

#### Overview

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

	2020 \$'000	2019 \$'000
Statutory levies:		
State Insurance Regulatory Authority (SIRA)	236,188	236,175
Dust Diseases Authority	51,712	57,939
Department of Primary Industries - Mine Safety Levy	9,395	8,025
Total Statutory levies (a)	<b>297,295</b>	<b>302,139</b>
Service fees (b)	530,568	452,108
Auditor's remuneration for audit of the financial statements	-	385
Auditor's remuneration other	201	2,144
Bad debts written off	69,802	44,854
Labour costs	29,687	37,351
Debt collection fees	5,503	8,038
Impairment of trade and other receivables	(1,879)	(30,530)
Impairment of right of use asset	6,731	-
Operating lease expenses	34	61
Wage audit fees	3,864	1,859
Depreciation & amortisation expense	38,505	16,489
Interest expense on leased liabilities	1,210	-
Other	32,178	31,662
<b>Underwriting and other expenses</b>	<b>1,013,699</b>	<b>866,560</b>
Transformation, transition and continuous improvement expenses (c)	132,446	158,596
<b>Total underwriting, transformation and other expenses</b>	<b>1,146,145</b>	<b>1,025,156</b>

External audit fees for the audit of the financial statements were incurred by icare in 2020 and are included as part of the service fee. The amount incurred was \$0.9m

# Notes to the financial statements

for the year ended 30 June 2020

## 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

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.

Transformation costs paid by icare and charged to Workers Insurance have been treated as transformation costs rather than service fee expenses.

### (c) Transformation, transition and continuous improvement expenses

We started moving from transformation build to embedment of our new technology solutions in 2019-20. We have delivered a new customer model for large employers (Authorised Provider), which involved technology delivery to expand the number of providers operating on our centralised claims system. We also focused on improvements to our claims and policy and billing systems in order to enhance data quality, compliance and customer experience. Projects to expand the Scheme's corporate technology, human resources, and data & analytics capability were undertaken.

These expenses do not meet the requirements for capitalisation under AASB 138 *Intangible Assets*.

### (d) Leases

AASB 16 *Leases* is effective from 1 July 2019. This standard requires depreciation to be recognised on right of use assets and for previous operating lease rental expenses to be allocated between the lease liability created under AASB 16 and the interest expenses on those lease liabilities. (refer Note 5.5)

The impact of these changes is seen in the above underwriting, transformation and other expenses by the increase in amortisation and a new interest expense on lease liabilities category. There has also been a reduction in the Other Expenses category where the former rental expenses were reported.

# Notes to the financial statements

for the year ended 30 June 2020

## 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.

Investment receivables are amounts due from investment counterparties in settlement of transactions.

	2020 \$'000	2019 \$'000
Premiums receivable (i)	816,230	732,965
Other receivables	45,850	19,832
Investment receivables (refer note 3.2)	262,637	134,392
Less: allowance for expected credit losses (refer note 2.6b)	(50,957)	(56,689)
<b>Total trade and other receivables</b>	<b>1,073,760</b>	<b>830,500</b>

<sup>1</sup>Employers are able to pay premiums on a lump sum, quarterly instalment basis or a monthly instalment basis.

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

### (a) Status of trade receivables

Collectability of trade receivables is reviewed on an ongoing basis. Where receivables are outstanding beyond the normal trading terms, management assesses the likelihood of the recovery of these receivables. Individual debts that are known to be uncollectible are written off directly to the Statement of Comprehensive Income when identified.

### (b) Allowance for impairment status of receivables

At 30 June, the impairment allowance is increased or decreased based on an assessment of the likelihood of recovery of individual receivables.

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.



# Notes to the financial statements

for the year ended 30 June 2020

## 2.6 Trade and other receivables (continued)

### Reconciliation of allowance for impairment – receivables

	2020 \$'000	2019 \$'000
Allowance for impairment as at 1 July	56,689	87,219
Increase/(decrease) to allowance for impairment	(5,732)	(30,530)
<b>Allowance for impairment as at 30 June</b>	<b>50,957</b>	<b>56,689</b>

### 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
<b>2020</b>			
Within normal terms	533,797	-	-
Less than 3 months overdue	119,681	112,935	6,746
3 months to 6 months overdue	60,185	54,360	5,825
Greater than 6 months overdue	148,417	110,031	38,386
	<b>862,080</b>	<b>277,326</b>	<b>50,957</b>

	Total \$'000	Past due but not impaired \$'000	Considered impaired \$'000
<b>2019</b>			
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
	<b>752,797</b>	<b>263,394</b>	<b>56,689</b>

## Notes to the financial statements

for the year ended 30 June 2020

### 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.

	2020 \$'000	2019 \$'000
Service fee payable to icare	103,316	84,022
Goods and Services Tax	40,596	25,033
Pay as you go tax payable	2,895	2,482
Accrued expenses	26,118	66,825
Other	18,528	14,050
<b>Total payables</b>	<b>191,453</b>	<b>192,412</b>

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

# Notes to the financial statements

for the year ended 30 June 2020

## 3. Investment activities

### Overview

The main purpose of the Scheme's investments is to fund claim liabilities. Investment policies are put in place with the intention that the net financial assets to outperform the growth in these liabilities.

Investments and other financial assets are designated at fair value through profit or loss.

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

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

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Scheme uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. The fair value of interest-rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the Statement of Financial Position date.

Where the fair values of financial assets and financial liabilities recorded on the Statement of Financial Position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible a degree of judgment is required in establishing fair values. The judgments include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives.

Derivatives include interest rate swaps and futures, swaptions, credit default swaps, cross currency swaps and forward foreign currency contracts, and options on interest rates, foreign currencies and equities.

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

Hedging strategies are determined by icare's Investment and Asset Committee (a sub-Committee of the Board of icare), within the investment strategy for the Scheme. Hedging may be conducted at two levels:

- At the overall fund level, where TCorp decides on instruments and transaction parameters. Transactions 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.

# Notes to the financial statements

for the year ended 30 June 2020

## 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.

	2020 \$'000	2019 \$'000
Net Realised gain/(loss) on sale of investments	465,326	193,515
Net Unrealised gain/(loss) on investments	(523,458)	1,097,269
Dividends/Distributions	256,147	144,395
Interest	207,614	243,763
Other income	17,641	(15,908)
<b>Investment income</b>	<b>423,270</b>	<b>1,663,034</b>
Investment management expense	(22,631)	(16,016)
<b>Net investment revenue</b>	<b>400,639</b>	<b>1,647,018</b>

# Notes to the financial statements

for the year ended 30 June 2020

## 3.2. Investment assets and liabilities

	2020 \$'000	2019 \$'000
<b>Investment assets</b>		
Indexed and interest-bearing securities	8,376,437	8,536,998
Equities	111,104	210,691
Unit trusts	8,536,980	8,724,742
Derivatives	171,225	185,032
<b>Total Investment assets</b>	<b>17,195,746</b>	<b>17,657,463</b>
<b>Investment receivables</b>		
Interest, dividends and other investment income receivable	13,946	18,928
Trade proceeds yet to be settled (ii)	125,710	102,663
Margin calls	122,981	12,801
Total Investment receivables (refer note 2.6)	<b>262,637</b>	<b>134,392</b>
<b>Total Investments</b>	<b>17,458,383</b>	<b>17,791,855</b>
<b>Investment liabilities</b>		
Derivatives	72,597	59,725
Investment purchases	333,245	111,755
Collateral from Brokers	-	66,653
<b>Total Investment liabilities</b>	<b>405,842</b>	<b>238,133</b>
<b>Net Investments</b>	<b>17,052,541</b>	<b>17,553,722</b>

# Notes to the financial statements

for the year ended 30 June 2020

## 3.3. Fair value estimation

### Overview

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

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

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities. The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets of the Scheme is the current bid price;
- Level 2 – inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices). The fair value of financial instruments that are not traded in an active market (for example unit trusts and over-the-counter derivatives) is determined using valuation techniques. A variety of methods are used which include assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used to estimate fair value for debt securities for disclosure purposes. Evaluations of such securities are based on market data. Vendors utilise evaluated pricing models that vary by asset class and incorporate available trade, bid and other market information and for structured securities, cash flow and when available loan performance data. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the end of the reporting period. These instruments are included in level 2 and comprise debt instruments and derivative financial instruments; and
- Level 3 – inputs for the assets or liabilities that are not based on observable market data. The fair value of financial instruments that are not based on observable market data (for example unlisted property trusts and infrastructure debt) is determined using valuation techniques. The table below sets out information about significant unobservable inputs used at year end in measuring financial instruments categorised as Level 3 in the fair value hierarchy.

# Notes to the financial statements

for the year ended 30 June 2020

## 3.3. Fair value estimation (continued)

	2020				2019			
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Other financial assets</b>								
Indexed and interest-bearing securities	60,015	8,210,938	105,484	<b>8,376,437</b>	294,601	8,129,681	112,716	8,536,998
Equities	-	3	111,101	<b>111,104</b>	210,691	-	-	210,691
Unit Trusts	-	6,766,627	1,770,353	<b>8,536,980</b>	-	6,966,077	1,758,665	8,724,742
Derivatives	87	171,138	-	<b>171,225</b>	544	184,488	-	185,032
	<b>60,102</b>	<b>15,148,706</b>	<b>1,986,938</b>	<b>17,195,746</b>	<b>505,836</b>	<b>15,280,246</b>	<b>1,871,381</b>	<b>17,657,463</b>
<b>Other financial liabilities</b>								
Derivatives	<b>7,262</b>	<b>65,335</b>	-	<b>72,597</b>	<b>14,127</b>	<b>45,598</b>	-	<b>59,725</b>

# Notes to the financial statements

for the year ended 30 June 2020

## 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: 2020: \$1,343 - \$1,535 2019: \$1,270 - \$2,000  Other property trusts: 2020: \$0.03 - \$1.65 2019: \$0.04 - \$1.94	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	2020: \$0.15 - \$1.63 2019: \$0.91 - \$1.23	An increase in published redemption prices would result in a higher fair value.
Limited Company	Shares in Limited Company investing in the Alternatives asset class	Adjusted net asset value	Published redemption prices	2020: \$1,552 2019: -	An increase in published redemption prices would result in a higher fair value.
Indexed and Interest Bearing Securities	Private infrastructure debt	Valuations performed by an independent business and debt valuer	Discount rates	2020: 1.77% - 30.0% 2019: 2.00% - 25.0%	An increase in discount would result in a lower fair value.

Discount for lack of marketability represents the discount applied to the net asset value or valuation provided by the independent valuer to reflect the lack of marketability or liquidity of the funds/ investments. Management determines these discounts based on its judgement after considering investment-specific factors such as quality of the underlying assets.



# Notes to the financial statements

for the year ended 30 June 2020

## 3.3 Fair value estimation (continued)

### Transfers between levels

The Scheme recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the transfer has occurred. The following table presents the transfers between levels for the year ended 30 June 2020:

	2020 \$'000	2019 \$'000
Opening balance	1,871,381	1,460,445
Transfers into Level 3	44	354,187
Purchases of securities	255,687	45,942
Sale of securities	(32,824)	(37,656)
Transfers out of Level 3	250	-
Investment gains/(loss) (investment income)	(107,600)	48,463
<b>Closing balance</b>	<b>1,986,938</b>	<b>1,871,381</b>

### 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.

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.

# Notes to the financial statements

for the year ended 30 June 2020

## 3.3.1. Valuation framework (continued)

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 (2019: \$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.

## 3.3.4. Derivatives

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

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

The fair value amounts reported in the Statement of Financial Position, and the amounts reported in the following tables are the net value of individual swap positions where there is the ability to settle the swaps on a net basis and the Nominal Insurer intends to settle on this basis.

# Notes to the financial statements

for the year ended 30 June 2020

## 3.3.4 Derivatives (continued)

	Assets \$'000	Liabilities \$'000	Notional amount \$'000
<b>2020</b>			
Interest rate futures	87	(7,262)	4,379,564
Shares futures	-	-	-
<b>Options:</b>			
Options on Fixed Income	44,043	-	3,901,870
<b>Forwards:</b>			
Forward foreign exchange contracts	73,127	(7,715)	1,738,227
<b>Swaps:</b>			
Interest rate swaps	53,968	(57,620)	1,500,580
	<b>171,225</b>	<b>(72,597)</b>	<b>11,520,241</b>
<b>2019</b>			
Interest rate futures	37	(13,894)	(1,375,051)
Shares futures	507	(233)	6,188
<b>Options:</b>			
Options on Fixed Income	173,095	-	9,821,993
Swaption			
<b>Forwards:</b>			
Forward foreign exchange contracts	4,053	(10,559)	1,864,009
<b>Swaps:</b>			
Interest rate swaps	7,340	(35,039)	-
	<b>185,032</b>	<b>(59,725)</b>	<b>10,317,139</b>

## Notes to the financial statements

for the year ended 30 June 2020

### 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 2020. 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 2020 \$'000	Net Market Value as at 30 June 2019 \$'000
Equity	4,099,493	4,198,555
Property	1,259,548	1,362,154
Alternatives	323,555	364,094
Emerging Markets	-	230,091
Infrastructure	818,362	396,510
Debt	1,321,708	1,082,758
Cash	714,314	1,090,580
<b>Total</b>	<b>8,536,980</b>	<b>8,724,742</b>

# Notes to the financial statements

for the year ended 30 June 2020

## 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 valuation actuaries, bi-annual actuarial valuation projections and cost drivers to enable early detection of emerging issues and cost pressures;
- Actively monitoring claims and expense patterns to detect increasing expenditure and ensure it is facilitating return to work strategies;
- Designing premium formulas that reflect the cost of injuries in particular industries and for larger employers related to their actual claims costs to encourage employers to reduce injuries and facilitate injured workers to return to work;
- Design of benefits that provide incentives to injured workers to work with the Scheme and employers to encourage a return to work;
- Partnering with regulators including the State Insurance Regulatory Authority (SIRA) to reduce injury rates and detect any fraudulent activities;
- Designing remuneration for Scheme Agents that encourages them to achieve Scheme objectives
- Investment allocation strategies that manage investment risks (refer Note 3 and 4); and

# Notes to the financial statements

for the year ended 30 June 2020

## 4.1. Insurance Risk (continued)

- Actively monitoring and projecting the Scheme's cashflow to ensure premiums are paid and injured worker entitlements are provided in a timely manner.

The nature of the Scheme's insurance operations including the requirement of all employers in NSW to have a policy, the wide geographic/industry spread of risks, the level of Scheme Assets and the ability to amend future premiums, has resulted in the Scheme concluding that reinsurance of Scheme liabilities is not currently appropriate.

## 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.

# Notes to the financial statements

for the year ended 30 June 2020

## 4.2 Market risk (continued)

TCorp, supported by its asset consultant, conducts the risk budgeting analysis utilising:

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

The analysis incorporates scenario analysis to determine the risk and return of different investment strategies relative to the change in the liabilities over a period.

The analysis is primarily used to compare different investment strategies, and then to determine the investment strategy that has the appropriate level of risk, given the risk and return objectives of the Scheme.

The risk budgeting analysis is based on certain simplifying assumptions such as statistical characteristics of 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 2020 based on the June 2020 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 2020, the minimum potential loss expected over a 1-year period is \$465.5 million (June 2019: \$451.4 million), with a 5 per cent probability that this minimum may be exceeded.



# Notes to the financial statements

for the year ended 30 June 2020

## 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 2020 had a 19 per cent (2019: 23.0 per cent) allocation to Australian Commonwealth and state government bonds and other interest bearing securities to partially mitigate interest rate risk of Scheme liabilities and a further 26 per cent (2019: 25.3 per cent) allocation to Australian Commonwealth and State government inflation linked bonds to partially mitigate inflation risk of Scheme liabilities.

### 4.3.3. Quantitative analysis of exposure

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

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



# Notes to the financial statements

for the year ended 30 June 2020

## 4.3.3 Quantitative analysis of exposure (continued)

	Floating interest rate \$'000	Fixed interest rate maturing in				Total \$'000
		3 months or less \$'000	4 to 12 months \$'000	1 to 5 years \$'000	Over 5 years \$'000	
<b>2020</b>						
<b>Class</b>						
Cash	371,999	-	-	-	-	371,999
Money market deposits	12	-	-	-	-	12
Indexed and interest-bearing securities	4,354,813	5717	45,853	302,277	3,667,777	8,376,437
Swap assets- FFX	73,127	-	-	-	-	73,127
Interest rate swaps	-	-	-	570	53,398	53,968
Options on fixed income	-	4,877	19,367	5521	14,278	44,043
Interest rate futures	-	87	-	-	-	87
Shares futures	-	-	-	-	-	-
<b>Assets</b>	<b>4,799,951</b>	<b>10,681</b>	<b>65,220</b>	<b>308,368</b>	<b>3,735,453</b>	<b>8,919,673</b>
Interest rate swap	-	-	-	(10,383)	(47,237)	(57,620)
Interest rate futures	-	(7,262)	-	-	-	(7,262)
Swap liability - FFX	(7,715)	-	-	-	-	(7,715)
<b>Liabilities</b>	<b>(7,715)</b>	<b>(7,262)</b>	<b>-</b>	<b>(10,383)</b>	<b>(47,237)</b>	<b>(72,597)</b>

# Notes to the financial statements

for the year ended 30 June 2020

## 4.3.3 Quantitative analysis of exposure (continued)

	Floating interest rate \$'000	Fixed interest rate maturing in				Total \$'000
		3 months or less \$'000	4 to 12 months \$'000	1 to 5 years \$'000	Over 5 years \$'000	
<b>2019</b>						
<b>Class</b>						
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
Shares futures	-	-	506	-	-	506
<b>Assets</b>	<b>4,293,851</b>	<b>107,021</b>	<b>58,191</b>	<b>460,428</b>	<b>4,132,022</b>	<b>9,051,513</b>
Interest rate swap	-	-	-	(18)	(35,021)	(35,039)
Interest rate futures	-	(13,894)	-	-	-	(13,894)
Shares futures	-	(233)	-	-	-	(233)
<b>Liabilities</b>	<b>-</b>	<b>(14,127)</b>	<b>-</b>	<b>(18)</b>	<b>(35,021)</b>	<b>(49,166)</b>

# Notes to the financial statements

for the year ended 30 June 2020

## 4.3.3 Quantitative analysis of exposure (continued)

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

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

## 4.4. Foreign exchange risk

### Overview

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

### 4.4.1. Exposure

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

### 4.4.2. Risk management objective, policies and processes

Appointed investment managers manage foreign exchange risk, with one manager implementing a foreign currency overlay for international equity exposures. The investment managers in investment grade credit (developed markets), unlisted infrastructure, alternatives, bank loans, and global high yield bonds are required to fully hedge portfolio foreign currency exposures. An investment manager has been appointed to implement a currency hedge strategy for the developed markets' equity exposure. No hedging of foreign currency exposures to Australian dollars is undertaken on the value of assets invested in emerging markets

The primary instruments used to achieve the foreign currency overlay are forward foreign exchange contracts.

The positions are reported on an ongoing basis by the Scheme's custodian, JPMorgan Investor Services, under a Service Level Agreement and reporting is provided both daily and monthly by the custodian to management for monitoring.

# Notes to the financial statements

for the year ended 30 June 2020

## 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
<b>2020</b>					
International equities	111,101	-	-	-	111,101
Australian equities	-	-	-	-	-
International floating rate securities	15,043	-	-	2,695	17,738
International bonds	174,322	12,303	-	143,300	329,925
Cash	5,971	45	-	1,409	7,425
Foreign currency derivatives (Assets-options)	4,606	559	1,255	-	6,420
Foreign currency derivatives (Assets-futures)	-	-	78	9	87
Foreign currency derivatives (Liabilities-futures)	(300)	(125)	-	(103)	(528)
Swap derivative (Assets)	51,395	9,310	4,907	7,515	73,127
Swap derivative (Liability)	(4,042)	(930)	(362)	(2,381)	(7,715)
Unit trusts	11,195	27,277	-	-	38,472
Investment purchases payable	(783)	(162)	-	(605)	(1,550)
<b>Foreign exchange exposure position</b>	<b>368,508</b>	<b>48,277</b>	<b>5,878</b>	<b>151,839</b>	<b>574,502</b>

# Notes to the financial statements

for the year ended 30 June 2020

## 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
<b>2019</b>					
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)
<b>Foreign exchange exposure position</b>	<b>222,153</b>	<b>9,682</b>	<b>(1,168)</b>	<b>354,481</b>	<b>585,148</b>

# Notes to the financial statements

for the year ended 30 June 2020

## 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 2019.

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 to the financial statements

for the year ended 30 June 2020

## 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
<b>2020</b>				
Derivatives	7,715	7,262	57,620	72,597
<b>2019</b>				
Derivatives	8,917	15,770	35,038	59,725

## 4.6. Credit risk

### Overview

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

### 4.6.1. Exposure

Credit risk arises from the Scheme's investments when investment managers trade with various counterparties who are subsequently unable to meet their obligations. The Scheme's main credit risk concentration is spread between cash, indexed and interest-bearing investments and over-the-counter, in-the-money derivatives.

Credit risk also arises from the Scheme's receivables.

Recoveries arise principally where a worker is injured in a motor vehicle accident and is not at fault. The majority of the costs of these claims are recovered from the third party motor vehicle insurers. The credit quality of these recoveries is considered high as these insurers are licensed by the Australian Prudential Regulation Authority, which imposes strict limits on capital adequacy of these insurers. The Scheme's consulting actuaries assess the amount of recovery potential for the Scheme.

### 4.6.2. Risk management objective, policies and processes

A Credit Risk Policy ensures that the Scheme has controlled levels of credit concentration. This policy applies at a total Insurance Fund level, with further asset class specific restrictions in investment managers' mandates where applicable. In addition, where possible, collateral arrangements may be implemented to reduce the Scheme's exposure.

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

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

## Notes to the financial statements

for the year ended 30 June 2020

### 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:

	2020 \$'000	2020 %	2019 \$'000	2019 %
AAA/aaa	7,019,797	84	6,949,932	81
AA/Aa	787,697	9	826,517	10
A/A	64,938	1	79,238	1
BBB	98,882	1	122,716	1
BB	49,816	1	49,808	1
Rated below BB	355,307	4	508,787	6
<b>Total</b>	<b>8,376,437</b>	<b>100</b>	<b>8,536,998</b>	<b>100</b>

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

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



# Notes to the financial statements

for the year ended 30 June 2020

## 5. Other

### Overview

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

### 5.1. Cash and cash equivalents

#### Overview

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions and bank overdrafts that are repayable on demand.

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

The Scheme holds short-term term deposits with major Australian Banks as security for the payment of premiums by large employers who participate in the optional alternative premium method commonly known as the Retro-Paid Loss Premium. These term-deposits are not included in cash and cash equivalents. Instead they are included in Prepayments and Other Assets as upon the payment of all potential premium debts or when the security is in excess of the amount of maximum unpaid premium, the security is returned to the employer. (Refer 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.

	2020 \$'000	2019 \$'000
Money Market Deposits	12	12
Cash at bank	377,118	340,031
<b>Total cash and cash equivalents</b>	<b>377,130</b>	<b>340,043</b>
Bank overdraft	(5,119)	(7,598)
<b>Balance as per Statement of Cash Flows</b>	<b>372,011</b>	<b>332,445</b>

# Notes to the financial statements

for the year ended 30 June 2020

## 5.1. Cash and cash equivalents (continued)

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

	2020 \$'000	2019 \$'000
<b>Net cash flows from operating activities</b>	<b>76,893</b>	<b>219,129</b>
Amortisation expense	(38,505)	(16,489)
(Increase) in actuarially assessed claim liabilities	(1,470,458)	(1,865,807)
Decrease/(Increase) in unearned premiums	13,967	(64,890)
(Increase)/decrease in unexpired risk liability	(79,322)	(69,319)
Unrealised (loss)/gain on investments	-	-
Net investment purchases/(sales)	(461,717)	677,854
Increase/(decrease) in receivables	240,907	(30,348)
Increase/(decrease) in payables	(166,935)	275,958
(Increase)/decrease in Security deposits payable	(8,504)	(1,824)
(Increase)/decrease in Right of use asset and liability	(701)	-
<b>Net result</b>	<b>(1,894,375)</b>	<b>(875,736)</b>

### 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 to the financial statements

for the year ended 30 June 2020

## 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 2020 - fair value \$'000	At 30 June 2019 - fair value \$'000
<b>Software WIP</b>		
Cost (gross carrying amount)	14,045	25,116
Accumulated amortisation and impairment	-	-
<b>Net carrying amount</b>	<b>14,045</b>	<b>25,116</b>
<b>Computer software</b>		
Cost (gross carrying amount)	178,161	129,764
Accumulated amortisation and impairment	(57,793)	(26,217)
<b>Net carrying amount</b>	<b>120,368</b>	<b>103,547</b>
<b>Total</b>	<b>134,413</b>	<b>128,663</b>

## Notes to the financial statements

for the year ended 30 June 2020

### 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 2020 \$'000	Year ended 30 June 2019 \$'000
<b>Software WIP</b>		
Net carrying amount at start of year	25,116	43,790
Additions – Internal development	37,326	62,448
Transfers from Software WIP	(48,397)	(81,122)
<b>Net carrying amount at end of year</b>	<b>14,045</b>	<b>25,116</b>
<b>Computer software</b>		
Net carrying amount at start of year	103,547	38,914
Additions – Internal development	-	-
Transfers from Software WIP	48,397	81,122
Amortisation expense	(31,576)	(16,489)
<b>Net carrying amount at end of year</b>	<b>120,368</b>	<b>103,547</b>
<b>Total</b>	<b>134,413</b>	<b>128,663</b>

### 5.3. Commitments

#### Overview

As at the 30 June 2020 the Scheme was required to contribute \$263 million to the Workers Compensation Operational Fund to fund the State Insurance Regulatory Authority and Safework NSW. (2019: \$249.4 million) in monthly installments by 30th June 2021.

As at the 30 June 2020 the Scheme was required to contribute \$56.7 million (2019: \$52.9 million) to the Workers Compensation Dust Diseases Authority in monthly installments by 30th June 2021.

As at the 30 June 2020 the Scheme was required to contribute \$5.7 million (2019: \$9.4 million) to the NSW Department of Primary Industries for the Mine Safety Levy in four (4) equal quarterly installments by 30 June 2021.

# Notes to the financial statements

for the year ended 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 2020, the Scheme held deposits of \$80 million (2019: \$71 million) and bank guarantees of \$436 million (2019: \$554 million). These deposits are held in trust for payment of their workers compensation premium liability.

Earnings on funds deposited with the Scheme for this purpose are paid directly to the employer group that lodged the Security Deposit provided that the security held meets the security requirements of the employer group.

## 5.5. Leases

AASB 16 *Leases* (AASB 16) is effective from 1 July 2019.

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

Under this standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised at the commencement of the lease in the Statement of Financial Position. The only exceptions are short-term and low-value leases. If the Scheme has any of these leases they will be expensed directly into the Statement of Comprehensive Income over the period of the lease.

The impact of AASB 16 is to recognise depreciation and interest expenses on these leases and reduce the operating lease rental in the Statement of Comprehensive Income.

The right-of-use assets are also subject to impairment. The Scheme assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Scheme estimates the asset's recoverable amount.

When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. After an impairment loss has been recognised, it is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the net result.

## Notes to the financial statements

for the year ended 30 June 2020

### 5.5 Leases (continued)

#### Right-of-use assets under leases

	At 30 June 2020 - fair value \$'000	At 30 June 2019 - fair value \$'000
<b>Right of use asset</b>		
Cost (gross carrying amount)	47,939	-
Accumulated depreciation	(6,929)	-
<b>Total right of use asset</b>	<b>41,010</b>	<b>-</b>

#### Reconciliation

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

	2020 \$'000	2019 \$'000
<b>Movement in right of use asset</b>		
Net carrying amount at start of year	-	-
Additions	54,670	-
Impairment	(6,731)	-
Depreciation	(6,929)	-
<b>Net carrying amount at end of year</b>	<b>41,010</b>	<b>-</b>

#### Lease liabilities

The following table presents liabilities under leases

	2020 \$'000	2019 \$'000
<b>Balance at 1 July</b>	<b>-</b>	
Additions	54,670	
Interest expenses	1,210	
Payments	(7,240)	
<b>Balance at 30 June</b>	<b>48,640</b>	<b>-</b>

# Notes to the financial statements

for the year ended 30 June 2020

## 5.5 Leases (continued)

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

	2020 \$'000	2019 \$'000
<b>Outstanding lease liability</b>		
Not later than one year	7,950	
Later than one year but not later than five years	28,601	
Later than five years	22,858	
Total (including GST)	<b>59,409</b>	-
Less: GST recoverable from Australian Tax Office	5,401	-
<b>Total (excluding GST)</b>	<b>54,008</b>	-

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

	2020 \$'000	2019 \$'000
Total minimum finance lease payments	54,008	
Less: future finance charges	(5,368)	
<b>Present value of minimum lease payments as per Statement of financial position</b>	<b>48,640</b>	-

## Notes to the financial statements

for the year ended 30 June 2020

### 5.6. Contingent assets and liabilities

icare has identified that there may have been issues in the information supporting and consequent calculation of Pre-Injury Average Weekly Earnings (PIAWE) for workers receiving weekly compensation support between 1 October 2012 and 20 October 2019. In some cases, many of which predate the formation of icare, these issues in the determination of PIAWE may have led to workers receiving incorrect weekly compensation entitlements. The Scheme has initiated a PIAWE Review and Remediation Program designed to conduct targeted reviews with the aim of identifying, and remediating as necessary, incidences of underpayment.

Under the *Workers Compensation Act 1987*, the Scheme, through its claim management agencies, is required to make weekly compensation benefit payments to injured workers within seven (7) days of acceptance of the obligation to do so. The employer and injured worker need to submit information relating to the worker's earnings from all sources of employment for the preceding 52 weeks to facilitate this. Where this information is incomplete the Scheme makes payments based on the information available. If the information is subsequently updated by the employer or injured worker, the new information is used to reassess the PIAWE.

Under payments to injured workers have potentially arisen as a result of there being insufficient information to accurately calculate the PIAWE, complexities in the PIAWE calculation process and potential challenges in the interpretation and application of the available data in the calculation process. The Review and Remediation Program will conduct detailed file reviews of those injured workers who have the potential to be the most impacted. Every potentially impacted worker will be given the opportunity to provide additional information to support a review of their entitlements. Where an underpayment can be quantified the injured worker will be compensated.

Management's best estimate of the liabilities that may arise through the PIAWE Review and Remediation program, based on currently available information, are reflected in note 2.3.1. As information becomes available regarding the numbers of injured workers seeking reviews, the extent of any additional information that may be provided to support these reviews and the quantum of any under payments, the estimate will be updated.

### 5.7. Post balance date events

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



# Notes to the financial statements

for the year ended 30 June 2020

## 6. Capital management

Capital management is an integral part of icare's risk management framework. One of the key objectives of the Scheme is to have sufficient capital to meet its obligations to its 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; and
- The regulatory requirements of the Australian Prudential Regulation Authority (APRA), consistency with the insurance industry and best practice.

Under the Capital Management 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 115%-135% at a 75% Probability of Adequacy (PoA). This is set with reference to the APRA Prudential Capital Requirements. The Target Operating Zone is converted into 110-130% at an 80% 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 an 80% PoA should be between 110-130%. The actual funding ratio at 30 June 2020 at the 80% PoA level was 98.4% (2019: 108.9%).

The Scheme's liabilities reported in these financial statements are at an 80% PoA.

At the 75% Probability of Adequacy (PoA), the risk margin for the Nominal Insurer is \$1.9bn above the central estimates. If this was adopted for the accounts, it would give a funding ratio of 101%.

The Capital Management policy details actions required where the Policy Capital Ratio falls outside of the target operating zone. Management are currently reviewing levers available to bring the Scheme back to the target operating zone. The plan includes a review of investment strategies, claims and expense management and a review of premium rates. In addition, The Scheme will continue to focus on delivering services at a lower cost.

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

icare

Dust Diseases Care

Lifetime Care

Insurance for NSW

HBCF

Workers Insurance

● **Sporting Injuries  
Insurance**

BIG Corp

# Sporting Injuries Insurance

# Sporting Injuries Insurance

## Financial statements

for the year ended 30 June 2020

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## SPORTING INJURIES SCHEME

### Actuarial Certificate Outstanding claims liabilities at 30 June 2020

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 2020 of the Sporting Injuries Scheme.

#### Data

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

#### Basis of Our Estimates

The Sporting Injuries Scheme consists of the Sporting Injuries Insurance Scheme (“Main Scheme”) and the Supplementary Sporting Injuries Benefits Scheme (“Supplementary Scheme”). For both schemes, we have made central estimates of the outstanding claims liabilities, meaning that our assumptions have been selected to yield estimates that are not knowingly above or below the ultimate liabilities. Our estimates include allowances for:

- Time value of money;
- Fewer claims to emerge in the June 2020 accident quarter to reflect reduced sporting activity during the period of COVID-19 restrictions; 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 2020.

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 2020 for the Main Scheme is \$1.07 million. For the Supplementary Scheme, the estimated outstanding claims liabilities as at 30 June 2020 is \$0.19 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](http://www.pwc.com.au)  
Liability limited by a scheme approved under Professional Standards Legislation.



	Main Scheme	Supplementary Scheme	Total
	\$000	\$000	\$000
<b>Outstanding claims liability</b>			
Central estimate	615	152	767
Expenses	138	34	173
Risk margin	316	Not Included	316
Outstanding claims liability	1,069	187	1,256

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 preparing our liability estimates, we have made an explicit adjustment for the expected impact of COVID-19. There is clearly a degree of uncertainty on how the pandemic may impact claim outcomes.

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

### Valuation Report

Full details of data, methodology, assumptions and results are set out in our valuation report dated 1 September 2020.

### Relevant Standards

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

icare have informed us that the financial statements for the Main Scheme are intended to comply with Accounting Standard AASB 1023 and those for the Supplementary Scheme are intended to comply with Accounting Standard AASB 137. The latter requires the determination of a best estimate. For both the Main Scheme and the Supplementary Scheme we have been instructed by icare to prepare a central estimate and our report includes the determination of a risk margin intended to achieve higher probabilities of adequacy.

Andrew Smith  
FIAA  
1 September 2020

Gavin Moore  
FIAA  
1 September 2020

## Statement by the chairman and chief executive officer

for the year ended 30 June 2020

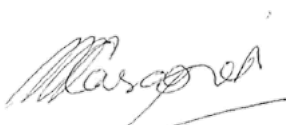
### Sporting Injuries Compensation Authority

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 2020 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  
25 September 2020



**Don Ferguson**  
A/Chief Executive Officer and  
Managing Director  
Sporting Injuries Compensation Authority &  
Insurance and Care NSW  
25 September 2020



## INDEPENDENT AUDITOR'S REPORT

### Sporting Injuries Compensation Authority

To Members of the New South Wales Parliament

#### Opinion

I have audited the accompanying financial statements of the Sporting Injuries Compensation Authority (the Authority), which comprises the statement of comprehensive income for the year ended 30 June 2020, the statement of financial position as at 30 June 2020, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements comprising the Basis of preparation 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 2020, 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 (including Independence Standards)' (APES 110).

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

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

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

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

#### Other Information

The Authority's annual report for the year ended 30 June 2020 includes other information in addition to the financial statements and my Independent Auditor's Report thereon. The Directors of the Authority are responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprise the 'statement by the chairman and chief executive officer'.

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

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

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

I have nothing to report in this regard.

### **The Board's Responsibilities for the Financial Statements**

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

In preparing the financial statements, the Directors are responsible for assessing the Authority's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting.

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

My objectives are to:

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

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

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

The scope of my audit does not include, nor provide assurance:

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



David Daniels  
Director, Financial Audit Services

Delegate of the Auditor-General for New South Wales

1 October 2020  
SYDNEY



# Statement of comprehensive income

for the year ended 30 June 2020

	Notes	2020 \$'000	2019 \$'000
<b>Gross Written Premium</b>		701	864
Unearned premium movement		100	(48)
<b>Gross earned premium</b>		<b>801</b>	<b>816</b>
Hindsight adjustments		22	-
<b>Net Earned premiums (a)</b>		<b>823</b>	<b>816</b>
Claims expense	2.2	293	(293)
Unexpired risk liability expense	2.3.6.2	1	(18)
<b>Net claims expense (b)</b>		<b>294</b>	<b>(311)</b>
Underwriting and other expenses (c)		(142)	(227)
<b>Underwriting result (a+b+c)</b>		<b>975</b>	<b>278</b>
Investment Revenue	3.1	77	116
Investment management expenses	3.1	(34)	(16)
Net investment revenue		43	100
Levies		47	50
<b>Net Result</b>		<b>1,065</b>	<b>428</b>
<b>Other Comprehensive Income</b>			
Items that will not be reclassified to net result		-	-
<b>Total Other comprehensive income</b>		<b>-</b>	<b>-</b>
<b>Total Comprehensive Income</b>		<b>1,065</b>	<b>428</b>

The accompanying notes form part of these financial statements

# Statement of financial position

as at 30 June 2020

	Notes	2020 \$'000	2019 \$'000
<b>Assets</b>			
Cash and cash equivalents	5.1	449	399
Investments	3.2	4,737	4,457
Receivables	2.3.7	432	456
<b>Total assets</b>		<b>5,618</b>	<b>5,312</b>
<b>Liabilities</b>			
Payables	2.3.8	49	134
Unearned premiums	2.3.6.1	341	461
Unexpired risk	2.3.6.2	48	49
Provision for outstanding claims	2.3.1	1,069	1,622
<b>Total liabilities</b>		<b>1,507</b>	<b>2,266</b>
<b>Net assets</b>		<b>4,111</b>	<b>3,046</b>
<b>Equity</b>			
Accumulated funds		4,111	3,046
<b>Total Equity</b>		<b>4,111</b>	<b>3,046</b>

The accompanying notes form part of these financial statements

## Statement of changes in equity

for the year ended 30 June 2020

	2020 \$'000	2019 \$'000
<b>Accumulated funds</b>		
Balance at the beginning of financial year	3,046	2,618
Net Result for the year	1,065	428
Other Comprehensive Income	-	-
<b>Total other comprehensive income</b>	-	-
<b>Total comprehensive income for the year</b>	<b>1,065</b>	<b>428</b>
<b>Balance at the end of the financial year</b>	<b>4,111</b>	<b>3,046</b>

The accompanying notes form part of these financial statements

## Statement of cash flows

for the year ended 30 June 2020

	Notes	2020 \$'000	2019 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Premiums received		678	691
Claims paid		(260)	(231)
<b>Net Cash Flow from premiums less claims</b>		<b>418</b>	<b>460</b>
<b>Receipts</b>			
Proceeds from sale of Investments		-	-
Levies received		39	51
Interest received		82	8
<b>Receipts Excluding Authority Activities</b>		<b>121</b>	<b>59</b>
<b>Payments</b>			
Purchases of Investments		(279)	(475)
Service fees		(132)	(152)
Other payments		(78)	(121)
<b>Payments Excluding Authority Activities</b>		<b>(489)</b>	<b>(748)</b>
<b>NET CASH FLOWS (USED IN)/FROM OPERATING ACTIVITIES</b>	<b>5.1</b>	<b>50</b>	<b>(229)</b>
Opening cash and cash equivalents		399	628
<b>CLOSING CASH AND CASH EQUIVALENTS</b>	<b>5.1</b>	<b>449</b>	<b>399</b>

The accompanying notes form part of these financial statements

# Notes to the financial statements

for the year ended 30 June 2020

## 1. Overview

### 1.1. About the Scheme

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

The Authority manages the Sporting Injuries Insurance Scheme. The Authority covers registered participants of sporting organisations for injury while engaged in specific activities or events. The Authority provides capital lump sum benefits for injuries that lead to a prescribed percentage of permanent loss of use or fatality.

The Sporting Injuries Compensation Authority was established on 1 September 2015 in accordance with the *State Insurance and Care Governance Act 2015*.

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

The financial statements have not been normalised for the impact of COVID-19.

These financial statements for the year ended 30 June 2020 have been authorised for issue by the Chairman of the Board of icare and the Acting Chief Executive Officer and Managing Director of the Authority on behalf of the Board of Directors of icare on 25 September 2020.

### 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 2020

## 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 20-01 by NSW Treasury that statements are presented on a current and non-current basis.

All amounts are rounded to the nearest one thousand dollars and are expressed in Australian currency which is the functional currency of the reporting entity. Tables may not add in all instances due to rounding.

### 1.2.2. Statement of compliance

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

### 1.2.3. Use of estimates and judgements

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

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

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

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

- Note 3 & 4 - Investment Activities and Risk Management;
- Note 2.3 - Net Outstanding Claims liability; and
- Note 2.3.6 - Unearned premiums and unexpired risk liability.

# Notes to the financial statements

for the year ended 30 June 2020

## 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.

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 2020. The following are new Australian Accounting Standards or amendments which have been issued but are not yet effective and are not expected to have a material impact on the financial performance or position of the Authority:

- AASB 1059 *Service Concession Arrangements: Grantors*
- AASB 2018-5 *Amendments to Australian Accounting Standards – Deferral of AASB 1059*
- AASB 2018-6 *Amendments to Australian Accounting Standards – Definition of a Business*
- AASB 2018-7 *Amendments to Australian Accounting Standards – Definition of Material*
- AASB 2019-1 *Amendments to Australian Accounting Standards – References to the Conceptual Framework*
- AASB 2019-2 *Amendments to Australian Accounting Standards – Implementation of AASB 1059*
- AASB 2019-3 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform.*

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 30 June 2022.

The Authority applied AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of Not-for-Profit Entities* for the first time in 2019-20. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

# Notes to the financial statements

for the year ended 30 June 2020

## 1.2.6. Accounting Standards issued but not yet effective (continued)

Several other amendments and interpretations apply for the first time in FY2019-20, but do not have an impact on the financial statements of the Authority.

- AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of Not-for-Profits*
  - AASB 15 *Revenue from Contracts with Customers* (AASB 15) supersedes AASB 111 *Construction Contracts*, AASB 118 *Revenue* and related interpretations. It applies, with limited exceptions, to all revenue arising from contracts with customers. 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.
  - AASB 1058 *Income of Not-for-Profits* (AASB 1058) replaces 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 needs 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).
  - 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 adopted AASB 15 and AASB 1058 from 1 July 2019 through application of the full retrospective transition approach. Recognition and measurement principles of the new standards were applied for the current year and comparative year as though AASB 15 and AASB 1058 had always applied.

The adoption of AASB 15 and AASB 1058 did not have any impact on the Statement of Comprehensive Income, Statement of Financial Position, Other Comprehensive Income and the Statement of Cash Flows for the financial year.

## 1.2.7. Coronavirus (COVID-19) pandemic

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

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



# Notes to the financial statements

for the year ended 30 June 2020

## 1.2.7. Coronavirus (COVID-19) pandemic (continued)

### Accounting Estimates and judgement:

The ongoing COVID-19 pandemic has increased the estimation uncertainty in the preparation of these financial statements. The Authority has developed various accounting estimates in these financial statements based on forecasts of economic conditions which reflect expectations and assumptions as at 30 June 2020 about future events that we believe are reasonable in the circumstances. There is a considerable degree of judgement involved in preparing these forecasts. The underlying assumptions are also subject to uncertainties which are often outside the control of the Authority. Accordingly, actual economic conditions may be different from those forecast since anticipated events may not occur as expected, and the effect of those differences may significantly impact accounting estimates included in these financial statements.

The significant accounting estimates particularly impacted by these associated uncertainties are predominantly related to the valuation of outstanding claims liabilities - please refer to note 2.3.

### Risk Management

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

As the impacts of the virus and associated responses evolve, so too will the associated risks. The Authority is committed to appropriately managing those risks at all levels.

## 2. Underwriting activities

### Overview

This section provides analysis and commentary on the Authority's underwriting activities. Underwriting, in simple terms, is the agreement by the insurer to assume insurance risk in return for a premium paid by the insured. The underwriter assesses the quality of the risk and prices it accordingly.

### 2.1. Premiums

Premiums of the Sporting Injuries Insurance Scheme comprise amounts charged to sporting organisations declared to be members of the Scheme. Premiums are assessed on an estimate of the number of participants expected to register for the sporting year and on completion of that year adjustments are made in accordance with actual registrations.

Premium income is treated as earned from the date of attachment of risk. The earned portion of premiums received or receivable relating to the financial year is recognised as income.

# Notes to the financial statements

for the year ended 30 June 2020

## 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 2020 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.

	2020 \$'000	2019 \$'000
Claims paid	260	232
Finance costs	12	24
Other movements in claims liabilities	(565)	37
<b>Net claims expense</b>	<b>(293)</b>	<b>293</b>

	2020		2019	
	Current Year \$'000	Prior Years \$'000	Total \$'000	Total \$'000
<b>Direct business</b>				
Gross claims incurred and related expenses – undiscounted	277	(594)	(317)	257
Discount and discount movement – gross claims incurred	(2)	26	24	36
<b>Net claims incurred</b>	<b>275</b>	<b>(568)</b>	<b>(293)</b>	<b>293</b>

# Notes to the financial statements

for the year ended 30 June 2020

## 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 2020

### 2.3.1. Discounted net outstanding claims (continued)

	2020 \$'000	2019 \$'000
Opening balance	1,622	1,561
Discount unwind	12	24
Expected claim payments (prior years only)	(460)	(383)
CHE on expected claim payments (prior years only)	(92)	(77)
Release of Risk Margin on claim payments (prior years only)	(214)	(205)
Adjustment arising from change in (prior years only):		
- Actuarial assumptions*	(118)	45
- Discount/inflation rates	12	25
- Risk margins	32	(55)
Net outstanding claims in current year	275	687
<b>Net outstanding claims per actuarial report</b>	<b>1,069</b>	<b>1,622</b>
<b>* Breakdown of Actuarial assumptions</b>		
Actual vs Expected Payments	200	154
Change in experience	(245)	33
Change in actuarial assumptions	(97)	(142)
Change in CHE	24	-
	(118)	45
CHE = Claims handling expenses		

# Notes to the financial statements

for the year ended 30 June 2020

## 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 41.9 per cent (2019 38.8 per cent).

## Notes to the financial statements

for the year ended 30 June 2020

### 2.3.3. Core claims liability variables

#### Overview

The actuarial valuation at 30 June 2020 was performed by Pricewaterhouse Coopers (Australia) (PwC). The assumptions used by PwC in determining the outstanding claims liabilities as at 30 June 2020 were:

	2020 \$'000	2019 \$'000
Claims handling expense	23%	20%
Discount rate	0.39%	1.0%
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

#### 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 2020

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

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	2020 Impact on Net Result \$'000	2020 Impact on Liabilities \$'000
Expenses	5%	(44)	44
Expenses	(5%)	44	(44)
Discount rate	1%	22	(22)
Discount rate	(1%)	(23)	23

	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)

The weighted average expected term to settlement from the reporting date of the outstanding claims is estimated to be 2.08 years for the Authority (2019: 1.93 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 2020

## 2.3.5. Claims development (continued)

Accident year	2011 & prior \$'000	2012 \$'000	2013 \$'000	2014 \$'000	2015 \$'000	2016 \$'000	2017 \$'000	2018 \$'000	2019 \$'000	2020 \$'000	Total \$'000
Estimate of ultimate claims cost											
At end of accident year			365	712	731	504	736	298	420	159	
One year later		260	378	755	852	556	741	404	401		
Two years later		320	385	679	753	375	658	314			
Three years later		308	541	570	766	299	591				
Four years later		190	459	545	709	269					
Five years later		194	427	526	692						
Six years later	13,251	187	426	515							
Seven years later	13,438	176	437								
Eight years later	13,420	166									
Nine years later	13,401										
Ten years and later											
Current estimate of cumulative claims cost	13,401	166	437	515	692	269	591	314	401	159	16,945
Cumulative payments	13,401	157	419	489	658	248	489	231	233	-	16,325
Outstanding claims – undiscounted											620
Discount											(5)
2010 and prior											
Claims handling expenses											138
Outstanding claims excluding risk margin											753
Risk Margin											316
Outstanding claims including risk margin											1,069



# Notes to the financial statements

for the year ended 30 June 2020

## 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.

	2020 \$'000	2019 \$'000
Unearned premium income	341	461
Unexpired risk liability	48	49
	<b>389</b>	<b>510</b>

## 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.

	2020 \$'000	2019 \$'000
<b>Year ended 30 June</b>		
Net carrying amount at start of year	461	412
Deferral of premiums written in current year	701	864
Premiums earned during the year	(821)	(815)
<b>Net carrying amount at end of year</b>	<b>341</b>	<b>461</b>

## 2.3.6.2. Reconciliation of unexpired risk liability

	2020 \$'000	2019 \$'000
<b>Unexpired risk liability as at 1 July</b>	49	31
Movement in the unexpired risk liability recognised in the Statement of Comprehensive Income	(1)	18
<b>Unexpired risk liability as at 30 June</b>	<b>48</b>	<b>49</b>

## Notes to the financial statements

for the year ended 30 June 2020

### 2.3.6.2. Reconciliation of unexpired risk liability (continued)

	2020 \$'000	2019 \$'000
Unearned premium liability relating to contracts issued under the Sporting Injuries Insurance Scheme (A)	341	461
Central estimate of the present value of expected future cash flows arising from future claims on contracts issued under the Sporting Injuries Insurance Scheme	259	340
Risk Margin (75 per cent Probability of Sufficiency)	130	170
(B)	<b>389</b>	<b>510</b>
Unexpired risk liability (B)-(A) (zero minimum)	<b>48</b>	<b>49</b>

The process for determining the overall risk margin, including the way in which diversification of risks has been allowed for is discussed in Note 2.3.2. As with outstanding claims, the overall risk margin is intended to achieve a 75 per cent probability of adequacy.

### 2.3.7. Trade and other receivables

#### Overview

Trade and other receivables are principally amounts owed to the Authority by policyholders or on investments. Investment receivables are amounts due from investment counterparties in settlement of transactions.

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

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

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.

	2020 \$'000	2019 \$'000
Premiums receivable	419	380
Investments receivable	-	5
Injury prevention levies receivable	12	27
GST receivable	-	4
Other	1	40
<b>Total Receivables</b>	<b>432</b>	<b>456</b>

# Notes to the financial statements

for the year ended 30 June 2020

## 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.

	2020 \$'000	2019 \$'000
Unearned Injury Prevention levies	10	18
Accrued Operating Expenses	15	90
Service fees payable	24	26
<b>Total Payables</b>	<b>49</b>	<b>134</b>

## 3. Investment activities

### Overview

Investments in New South Wales Treasury Corporation's Funds (TCorpIM Funds) and the managed asset portfolio are designated as fair value through profit or loss. The investments within the Funds are unit holdings. The value of the Funds is based on the Authority's share of the value of the underlying assets of the Fund, based on the market value. All of the Funds are valued at redemption price.

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

The movement in the fair value of the Funds incorporates distributions received as well as realised and unrealised movements in fair value and is reported as investment revenue in the statement of comprehensive income.

Purchases or sales of investments are recognised on the trade date i.e. the date the entity commits itself to purchase or sell the asset.

Refer to Note 4 for further information regarding fair value measurement, credit risk, liquidity risk and market risk arising from financial assets at fair value.

All investments are held to back insurance liabilities. As part of its investment strategy the Authority actively manages its investment portfolio to ensure that investment liquidity is in accordance with the expected pattern of future cash flows arising from insurance liabilities.

# Notes to the financial statements

for the year ended 30 June 2020

## 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.

	2020 \$'000	2019 \$'000
Distributions	53	68
TCorp Fixed variable interest discrete portfolio	22	29
Interest Income other	3	8
Realised gains /(losses) other	-	(2)
Unrealised gains /(losses) TCorp	(1)	13
<b>Total Investment income</b>	<b>77</b>	<b>116</b>
Investment management expense	(34)	(16)
<b>Net Investment income</b>	<b>43</b>	<b>100</b>

## 3.2. Investment assets and liabilities

	2020 \$'000	2019 \$'000
Indexed and interest-bearing securities	-	1,138
TCorp IM Funds	4,737	3,319
<b>Total financial assets at fair value</b>	<b>4,737</b>	<b>4,457</b>

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 2020

## 3.3. Fair value estimation

### Overview

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

The Authority uses the following hierarchy for disclosing the fair value of financial instruments by valuation technique:

- Level 1 – derived from quoted prices in active markets for identical assets / liabilities that the entity can access at measurement date;
- Level 2 – derived from inputs other than quoted prices that are observable directly or indirectly; and
- Level 3 – derived from valuation techniques that include inputs for the asset / liability not based on observable market data (unobservable inputs).

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>2020</b>				
<b>Financial assets at fair value</b>				
Indexed and interest-bearing securities	-	-	-	-
TCorpIM Funds	-	4,737	-	4,737
Derivatives	-	-	-	-
<b>Total</b>	<b>-</b>	<b>4,737</b>	<b>-</b>	<b>4,737</b>
<b>2019</b>				
<b>Financial assets at fair value</b>				
Indexed and interest-bearing securities	1,138	-	-	1,138
TCorpIM Funds	-	3,319	-	3,319
Derivatives	-	-	-	-
<b>Total</b>	<b>1,138</b>	<b>3,319</b>	<b>-</b>	<b>4,457</b>

(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 2020 (Nil- 2019).

# Notes to the financial statements

for the year ended 30 June 2020

## 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 Organisational Performance team. Ministerial Orders that were introduced in December 2016, outline the key responsibilities of TCorp including, yet not limited to, the appointment of investment managers and service providers such as the custodian, in addition to TCorp's role as prime advisor to icare. The Authority's principal financial instruments are outlined below. These financial instruments arise directly from the Authority's operations and are required to finance these operations.

The Authority does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

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

# Notes to the financial statements

for the year ended 30 June 2020

## 4. Risk Management (continued)

### Financial instrument categories

	Note	Category	2020 \$'000	2019 \$'000
Cash and cash equivalents	5.1	N/A	449	399
Receivables <sup>1</sup>	2.3.7	Loans and receivables at amortised cost	420	425
Investments	3.2	At fair value through profit or loss	4,737	4,457
<b>Financial Liabilities</b>				
Payables <sup>2</sup>	2.3.8	Financial liabilities measured at amortised cost	39	116

<sup>1</sup> Excludes statutory receivables and prepayments (i.e. not within the scope of AASB 7).

<sup>2</sup> 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- underwriting, 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 Notes 4.3 & 4.4). A reasonably possible change in risk variable has been determined after taking into account the economic environment in which the Authority operates and the time frame for the assessment (i.e. until the end of the next annual reporting year).

## Notes to the financial statements

for the year ended 30 June 2020

### 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
<b>2020</b>					
Cash and cash equivalents	449	(4)	(4)	4	4
<b>2019</b>					
Cash and cash equivalents	399	(4)	(4)	4	4

### 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	2020 \$'000	2019 \$'000
Cash	Australian cash and fixed interest	Up to 1.5 years	4,737	4,457

The unit price of each fund is equal to the total fair value of net assets held by the fund divided by the number of units on issue for that fund. Unit prices are calculated and published daily.

TCorp as trustee for each of the above funds is required to act in the best interest of the unit holders and to administer the trusts in accordance with the trust deeds. As trustee, TCorp has appointed external managers to manage the performance and risks of each facility in accordance with a mandate agreed by the parties. TCorp's Cash and Fixed Income Investments team also manages certain cash and fixed income assets for the Funds. A significant portion of the administration of the funds is outsourced to an external custodian.



# Notes to the financial statements

for the year ended 30 June 2020

## 4.4. Other price risk (continued)

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 period, 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 2020%	Impact on Net Result 2020 \$'000	Change in Unit Price 2019%	Impact on Net Result 2019 \$'000
Cash	+/-	10	474	1	45

## 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 2020

### 4.5. Liquidity risk (continued)

Maturity analysis and interest rate exposure of financial liabilities

Weighted Average Effective Interest Rate		Nominal Amount (1) \$'000	Interest Rate Exposure \$'000			Maturity Dates \$'000		
	%	\$'000	Fixed Rate \$'000	Variable Rate \$'000	Non-Interest Bearing \$'000	< 1 year \$'000	1-5 years \$'000	> 5 years \$'000
<b>2020</b>								
Payables	N/A	39	-	-	39	39	-	-
<b>2019</b>								
Payables	N/A	116	-	-	116	116	-	-

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 2020

## 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 2020 (30 June 2019- Nil).

There are no debtors past due or impaired whose terms have been re-negotiated.

## 4.6.3. Financial assets at fair value

Financial assets at fair value include investments in TCorp's Funds and the managed assets portfolio. The investments within the Funds are unit holdings, and as such, do not give rise to credit risk. Credit risk within the Funds is managed by ensuring there is a wide spread of risks. TCorp, as trustee, contracts with specialist investment managers and requires the mandates to include a series of controls over the concentration and credit quality of assets.

## 5. Other

### Overview

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

## 5.1. Cash and cash equivalents

### Overview

Cash and cash equivalents include cash at bank and short-term money market investments held at TCorp.

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

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

	2020 \$'000	2019 \$'000
Cash at bank	449	399
	<b>449</b>	<b>399</b>

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:

	2020 \$'000	2019 \$'000
Cash and cash equivalent assets (per Statement of financial position)	449	399
<b>Closing cash and cash equivalents (per Statement of cash flows)</b>	<b>449</b>	<b>399</b>

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

## Notes to the financial statements

for the year ended 30 June 2020

### 5.1. Cash and cash equivalents (continued)

Reconciliation of Net Cash Flows from Operating Activities to Net Result

	2020 \$'000	2019 \$'000
Net cashflows from operating activities	50	(229)
Net cashflows from investment operating activities	279	580
Change in assets and liabilities	-	-
Increase/(Decrease) in receivables	(20)	215
Decrease/(Increase) in payables	82	(11)
Decrease/(increase) in unearned premium income	120	(48)
(Increase) in unexpired risk	1	(18)
Decrease/ (Increase) in provisions for outstanding claims	553	(61)
<b>Net result</b>	<b>1,065</b>	<b>428</b>

### 5.2. Contingent liabilities and contingent assets

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

### 5.3. Post balance date events

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

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 2020

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## Actuarial Certificate

### Outstanding Claims Liabilities at 30 June 2020

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 2020.

#### 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 \$4.2 million. The components of the outstanding claims liability are shown in Table 1.

**Table 1 – Outstanding Claims Liability at 30 June 2020 (\$'000)**

Undiscounted:	
Case Estimates	3,947
Future Development	16
Sub Total	3,964
CHE	198
Undiscounted Total	4,162
Discounting	(4)
Discounted Total	4,158

It is a decision for icare to determine the amount adopted in the accounts.

## Uncertainty

There is inherent uncertainty in estimates of outstanding claims liabilities. Claims outcomes remain dependent on future events, including legislative, social and economic forces. A key source of the uncertainty in the valuation 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.

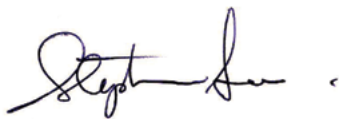
## Reports

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 2020", dated 14 September 2020.

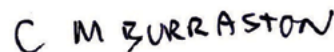
## Relevant Standards

Our estimates and letter are prepared in accordance with Australian Accounting Standard AASB137 and the Actuaries Institute's Professional Standard 302.

Yours sincerely



Stephen Lee



Carmen Burraston

**Fellows of the Institute of Actuaries of Australia**

14 September 2020



# Statement by the chairman and chief executive officer

for the year ended 30 June 2020

**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 2020 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  
25 September 2020



**Don Ferguson**  
A/Chief Executive Officer and  
Managing Director  
Building Insurers' Guarantee Corporation and  
Insurance and Care NSW  
25 September 2020



## 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 2020, the statement of financial position as at 30 June 2020, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements comprising the Basis of preparation 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 2020 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 (including Independence Standards)' (APES 110).

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

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

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

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

## Other Information

The Corporation's annual report for the year ended 30 June 2020 includes other information in addition to the financial statements and my Independent Auditor's Report thereon. The Directors of the Corporation 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 Directors are responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards and the PF&A Act, and for such internal control as the Directors determine is necessary to enable the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Corporation's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting.

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

My objectives are to:

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

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

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

The scope of my audit does not include, nor provide assurance:

- that the Corporation carried out its activities effectively, efficiently and economically
- about the assumptions used in formulating the budget figures disclosed in the financial statements
- about the security and controls over the electronic publication of the 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.

A handwritten signature in dark ink, appearing to read 'D Daniels'.

David Daniels  
Director, Financial Audit Services

Delegate of the Auditor-General for New South Wales

1 October 2020  
SYDNEY

# Statement of comprehensive income

for the year ended 30 June 2020

	Notes	2020 \$'000	2019 \$'000
<b>Revenue</b>			
Recoveries		6,964	7
Interest income		333	713
<b>Total Revenue</b>		<b>7,297</b>	<b>720</b>
<b>Expenses excluding losses</b>			
Claims released	2.1	(2,204)	(3,489)
Service fees		303	237
Other expenses		(1)	65
<b>Total expenses excluding losses</b>		<b>(1,902)</b>	<b>(3,187)</b>
<b>Net result</b>		<b>9,199</b>	<b>3,907</b>
<b>TOTAL COMPREHENSIVE INCOME/(LOSS)</b>		<b>9,199</b>	<b>3,907</b>

The accompanying notes form part of these financial statements

## Statement of financial position

as at 30 June 2020

	Notes	2020 \$'000	2019 \$'000
<b>Assets</b>			
Cash and cash equivalents	4.1	52,594	46,272
Receivables		2	4
<b>Total Assets</b>		<b>52,596</b>	<b>46,276</b>
<b>Liabilities</b>			
Payables		25	53
Outstanding claims	2.2	4,157	7,008
<b>Total Liabilities</b>		<b>4,182</b>	<b>7,061</b>
<b>Net Assets</b>		<b>48,414</b>	<b>39,215</b>
Equity			
<b>Accumulated funds</b>		<b>48,414</b>	<b>39,215</b>

The accompanying notes form part of these financial statements

## Statement of changes in equity

for the year ended 30 June 2020

	2020 \$'000	2019 \$'000
Balance at beginning of year	39,215	35,308
Net Result for the year	9,199	3,907
Total comprehensive income for the year	9,199	3,907
Balance at 30 June	48,414	39,215

The accompanying notes form part of these financial statements

## Statement of cash flows

for the year ended 30 June 2020

	Notes	2020 \$'000	2019 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Recoveries		6,964	7
Claims paid		(646)	(3,294)
<b>Net Cash Flows from Scheme Activities</b>		<b>6,318</b>	<b>(3,287)</b>
Interest received		333	713
Service fees paid		(292)	(244)
Other expenses paid		(37)	(36)
<b>Net Cash Flow used in Operating Activities</b>	4.1	<b>6,322</b>	<b>(2,854)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>6,322</b>	<b>(2,854)</b>
<b>Opening cash and cash equivalents</b>		<b>46,272</b>	<b>49,126</b>
<b>Closing cash and cash equivalents</b>	4.1	<b>52,594</b>	<b>46,272</b>

The accompanying notes form part of these financial statements



# Notes to the financial statements

for the year ended 30 June 2020

## 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 have not been normalised for the impact of COVID-19.

The financial statements for the year ended 30 June 2020 have been authorised for issue by the Chairman of the Board of icare and the Acting Chief Executive Officer and Managing Director of icare on behalf of the Board of Directors of icare on 25 September 2020.

### 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 to the financial statements

for the year ended 30 June 2020

## 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 TC20-01 by NSW Treasury that statements are presented on a current and non-current basis.

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

### 1.2.2. Statement of compliance

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

### 1.2.3. Use of estimates and judgements

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

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

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

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

- Note 2.2 – 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 to the financial statements

for the year ended 30 June 2020

## 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 2020. The following new Standards will not have a material impact on the financial performance or position of the Corporation:

- AASB 1059 *Service Concession Arrangements: Grantors*
- AASB 2018-5 *Amendments to Australian Accounting Standards – Deferral of AASB 1059*
- AASB 2018-6 *Amendments to Australian Accounting Standards – Definition of a Business*
- AASB 2018-7 *Amendments to Australian Accounting Standards – Definition of Material*
- AASB 2019-1 *Amendments to Australian Accounting Standards – References to the Conceptual Framework*
- AASB 2019-2 *Amendments to Australian Accounting Standards – Implementation of AASB 1059*
- AASB 2019-3 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform*

## 1.2.7. Coronavirus (COVID-19) pandemic

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

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

# 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 2020 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 to the financial statements

for the year ended 30 June 2020

## 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

	2020 \$'000	2019 \$'000
Claims expenses	625	3,271
Claims handling	21	23
Movement in outstanding claims provision	(2,920)	(7,019)
Finance cost	70	236
	<b>(2,204)</b>	<b>(3,489)</b>

## 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.

### 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.

	2020 \$'000	2019 \$'000
<b>Outstanding claims liabilities</b>		
Expected future gross claims payments	3,991	6,712
Gross claims handling	200	336
Gross outstanding claims liabilities	4,191	7,047
Discount on central estimate	(32)	(37)
Discount on claims handling expenses	(2)	(2)
Total discount on claims liabilities	(34)	(39)
<b>Claims liabilities 30 June</b>	<b>4,157</b>	<b>7,008</b>

# Notes to the financial statements

for the year ended 30 June 2020

## 2.2.1. Outstanding claims liability (continued)

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

	2020 \$'000	2019 \$'000
Opening Balance	7,008	13,791
Less: Claims Provision released	(2,275)	(3,725)
Less: Claims paid	(646)	(3,294)
Add: Finance Costs	70	236
<b>Carrying amount at end of year</b>	<b>4,157</b>	<b>7,008</b>

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

## 2.2.2. Core claims liability variables

### Overview

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

	2020 %	2019 %
<b>Inflation rate</b>		
Current year	0.83%	1.83%
Future years	2.26-2.30%	2.26-2.30%
Superimposed inflation	0.0%	0.0%
Discount rate	0.19%	1.04%

The weighted average expected term to settlement from the balance date of the outstanding claims is estimated to be 0.5 years (2019: 0.5 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.

# Notes to the financial statements

for the year ended 30 June 2020

## 3. Risk Management

### Overview

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

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

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

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

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

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

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

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.

# Notes to the financial statements

for the year ended 30 June 2020

## 3. Risk Management (continued)

### Financial instrument categories

	Note	Category	Carrying Amount 2020 \$'000	Carrying Amount 2019 \$'000
<b>Financial Assets</b>				
Cash and cash equivalents	4.1	N/A	52,594	46,272
Receivables*		Receivables (measured at amortised cost)	-	-
<b>Financial Liabilities</b>				
Payables**		Payables (measured at amortised cost)	25	53

\* Excludes statutory receivables and prepayments (i.e. not within the scope of AASB 7)

\*\* Excludes statutory payables (i.e. not within the scope of AASB 7)

### 3.1. Market risk

#### Overview

Market risk is the 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.



# Notes to the financial statements

for the year ended 30 June 2020

## 3.2. Interest rate risk (continued)

Carrying amount \$'000		-1%		+1%	
		Net Result \$'000	Equity \$'000	Net Result \$'000	Equity \$'000
<b>2020</b>					
Cash and cash equivalents	52,594	(526)	(526)	526	526
<b>2019</b>					
Cash and cash equivalents	46,272	(463)	(463)	463	463

## 3.3. Liquidity Risk

### Overview

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

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

During the current year, there were no defaults on payables. No assets have been pledged as collateral.

The payables are recognised for amounts due to be paid in the future for services received, whether or not invoiced. Amounts owing to suppliers (which are unsecured) are settled in accordance with the policy set out in Treasury Circular TC11/12. If trade terms are not specified, payment is made no later than the end of the month following the month in which an invoice or a statement is received.



# Notes to the financial statements

for the year ended 30 June 2020

## 3.3. Liquidity Risk (continued)

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

	Weighted average effective interest rate %	Nominal amount \$'000	Interest rate exposure			Maturity dates		
			Fixed interest rate \$'000	Variable interest rate \$'000	Non-interest bearing \$'000	< 1 year \$'000	1-5 years \$'000	> 5 years \$'000
<b>2020</b>								
Payables	-	25	-	-	-	25	-	-
<b>Total financial liabilities</b>	-	<b>25</b>	-	-	-	<b>25</b>	-	-
<b>2019</b>								
Payables	-	53	-	-	-	53	-	-
<b>Total financial liabilities</b>	-	<b>53</b>	-	-	-	<b>53</b>	-	-

## 3.4. Credit risk

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

Credit risk arises from the financial assets of the Corporation, which comprise cash and cash equivalents and receivables. The Corporation's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments at reporting date.

### 3.4.1. 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.

# Notes to the financial statements

for the year ended 30 June 2020

## 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.

	2020 \$'000	2019 \$'000
Cash at bank	52,594	46,272

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:

	2020 \$'000	2019 \$'000
Cash and cash equivalent assets (per Statement of financial position)	52,594	46,272
<b>Closing cash and cash equivalents (per Statement of cash flows)</b>	<b>52,594</b>	<b>46,272</b>

### Reconciliation of Cash Flows from Operating Activities to Net Result

	2020 \$'000	2019 \$'000
<b>Net cash flow provided by/ (used) in operating activities</b>	<b>6,322</b>	<b>(2,854)</b>
Decrease in provisions	2,850	6,783
(Decrease)/increase in receivables	-	(82)
Decrease/(increase) in payables	27	59
<b>Net Result</b>	<b>9,199</b>	<b>3,907</b>

# Notes to the financial statements

for the year ended 30 June 2020

## 4.2. Budget Review

### Statement of Comprehensive Income

	Notes	Actual 2020 \$'000	Budget 2020 \$'000
<b>Revenue</b>			
Recoveries		6,964	-
Interest income		333	744
<b>Total Revenue</b>		<b>7,297</b>	<b>744</b>
<b>Expenses excluding losses</b>			
Claims released	2.1	(2,204)	(139)
Service fees		303	302
Other expenses		(1)	-
<b>Total expenses excluding losses</b>		<b>(1,902)</b>	<b>163</b>
<b>Net result</b>		<b>9,199</b>	<b>581</b>
<b>Total Comprehensive Income</b>		<b>9,199</b>	<b>581</b>

### Commentary

The net result for the year is favourable to budget driven by a recovery received (dividend from liquidators) and claims released due to the settlement of one of the remaining claims for an amount that was lower than the original case estimate.

# Notes to the financial statements

for the year ended 30 June 2020

## 4.2. Budget Review (continued)

### Statement of Financial Position

	Notes	Actual 2020 \$'000	Budget 2020 \$'000
<b>Assets</b>			
Cash and cash equivalents	4.1	52,594	41,925
Receivables		2	-
<b>Total Assets</b>		<b>52,596</b>	<b>41,925</b>
<b>Liabilities</b>			
Payables		25	46
Outstanding claims	2.2	4,157	1,503
<b>Total Liabilities</b>		<b>4,182</b>	<b>1,549</b>
<b>Net Assets</b>		<b>48,414</b>	<b>40,376</b>
<b>Equity</b>			
<b>Accumulated funds</b>		<b>48,414</b>	<b>40,376</b>

### 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 costs remaining outstanding than budgeted.

Total net assets favourable to budget due to timing of claims payments

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# Notes to the financial statements

for the year ended 30 June 2020

## 4.2. Budget Review (continued)

### Statement of Cash Flows

	Notes	Actual 2020 \$'000	Budget 2020 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Recoveries		6,964	-
Claims paid		(646)	(4,119)
<b>Total Scheme</b>		<b>6,318</b>	<b>(4,119)</b>
Interest received		333	744
Service fees paid		(292)	(302)
Other expenses paid		(37)	-
<b>Net Cash used in Operating Activities</b>	<b>4.1</b>	<b>6,322</b>	<b>(3,677)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>6,322</b>	<b>(3,677)</b>
<b>Opening cash and cash equivalents</b>		<b>46,272</b>	<b>45,602</b>
<b>Closing cash and cash equivalents</b>	<b>4.1</b>	<b>52,594</b>	<b>41,925</b>

### Commentary

Cash and cash equivalents favourable to budget due to lower than expected payments on open and finalised claims and a recovery received (dividend from liquidators) during the year.

END OF AUDITED FINANCIAL STATEMENTS

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