2019-2020 LGW / LGM REPORT TO MEMBERS

LGM LIABILITY

LGM ASSETS

LGW WORKCARE

LGMS LOCAL GOVERNMENT MUTUAL SERVICES

DEPENDABLE INSURANCE | UNRIVALLED VALUE | OWNED BY MEMBERS

REPORT TO MEMBERS

2019-2020

QUEENSLAND LOCAL
GOVERNMENT MUTUAL

QUEENSLAND LOCAL GOVERNMENT
WORKERS COMPENSATION
SELF-INSURANCE SCHEME

Contents

Chairman's Message

IAN LECKENBY
Chair, LGM Board of Management
Chair, LGW Management Committee

The Annual Report to Members for 2019-2020 year sets out the financial performance and achievements for Local Government Mutual Services (LGMS) over the previous 12-month period despite the challenges of a global pandemic and ongoing volatile insurance market conditions. Our members continue to demonstrate improved risk management in recent years which benefits all scheme members.

The LGMS mutual schemes have enabled Queensland Local Government to exercise control over and manage their liability, workers' compensation and asset-based risk exposures for over 20 years and continues to provide Councils with tailored insurance covers and risk management solutions through proven mutual arrangements.

LGMS member owned mutuals were established to utilise the combined bargaining power of member Councils collectively to better withstand all claims and market cycles for the sole benefit of the Local Government sector. It is our long-term strategy, relationships and our commitment to the mutual model which has been a critical ingredient in our success. Without the benefits of the mutual Councils would again find themselves captive to a single insurance market.

LGMS continues to engage with scheme members on an ongoing basis to better understand member satisfaction, quality of products, service levels and the esteem in which the mutual schemes are held. A number of recommendations to further enhance the schemes and provide greater accountability and transparency commenced during the year and are embedded in the LGM and LGW Scheme Management Agreements or were implemented via the LGMS Stakeholder Engagement Strategy.

This year LGM Liability was able to keep the majority of member contributions relatively stable despite challenging insurance market conditions, the impacts of the COVID-19 pandemic and ongoing increases in insurance costs. A $2.45M distribution was returned directly to LGM scheme members, while annual operations continued to produce a surplus result and steady investment returns.

LGM Assets continued to provide members with comprehensive covers for their asset-based risk exposures with the long-term goals of stability and sustainability of cost in all market conditions. In 2019-20 the mutual saw ongoing cost increases and reduced insurer capacity in the insurance markets as a result of global catastrophes and weather events.

Members of LGM Assets benefit from the mutual pool model, with average increases across the breadth of the scheme in the 2019-20 period being relatively sustainable which is in contrast to the commercial insurance market where pricing has increased significantly in the current hard market which is recognising the potential impacts of COVID-19 globally. By way of comparison, Local Government risks in Queensland outside the scheme have in some instances increased by 100% or more, even when claims performance has been good.

LGM Assets finished the year with a small surplus which is a good outcome in the current climate, and it is the capping of the mutuals direct exposure to events, prudent reinsurance arrangements, and spreading of risk across supporting insurers that minimises the impact on member contributions.

LGM Assets finished the year with a small surplus which is a good outcome in the current climate, and it is the capping of the mutuals direct exposure to events, prudent reinsurance arrangements, and spreading of risk across supporting insurers that minimises the impact on member contributions.

The LGW rate for members' workers compensation contributions remained at 1.3% from the previous year, and a $2.45M distribution was returned directly to scheme members. Annual operations continued to produce a surplus result and steady investment returns.

Since the inception of LGW in 1998 the average Council rate has reduced from 3.64% being charged by WorkCover at that time to 1.30% of payroll in the LGW scheme today. Savings year on year highlight the importance of maintaining the existing self-insurance arrangements for Councils. Despite this success members should not be complacent, and we need to ensure that collectively we continue to achieve the benchmarks set by the Regulator which are critical to maintain the scheme's self-insurance licence.

More recently LGW has had a strong focus on Workplace Health & Safety which included the implementation of a WHS Strategy for 2019-20 and a number of initiatives for Councils to ensure that their Safety Management Systems are at a satisfactory level in accordance with the scheme's licence conditions. These initiatives include the Skytrust Pilot Program and a dedicated LGW WHS Conference for members with subsidised registration and training to be held in early 2021.

It is also important to note that the LGAQ Board as Trustee of the mutual schemes in 2018 voted to collectively return up to $5 million per year to both scheme member Councils, for such a period of time that material available surpluses exist in the schemes.

After more than 20 years in operation LGMS continues to exist for the sole purpose of providing Queensland Local Government with comprehensive tailored covers (not otherwise available in the commercial insurance market), which provides cost stability and minimises the impacts of volatile insurance markets by avoiding being dependent on the traditional insurance markets.

We appreciate Councils ongoing support of the schemes.

LGM Board of Management

Pictured (left to right) Mr Greg Hallam, Mayor Rachel Chambers, Mr John Sharman, Mr Ian Leckenby, Mr Terry Brennan, Mr Bill Lyon
Absent: Mayor Karen Williams, Mr Bob Millar and Mr Stephen Fynes-Clinton

MR IAN LECKENBY
Chair

MR BILL LYON
Divisional Manager
Organisational Services
Brisbane City Council

MR TERRY BRENNAN
Chief Executive Officer
Burdekin Shire Council

MR JOHN SHARMAN
Consultant

MR STEPHEN FYNES-CLINTON *
Barrister-at-Law

MR BOB MILLAR *
Consultant

MR GREG HALLAM AM PSM
Chief Executive Officer
Local Government Association of Queensland

MAYOR KAREN WILLIAMS
Redland City Council

MAYOR RACHEL CHAMBERS
North Burnett Regional Council

**Mr Bob Millar and Mr Stephen Fynes-Clinton ceased being members of the Board of Management effective 30 June 2020 and 27 August 2020.*

LGW Management Committee

Pictured (left to right) Mr John Sharman, Mayor Rachel Chambers, Mr Ian Leckenby, Mr Terry Brennan, Mr Greg Hallam
Absent: Mr Bob Millar and Mr Stephen Fynes-Clinton

MR IAN LECKENBY
Chair

MR TERRY BRENNAN
Chief Executive Officer
Burdekin Shire Council

MR GREG HALLAM AM PSM
Chief Executive Officer
Local Government Association of Queensland

MR STEPHEN FYNES-CLINTON *
Barrister-at-Law

MR JOHN SHARMAN
Consultant

MAYOR RACHEL CHAMBERS
North Burnett Regional Council

MR BOB MILLAR *
Consultant

**Mr Bob Millar and Mr Stephen Fynes-Clinton ceased being members of the Management Committee effective 30 June 2020 and 27 August 2020.*

Manager's Message

CRAIG HINCHLIFFE

General Manager Queensland & NT
JLT Public Sector

Positive outcomes were once again achieved in the 2019/20 LGMS membership year for the LGMS mutuals in an ever more challenging operating environment than could have been anticipated, perhaps imagined.

Each of LGW Workcare, LGM Liability and LGM Assets were able to deliver stability and levels of certainty enabled by the strength of long established mutuals owned by a committed membership.

The LGMS mutuals facilitate the aggregation of information, data and collective influence. Ongoing improvement of the substantive workers compensation, liability and asset risks covered by the mutuals deliver direct financial outcomes and empower engagement with regulators and capital markets.

LGMS continues to be the vehicle by which Queensland Local Government has been able to aggregate risk, execute informed decisions as to the collective retention and sharing of that risk among themselves, and then engage with insurance markets only for necessary supporting protection, as a risk driven market influencer rather than be left as individual market led price takers. This influence continues to be essential to engaging with ever increasingly global insurance and risk markets, subject to their own increasingly difficult financial and regulatory imperatives and environments.

The JLT Public Sector team acknowledges the LGM Liability and Assets Board of Management, LGW Management Committee and LGAQ for the ongoing opportunity to contribute and collaborate.

As always, thank you to all LGMS Member Councillors and staff colleagues for the ongoing commitment to LGMS membership. We once again look forward to continuing to work with you to improve the management of risk so as to, maximise the benefits of Queensland Local Government ownership and control of the LGMS mutuals. ■

LGMS continues to be the vehicle by which Queensland Local Government has been able to aggregate risk, execute informed decisions as to the collective retention and sharing of that risk among themselves, and then engage with insurance markets only for necessary supporting protection, as a risk driven market influencer rather than be left as individual market led price takers.

LGMS Member Services

The LGMS proposition is based on deep knowledge, tailored advice and services to ensure the mutuals act in the best interests of Members to achieve the best possible outcomes. LGMS works in partnership with Members to jointly identify opportunities to minimise risks. These services are available in both metropolitan and regional areas, which again reflects our commitment to servicing the needs of all Queensland Councils.

The LGMS Regional Risk Coordinator program and the LGW Workplace Health and Safety Team assist Member Councils with support, advice and assistance to achieve the common goal of minimising the liability and workcare exposures of local government. Our LGMS Member Centre is a Member only website that provides members with up to date information and tools to assist with continuous improvement opportunities.

Member Services include:

- Workplace Health & Safety
- Injury Management
- Claims Management
- Risk Management Systems
- Risk Management Advice
- Risk Management Guides
- Risk and Safety Audits
- Entrprise Risk Management Programs
- Community Group Insurance Programs
- Asset Surveys

LGMS Member Engagement

As mutual schemes, it is important for LGMS to regularly meet with our Members to understand and ensure their satisfaction, quality of products and scheme service levels are met. A LGMS Member Engagement Strategy was recently implemented to further enhance our engagement with Members and provide greater transparency and communication to Councils. This initiative is a direct outcome of discussions with our Members following a review of our Value Proposition.

Right and below: Highlights from LGAQ Annual Conference and WHS Forums

While COVID-19 challenged our 2020 face to face interactions for a good five months, LGMS remained committed to engaging with our Members in other ways whether it be by phone, email or virtual meetings. By way of example LGMS Regional Risk Coordinator Paul Bright facilitated three virtual Local Government Risk Focus Group meetings which involved subject matter experts from both local government and the private sector. The LGM Assets team also hosted a Disaster Management Preparedness Webinar which had great attendance by our Member Councils.

Meanwhile LGW has continued to focus on Workplace Health & Safety as a key area for

Left: (L-R) Nathan Turner (Divisional Manager, LGM Assets and Member Services - JLT Public Sector), Paul Bright (Regional Risk Coordinator SEQ – LGMS), Ian Barton (Regional Risk Coordinator NQ – LGMS, Rachael Lindsay (Principal Governance Advisor, Insurance Services – LGAQ)

Right and below: Highlights from LGAQ Annual Conference

Councils and is assisting Members by subsidising the facilitation of Regional WHS Forums. This has been welcomed by Members who were keen for opportunities to share their learnings on issues affecting Local Government

Following the 2020 Local Government Elections and as soon as COVID-19 restrictions lifted in Queensland our LGMS team were back out on the road participating in Elected Member Updates (EMU) run by LGAQ throughout the state. These events provide an opportunity to engage with council's newest Members to Local Government to ensure they are familiar with our mutual schemes and the benefits and value they provide for Councils.

In 2019 the LGW Management Committee also committed to facilitating a LGW Workplace Health and Safety Conference for Member Councils. It is proposed that this conference will provide subsidised registration for Member Councils with industry leading speakers and training to be run over three days.

Noosa Council EMU

Redland City Council EMU

Whitsunday Regional Council EMU

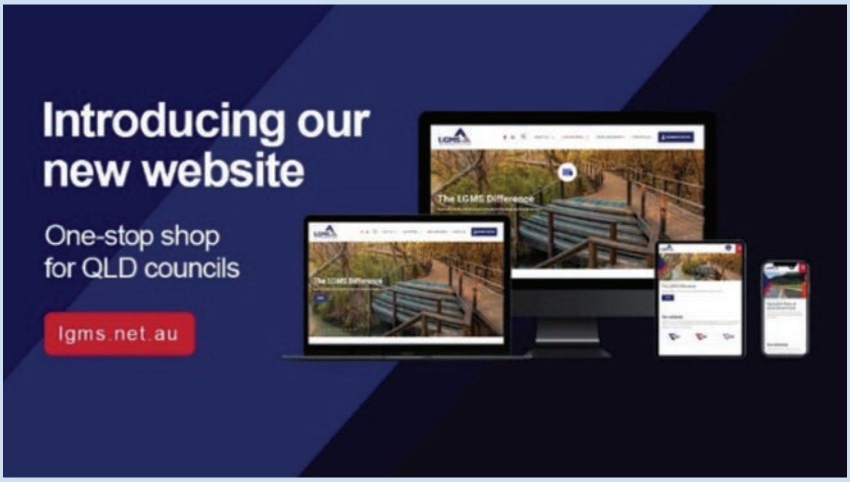
Rachael Lindsay, Redlands City Council, EMU

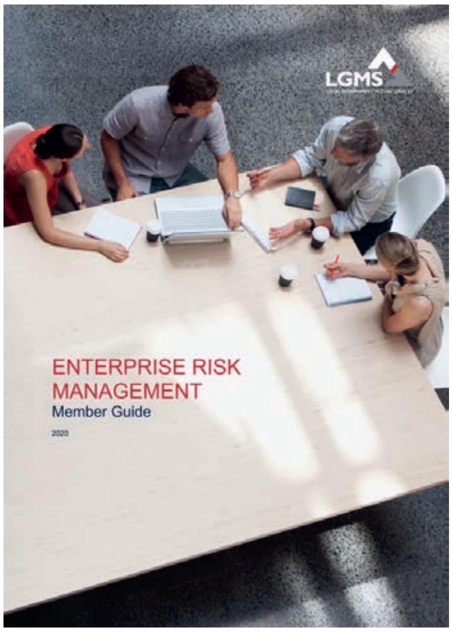
LGMS Member Engagement

LGMS Communications

LGMS recently launched a new LGMS website that enables us to communicate more regularly and effectively with our mutual scheme Members. The LGMS website provides Members with information on the schemes and access to practical resources through the LGMS Member Centre. It will also provide regular updates on mutual scheme Member initiatives and benefits.

Visit the LGMS website at www.lgms.net.au to keep up to date or follow us on Facebook and LinkedIn.





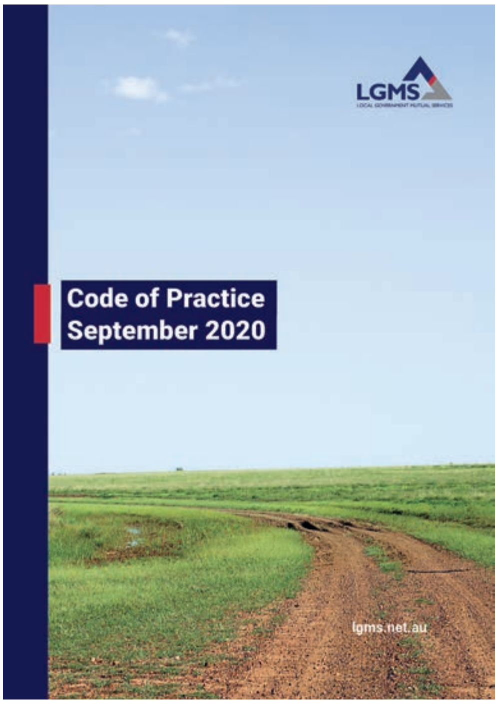
Enterprise Risk Management (ERM) Member Guide

In January 2020 the Enterprise Risk Management Guide was released as a resource to support LGMS Members in their risk management journey.

The Guide has been developed to align with AS ISO 31000:2018 Risk Management – Guidelines and provides local government specific guidance on developing an appropriate, effective and efficient enterprise risk management framework that is based on a continual improvement approach to managing risk.

The guide focuses on the interrelationship between good governance and risk management and provides practical assistance for Members in the task of assessing and improving their risk management maturity.

The new guide is available through the LGMS Member Centre. Members are encouraged to discuss the information provided in the new guide with their designated Regional Risk Coordinator.



LGMS Code of Practice

Earlier this year the LGM Board of Management and LGW Management Committee endorsed an LGMS Code of Practice for the mutual schemes.

This document was developed to provide members of the mutual schemes with an increased level of transparency and outlines the levels of service and support scheme members can expect. The LGMS Code of Practice can be found on the LGMS website.

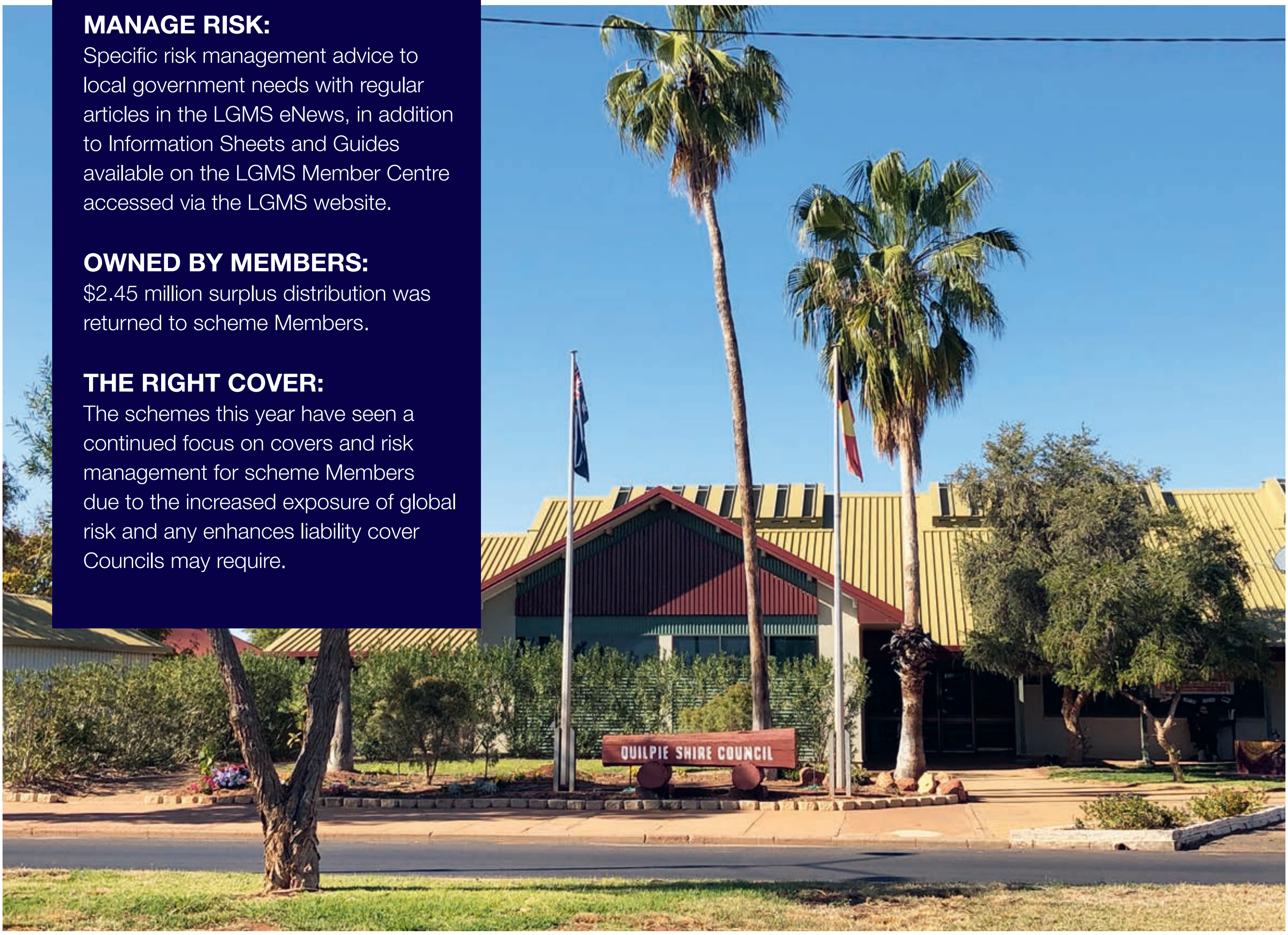

FREE
WATER
REFILLS
Top up your
bottle here

LGM Liability & Claims Statistics

MANAGE RISK:
Specific risk management advice to local government needs with regular articles in the LGMS eNews, in addition to Information Sheets and Guides available on the LGMS Member Centre accessed via the LGMS website.

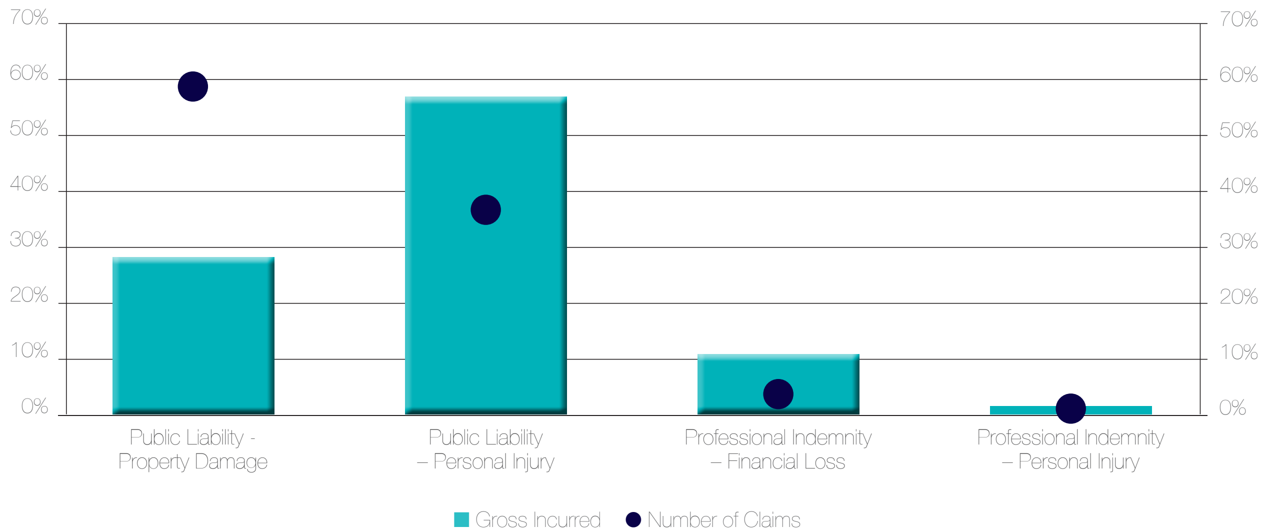
OWNED BY MEMBERS:
$2.45 million surplus distribution was returned to scheme Members.

THE RIGHT COVER:
The schemes this year have seen a continued focus on covers and risk management for scheme Members due to the increased exposure of global risk and any enhances liability cover Councils may require.

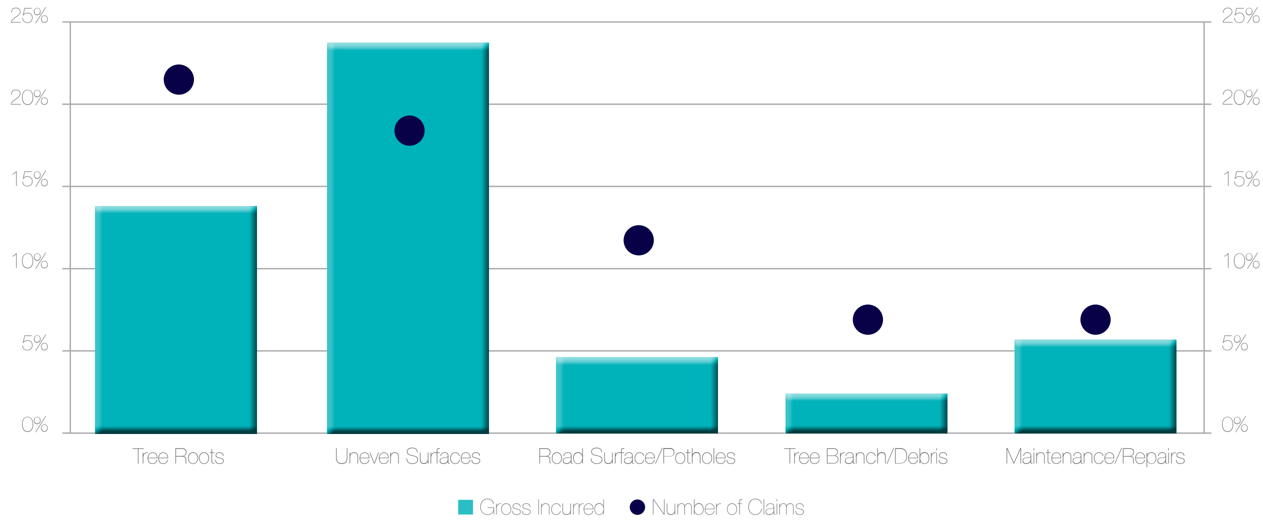


What were the top reasons for Council claims?

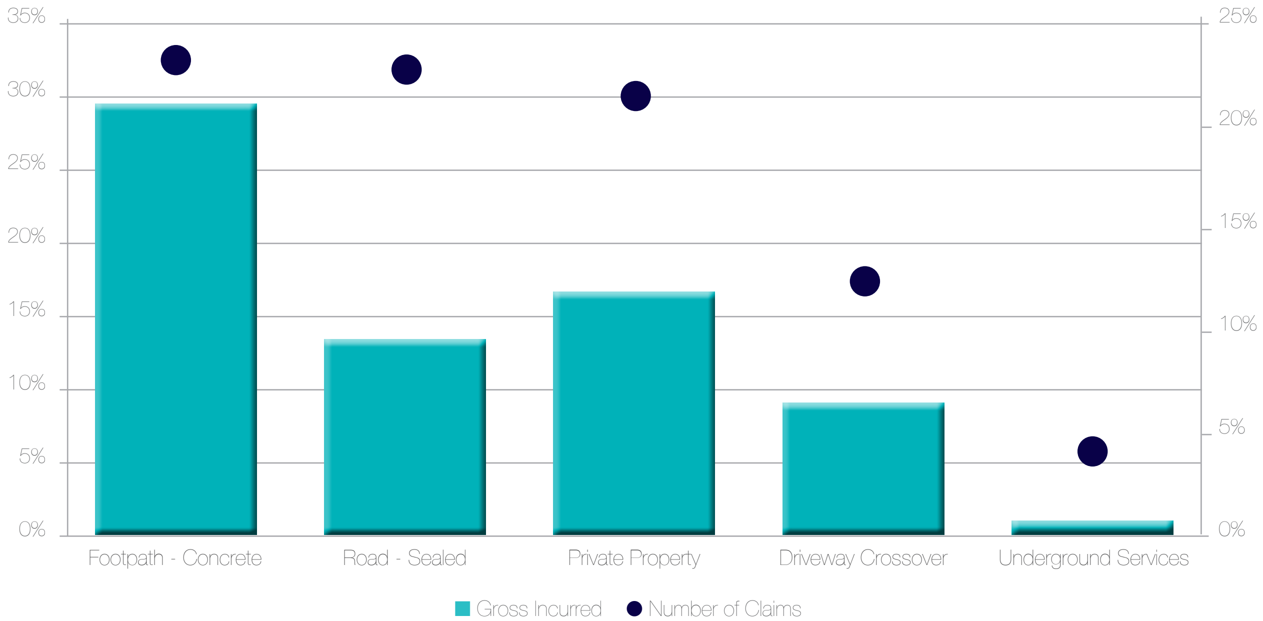
Types of Cover 2019/2020 by number of claims and claims cost



Top 5 Liability Claim Causes 2019/2020 by number of claims and claims cost



Top 5 Liability Locations 2019/2020 by number of claims and claims cost



LGM Assets & Claims Statistics

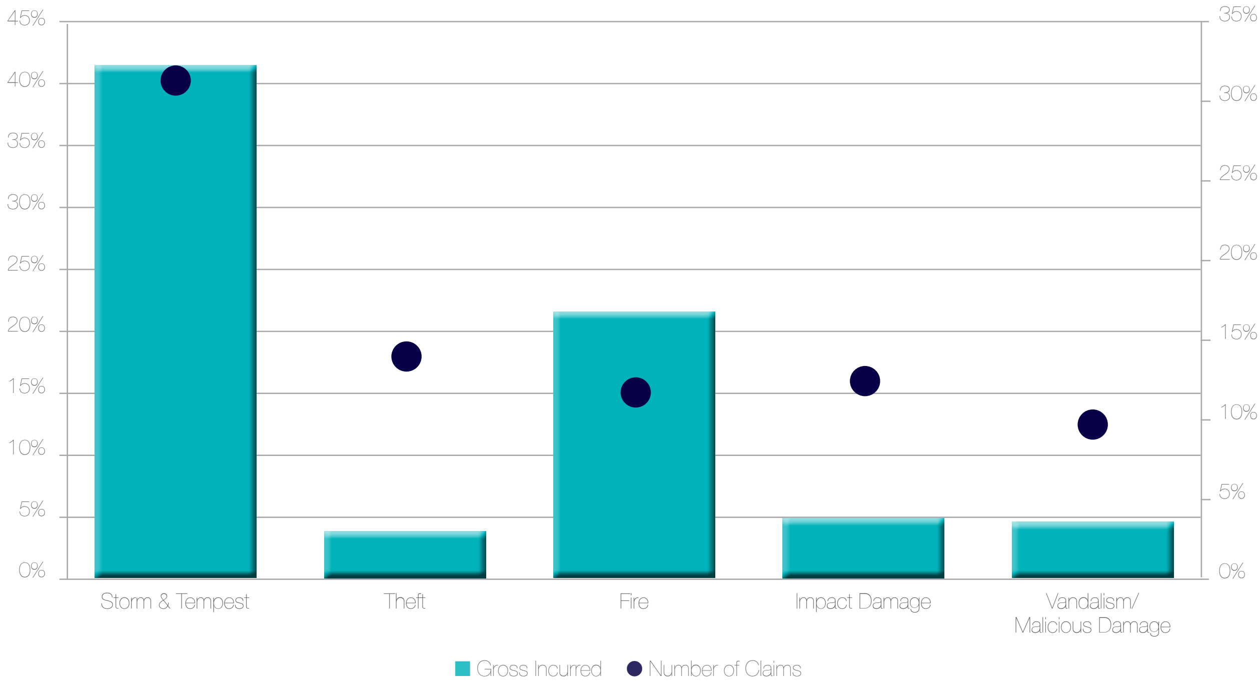
BEST CLAIMS PRACTICE:
In the aftermath of events LGM Assets is able to support Members to expedite the repair of damaged assets so they can recover quickly to resume operations and reinstate community assets. LGM Assets works with Members on their claims process to understand critical needs, establish priorities and arrange resources to support recovery efforts for their communities.

THE RIGHT VALUATION:
LGM Assets continues to assist Members to ensure their assets are appropriately valued and insured which also enables them to respond to identified risk exposures. Members are also encouraged to identify any hazards or risks at a location where assets may be exposed, to enable them to make informed risk based decisions on asset management.

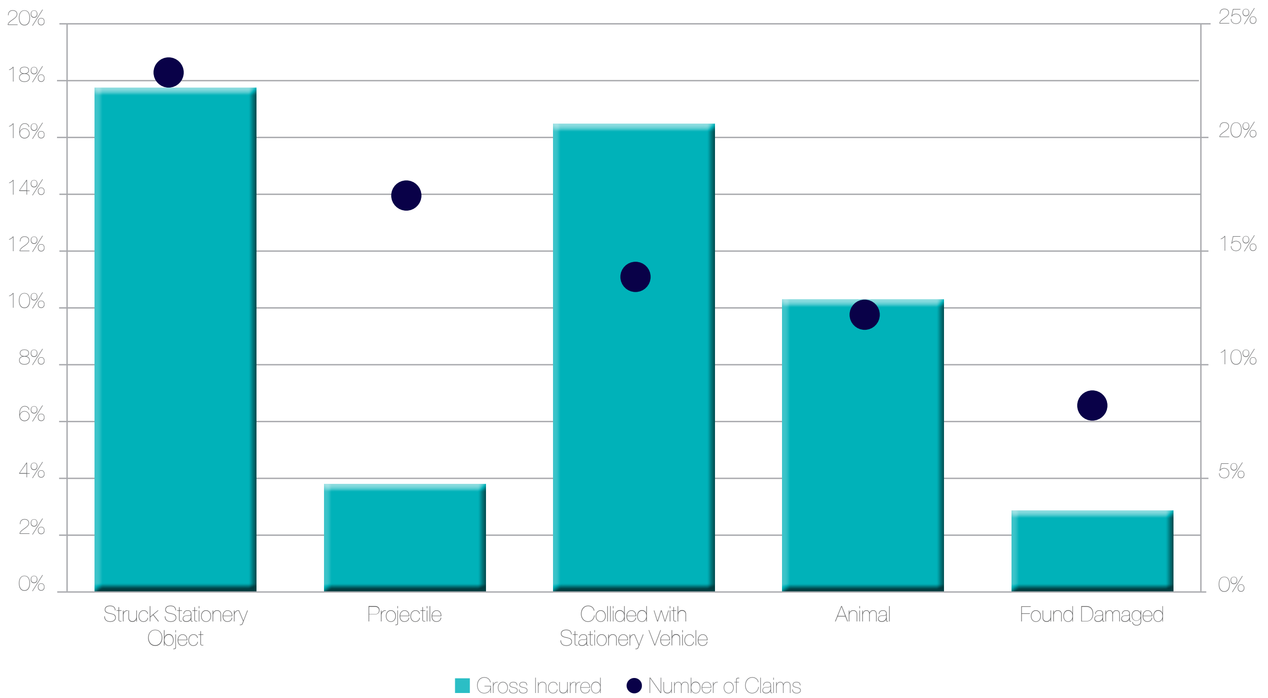
COMMITMENT:
It is Members ongoing commitment to the mutual schemes on a collective basis that enables it to achieve its objectives to minimise volatility and ensure sustainability of both cost and coverage despite challenging insurance market conditions.

What were the top reasons for Council claims?

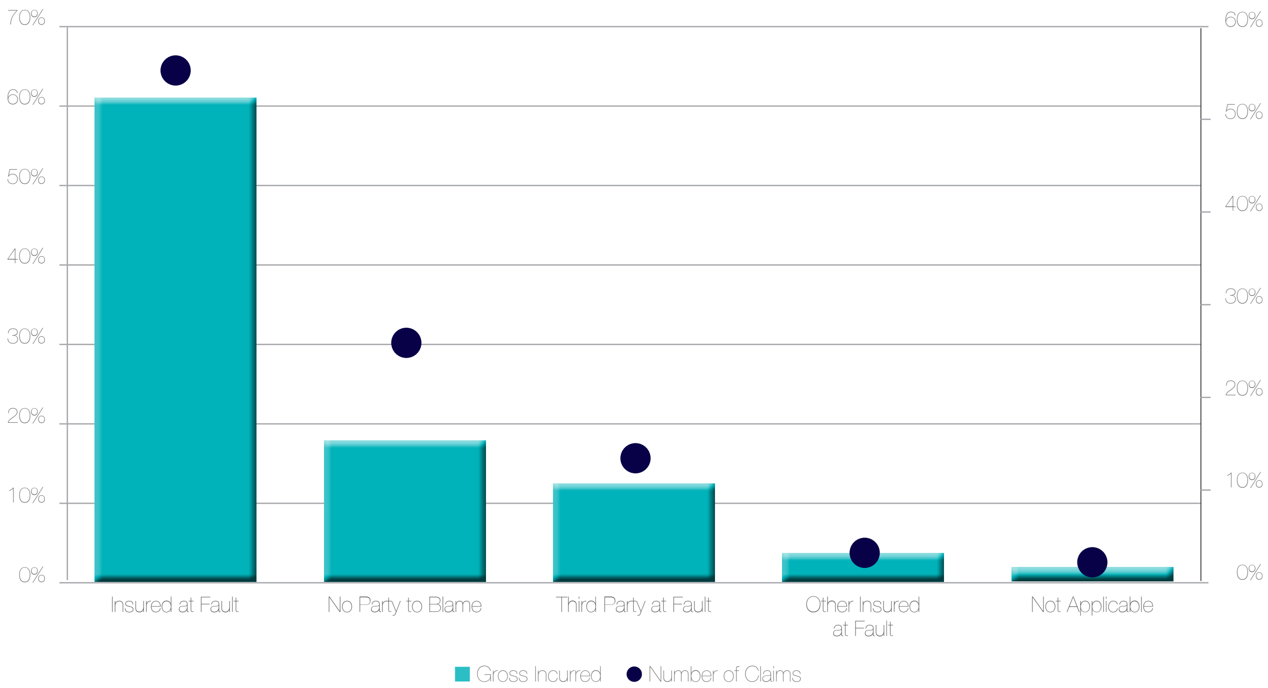
Top 5 General Property Claim Causes by number of claims and claims cost



Top 5 Motor Claim Causes by number of claims and claims cost



Top 5 Party Responsible for Motor Vehicle Claims by number of claims and claims cost



LGW Workcare & Claims Statistics

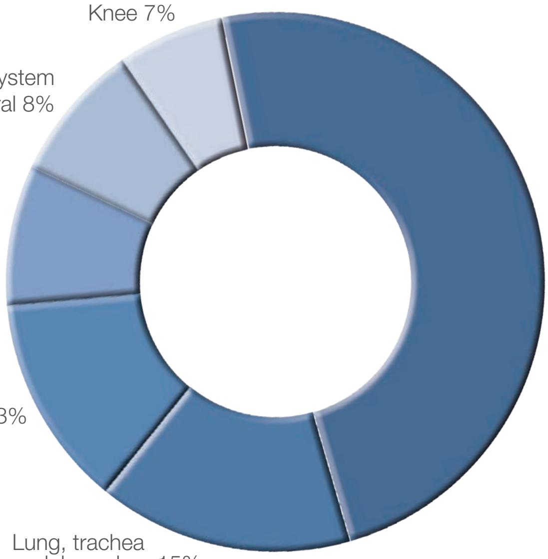
SUSTAINABLE COST:
The LGW scheme rate has remained at 1.3% again this year and it is this stability and sustainability year on year which demonstrates how the self-insurance mutual collectively assists Members.

OWNED BY MEMBERS:
$2.45million surplus distribution was returned to scheme Members.

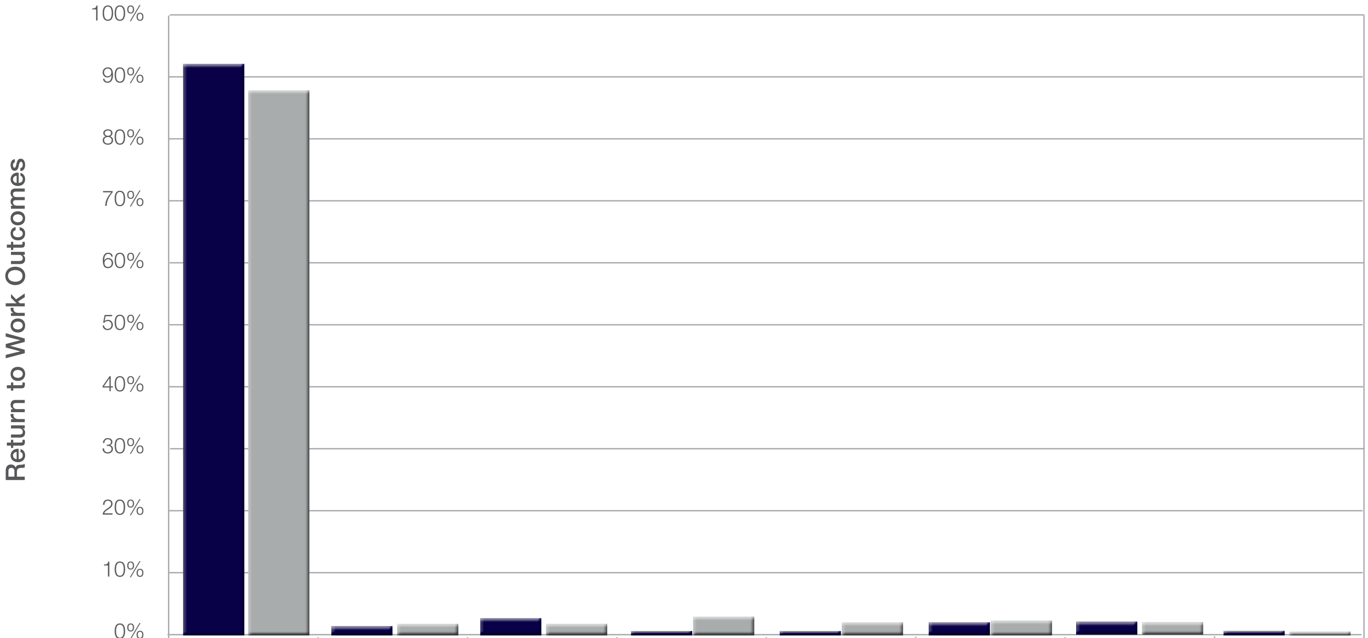
BEST CLAIMS PRACTICE:
The high return to work rate for LGW of 91.1% demonstrates that the majority of injured workers are returning to their pre-injury role with Council. This rate is notably higher than that of the statutory Workers Compensation provider at 88%.

What were the injuries sustained by Council workers?

Top 6 Injury Locations by total cost



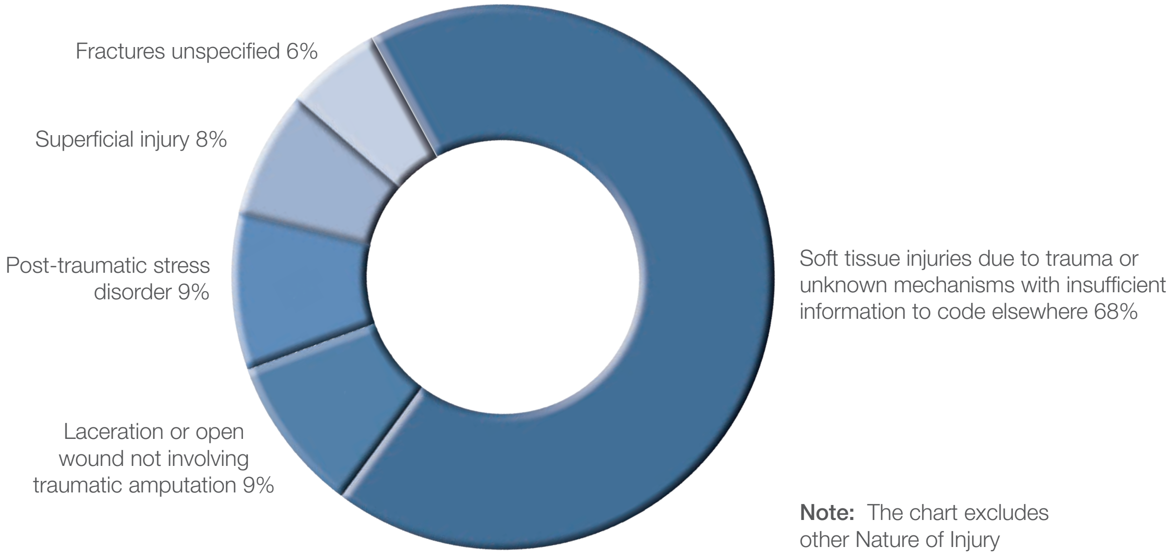
LGW vs WorkCover



	Fit for work: same job/tasks with same employer	Fit for work: same job/tasks with different employer	Fit for work: different job/ tasks with same employer	Fit for work: different job/ tasks with different employer	Fit for work: No job	Fit for work: worker does not return	Not fit for work	Alternative outcome not claim related
LGW	91.10%	0.90%	3.20%	0.40%	0.40%	1.80%	2.00%	0.40%
WorkCover	88.00%	1.40%	1.20%	3.50%	1.80%	2.30%	1.70%	0.20%

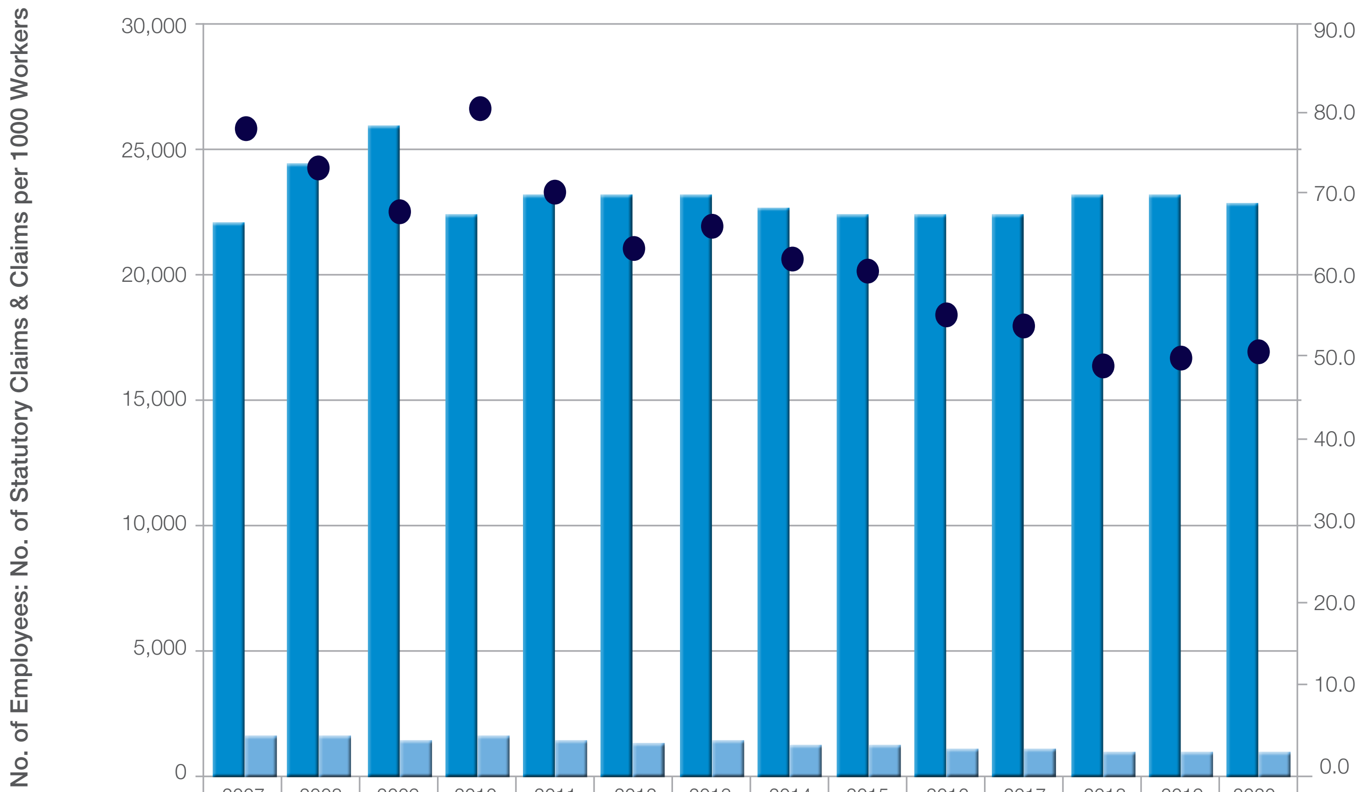
■ LGW ■ WorkCover

Top 5 Nature of Injuries by number of claims



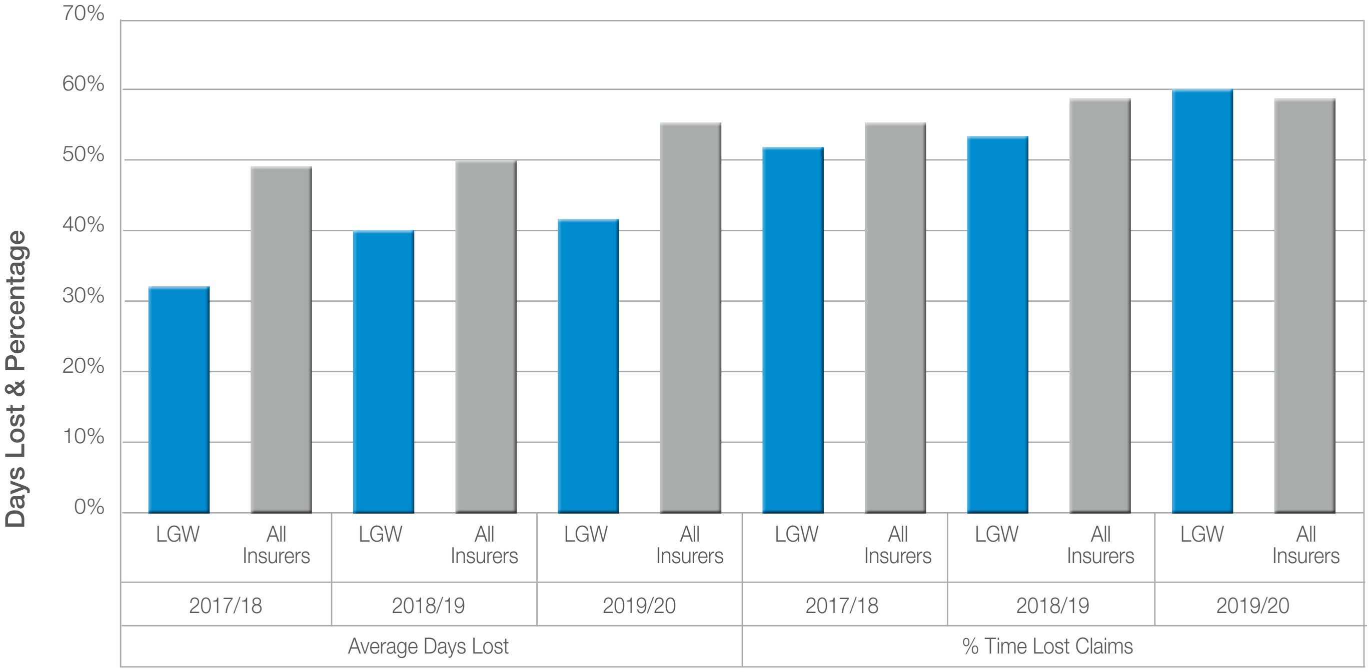
Note: The chart excludes other Nature of Injury

Claims Frequency by injury year

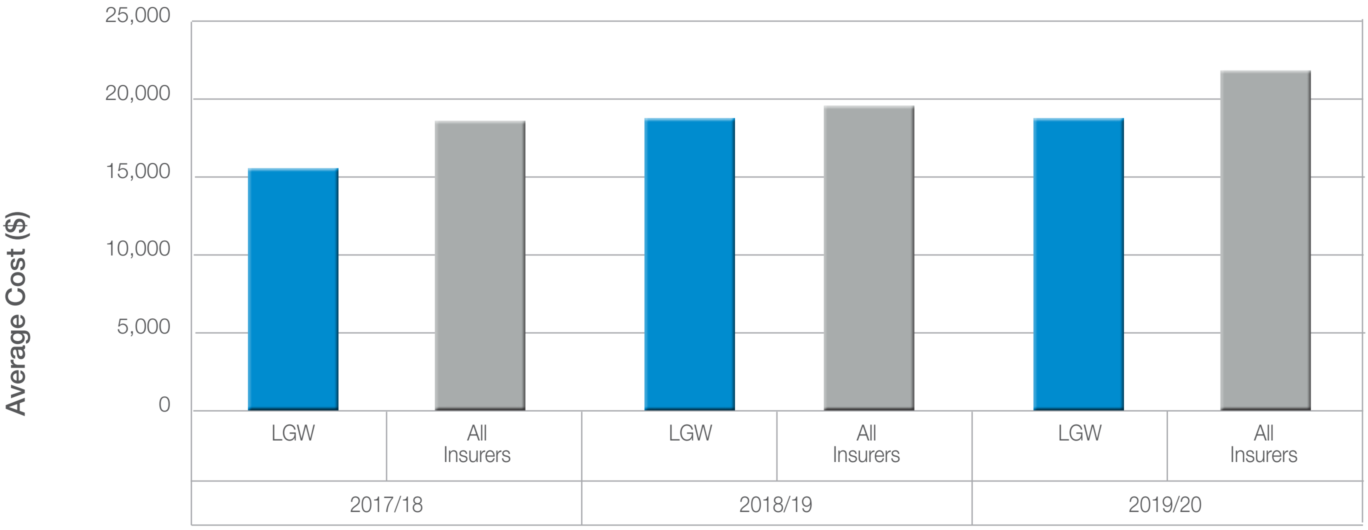


	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
No. of Employees	22,236	24,675	25,307	22,826	23,392	23,433	23,001	22,606	22,270	22,494	22,469	23,381	23,429	23,255
No. of Statutory Claims	1722	1775	1665	1761	1607	1444	1499	1367	1353	1236	1226	1140	1168	1172
Claims per 1,000 workers	78.8	73.9	67.8	80.0	70.7	64.0	66.3	62.0	60.2	55.7	54.6	48.8	49.9	50.4

Time Lost Claim Indicators 2019/20



Average Cost of Time Lost Claims 2019/20



LGMS Risk Excellence Awards 2019-20

The LGMS Risk Excellence Awards recognise the efforts of our Member Councils who have achieved excellent ongoing improvements in risk management.

Left: (L-R) Ian Church (CEO, Lockyer Valley Regional Council), Mayor Tanya Milligan (Lockyer Valley Regional Council), Mayor Lyn McLaughlin (Burdekin Shire Council), Ian Leckenby (Chairman, LGM Board), Councillor David Lee Division 9 Hervey Bay (Fraser Coast Regional Council), Christine Rolfe - Central Highlands Deputy Mayor and Councillor (Central Highlands Regional Council), Kerry Hayes, Mayor (Central Highlands Regional Council).
Off Camera - Craig Hinchliffe (JLT Public Sector)

Member nominations are identified in consultation with the designated LGMS Regional Risk Coordinator for Member Councils. Four awards are made available each year for each geographical region with consideration given for specific project, initiatives or programs that are designed to align with the principles of Australian Standard ISO 31000:2018 - Risk management – Guidelines, effectiveness and impact on reducing risk, or Progressing Members risk management maturity.

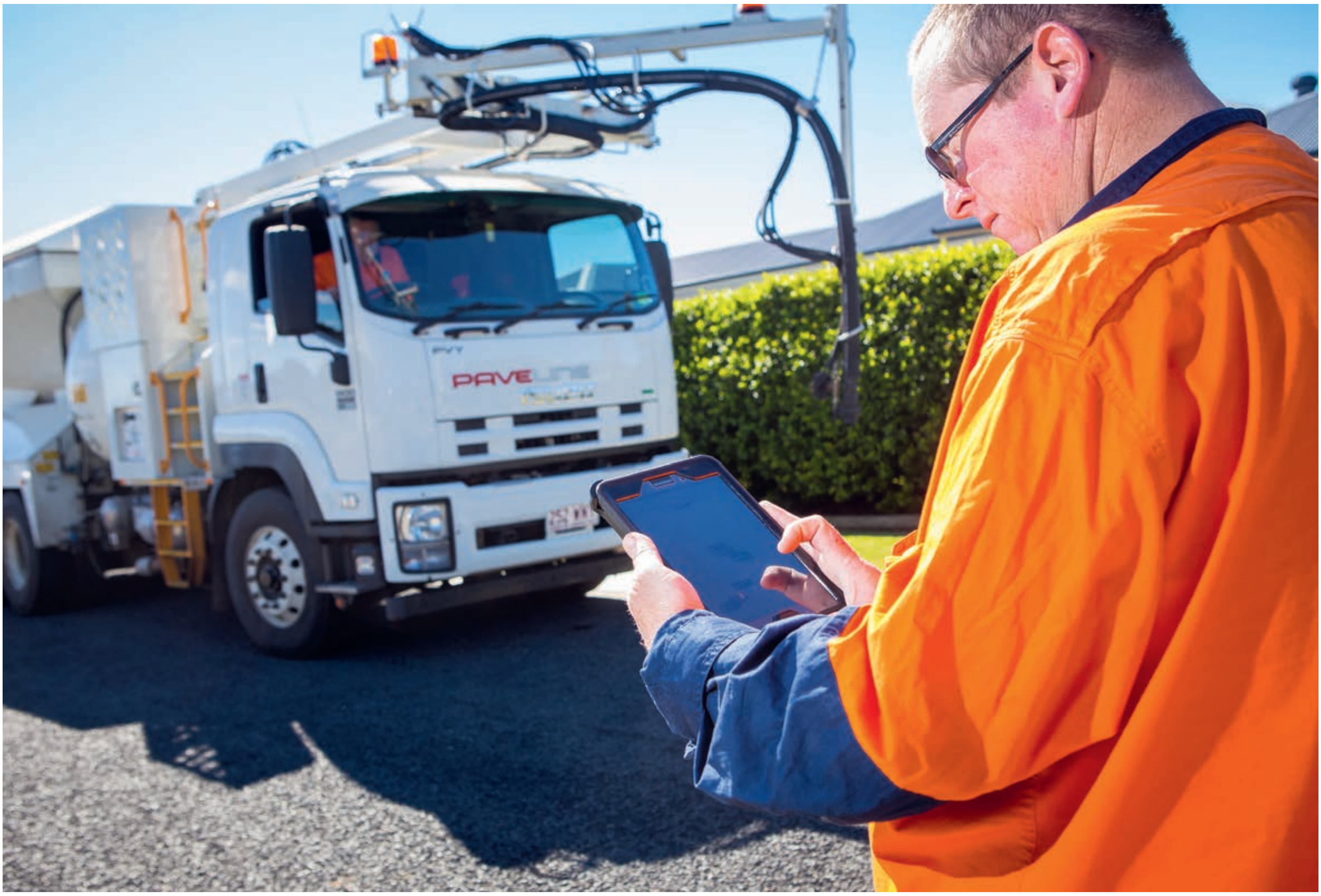
The LGMS Risk Excellence awards were presented at the LGAQ Annual Conference held at the Gold Coast by Ian Leckenby (LGMS Chair) and Mayor Rachel Chambers from North Burnett Regional Council (LGMS Board Member).

The winners receive a trophy and recognition at the LGAQ Annual Conference, in LGMS eNews, and have an opportunity to present at a Local Government Risk Management Focus Group meeting. Each award recipient has their travel costs and registration covered for a council representative to attend the National Local Government Risk Management Conference, and in addition, funding towards eligible risk management consulting services to a total of $20,000.

Congratulations to the following 2019-20 winners!

NORTH QLD	CENTRAL QLD	SOUTH WEST QLD	SOUTH EAST QLD
Burdekin Shire Council	Central Highlands Regional Council	Lockyer Valley Regional Council	Fraser Coast Regional Council
Council undertook an extensive review of its Enterprise Risk Management program to ensure its policy, framework and procedures are fit for purpose and 'add value' to strategic and operational activities.	'The Game Plan' which is a strategic approach to guide organised sport and recreation towards a long term sustainable and growth-focused future in the region.	Council made significant improvements to its enterprise risk management framework. This culminated with the recent adoption of a new Risk Management Policy, Appetite Statements and Corporate Risk Register.	'Learning and Organisational Development Program' which identifies and progresses learning opportunities for Council employees including leadership development and upskilling.


RETURNS
Red Hot Reads
SELF SERVICE
SELF SERVICE
CINDERELLA
Toot, toot, boom!
Listen to the band
Baby Dance



Financial Statements

for the year ended 30 June 2020

Contents

Statement of Profit or Loss and other Comprehensive Income

for the year ended 30 June 2020

This statement should be read in conjunction with the notes to the financial statements set out on pages 25-39.

	Note	2020 $	2019 $
REVENUE			
Member contributions	3	52,679,876	46,001,912
Reinsurance and other recoveries revenue	3	6,007,192	5,752,251
Other income	3	173,891	113,397
Insurer Buy-Out revenue	3	-	4,160
Investment income	3	2,714,897	2,356,241
Changes in the fair value of investments	3	-	1,228,911
Interest revenue	3	554,154	1,479,188
Total revenue		**62,130,011**	**56,936,060**
EXPENSES			
Claims expense	3	(18,830,810)	(19,883,078)
Outwards risk premium expense	3	(32,800,632)	(25,362,208)
Other underwriting expenses	3	(5,157,598)	(4,741,888)
Changes in the fair value of investments		(3,038,238)	-
General expenses	3	(1,521,608)	(1,490,273)
Total expenses		(61,348,886)	(51,477,447)
Operating result		781,125	5,458,613
Other comprehensive income		-	-
Total comprehensive income for the year attributable to Members		**781,125**	**5,458,613**

Statement of Financial Position

as at 30 June 2020

This statement should be read in conjunction with the notes to the financial statements set out on pages 25-39.

	Note	2020 $	2019 $
CURRENT ASSETS			
Cash and cash equivalents	7(a)	31,301,138	54,137,420
Trade and other receivables		287,427	214,557
Reinsurance and other recoveries receivables		6,932,901	5,860,798
Financial assets		113,630,882	87,781,987
Total current assets		**152,152,347**	**147,994,762**
NON-CURRENT ASSETS			
Reinsurance and other recoveries receivables		16,970,085	21,461,499
Total non-current assets		16,970,085	21,461,499
Total assets		**169,122,432**	**169,456,261**
CURRENT LIABILITIES			
Trade and other payables		197,218	179,846
Unearned contributions		15,209,251	10,843,605
Distribution payables	18	762,129	1,093,173
Future claims and associated costs	9	26,927,761	28,470,683
Total current liabilities		**43,096,360**	**40,587,306**
NON-CURRENT LIABILITIES			
Future claims and associated costs	9	51,361,993	51,876,000
Total non-current liabilities		51,361,993	51,876,000
Total liabilities		94,458,353	92,463,306
NET ASSETS		**74,664,079**	**76,992,954**
EQUITY			
Retained surplus		74,664,079	76,992,954
TOTAL EQUITY		**74,664,079**	**76,992,954**

Statement of Changes in Equity

for the year ended 30 June 2020

This statement should be read in conjunction with the notes to the financial statements set out on pages 25-39.

	Note	2020 $	2019 $
Total equity at the beginning of the financial year		76,992,954	75,834,341
TOTAL COMPREHENSIVE INCOME:			
Net result for the year		781,125	5,458,613
Total comprehensive income		781,125	5,458,613
Surplus Distribution	18	(3,110,000)	(4,300,000)
Total equity at the end of the financial year		**74,664,079**	**76,992,954**

Statement of Cash Flows

for the year ended 30 June 2020

This statement should be read in conjunction with the notes to the financial statements set out on pages 25-39.

	Note	2020 $	2019 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Member contributions		56,751,969	41,293,611
Outwards risk premium expense		(32,779,313)	(25,362,208)
Claims expense		(17,451,607)	(14,985,113)
Other underwriting and general expenses		(6,731,352)	(6,221,526)
Interest revenue		634,229	1,483,681
Reinsurance and other recoveries revenue		5,961,372	5,954,581
GST collected from Members		5,621,560	4,064,118
GST paid to suppliers and ATO		(5,403,752)	(4,668,077)
Other income		173,891	113,397
Insurer Buy-Out revenue		-	10,234
NET CASH PROVIDED BY OPERATING ACTIVITIES	7(b)	**6,776,998**	**1,682,697**
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments from Investments		(28,887,134)	(6,139,731)
Investment income		2,714,897	2,356,241
NET CASH PROVIDED BY/(USED IN) INVESTING ACTIVITIES		(26,172,236)	(3,783,489)
SURPLUS DISTRIBUTION PAID		(3,441,043)	(3,664,163)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(22,836,281)	(5,764,955)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL YEAR		54,137,420	59,902,375
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR		**31,301,138**	**54,137,420**

1. Background

Queensland Local Government Mutual (LGM) is a Trust which has been established in Australia by the Local Government Association of Queensland Ltd (previously known as Local Government Association of Queensland Inc.) under a Trust Deed dated 3 December 1993.

The Queensland Local Government Mutual is a self-insurance scheme.

LGM was renamed from Queensland Local Government Mutual Liability Pool to Queensland Local Government Mutual as part of the Trust Deed amendment dated 21 May 2015 that continued a fund for civil liability and established a separate Asset Fund.

The Liability Fund and Asset Fund are both established under the one Trust Deed to spread public liability, professional indemnity and asset risk between the Members, and provide risk management services for the local governments in Queensland who elect to become the members. Although there are two separate funds, these funds are not 'individual reporting entities'. There is one legal entity, Queensland Local Government Mutual, which controls both funds. The Asset Fund commenced operations on 1st July 2015. The principal activity of Queensland Local Government Mutual is the provision of cover for civil liability (Liability Fund) and asset loss (Asset Fund) incurred by local governments and local government controlled entities within Queensland and the management of associated claims.

The principal place of business of Queensland Local Government Mutual is:

Local Government House
27 Evelyn Street
Newstead QLD 4006

All employees are employed by the Scheme Manager, JLT Risk Solutions Pty Ltd and their associated costs are recharged to LGM through a monthly scheme management fee. This fee is disclosed in the Statement of Profit or loss and other Comprehensive Income as 'other underwriting expenses'.

2. Statement of significant accounting policies

a) Basis of preparation

These financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards, (including the Australian Accounting Interpretations) to satisfy reporting responsibilities under the Queensland Local Government Mutual (LGM) Trust Deed. LGM is a not for profit entity and the Australian Accounting Standards includes requirements for not for profit entities which are inconsistent with International Financials Reporting Standards (IFRS). Therefore in some instances these financial statements do not comply with IFRS. They have been prepared on the basis of historical costs except where stated. The Liability Fund actuary has increased projected future claims payments to allow for inflation and discounted the expected payments to 30 June 2020 to obtain the present value of the liability.

The accounting policies are consistent with those of the previous year unless otherwise stated. The functional and presentation currency of LGM is Australian Dollars.

b) Rounding

Figures in the financial statements are rounded to the nearest dollar unless otherwise indicated.

c) Estimates and judgements

In the process of applying the significant accounting policies, certain critical accounting estimates and assumptions are used and certain judgements are made.

The areas where the estimates and assumptions involve a high degree of judgement or complexity, and are considered significant to the financial statements, are:

- Reinsurance and other recoveries on outstanding claims, refer notes 3 and 10.
- Future claims and associated costs, refer notes 3 and 9.

d) Taxation

LGM is subject to Goods and Services Tax (GST). The net amount of GST recoverable from or payable to the Australian Taxation Office is shown as an asset or liability respectively.

LGM is not a separate legal entity, and is not a partnership. It operates under a contractual relationship between its members, all of which are local governments or other local government/statutory entities, and all of which are exempt from income tax. All assets of LGM, including surpluses of contributions over claims costs and expenses, remain the directly-owned property of the members. Under the mutuality principle, therefore, LGM does not generate "income" for taxation purposes, except in relation to its investments. The investment income is directly owned property of the tax-exempt members. For these reasons, no provision has been made for income tax.

e) Changes in significant accounting policies

This year LGM has applied AASB 15 Revenue from Contracts with Customers, AASB 1058 Income of Not-for-Profit Entities and AASB 16 Leases for the first time. AASB 15 and AASB 1058 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced AASB 118 revenue and related interpretations. Under AASB 15, revenue is recognised when a customer obtains control of the services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement. Due to the nature of the membership revenue, the standard did not materially change the Scheme's framework for recognising revenue, and therefore, there has not been a material impact to the financials statements (see Note 3 (a)). Interest revenue and investment revenue continues to be recognised in accordance with AASB 9 Financial Instruments.

LGM has also adopted AASB 16 Leases for the first time from 1 July 2019. AASB 16 replaces AASB 117 and relates to the recognition, classification and measurement of leases. LGM does not have any arrangements under AASB 16 and therefore, the standard does not have a material impact on LGM's financial statements.

f) Coronavirus (COVID-19)

The spread of novel coronavirus (COVID-19) was declared a public health emergency by the World Health Organisation on 31 January 2020 and upgraded to a global pandemic on 11 March 2020. The rapid rise of the virus has seen an unprecedented global response by governments, regulators and numerous industry sectors. The Australian Federal Government enacted its emergency plan on 29 February 2020. This has led to the closure of Australian borders from 20 March 2020, an increasing level of restrictions on corporate Australia's ability to operate, significant volatility and instability in financial markets and the release of a number of government stimulus packages to support individuals and businesses as the Australian and global economies face significant slowdown and uncertainties.

The ongoing COVID-19 pandemic has increased the estimation uncertainty in the preparation of these financial statements. LGM 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 LGM believe reasonable in the circumstances.

There is a considerable degree of judgment involved in preparing these forecasts. The underlying assumptions are also subject to uncertainties which are often outside the control of LGM. Accordingly, actual economic conditions may be different from those forecasts since anticipated events may not occur as expected, and the effect of those differences may significantly impact accounting estimates included in these financials statement at the date of the report.

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

Fair value measurement of investments

LGM's investments are designated at fair value through profit and loss, and for the vast majority of the investment, the fair value is determined based on observable market data. This measurement basis has not changed as a result of COVID-19. Refer to Note 8 for further details on investments.

Future claims and associated costs

There has been no changes in the valuation of claims and related costs due to COVID-19 as the impact has been considered to be relatively minor. Changes in assumptions relating to the Future claims and associated costs not related to COVID-19 are detailed in Note 9.

Other than the matter noted above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of LGM's Board of Management, to affect significantly the operations of LGM, the results of those operations, or the state of affairs of LGM, in future financial years.

3. Revenue and expenses

	Total Liability & Asset Funds 2020 $	Total Liability & Asset Funds 2019 $	Liability Fund 2020 $	Liability Fund 2019 $	Asset Fund 2020 $	Asset Fund 2019 $
REVENUE						
Member contributions	52,679,876	46,001,912	21,659,914	20,550,629	31,019,962	25,451,283
Reinsurance and other recoveries revenue	6,007,192	5,752,251	5,972,494	5,632,261	34,697	119,990
Other income	173,891	113,397	-	-	173,891	113,397
Insurer Buy-Out revenue	-	4,160	-	4,160	-	-
Investment income	2,714,897	2,356,241	2,714,897	2,356,241	-	-
Changes in the fair value of investments	-	1,228,911	-	1,228,911	-	-
Interest revenue	554,154	1,479,188	278,487	1,092,492	275,667	386,696
Total revenue	**62,130,010**	56,936,060	**30,625,793**	30,864,694	**31,504,218**	26,071,366

Revenue recognition

Member contributions

Contributions comprise amounts charged to Members of LGM for liability and property protection. Contributions are earned from the date of attachment of risk. The pattern of recognition over the period of cover is based on time, which is considered to closely approximate the pattern of risks undertaken.

Investment revenue

Investment revenue is recognised as it accrues, taking into account the effective yield on the financial asset. Investment distributions are recognised when the right to receive payment is established. The investment revenue comprises of the distribution from the investment trusts and the interest received from the term deposits.

Interest revenue

The revenue received from cash and cash equivalents is recognised as interest revenue. It is recognised as it accrues on the cash and cash equivalents. The interest revenue comprises of the interest received from the QTC cash fund and ANZ bank.

EXPENSES						
Claims expense	(18,830,810)	(19,883,078)	(15,749,355)	(14,290,553)	(3,081,455)	(5,592,525)
Outwards risk premium expense	(32,800,632)	(25,362,208)	(9,757,578)	(7,584,381)	(23,043,054)	(17,777,827)
Other underwriting expenses	(5,157,598)	(4,741,888)	(3,876,186)	(3,732,257)	(1,281,412)	(1,009,631)
Changes in the fair value of investments	(3,038,238)	-	(3,038,238)	-	-	-
General expenses *	(1,521,608)	(1,490,273)	(1,325,239)	(1,303,954)	(196,369)	(186,319)
Total expenses	**(61,348,886)**	(51,477,448)	**(33,746,596)**	(26,911,145)	**(27,602,290)**	(24,566,302)
*General expenses include as per below						
Regional Risk Co-ordinators	683,150	686,975	683,150	686,975	-	-
Investment fees and charges	356,630	279,525	331,664	258,329	24,966	21,196
Administration expenses	481,827	523,772	310,424	358,649	171,403	165,123
	1,521,608	**1,490,273**	**1,325,239**	**1,303,954**	**196,369**	186,319

Claims expense and future claims and associated costs liability

Claims expense and a liability for future claims are recognised as losses occur for the Liability and Asset fund. The liability for future claims includes claims incurred but not yet paid, IBNR, IBNERs and the anticipated costs of settling those claims.

The liability for future claims for both the funds are measured as the present value of the expected future payments, reflecting the fact that all claims do not have to be paid out in the immediate future. The Trust takes all reasonable steps to ensure that it has appropriate information regarding its claim exposures, with estimates and judgements continually being evaluated and updated based on historical experience and other factors. The liability for future claims for both the funds is calculated using a central estimate with no explicit bias towards over or under estimation.

Liability fund

The liability for future claims includes a prudential margin to increase the probability that the overall provision for claims will be adequate. The liability has been set having regard to independent actuarial advice.

The expected future payments are estimated on the basis of the ultimate cost of settling 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. The expected future payments are then discounted to a present value at the reporting date using market determined risk adjusted discount rates. The details of rates applied are included in Note 9.

Outwards risk premiums

Premiums ceded to insurers and reinsurers are recognised as expenses in accordance with the pattern of services received, being on a daily pro-rata basis.

4. Financial position

	Total Liability & Asset Funds 2020 $	Total Liability & Asset Funds 2019 $	Liability Fund 2020 $	Liability Fund 2019 $	Asset Fund 2020 $	Asset Fund 2019 $
CURRENT ASSETS						
Cash and cash equivalents	31,301,138	54,137,420	15,135,843	41,740,033	16,165,295	12,397,387
Trade and other receivables	287,427	214,557	158,642	156,691	128,785	57,866
Reinsurance and other recoveries receivables	6,932,901	5,860,798	6,932,901	5,860,798	-	-
Financial assets	113,630,882	87,781,987	113,630,882	87,781,987	-	-
Total current assets	**152,152,347**	147,994,762	**135,858,268**	135,539,509	**16,294,080**	12,455,253
NON-CURRENT ASSETS						
Reinsurance and other recoveries receivables	16,970,085	21,461,499	16,970,085	21,461,499	-	-
Total non-current assets	16,970,085	21,461,499	16,970,085	21,461,499	-	-
Total assets	**169,122,432**	169,456,261	**152,828,353**	157,001,008	**16,294,080**	12,455,253
CURRENT LIABILITIES						
Trade and other payables	197,218	179,846	127,493	118,938	69,725	60,907
Unearned contributions	15,209,251	10,843,605	15,209,251	10,843,605	-	-
Distribution payable	762,129	1,093,173	762,129	1,093,173	-	-
Future claims and associated costs	26,927,761	28,470,683	20,633,997	22,105,000	6,293,764	6,365,683
Total current liabilities	**43,096,360**	40,587,306	**36,732,871**	34,160,716	**6,363,489**	6,426,591
NON-CURRENT LIABILITIES						
Future claims and associated costs	51,361,993	51,876,000	51,361,993	51,876,000	-	-
Total non-current liabilities	51,361,993	51,876,000	51,361,993	51,876,000	-	-
Total liabilities	94,458,353	92,463,306	88,094,865	86,036,716	6,363,489	6,426,591
NET ASSETS	**74,664,079**	76,992,954	**64,733,488**	70,964,292	**9,930,591**	6,028,663
EQUITY						
Retained surplus	74,664,079	76,992,954	64,733,488	70,964,292	**9,930,591**	6,028,663
TOTAL EQUITY	**74,664,079**	76,992,954	**64,733,488**	70,964,292	**9,930,591**	6,028,663

Unearned contributions

Member contributions billed for the next financial year but received in bank in the current financial year are recognised as unearned contributions in the Statement of Financial Position.

Reinsurance, insurance, and other recoveries

Liability Fund

Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid, incurred but not reported claims (IBNRs) and incurred but not enough reported (IBNERs) are recognised as revenue.

Recoveries receivable are assessed in a manner similar to the assessment of outstanding claims. Recoveries receivable are measured at the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

Asset Fund

The Asset Fund is supported by an appropriate insurance policy. The Asset Fund is subject to an aggregate fund. In the event that the aggregate fund is exhausted all claims will be paid by insurers.

5. Underwriting result

	Total Liability & Asset Funds 2020 $	Total Liability & Asset Funds 2019 $	Liability Fund 2020 $	Liability Fund 2019 $	Asset Fund 2020 $	Asset Fund 2019 $
Member contributions	52,679,876	46,001,912	21,659,914	20,550,629	31,019,962	25,451,283
Outwards risk premium expense	(32,800,632)	(25,362,208)	(9,757,578)	(7,584,381)	(23,043,054)	(17,777,827)
Net contribution revenue	19,879,245	20,639,704	11,902,336	12,966,247	7,976,908	7,673,456
Claims expense	(18,830,810)	(19,883,078)	(15,749,355)	(14,290,553)	(3,081,455)	(5,592,525)
Reinsurance and other recoveries revenue	6,007,192	5,752,252	5,972,494	5,632,261	34,697	119,990
Net claims expense	(12,823,618)	(14,130,826)	(9,776,860)	(8,658,292)	(3,046,758)	(5,472,534)
Other underwriting expenses*	(5,157,598)	(4,741,888)	(3,876,186)	(3,732,257)	(1,281,412)	(1,009,631)
Underwriting result	**1,898,029**	1,766,990	**(1,750,710)**	575,699	**3,648,739**	1,191,291

*Other underwriting expenses pertain to Scheme expenses management. fee..

6. Cash flows

Cash and cash equivalents

Cash and cash equivalents include cash deposits held with a financial institution, and a capital guaranteed investment held with QTC that is subject to a low risk of change in value and is readily convertible to cash on hand.

	Total Liability & Asset Funds 2020 $	Total Liability & Asset Funds 2019 $	Liability Fund 2020 $	Liability Fund 2019 $	Asset Fund 2020 $	Asset Fund 2019 $
CASH FLOW FROM OPERATING ACTIVITIES						
Member contributions	56,751,969	41,293,611	25,769,659	15,842,328	30,982,311	25,451,283
Outwards risk premium expense	(32,779,313)	(25,362,208)	(9,757,578)	(7,584,381)	(23,021,735)	(17,777,827)
Net claims expense	(17,451,607)	(14,985,113)	(14,298,232)	(11,614,521)	(3,153,375)	(3,370,592)
Other underwriting and general expenses	(6,731,352)	(6,221,526)	(5,221,380)	(4,998,417)	(1,509,972)	(1,223,109)
Interest revenue	634,229	1,483,681	345,726	1,103,301	288,503	380,381
Reinsurance and other recoveries	5,961,372	5,954,581	5,955,675	5,855,590	5,697	98,990
GST collected from Members	5,621,560	4,064,118	2,576,966	1,584,233	3,044,594	2,479,885
GST paid to suppliers and ATO	(5,403,752)	(4,668,077)	(2,361,745)	(2,183,543)	(3,042,006)	(2,484,533)
Other income	173,891	113,397	-	-	173,891	113,397
Insurer Buy-Out revenue	-	10,234	-	10,234	-	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	**6,776,998**	1,682,697	**3,009,091**	(1,985,176)	**3,767,907**	3,667,874
CASH FLOWS FROM INVESTING ACTIVITIES						
(Payments) for Investments	(28,887,134)	(6,139,731)	(28,887,134)	(6,139,731)	-	-
Investment income	2,714,897	2,356,241	2,714,897	2,356,241	-	-
NET CASH PROVIDED (USED IN) INVESTING ACTIVITIES	(26,172,236)	(3,783,489)	(26,172,236)	(3,783,489)	-	-
SURPLUS DISTRIBUTION PAID	(3,441,043)	(3,664,163)	(3,441,043)	(3,664,163)	-	-
NET INCREASE IN CASH AND CASH EQUIVALENTS	(22,836,281)	(5,764,955)	(26,604,189)	(9,432,829)	3,767,907	3,667,874
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL YEAR	54,137,420	59,902,375	41,740,032	51,172,861	12,397,388	8,729,514
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR	**31,301,138**	54,137,420	**15,135,843**	41,740,032	**16,165,295**	12,397,388

7. Notes to the statement of cash flows

(a) Reconciliation of cash

For the purposes of the statement of cash flows, cash and cash equivalents includes cash at bank and short term investment deposits at call.

Cash and cash equivalents at the end of the financial year, as shown in the statement of cash flows, is reconciled to the related items in the statement of financial position as follows:

	Total Liability & Asset Funds 2020 $	Total Liability & Asset Funds 2019 $	Liability Fund 2020 $	Liability Fund 2019 $	Asset Fund 2020 $	Asset Fund 2019 $
Cash at bank and in hand	4,549,052	4,935,075	3,724,828	4,627,129	824,224	307,946
Deposits at call	26,752,086	49,202,345	11,411,015	37,112,904	15,341,071	12,089,441
	31,301,138	54,137,420	**15,135,843**	41,740,033	**16,165,295**	12,397,387

(b) Reconciliation of operating surplus to net cash provided by operating activities:

	Total Liability & Asset Funds 2020 $	Total Liability & Asset Funds 2019 $	Liability Fund 2020 $	Liability Fund 2019 $	Asset Fund 2020 $	Asset Fund 2019 $
Operating surplus	781,125	5,458,613	(3,120,803)	3,953,549	3,901,928	1,505,064
Non cash operating items						
Change in the fair value of investments	3,038,238	(1,228,911)	3,038,238	(1,228,911)	-	-
Investing income classified as investing activities	(2,714,897)	(2,356,241)	(2,714,897)	(2,356,241)	-	-
(Increase)/Decrease in reinsurance and other recoveries receivable	3,419,312	(607,221)	3,419,312	(607,221)	-	-
Increase/(Decrease) in trade and other payables	17,373	2,528	8,555	29,607	8,818	(27,079)
Decrease/(Increase) in trade and other receivables	(72,870)	(17,857)	(1,951)	14,185	(70,919)	(32,042)
Increase/(Decrease) in unearned revenue	4,365,647	(5,290,143)	4,365,647	(5,290,143)	-	-
Increase/(Decrease) in future claims and associated costs	(2,056,929)	5,721,932	(1,985,009)	3,500,000	(71,919)	2,221,932
NET CASH FROM OPERATING ACTIVITIES	**6,776,997**	1,682,699	**3,009,090**	(1,985,175)	**3,767,907**	3,667,875

8. Financial assets

Financial assets are classified at 'fair value through profit or loss' (FVTPL) if it is classified as held for trading or is designated as such upon initial recognition. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss in the period in which they arise. Financial assets are investments in QIC managed unit trusts of $113.63 million at 30 June 2020 (2019: $87.78 million). Fair value for managed unit trusts is based on the quoted bid price of the investment at reporting date.

Fair value measurements

Monetary financial assets and financial liabilities not readily traded in an organised financial market are determined by valuing them at the present value of contractual future cash flows on amounts due from customers (reduced for expected credit losses) or due to suppliers.

Investments are disclosed using a fair value hierarchy which reflects the significance of inputs to the determination of fair value.

Fair Value Hierarchy

The different levels have been defined as follows:

Level 1 quotes prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 valuation based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability.

Level 3 valuation techniques that are not based on observable market data.

The fair value of investments is measured at market value based on QIC advice. As at 30 June 2020 LGM's financial assets are recognised as Level 2.

9. Future claims and associated costs

	Total Liability & Asset Funds 2020 $	Total Liability & Asset Funds 2019 $	Liability Fund 2020 $	Liability Fund 2019 $	Asset Fund 2020 $	Asset Fund 2019 $
Expected future claims (undiscounted)	78,972,764	82,260,683	72,679,000	75,895,000	6,293,764	6,365,683
Discount to present value	(683,009)	(1,914,000)	(683,009)	(1,914,000)	-	-
Liability for outstanding claims	**78,289,754**	80,346,683	**71,995,991**	73,981,000	**6,293,764**	6,365,683
Current	26,927,761	28,470,683	20,633,997	22,105,000	6,293,764	6,365,683
Non-current	51,361,993	51,876,000	51,361,993	51,876,000	-	-
Liability for outstanding claims	**78,289,754**	80,346,683	**71,995,991**	73,981,000	**6,293,764**	6,365,683

Asset Fund

The Asset Fund provides protection for members property related risk exposures. Liabilities arising from these exposures are normally identified within the period of protection or shortly there after. Costs associated with those liabilities are brought to account within a short period and therefore no actuarial projections are warranted. A liability for future claims is recognised as losses occur and the liability for future claims includes claims incurred but not yet paid, IBNR, IBNERs and the anticipated costs of settling those claims.

In reference to the Asset Fund, the central estimate is determined, in principle, such that there is no bias to over or under estimation. Outstanding liabilities are established in accordance with appropriate reserving principles.

Liability Fund – actuarial assumptions and methods

Liability adequacy test

In reference to the Liability Fund, the central estimate is determined, in principle, such that there is no bias to over or under estimation. However, an adequate provision for the outstanding liability requires a risk margin to be included such that the probability that the provision will prove to be sufficient is increased. An appropriate probability of sufficiency would usually be between 65% and 90%, depending on the acceptable level of risk to the insurer, whilst APRA requires a 75% probability of sufficiency for private sector insurers. LGM's Board of Management have determined to adopt a 75% probability of sufficiency.

Research undertaken on the variability of outstanding liabilities for public liability portfolios suggests that the required margin to achieve a 75% probability of sufficiency for a small portfolio such as that of LGM's lies in the range of 16% to 22%, depending on the individual characteristics of that portfolio.

The actuary has incorporated a risk margin of 20% of the central estimate of the outstanding liability plus claims handling expenses as the recommended provision at 30 June 2020. This provides a probability of sufficiency of approximately 75%. This is the same risk margin as adopted at the previous review.

Uncertainty

The actuary advised that there are many factors which can and will cause the ultimate cost of claims incurred to 30 June 2020 to deviate from the actuary's central estimate.

The sources of the uncertainty in the estimation of the outstanding liability are:

(a) The models adopted for analysis and projection will never exactly match the actual claim process,

(b) Assuming a perfect model could be constructed, past fluctuations in the experience cause uncertainty in estimating model parameters,

(c) Anomalies in the data may cause further undetected problems in estimating model parameters,

(d) Future claim fluctuations result in uncertainty in projected future payments, even if the true parameter values could be determined for a perfect model, and

(e) Future economic and environmental conditions are not known and may vary significantly from the assumptions adopted.

The central estimate is determined, in principle, such that there is no bias to over or under estimation. However, an adequate provision for the outstanding liability under AASB1023 *General Insurance Contracts* requires a risk margin to be included such that the probability that the provision will prove to be sufficient is increased. An appropriate probability of sufficiency would usually be between 65% and 90%, depending on the acceptable level of risk to the insurer. LGM Board of Management have determined to adopt a 75% probability of sufficiency.

Actuarial Assumptions

The following assumptions have been made in determining the outstanding claims liabilities for the Liability fund..

Key Actuarial Assumptions	2020	2019
Inflation	2.5%	3.0%
Claim administration expense	12%	12%
Discount rate	0.4%	1.1%
Term to settlement (years)	2.5	2.5

The actuary has set out an analysis by incident year which shows an increase in the outstanding liability from $38.5 million as at 30 June 2019 to $40.2 million as at 30 June 2020, that is, an increase of $1.7 million. The claims experience in respect of the claims incurred prior to 30 June 2019 (including estimates of future payments) has been slightly unfavourable after allowing for recoveries from members and reinsurers. In addition, the reduction in the discount rate has increased the liability.

The estimated liability as at 30 June 2020 in this valuation has been estimated to be $40.2 million. The increase of $1.7 million is summarised below. .

Item	Impact on Liability $M
Claims experience for claims incurred to 30 June 2019	1.4
Claims experience for claims incurred during the year ending 30 June 2020	-
Change in claims assumptions	(0.4)
Change in discount rate from 1.1% to 0.4%	0.7
Total	**1.7**

Method

The estimated outstanding liability at 30 June 2020 is required to be adjusted to allow for future investment returns by discounting expected future claim payments. Future expected claim payments are to be discounted "using risk-free discount rates that are based on current observable, objective rates that relate to the nature, structure and term of the future obligations" as per AASB 1023. The actuary has used the zero coupon yields on Commonwealth government bonds as the basis for determining a uniform risk-free discount rate. The discount rate is the average yield, weighted by the expected future cash flows. The future differences between returns on the LGM investment portfolio and the risk free rate adopted for discounting purposes will emerge as profit or loss when they arise.

Inflation

The valuation makes no explicit allowance for inflation, although the future development in the incurred claims costs makes allowance for the effects of inflation and superimposed inflation by assuming that future inflation and superimposed inflation will be similar to past experience. In the past it would be reasonable to assume that inflation has been of the order of 2.5% per annum. The overall level of payments can increase at a faster rate than inflation. This is referred to as superimposed inflation.

Claim administration (handling) expense

In accordance with accounting requirements, claims administration expenses have been included. The claims manager of the portfolio has estimated that the claims administration expenses comprise approximately 40% of management fees. As members manage their own claims up to their excess, the actuary has provided the comparison of claims administration expenses, estimated as 40% of management fees to claims expenses net of non reinsurance recoveries.

The claims administration expenses have been averaged approximately 14% of the payments made since 1 July 2011 although higher in more recent years and 18% of claims incurred net of non reinsurance recoveries. Taking into account that a significant proportion of the claims administration costs are incurred early in the life of a claim, the actuary has assumed that future claims administration expenses will be 12% of future payments net of non reinsurance recoveries. The expense assumption adopted in the previous valuation was 12% of future payments net of non reinsurance recoveries.

Discount rate

The combination of the expected net payments by payment year with the future payments for the run-off of LGM's net liabilities (excluding administration expenses), together with the yields available on Government bonds of equivalent durations produces a uniform discount rate for all future years of 0.4% per annum. At the previous valuation, the discount rate was assumed to be 1.1% per annum. The difference is due to the movements in market yields since the previous valuation.

Term to settlement

The actuary has assumed an expected term to settlement of 2.5 years (2019: 2.5 years) based on historical experience and the results of historical claims.

Sensitivity analysis

The outstanding claims liabilities included in the reported results are calculated based on the key actuarial assumptions as disclosed above. The movement in any of the above key actuarial assumptions will impact the performance and total accumulated funds of LGM. The following sensitivity analysis evaluates the impact of a +/- 1 percent movement in the discount, inflation and expense rates and a +/-10 percent movement in the cost of claims for the outstanding provisions.

Liability Fund

Inflation assumption

	2020 Carrying Amount $	2020 -1% Movement	2020 1% Movement	2019 Carrying Amount $	2019 -1% Movement	2019 1% Movement
Future claims and associated cost	71,996,000	(1,736,000)	1,736,000	73,981,000	(1,738,000)	1,738,000
Reinsurance and other recoveries receivables	(23,793,000)	522,000	(522,000)	(27,322,297)	576,000	(576,000)
Potential Impact		**(1,214,000)**	**1,214,000**		**(1,162,000)**	**1,162,000**

Discount rate assumption

	2020 Carrying Amount $	2020 -1% Movement	2020 1% Movement	2019 Carrying Amount $	2019 -1% Movement	2019 1% Movement
Future claims and associated cost	71,996,000	1,653,000	(1,653,000)	73,981,000	1,651,000	(1,651,000)
Reinsurance and other recoveries receivables	(23,793,000)	(497,000)	497,000	(27,322,297)	(563,000)	563,000
Potential Impact		**1,156,000**	**(1,156,000)**		**1,088,000**	**(1,088,000)**

Expense rate assumption

	2020 Carrying Amount $	2020 -1% Movement	2020 1% Movement	2019 Carrying Amount $	2019 -1% Movement	2019 1% Movement
Future claims and associated cost	71,996,000	477,000	(477,000)	73,981,000	531,000	(531,000)
Reinsurance and other recoveries receivables	(23,793,000)	-	-	(27,322,297)	-	-
Potential Impact		**477,000**	**(477,000)**		**531,000**	**(531,000)**

Increase in cost of claims assumption

	2020 Carrying Amount $	2020 -10% Movement	2020 10% Movement	2019 Carrying Amount $	2019 -10% Movement	2019 10% Movement
Future claims and associated cost	71,996,000	1,836,000	(1,836,000)	73,981,000	1,530,000	(1,530,000)
Reinsurance and other recoveries receivables	(23,793,000)	772,000	(772,000)	(27,322,297)	500,000	(500,000)
Potential Impact		**2,608,000**	**(2,608,000)**		**2,030,000**	**(2,030,000)**

10. Net claims incurred

Current period claims relate to the risks borne in the current financial year. Prior period claims relate to a reassessment of the risks borne in all the previous financial years..

Liability Fund	2020 $	2019 $
Net claims expense (note 5)	**9,776,860**	8,658,292

2020 – Details of net incurred claims are as follows:

	Current Year $'000	Prior Years $'000	Total $'000
Claims incurred and related expenses – undiscounted	20,597	(9,515)	11,082
Reinsurance and other recoveries – undiscounted	(10,108)	7,998	(2,110)
Net claims incurred – undiscounted	10,489	(1,517)	8,972
Discount – Claims incurred and related expenses	(174)	1,405	1,231
Discount – Reinsurance and other recoveries	75	(502)	(427)
Net discount movement	(99)	903	804
Net incurred claims	**10,390**	(614)	**9,776**

2019 – Details of net incurred claims are as follows:

	Current Year $'000	Prior Years $'000	Total $'000
Claims incurred and related expenses – undiscounted	17,793	(4,658)	13,135
Reinsurance and other recoveries – undiscounted	(8,573)	2,952	(5,621)
Net claims incurred – undiscounted	9,220	(1,706)	7,514
Discount – Claims incurred and related expenses	(399)	2,385	1,986
Discount – Reinsurance and other recoveries	157	(999)	(842)
Net discount movement	(242)	1,386	1,144
Net incurred claims	**8,978**	(320)	**8,658**

Asset Fund	2020 $	2019 $
Net claims expense (note 5)	**3,046,758**	5,472,534

2020 – Details of net incurred claims are as follows:

	Current Year $'000	Prior Years $'000	Total $'000
Claims incurred and related expenses – undiscounted	3,208	(126)	3,082
Reinsurance and other recoveries – undiscounted	-	(35)	(35)
Net claims incurred – undiscounted	**3,208**	(161)	**3,047**

2019 – Details of net incurred claims are as follows:

	Current Year $'000	Prior Years $'000	Total $'000
Claims incurred and related expenses – undiscounted	6,142	(549)	5,593
Reinsurance and other recoveries – undiscounted	(99)	(21)	(120)
Net claims incurred – undiscounted	**6,043**	(570)	**5,473**

11. Related parties

a) Key Management Personnel (KMP)

KMP include members of the Board of Management and Directors of the Trustee.

Board of Management

The Trust Deed provides for the business of LGM to be managed by a Board of Management. The Board is responsible to the LGAQ Board for achieving the Trust's objectives and for financial management. The members of the Board of Management have been listed as key management personnel and receive meeting fees and reimbursement of the costs of travel expenses associated with attending the Board of Management meetings.

The names of the members of the Board of Management at any time during the financial year are:

Mr Ian Leckenby - Chairman
Mr Greg Hallam *
Mr Bill Lyon*
Mr Terry Brennan
Cr Karen Williams
Cr Rachel Chambers
Mr John Sharman
Mr Bob Millar**
Mr Stephen Fynes-Clinton**

*No Committee meeting fees are paid to these members.
** Mr Bob Millar and Stephen Fynes-Clinton ceased being members of the Board of Management effective 30 June 2020 and 27 August 2020.

KMP Category / Position	Short-Term Employee Benefits 2020 $	Short-Term Employee Benefits 2019 $
Chairman	34,875	36,733
Board of Management	41,325	34,280
Total	**76,200**	71,013

No member of the Board of Management has entered into a material contract with LGM during the current or previous financial year.

Directors of the Trustee

LGAQ is acting through its Board, in its capacity as a trustee of the Trust under the Trust Deed. The Directors of the Trustee of the Trust which have been listed below are also key management personnel as they are responsible for the ultimate oversight of the business of the Trust. No remuneration has been paid to them.

Cr Mark Jamieson
Cr Jenny Hill
Cr Ray Brown - resigned 25 June 2020
Cr Matthew Bourke - resigned 25 June 2020
Cr Karen Williams - appointed 26 June 2020
Cr Matt Burnett - appointed 26 June 2020

The Trust does not make loans to or receive loans from related parties. No guarantees have been provided..

b) Transactions with related parties

Related parties include LGAQ and its controlled entities. The following are transactions within the group:

	2020 $	2019 $
Asset Fund - claims payments	-	13,935
Purchase of services from LGAQ and its controlled entities on a commercial basis	29,944	8,093
Cost recovery transactions paid to LGAQ and its controlled entities	65,687	62,624
Asset Fund remuneration paid to LGAQ	21,000	-
Liability Fund remuneration paid to LGAQ	85,265	-
Surplus distribution for the LG Sherlock's funding requirements was paid to LGAQ	660,000	1,900,000

Surplus distribution for the LG Sherlock was paid to LGAQ in accordance with the terms and conditions of the Trust Deed for the benefit of scheme members, with the necessary approvals by the LGAQ Board and LGM Board of Management.

Services provided by LGAQ are on a cost recovery basis and represent transactions paid on behalf of LGM. Services provided by Local Buy relate to conference sponsorship and are on commercial terms. The amount owing to LGAQ as at 30 June 2020 for services provided is $4,718 (2019: $31,263).

c) Transactions with other related parties

Other related parties include the close family members of KMP and any entities controlled or jointly controlled by KMP or their close family members. Close family members include a spouse, child and dependent of a KMP or their spouse.

Cr Karen Williams has been appointed as a Director of the Trustee of the LGAQ Board on 26 June 2020. No remuneration has been paid to her.

LGM has paid Hazlen Investment Pty Ltd an amount of $6,938 in 2018/19 financial year towards the fees and incidentals for the Value Proposition project approved by the LGM Board of Management. John Brent was the sole director of Hazlen Investment Pty Ltd until 31 December 2019. No amount has been paid in the financial year 2019/20.

d) Loans and guarantees to / from related parties

LGM does not make loans to or receive loans from related parties. No guarantees have been provided.

e) Transactions with related parties that have not been disclosed

Some of LGM's KMP are also KMP of their respective Councils. These Councils transact with LGM on a regular basis as members of the Funds. Examples include:

- Member contributions
- Other recoveries revenue
- Claims expenses
- Distributions

LGM has not included these transactions in its disclosures, where they are made on the same terms and conditions available to all other members of LGM.

12. Financial instruments

Financial instruments

(i) Recognition and initial measurement

Financial assets are recognised when the entity becomes a party to receive cash and cash equivalents or other financial assets from another entity, and securities issued by another entity. Financial liabilities are recognised when the entity becomes a party to the contractual obligations to pay cash or deliver other financial assets. For financial assets, this is equivalent to the date that LGM commits itself to either purchase or sell the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs except where the instrument is classified 'at fair value through profit or loss' in which case transaction costs are included in profit or loss immediately.

(ii) Impairment of Financial assets

LGM recognises loss allowances for an Expected Credit Loss ("ECL") on financial assets measured at amortised cost. ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to LGM and the cash flows that LGM expects to receive).

At each reporting date, LGM also assesses whether financial assets carried at amortised costs are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, LGM considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on LGM's historical experience, informed credit assessment and forward-looking information.

(iii) Classification and subsequent measurement

Financial instruments are subsequently measured at either their fair value, amortised cost using the effective interest rate method or cost. Fair value represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties. Where available, quoted prices in an active market are used to determine fair value.

Amortised cost is calculated as:

- the amount at which the financial asset or financial liability is measured at initial recognition;
- less principal repayments;
- plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the effective interest method; and"
- less any reduction for impairment.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

13. Risk management

Membership is available to local government councils and local government controlled entities. LGM operates in Queensland to provide cover and a claims management service to members in respect of their potential and actual liabilities. A member may seek indemnity from LGM in respect of a claim. Under the Trust Deed, LGM's Board of Management may in its sole and absolute discretion determine whether indemnity will be granted in respect of a claim.

Actuarial models, using information from LGM's management information systems, are used to confirm contributions and monitor claim patterns. Past experience and statistical methods are used as part of the process. The principal risk is that the frequency and severity of claims is greater than expected. Insurable risk events are, by their nature, random and the actual number and size of events during any one-year may vary from those estimated using established statistical techniques.

Objectives in managing risk and policies for mitigating those risks

LGM has an objective to control risk, thus reducing the volatility of its operating surplus. In addition to the inherent uncertainty of civil liability and asset risks, which can lead to variability in the loss experience, operating surpluses can also be affected by external factors such as competition and movements in asset values.

LGM relies on a strong relationship with its members and actively encourages them to adopt practices of risk management that reduce the incidence of claims to LGM.

Risk transfer strategy

LGM adopts a conservative approach towards management of risk and does this by utilising risk transfer options. The Board determines the level of risk, which is appropriate for LGM having regards to ordinary concepts of prudence and regulatory constraints. The risk transfer arrangements adopted by LGM utilise commercial insurance and reinsurance arrangements. These risk transfer arrangements assist LGM to limit its exposures. These programs are regularly reviewed to ensure that they continue to meet the risk needs of LGM.

Management of risks

The key risks that affect LGM are contribution risk and claims experience risk.

Contribution risk is the risk that LGM does not charge contributions appropriate for the indemnity cover it provides. LGM partially manages contribution risk through its proactive approach to risk management that addresses material risks, both financial and non-financial. There are no specific terms and conditions that are expected to have a material impact on the financial statements.

Claims experience risk is managed through the non-financial risk assessment and risk management and risk transfer management process. Claims experience is monitored on an ongoing basis to ensure that any adverse trending is addressed. LGM is able to reduce the claims experience risk of severe losses through the reinsurance program and by managing the concentration of risks.

Concentration of risks

Risks are managed by taking a long term approach to setting the annual contribution rates that minimises price fluctuations, appropriate investment strategy, insurance, reinsurance and by maintaining an active state-wide risk management profile. It is vital that LGM keeps abreast of changes in the general economic, legal and commercial environment in which it operates.

Market Risk

Market risk is the risk that changes in market prices will affect LGM's income or the value of its financial instruments.

In addition to cash and interest bearing securities, the investment portfolio contains exposures to equity markets through managed unit trusts held in QIC. These investments, integral to insurance activities, are measured at market value at each reporting date and changes in market value are immediately reflected in the statement of comprehensive income. Any overall downturn in the equities market may impact on future results of LGM. The impact of any significant movement is managed by ensuring that the investment portfolio consists of a diverse holding of investments. The Liability Fund holds $113,630,882 worth of units with QIC as at 30 June 2020 (2019: $87,781,987).

LGM does not trade in foreign currency and is not materially exposed to commodity price changes.

Interest Rate Risk

LGM is exposed to interest rate risk through its investments with QTC. LGM has access to a mix of variable and fixed rate funding options with QTC and so that the interest rate risk exposure can be minimised.

Interest on cash is charged at prevailing market rates being approximately 0.40% at 30 June 2020 (2019: 1.35%). Interest on QTC investments is charged at prevailing market rates which is approximately 0.86 % at 30 June 2020 (2019: 2.38%) for both funds.

Interest rate sensitivity analysis

Interest rate sensitivity depicts what effect a reasonably possible change in interest rates of +/- 1% would have on the profit and equity, based on the carrying value of financial assets and liabilities. With all other variables held constant, the Liability Fund would have surplus increase/decrease of $151,358 (2019: $417,400) for interest rate risk. The Asset Fund would have a surplus increase/(decrease) of $161,653 (2019: $123,973) for interest rate risk.

Unit price sensitivity analysis

Unit price sensitivity analysis is based on a report similar to that which would be provided to management, depicting the outcome to profit and loss if interest rates and unit prices would change by +/- 1% for the QIC Cash Enhanced Fund and by +/-5% for the QIC Long Term Diversified Fund and QIC Short Term Income Fund from the year-end rates applicable to LGM's financial assets and liabilities. With all other variables held constant, the Liability Fund would have a surplus increase/(decrease) of $265,919 (2019: $516,794) for unit price risk for the QIC Cash Enhanced Fund and surplus increase/(decrease) of $4,351,950 (2019: $1,805,128) for unit price risk for the QIC Long Term Diversified Fund and QIC Short Term Income Fund.

Credit risk

Credit risk is the risk of financial loss if a counterparty to a financial instruments fails to meet its contractual obligations. These obligations are principally from LGM's investments and receivables.

The maximum exposure to credit risk at reporting date in relation to each class of recognised assets is the gross carrying amount of those assets inclusive of any impairment.

The credit risk arising from LGM's exposure to individual entities in investment portfolios is monitored and controlled through risk management strategies implemented by LGM's fund manager, QIC.

LGM considers that all of the financial assets at amortised cost that are not impaired for each of the reporting dates under review are of low credit risk due to the high quality credit rating of the parties involved. No collateral is held as security and no credit enhancements relate to financial assets held by LGM.

Liquidity risk

Liquidity risk is the risk that LGM will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

LGM is exposed to liquidity risk in respect of its payables being trade and other payables and distribution payables, refer note 4.

14. Auditor's remuneration

Fees payable to the auditors for the audit of LGM's financial statements for 2019-20 is $50,000. Liability Fund - $37,500 and Asset Fund - $12,500, (2019: $47,150. Liability Fund - $35,150 and Asset Fund - $12,000). There are no non-audit services included in this amount.

15. Commitments for expenditure

Commitments for payment of Trust management fees are payable as follows:

	Total Liability & Asset Funds 2020 $	Total Liability & Asset Funds 2019 $	Liability Fund 2020 $	Liability Fund 2019 $	Asset Fund 2020 $	Asset Fund 2019 $
Within one year	7,219,236	4,834,696	4,710,220	3,804,873	2,509,016	1,029,823
Later than one year but not later than 5 years	14,856,961	-	9,693,485	-	5,163,476	-
	22,076,197	4,834,696	**14,403,705**	3,804,873	**7,672,492**	1,029,823

Commitments for payments of the Regional Risk Co-ordinator programme are payable as follows:

Within one year	-	698,214	-	698,214	-	-
Later than one year but not later than 5 years	-	1,071,793	-	1,071,793	-	-
	-	1,770,007		1,770,007	-	-

The Regional Risk Co-ordinator programme has been incorporated in the new LGM Management Agreement which commenced 1 January and so the fees have been included in the commitments for payments of the LGM Management Fees as at 30 June 2020.

16. New accounting standards for application in future periods

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2020, and have not been applied in preparing these financial statements. LGM does not plan to adopt these standards early and does not believe those standards will have a material impact on LGM's financial statements.

17. Authorisation of financial statements for issue

The financial statements are authorised for issue by the Board of Management at the date of signing the Board of Management's Certificate.

18. Distributions

In May 2020 the Board of Management noted and approved the proposed $2,450,000 surplus distribution to be distributed to individual Liability Fund members in 2019-20. Out of that $1,687,871 has been already taken up by the members who have paid their contributions for 2020-21 year before 30 June 2020. As a result, there is an amount of $762,129 as a surplus distribution payable amount in the Statement of Financial Position for 2019-20.

In May 2020 the Board of Management noted and approved a surplus distribution of $660,000 for the LG Sherlock funding requirements which was paid to LGAQ in June 2020.

In May 2019 the Board of Management noted and approved the proposed $2,400,000 surplus distribution to be distributed to individual Liability Fund members in 2018-19.

In May 2019 the Board of Management noted and approved a surplus distribution of $1,900,000 for the LG Sherlock funding requirements which was paid to LGAQ in June 2019.

Board of Management's Certificate

QUEENSLAND LOCAL GOVERNMENT MUTUAL

Queensland Local Government Mutual
Board of Management's Certificate

In the opinion of the Board of Management of Queensland Local Government Mutual:

a) the financial statements and notes, set out on pages 3 to 24:

i) present fairly the financial position of Queensland Local Government Mutual as at 30 June 2020 and its performance, as represented by the results of its operations and its cash flows, for the year ended on that date;

ii) comply with Accounting Standards in Australia; and

iii) are drawn up in accordance with the provisions of the revised Trust Deed dated May 2017;

b) there are reasonable grounds to believe that Queensland Local Government Mutual will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Board:

Mr Ian Leckenby

Chairman

26 November 2020

Date

Mr Greg Hallam

Member of the Board of Management

26 November 2020

Date

Queensland Audit Office
Better public services

INDEPENDENT AUDITOR'S REPORT

To the Trustee, Board of Management and Members of Queensland Local Government Mutual

Report on the audit of the financial report

Opinion

I have audited the accompanying financial report of Queensland Local Government Mutual (the trust).

In my opinion, the financial report:

a) gives a true and fair view of the trust's financial position as at 30 June 2020, and its financial performance and cash flows for the year then ended

b) complies with the trust deed of Queensland Local Government Mutual dated 19 May 2017 and Australian Accounting Standards.

The financial report comprises the statement of financial position as at 30 June 2020, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes to the financial statements including summaries of significant accounting policies and other explanatory information, and the certificate given by the board of management.

Basis for opinion

I conducted my audit in accordance with the *Auditor-General Auditing Standards*, which incorporate the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of my report.

I am independent of the trust in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to my audit of the financial report in Australia. I have also fulfilled my other ethical responsibilities in accordance with the Code and the *Auditor-General Auditing Standards*.

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

Responsibilities of the trust for the financial report

The trustee and board of management are responsible for the preparation of the financial report that presents fairly in accordance with the trust deed of Queensland Local Government Mutual dated 19 May 2017 and Australian Accounting Standards, and for such internal control as the trustee and board of management determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

The trustee and board of management are also responsible for assessing the trust's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the trust or to cease operations, or has no realistic alternative but to do so.

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Auditor's responsibilities for the audit of the financial report

My objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of the trust's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the trust.
- Conclude on the appropriateness of the trust's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the trust's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify my opinion. I base my conclusions on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the trust to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the trustee and board of management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

30 November 2020

Sri Narasimhan
as delegate of the Auditor-General

Queensland Audit Office
Brisbane


WATER
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Financial Statements

for the year ended 30 June 2020

Contents

Statement of Profit or Loss and other Comprehensive Income

for the year ended 30 June 2020

This statement is to be read in conjunction with the notes to the financial statements set out on pages 47 to 58.

	Note	2020 $	2019 $
REVENUE			
Member contributions	3	**27,643,543**	26,245,501
Reinsurance and other recoveries	3	**417,647**	750,798
Interest revenue		**333,617**	678,386
Investment revenue		**1,971,147**	1,883,241
Changes in the fair value of investments		**-**	1,100,098
Total revenue		**30,365,954**	30,658,024
EXPENSES			
Claims expense	3	**(22,591,940)**	(19,825,050)
Outwards reinsurance expense	3	**(444,465)**	(432,477)
Other underwriting expenses	3	**(7,784,427)**	(7,032,158)
Changes in the fair value of investments		**(2,093,787)**	-
General expenses	4	**(1,406,468)**	(1,443,687)
Total expenses		**(34,321,087)**	(28,733,372)
Operating result from continuing operations		**(3,955,133)**	1,924,652
OTHER COMPREHENSIVE INCOME		**-**	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO MEMBERS		**(3,955,133)**	1,924,652

Statement of Financial Position

as at 30 June 2020

This statement is to be read in conjunction with the notes to the financial statements set out on pages 47 to 58.

	Note	2020 $	2019 $
CURRENT ASSETS			
Cash and cash equivalents		**14,692,191**	16,142,471
Trade and other receivables		**1,194,890**	1,086,563
Reinsurance and other recoveries receivables		**925,000**	765,000
Other financial assets	5	**67,277,488**	67,629,693
Total current assets		**84,089,569**	85,623,727
NON-CURRENT ASSETS			
Reinsurance and other recoveries receivables		**1,623,000**	1,632,000
Total non-current assets		**1,623,000**	1,632,000
Total assets		**85,712,569**	87,255,727
CURRENT LIABILITIES			
Trade and other payables		**599,393**	756,827
Distribution payables	13	**2,450,000**	2,400,000
Future claims and associated costs	6	**18,555,210**	15,504,022
Total current liabilities		**21,604,603**	18,660,849
NON-CURRENT LIABILITIES			
Future claims and associated costs	6	**21,945,249**	19,377,028
Total non-current liabilities		**21,945,249**	19,377,028
Total liabilities		**43,549,852**	38,037,877
NET ASSETS		**42,162,717**	49,217,850
EQUITY			
Retained surplus		**42,162,717**	49,217,850
TOTAL EQUITY		**42,162,717**	49,217,850

Statement of Changes in Equity

for the year ended 30 June 2020

This statement is to be read in conjunction with the notes to the financial statements set out on pages 47 to 58.

	Note	2020 $	2019 $
Total equity at the beginning of the financial year		**49,217,850**	49,693,198
TOTAL COMPREHENSIVE INCOME			
Net result for the year		**(3,955,133)**	1,924,652
Total comprehensive income		**(3,955,133)**	1,924,652
Surplus distributions	13	**(3,100,000)**	(2,400,000)
Total equity at the end of the financial year		**42,162,717**	49,217,850

Statement of Cash Flows

for the year ended 30 June 2020

This statement is to be read in conjunction with the notes to the financial statements set out on pages 47 to 58.

	Note	2020 $	2019 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipt of contributions from Members		**27,214,937**	25,781,264
Reinsurance premiums paid		**(444,465)**	(432,477)
Claims paid		**(17,123,531)**	(18,541,954)
Other underwriting and general expenses paid		**(9,162,796)**	(8,475,072)
Interest received		**355,650**	690,929
Other recoveries received		**417,647**	750,798
GST collected from Members		**2,721,495**	2,578,126
GST paid to suppliers and ATO		**(2,608,782)**	(2,499,825)
NET CASH PROVIDED BY / (USED) IN OPERATING ACTIVITIES		**1,370,155**	(148,211)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for investments		**(1,741,582)**	(5,703,266)
Investment revenue received		**1,971,147**	1,883,241
NET CASH USED IN INVESTING ACTIVITIES		**229,565**	(3,820,025)
SURPLUS DISTRIBUTION PAID		**(3,050,000)**	(2,350,000)
NET DECREASE IN CASH HELD		**(1,450,280)**	(6,318,236)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL YEAR		**16,142,471**	22,460,707
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR		**14,692,191**	16,142,471

1. Background

Queensland Local Government Workers Compensation Self-Insurance Scheme (the Scheme) is a Trust which has been established in Australia by the Local Government Association of Queensland Ltd (previously known as Local Government Association of Queensland Inc) (LGAQ) under a Trust Deed dated 19 June1997.

LGAQ is acting through its Executive, in its capacity as a trustee of the Scheme under the Trust Deed.

The Scheme was established as a result of receiving a self-insurance licence from the Workers' Compensation Regulator. The Scheme consists of local governments and local government-controlled entities that jointly hold a group employer workers' compensation self-insurance licence under the Workers Compensation and Rehabilitation Act 2003. Each Scheme member is considered to be a joint holder of the self-insurance licence.

LGAQ acts as the agent of the licence holders. As a licensed self-insurer, the Scheme is required to comply with a range of legislative and licensing conditions. Compliance is overseen by the Workers' Compensation Regulator. The LGAQ is considered by the Regulator to be the licence manager and as such is ultimately responsible for ensuring compliance with licence conditions. It is governed by contractual arrangements between the local governments, local government-controlled entities and the LGAQ.

The principal activity of the Scheme during the course of the financial year was the provision of workers' compensation cover and the management of associated workers' compensation claims made against scheme members.

The principal place of business of the Scheme is

Local Government House
27 Evelyn Street
Newstead QLD 4006

All employees involved in the management of workers' compensation claims for the Scheme are employed by Jardine Lloyd Thompson Pty Ltd and their associated costs are recharged to the Scheme through a monthly scheme management fee which is disclosed in the statement of Profit or Loss and Other Comprehensive Income in 'Other underwriting expenses'.

2. Statement of significant accounting policies

a) Basis of preparation

These financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards, (including the Australian Accounting Interpretations) to satisfy reporting responsibilities under Queensland Local Government Workers Compensation Self-Insurance Scheme (the Scheme) Rules. The Scheme is a not for profit entity and the Australian Accounting Standards includes requirements for not for profit entities which are inconsistent with International Financials Reporting Standards (IFRS). Therefore, in some instances these financial statements do not comply with IFRS. They have been prepared on the basis of historical costs except where stated. The Scheme actuary has increased projected future claims payments to allow for inflation and discounted the expected payments to 30 June 2020 to obtain the present value of the liability.

The accounting policies are consistent with those of the previous year unless otherwise stated. The functional and presentational currency of the Scheme is Australian Dollars.

b) Taxation

Queensland Local Government Workers Compensation Self-Insurance Scheme (the Scheme) is not a separate legal entity and is not a partnership. It operates under a contractual relationship between its members, all of which are local governments or other statutory entities, and all of which are exempt from income tax. All assets of the Scheme, including surpluses of contributions over claims costs and expenses, remain the directly owned property of the members. Under the mutuality principle, therefore, the Scheme does not generate "income" for taxation purposes, except in relation to its investments. The investment income is directly owned property of the tax-exempt members. For these reasons, no provision has been made for income tax.

The Scheme is subject to Goods and ServicesTax (GST). The net amount of GST recoverable from or payable to the Australian Taxation Office is shown as an asset or liability respectively.

c) Rounding

Figures in the financial statements are rounded to the nearest dollar unless otherwise indicated.

(d) Estimates and judgements

In the process of applying the significant accounting policies, certain critical accounting estimates and assumptions are used and certain judgements are made.

The areas where the estimates and assumptions involve a high degree of judgement or complexity, and are considered significant to the financial statements are:

- Future claims and associated costs, refer Note 6
- Reinsurance and other recoveries on outstanding claims, refer Note 3

(e) Changes in significant accounting policies

This year the Scheme has applied AASB 15 Revenue from Contracts with Customers, AASB 1058 Income of Not-for-Profit Entities and AASB 16 Leases for the first time. AASB 15 and AASB 1058 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced AASB 118 revenue and related interpretations. Under AASB 15, revenue is recognised when a customer obtains control of the services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement. Due to the nature of the membership revenue, the standard did not materially change the Scheme's framework for recognising revenue, and therefore, there has not been a material impact to the financial statements (see Note 3(a)). Interest revenue and investment revenue continues to be recognised in accordance with AASB 9 Financial Instruments.

The Scheme has also adopted AASB 16 Leases for the first time from 1 July 2019. AASB 16 replaces AASB 117 and relates to the recognition, classification and measurement of leases. The Scheme does not have any arrangements under AASB 16 and therefore, the standard does not have a material impact on the Scheme's financial statements.

(f) Coronavirus (COVID-19)

The spread of novel coronavirus (COVID-19) was declared a public health emergency by the World Health Organisation on 31 January 2020 and upgraded to a global pandemic on 11March 2020. The rapid rise of the virus has seen an unprecedented global response by governments, regulators and numerous industry sectors. The Australian Federal Government enacted its emergency plan on 29 February 2020. This has led to the closure of Australian borders from 20 March 2020, an increasing level of restrictions on corporate Australia's ability to operate, significant volatility and instability in financial markets and the release of a number of government stimulus packages to support individuals and businesses as the Australian and global economies face significant slowdown and uncertainties.

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 the Scheme believe 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 forecasts since anticipated events may not occur as expected, and the effect of those differences may significantly impact accounting estimates included in these financial statements at the date of the report.

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

The impact of the COVID-19 pandemic on each of these accounting estimates is discussed further below.

Fair value measurement of investments

The Scheme'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. Refer to Note 5 for further details on investments.

Future claims and associated costs

The assumed number of Common Law claims reported in development years 3 and 4 have been increased to reflect the expectation that the reporting of claims has been delayed due to COVID-19. There has also been an increase in the projected statutory payments and common law settlements due to expected delays in payment due to the impact of COVID-19. The total impact of the changes due to COVID-19 delays is an increase in the estimated outstanding liability of $1million. Changes in assumptions relating to Future claims and associated costs excluding COVID-19 related delays are detailed in Note 6.

Other than the matter noted above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Scheme's Management Committee, to affect significantly the operations of the Scheme, the results of those operations, or the state of affairs of the Scheme, in future financial years.

3. Underwriting result

(a) Revenue recognition

Member contributions

Contributions comprise amounts charged to Scheme members for liability protection. Contributions are earned from the date of attachment of risk. The pattern of recognition over the period of cover is based on time, which is considered to closely approximate the pattern of risks undertaken.

Reinsurance and other recoveries

Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid, incurred but not reported claims (IBNRs) and incurred but not enough reported (IBNERs) are recognised as revenue. Reinsurance and other recoveries receivable are assessed in a manner similar to the assessment of outstanding claims. Reinsurance and other recoveries receivable are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

Investment revenue

Investment revenue is recognised as it accrues, taking into account the effective yield on the financial asset. Investment distributions are recognised when the right to receive payment is established. The investment revenue comprises of the distribution from the investment trusts.

Interest revenue

The revenue received from cash and cash equivalents is recognised as interest revenue. It is recognised as it accrues on the cash and cash equivalents. The interest revenue comprises of the interest received from QTC cash fund and cash held with ANZ Bank.

(b) Outwards reinsurance

Premiums ceded to reinsurers are recognized as expenses in accordance with the pattern of reinsurance services received, being on a daily pro-rata basis.

	2020 $	2019 $
Member contributions	**27,643,543**	26,245,501
Outward reinsurance premium expense	**(444,465)**	(432,477)
Net contributions revenue	**27,199,078**	25,813,024
Claims expense	**(22,591,940)**	(19,825,050)
Reinsurance and other recoveries revenue	**417,647**	750,798
Net claims expense	**(22,174,293)**	(19,074,252)
Other underwriting expenses*	**(7,784,427)**	(7,032,158)
Underwriting result	**(2,759,642)**	(293,386)
*Other underwriting expenses include:		
Workcover Levy	**(915,654)**	(845,328)
Scheme expenses management fee	**(6,868,773)**	(6,186,830)
	(7,784,427)	(7,032,158)

4. General expenses

	2020 $	2019 $
Regional Risk Co-ordinators	**683,150**	686,975
Investment fees and charges	**281,713**	250,875
Administration expenses	**441,605**	505,836
	1,406,468	1,443,686

5. Other financial assets

Other financial assets are classified at 'fair value through profit or loss'(FVTPL) if it is classified as held for trading is designated as such upon initial recognition. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss in the period in which they arise. Other financial assets are investments in QIC managed unit trusts of $67.28million at 30 June 2020 (2019: $67.63 million). Fair value for managed unit trusts is based on the quoted bid price off the investment at reporting date.

Fair Value Hierarchy

Investments are disclosed using a fair value hierarchy which reflects the significance of inputs to the determination of fair value.

The different levels have been defined as follows:

- Level 1 quote prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 valuation base on inputs other than quoted prices include within Level 1 that are observable for the asset or liability.
- Level 3 valuation techniques that are not based on observable market data.

The carrying amount of cash, receivables and payables approximates their net fair value. The fair value of investments is measured at market value based on QIC advice. As at 30 June 2020 the Scheme's financial assets are recognised as Level 2.

6. Future claims and associated costs

	2020 $	2019 $
Expected future claims (undiscounted)	**40,700,470**	35,455,291
Discount to present value	**(200,011)**	(574,241)
Liability for outstanding claims	**40,500,459**	34,881,050
Current	**18,555,210**	15,504,022
Non - current	**21,945,249**	19,377,028
Liability for outstanding claims	**40,500,459**	34,881,050

Claims

Claims expense and a liability for future claims are recognised as losses occur. The liability for future claims includes claims incurred but not yet paid, IBNRs, IBNERs, and the anticipated costs of settling those claims.

The liability for future claims is measured as the present value of the expected future payments, reflecting the fact that all claims do not have to be paid out in the immediate future. The liability has been set having regard to independent actuarial advice.

The expected future payments are estimated on the basis of the ultimate cost of settling 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. The expected future payments are then discounted to their present value at the reporting date using market determined risk adjusted discount rates. The Scheme takes all reasonable steps to ensure that it has appropriate information regarding its claim exposures with estimates and judgements continually being evaluated and updated based on historical experience and other factors.

The liability for future claims is calculated using a central estimate with no explicit bias towards over or under estimation.

The liability for future claims includes a prudential margin to increase the probability that the overall provision for claims will be adequate.

Uncertainty

The actuary advised that there are many factors which can and will cause the ultimate cost of claims incurred to 30 June 2020 to deviate from the actuary's central estimate.

The sources of the uncertainty in the estimation of the outstanding liability are:

(a) The models adopted for analysis and projection will never exactly match the actual claim process;

(b) Assuming a perfect model could be constructed, past fluctuations in the experience cause uncertainty in estimating model parameters;

(c) Anomalies in the data may cause further undetected problems in estimating model parameters;

(d) Future claim fluctuations result in uncertainty in projected future payments, even if the true parameter values could be determined for a perfect model; and

(e) Future economic and environmental conditions are not known and may vary significantly from the assumptions adopted.

The central estimate is determined, in principle, such that there is no bias to over or under estimation. However, an adequate provision for the outstanding liability under AASB 1023 requires a risk margin to be included such that the probability that the provision will prove to be sufficient is increased. An appropriate probability of sufficiency would usually be between 65% and 90%, depending on the acceptable level of risk to the insurer, whilst APRA requires a 75% probability of sufficiency for private sector insurers. The Scheme's Management Committee have determined to adopt a 75% probability of sufficiency.

Actuarial assumptions and methods

The following assumptions have been made in determining the outstanding claims liabilities. A description of the assumptions and the material variances for those assumptions has been detailed below.

Key Actuarial Assumptions	2020	2019
Claims administration expenses	7%	7%
Wage inflation	2%	2.5%
Discount rate	0.30%	1%
Term to settlement (years)	1.65	1.64

The actuary has set out an analysis by accident year of the increase in the outstanding liability from $28.2 million as at 30 June 2019 to $33.0 million as at 30 June 2020, that is, an increase of $4.8 million.

Process used to determine actuarial assumptions

The Actuarial process is to analyse the past experience separately for statutory claims, non-reinsurance recoveries, common law settlements and common law disbursements. Different methods have been used to project the outstanding claims payments for each payment type.

The methods used are:

a) For statutory payments and non-reinsurance recoveries – payments per claim incurred.

b) For common law settlements – payments per common law claim settled.

c) For common law disbursements – payments per common law claim.

The projection of outstanding payments includes IBNR claims, reopened claims and reported claims outstanding, as well as an allowance for future inflation (including superimposed inflation).

Claim administration expense

In addition to future payments to claimants and other providers such as doctors, solicitors and investigators, the Scheme also has to meet future internal administration costs of handling and settling those claims still outstanding. The assessment has to include an allowance for these internal claims handling costs to ensure that it is fully funded for all future costs associated with the Scheme.

Taking into account an estimate of the administration costs expected to be incurred to finalise or settle the outstanding claims from the claims manager, the actuary considers that it is reasonable to setaside 7% (2019: 7%) of the gross future claims payments as adopted in the previous valuation.

Inflation

Income benefits are increased in line with wage inflation. Other costs such as hospital and medical expenses are also expected to rise broadly in line with inflation. Having regards for various economic forecasts of wage and price inflation for Queensland over the next 4 to 5 years, the actuary has assumed a rate of future wage inflation of 2% (2019: 2.5%) per annum.

The overall level of payments can increase at a faster rate than inflation. This is referred to as superimposed inflation and it arises from such things as precedent setting court awards and a tendency for claimants to stay on benefits longer as the scheme becomes better understood. Following the actuary's review of the experience in relation to payments for the period 1 July 2008 to 30 June 2020, the actuary has not observed superimposed inflation in common law disbursements and settlements.

However, there is evidence of on going superimposed inflation in statutory payments, the actuary consider that it is appropriate to allow for superimposed inflation of 4% per annum for all development years. At the previous valuation, superimposed inflation was also assumed to be 4% per annum.

Discount rate

Future expected claim payments are to be discounted "using risk-free discount rates that are based on current observable, objective rates that relate to the nature, structure and term of the future obligations". The actuary has used the zero coupon yields on the Commonwealth Government bonds as the basis for determining a uniform risk-free discount rate.

The discount rate is the average yield, weighted by the expected future cash flows. The actuary notes that the assets backing the Scheme's portfolio are required to be invested in Queensland Treasury approved products. The future differences between returns on the Scheme's portfolio and the risk-free rate adopted for discounting purposes will emerge as profit or loss when they arise.

The actuary sets out the future payments for the run-off of the Scheme's liabilities (excluding administration expenses), together with the yields available on Government bonds of equivalent durations. The combination of these payments and yields produces a uniform discount rate for all future years of 0.3% per annum. At the previous valuation, the discount rate was assumed to be 1% per annum. The decrease in the discount rate reflects changes in the general level of market interest rates.

Term to Settlement

The actuary has assumed an expected term to settlement of 1.65 years (2019: 1.64 years) based on the historical experience and the results of historical claims.

Inflation rate, discount rate, expense rate and estimated cost of claims sensitivity analysis

The following sensitivity analysis evaluates the impact of a +/- 1 per cent movement in the discount, inflation and expense rate and a +/-10 per cent movement in the estimated cost of claims for the outstanding provisions.

Inflation assumption

2020

LGW Financial Instruments	Carrying Amount $	-1% Movement	1% Movement
Future claims and associated costs	40,500,459	(654,541)	654,541
Other recoveries receivables	(2,548,000)	44,000	(44,000)
Potential Impact		**(610,541)**	**610,541**

2019

LGW Financial instruments	Carrying Amount $	-1% Movement	1% Movement
Future claims and associated costs	34,881,050	(554,000)	554,000
Other recoveries receivables	(2,397,000)	43,000	(43,000)
Potential Impact		**(511,000)**	**511,000**

Discount rate assumption

2020

LGW Financial Instruments	Carrying Amount $	-1% Movement	1% Movement
Future claims and associated costs	40,500,459	651,459	(651,459)
Other recoveries receivables	(2,548,000)	(46,000)	46,000
Potential Impact		**605,459**	**(605,459)**

2019

LGW Financial Instruments	Carrying Amount $	-1% Movement	1% Movement
Future claims and associated costs	34,881,050	556,000	(556,000)
Other recoveries receivables	(2,397,000)	(43,000)	43,000
Potential Impact		**513,000**	**(513,000)**

Expense rate assumption

2020

LGW Financial Instruments	Carrying Amount $	-1% Movement	1% Movement
Future claims and associated costs	40,500,459	377,541	(377,541)
Other recoveries receivables	(2,548,000)	(1,000)	1,000
Potential Impact		**376,541**	**(376,541)**

2019

LGW Financial Instruments	Carrying Amount $	-1% Movement	1% Movement
Future claims and associated costs	34,881,050	326,000	(326,000)
Other recoveries receivables	(2,397,000)	(1,000)	1,000
Potential Impact		**325,000**	**(325,000)**

Estimated cost of claims assumption

2020

LGW Financial Instruments	Carrying Amount $	-10% Movement	10% Movement
Future claims and associated costs	40,500,459	1,743,541	(1,743,541)
Other recoveries receivables	(2,548,000)	75,000	(75,000)
Potential Impact		**1,818,541**	**(1,818,541)**

2019

LGW Financial Instruments	Carrying Amount $	-10% Movement	10% Movement
Future claims and associated costs	34,881,050	1,580,000	(1,580,000)
Other recoveries receivables	(2,397,000)	75,000	(75,000)
Potential Impact		**1,655,000**	**(1,655,000)**

7. Net claims incurred

Current period claims relate to risks borne in the current financial year. Prior period claims relate to a reassessment of the risks borne in all previous financial years.

	2020 $	2019 $
Net claims expense (Note 3)	**22,174,293**	19,074,252

2020

Details of net incurred claims are as follows:

	Current Year $'000	Prior Years $'000	Total $'000
Claims incurred and related expenses – undiscounted	23,603	(1,234)	22,369
Reinsurance and other recoveries – undiscounted	(761)	227	(534)
Net claims incurred – undiscounted	22,842	(1,007)	21,835
Discount – Claims incurred and related expenses	(91)	465	374
Discount – Reinsurance and other recoveries	5	(40)	(35)
Net discount movement	(86)	425	339
Net incurred claims	**22,756**	(582)	**22,174**

2019

Details of net incurred claims are as follows:

	Current Year $'000	Prior Years $'000	Total $'000
Claims incurred and related expenses – undiscounted	21,659	(2,687)	18,972
Reinsurance and other recoveries – undiscounted	(769)	447	(322)
Net claims incurred – undiscounted	20,890	(2,240)	18,650
Discount – Claims incurred and related expenses	(274)	754	480
Discount – Reinsurance and other recoveries	20	(76)	(56)
Net discount movement	(254)	678	424
Net incurred claims	**20,636**	(1,562)	**19,074**

8. Notes to the statement of cash flows

For the purposes of the statement of cash flows, cash and cash equivalents include cash at bank and all investment deposits at call net of bank overdraft.

Cash and cash equivalents include cash deposits held with a financial institution, and a capital guaranteed investment held with QTC that is subject to a low risk of change in value and is readily convertible to cash on hand.

Reconciliation of operating surplus to net cash provided by operating activities:

	2020 $	2019 $
Operating surplus	**(3,955,133)**	1,924,653
Add non-cash items		
Changes in fair value of investments – unrealised (net of distributions re-invested)	**2,093,787**	(1,100,098)
Investing income classified as investing activities	**(1,971,147)**	(1,883,241)
Net cash used by operating activities before change in assets and liabilities	**(3,832,493)**	(1,058,686)
Change in assets and liabilities		
(Increase)/decrease in reinsurance and other recoveries receivable	**(151,000)**	372,000
(Increase)/decrease in trade and other receivables	**(108,327)**	(328,961)
Increase/(decrease) in trade and other payables	**(157,434)**	(43,660)
Increase/(decrease) in future claims and associated costs	**5,619,409**	911,096
Net cash provided by/(used) by operating activities	**1,370,155**	(148,211)

9. Related parties

a) Key Management Personnel (KMP)

Management Committee

The day to day business of the Scheme is managed by a Management Committee appointed by LGAQ. The Management Committee is responsible to the LGAQ for achieving the scheme's objectives and for financial management. KMP include members of the Management Committee and Directors of the Trustee.

The members of the Management Committee have been listed as key management personnel and receive Committee meeting fees and reimbursement of the costs of travel expenses associated with attending the Committee meetings.

The names of the members of the Management Committee during the financial year are:

Mr Ian Leckenby – Chairman
Mr Terry Brennan
Mr Greg Hallam*
Cr Rachel Chambers
Mr John Sharman
Mr Bob Millar**
Mr Stephen Fynes-Clinton**

KMP Category / Position	Short-Term Employee Benefits 2020 $	Short-Term Employee Benefits 2019 $
Chairman	37,500	37,960
Management Committee Members	10,950	7,728
Total	**48,450**	**45,688**

*No Committee meeting fees are paid to these members.

**Mr Bob Millar and Stephen Fynes-Clinton ceased being members of the Management Committee effective 30 June 2020 and 27 August 2020.

No member of the Management Committee has entered into a material contract with the Scheme during the current or previous financial year.

Directors of the Trustee

LGAQ is acting through its Board, in its capacity as a trustee of the Trust under the Trust Deed. The Directors of the Trustee of the Trust which have been listed below are also key management personnel as they are responsible for the ultimate oversight of the business of the Trust. No remuneration has been paid to them.

Cr Mark Jamieson

Cr Jenny Hill

Cr Ray Brown – resigned 25 June 2020

Cr Matthew Bourke – resigned 25 June 2020

Cr Karen Williams – appointed 26 June 2020

Cr Matt Burnett – appointed 26 June 2020

The Trust does not make loans to or receive loans from related parties. No guarantees have been provided.

b) Transactions with related parties

Related parties include LGAQ and its controlled entities. The following are transactions within the group:

- Purchase of services from LGAQ and its controlled entities on a commercial basis – $26,323 (2019: $6,517)
- Cost recovery transactions paid to LGAQ & its controlled entitiesc – $44,844 (2019: $15,125)
- Workcare Scheme remuneration paid to LGAQ – $472,500 (2019: Nil)
- Surplus distribution paid to LGAQ for LGAQ Projects – $650,000 (2019 – Nil)

Services provided by LGAQ are on a cost recovery basis and represent transactions paid on behalf of the Scheme. Services provided by Local Buy (LGAQ controlled entity) relate to conference sponsorship and are on commercial terms. Workcare Scheme remuneration is paid to LGAQ is as per the new Scheme management agreement effective from 1st January 2020.

c) Transactions with other related parties

Other related parties include the close family members of KMP and any entities controlled or jointly controlled by KMP or their close family members. Close family members include a spouse, child and dependent of a KMP or their spouse. There have been no such transactions during the year.

d) Transactions with related parties that have not been disclosed

Some of the Scheme's key management personnel (KMP) are also KMP of their respective Councils, these Councils do transact with the Scheme on a regular basis as members of the Scheme. Examples include:

- Member contributions
- Other recoveries revenue
- Claims expenses
- Distributions

The Scheme has not included these transactions in its disclosures, where they are made on the same terms and conditions available to all other members of the Scheme.

10. Financial instruments

Initial recognition and measurement

Financial assets are recognized when the entity becomes a party to receive cash and cash equivalents or other financial assets from another entity, and securities issued by another entity. Financial liabilities are recognised when the entity becomes a party to the contractual obligations to pay cash or deliver other financial assets. For financial assets, this is equivalent to the date that the Scheme commits itself to either purchase or sell the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs except where the instrument is classified 'at fair value through profit or loss' in which case transaction costs are included in profit or loss immediately.

Impairment of Financial assets

The Scheme recognizes loss allowances for an Expected Credit Loss ("ECL") on financial assets measured at amortised cost. ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Scheme and the cash flows that the Scheme expects to receive).

At each reporting date, the Scheme also assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cashflows of the financial asset have occurred.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Scheme considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Scheme's historical experience, informed credit assessment and forward-looking information.

Classification and subsequent measurement

Financial instruments are subsequently measured at either their fair value, amortised cost using the effective interest rate method or cost. Fair value represents the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties. Where available, quoted prices in an active market are used to determine fair value.

Amortised cost is calculated as:

- the amount at which the financial asset or financial liability is measured at initial recognition;
- less principal repayments;
- plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognized and the maturity amount calculated using the effective interest method; and
- less any reduction for impairment.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

11. Risk management

Risk management objectives and policies for mitigating risk

The Scheme operates in Queensland to provide services to members in respect of their potential and actual workers compensation liabilities. Subject to the Scheme Rules, the Scheme meets the costs of workers compensation claims against members that are accepted in accordance with the Workers Compensation and Rehabilitation Act 2003.

Actuarial models, using information from the Scheme's management information systems, are used to confirm contributions and monitor claim patterns. Past experience and statistical methods are used as part of the process.

The principal risk is that the frequency and severity of claims is greater than expected. Workers Compensation liability events are, by their nature, random, and the actual number and size of events during anyone-year may vary from those estimated using established statistical techniques.

The Scheme has an objective to control risk thus reducing the volatility of its operating surplus. In addition to the inherent uncertainty of liability risks, which can lead to variability in the loss experience, operating surpluses can also be affected by external factors such as competition and movements in asset values.

The Scheme relies on a strong relationship with its members and actively encourages them to adopt Workplace Health and Safety practices that reduce the incidence of claims to the Scheme.

Reinsurance strategy

The Scheme adopts a conservative approach towards the management of risk and does this by utilizing risk transfer options. The Management Committee determines the level of risk, which is appropriate for the Scheme having regards to ordinary concepts of prudence and regulatory constraints. The risk transfer arrangements adopted by the Scheme utilise commercial reinsurance arrangements. These risk transfer arrangements assist the Scheme to limit its exposures. These programs are regularly reviewed to ensure that they continue to meet the risk needs of the Scheme.

Management of risks

The key risks that affect the Scheme are contribution risk and claims experience risk.

Contribution risk is the risk that the Scheme does not charge contributions appropriate for the indemnity cover it provides. The Scheme partially manages contribution risk through its proactive approach to risk management, which addresses all material risks, both financial and non-financial. There are no specific terms and conditions that are expected to have a material impact on the financial statements.

Claims experience risk is managed through the non-financial risk assessment, and risk management and reinsurance management process. Claims experience is monitored on an ongoing basis to ensure that any adverse trending is addressed. The Scheme is able to reduce the claims experience risk of severe losses through the reinsurance program and by managing the concentration of risks.

Concentration of risks

Risk is managed by taking a long-term approach to setting the annual contribution rates that minimise price fluctuations, adopting an appropriate investment strategy, implementing a reinsurance program and by maintaining an active state-wide risk management profile. It is vital that the Scheme keeps abreast of changes in the general economic, legal and commercial environment in which it operates.

Market risk

Market risk is the risk that changes in market prices will affect the Scheme's income or the value of its financial instruments.

In addition to cash and interest-bearing securities, the investment portfolio contains exposures to equity markets through managed unit trusts held in QIC. These investments, integral to insurance activities, are measured at net market value at each reporting date and changes in market value are immediately reflected in the statement of comprehensive income. Any overall downturn in the equities market may impact on future results of the Scheme. The impact of any significant movement is managed by ensuring that the investment portfolio consists of a diverse holding of investments. The Scheme holds $67,277,488 worth of units with QIC as at 30 June 2020 (2019: $67,629,693).

The Scheme does not trade in foreign currency and is not materially exposed to commodity price changes.

Interest rate risk

The Scheme is exposed to interest rate risk through its investments with QTC. The Scheme has access to a mix of variable and fixed rate funding options with QTC so that the interest rate risk exposure can be minimised.

Interest on cash is charged at prevailing market rates being approximately 0.40% at 30 June 2020 (2019: 1.35%). Interest on QTC investments is charged at prevailing market rates which is approximately 0.86% at 30 June 2020 (2019: 2.38%).

Interest Rate Sensitivity Analysis

Interest rate sensitivity depicts what effect a reasonably possible change in interest rates of +/- 1% would have on the profit and equity, based on the carrying value of financial assets and liabilities. With all other variables held constant, the Scheme would have surplus increase/decrease of $146,922 (2019: $161,425) for interest rate risk.

Unit Price Sensitivity Analysis

Unit price sensitivity analysis is based on a report similar to that which would be provided to management, depicting the outcome to profit and loss if interest rates and unit prices would change by +/-1% for the QIC Cash Enhanced Fund, by +/-5% for the QIC Short Term Income Fund originally Bond Plus Fund and QIC Long Term Diversified Fund originally Growth Fund from the year-end rates applicable to the Scheme's financial assets and liabilities. With all other variables held constant, the Scheme would have a surplus increase/(decrease) of $41,321 (2019: $339,702) for unit price risk for the QIC Cash Enhanced Fund and surplus increase/(decrease) of $3,157,270 (2019: $1,682,976) for unit price risk for the QIC Growth Fund and Bond Plus Fund.

Credit risk

Credit risk is the risk of financial loss if a counterparty to a financial instruments fails to meeting its contractual obligations. These obligations are principally from Scheme's investments and receivables.

The maximum exposure to credit risk at reporting date in relation to each class of recognized assets is the gross carrying amount of those assets inclusive of any impairment.

The credit risk arising from Scheme's exposure to individual entities in investment portfolios is monitored and controlled through risk management strategies implemented by the Scheme's fund manager, QIC.

The Scheme considers that all of the financial assets at amortised cost that are not impaired for each of the reporting dates under review are of low credit risk due to the high quality credit rating of the parties involved. No collaterall is held as security and no credit enhancements relate to financial assets held by the Scheme.

Liquidity risk

Liquidity risk is the risk that the Scheme will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Scheme is exposed to liquidity risk in respect of its payables being trade and other payables and distribution payables, refer to the Statement of Financial Position.

The Scheme is exposed to liquidity risk in respect of its payables. The Scheme manages liquidity risk by continuously monitoring cash flows. The Scheme's financial liabilities comprise of trade and other payables of $599,393 (2019: $756,827), which are non-interest bearing with maturity date of less than one year.

12. Auditor's remuneration

	2020 $	2019 $
Audit of the financial statements	**43,000**	40,000

There are no non-audit services included in this amount.

13. Distribution payables

In May 2020, the Management Committee noted and approved the proposed $2,450,000 (2019:$2,400,000 declared in May 2019) surplus distributions to individual members which will be paid in 2020-21.

The surplus distribution of $2,400,000 which was declared in May 2019 was paid to the members in the financial year 2019-20.

In May 2020, the Management Committee noted and approved a surplus distribution of $650,000 for LGAQ projects funding requirements which was paid to LGAQ in June 2020 (2019:Nil).

14. Commitments for expenditure

Commitments for payments of Scheme Management Fees are payable as follows:

	2020 $	2019 $
Within one year	7,943,530	6,308,336
Later than one year but not later than 5 years	16,344,029	-
	24,287,559	6,308,336

Commitments for payments of the Regional Risk Co-ordinator programme are payable as follows.

Within one year	–	698,214
Later than one year but not later than 5 years	–	1,071,793
	–	1,770,007

The Regional Risk Co-ordinator programme has been incorporated in the new Scheme Management Agreement which commenced on 01/01/2020 and has therefore been included in the commitments for payments of Scheme Management Fees as at 30 June 2020.

15. Contingent liabilities

The Scheme holds bank guarantees worth $43,560,000 with QTC. The Scheme's members have provided an indemnity towards this bank guarantee to cover bad debts which may remain should the self insurance licence be cancelled and there was insufficient funds to cover outstanding liabilities. Only the Queensland Government's worker compensation authority may call on any part of the guarantee should the above circumstances arise.

16. New accounting standards for application in future periods

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2020, and have not been applied in preparing these financial statements. The Scheme does not plan to adopt these standards early and does not believe those standards will have a material impact on the Scheme's financial statements.

17. Authorisation of financial statements for issue

The financial statements are authorized for issue by the Management Committee at the date of signing the Management Committee's Certificate.

Queensland Local Government Workers Compensation Self-Insurance Scheme Management Committee's Certificate

In the opinion of the Management Committee of Queensland Local Government Workers Compensation Self-Insurance Scheme:

a) the financial statements and notes, set out on pages 2 to 20:

i) present fairly the financial position of Queensland Local Government Workers Compensation Self-Insurance Scheme as at 30 June 2020 and its performance, as represented by the results of its operations and its cash flows, for the year ended on that date;

ii) comply with Accounting Standards in Australia; and

iii) are drawn up in accordance with the provisions of the Scheme Rules;

b) there are reasonable grounds to believe that Queensland Local Government Workers Compensation Self-Insurance Scheme will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Management Committee:

Mr Ian Leckenby
Chairman

Date 26 November 2020

Mr Greg Hallam
Member of the Management Committee

Date 26 November 2020

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INDEPENDENT AUDITOR'S REPORT

To the Trustee, Management Committee and Members of Queensland Local Government Workers Compensation Self-Insurance Scheme

Report on the audit of the financial report

Opinion

I have audited the accompanying financial report of Queensland Local Government Workers Compensation Self-Insurance Scheme (the trust).

In my opinion, the financial report:

a) gives a true and fair view of the trust's financial position as at 30 June 2020, and its financial performance and cash flows for the year then ended

b) complies with the trust deed of Queensland Local Government Workers Compensation Self-Insurance Scheme dated 19 June 1997 and Australian Accounting Standards.

The financial report comprises the statement of financial position as at 30 June 2020, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes to the financial statements including summaries of significant accounting policies and other explanatory information, and the certificate given by the management committee.

Basis for opinion

I conducted my audit in accordance with the *Auditor-General Auditing Standards*, which incorporate the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of my report.

I am independent of the trust in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to my audit of the financial report in Australia. I have also fulfilled my other ethical responsibilities in accordance with the Code and the *Auditor-General Auditing Standards*.

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

Responsibilities of the trust for the financial report

The trustee and management committee are responsible for the preparation of the financial report that presents fairly in accordance with the trust deed of Queensland Local Government Workers Compensation Self-Insurance Scheme dated 19 June 1997 and Australian Accounting Standards, and for such internal control as the trustee and management committee determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

The trustee and management committee are also responsible for assessing the trust's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the trust or to cease operations, or has no realistic alternative but to do so.

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Auditor's responsibilities for the audit of the financial report

My objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of the trust's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the trust.
- Conclude on the appropriateness of the trust's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the trust's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify my opinion. I base my conclusions on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the trust to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the trustee and management committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

30 November 2020

Sri Narasimhan
as delegate of the Auditor-General

Queensland Audit Office
Brisbane

2019-2020 LGW / LGM REPORT TO MEMBERS