LGW / LGM Report to Members

2016-2017

LGMS LOCAL GOVERNMENT MUTUAL SERVICES

LGM ASSETS

LGM LIABILITY

LGW WORKCARE

QUEENSLAND LOCAL
GOVERNMENT MUTUAL

QUEENSLAND LOCAL GOVERNMENT
WORKERS COMPENSATION
SELF-INSURANCE SCHEME

REPORT TO MEMBERS 2016/2017

Contents

Noel Playford AM

Chair, LGM Board of Management
Chair, LGW Management Committee

The financial statements for 2016/17 contained in this Annual Report detail another positive year for Local Government Mutual Services. Once again the independent actuarial reports on the Schemes' performance confirms that the improved risk management of Members in recent years has continued.

Despite a reduction in the LGM Liability contributions pool for the year and an investment dividend paid to Members, annual operations showed a surplus, which was added to by positive investment returns.

LGM Assets again finished the year with a small surplus, despite the large claims from Cyclone Debbie. This is because LGM Assets sets aside a fixed proportion of contributions each year to pay claims. Once that aggregate is exhausted, all excess claims are paid by reinsurers. This ensures that LGM Assets will not finish with a loss because of a bad year.

The average LGW rate for Members' workers compensation contributions was also lowered from the previous year, and an investment dividend was paid to Members. Once again the operating result from continuing operations was positive, and included a positive return on investments.

The size of the net assets of the LGM and LGW Schemes has come about as a result of sustained improvements in risk management over many years. These assets provide a buffer against unexpected events with a portion being designated as risk capital similar to what the Australian Prudential Regulation Authority requires of private sector

Chairman's Message

insurers. The investment of these assets also provides revenue from which Members are being paid an investment dividend each year.

LGMS is also working with the Trustee LGAQ to finalise a new Member program under which an amount of investment earnings will each year be allocated as Risk Credit to Members. This credit will be available to each Member for reimbursement of the cost of approved training, goods or services designed to improve the Member's risk management. The aim of this program is to lower risk even further, resulting in less damage, fewer injuries and lower cost to Members.

Last year LGMS lost the valuable services of David Swan, LGAQ's Manager of Commercial Solutions for over 20 years. This year Russell Ditchburn, who has headed up the contracted manager of LGMS for many years, retired from Jardine Lloyd Thomson. Like David, Russell was a key contributor to the establishment and success of LGMS, and their loss has made those of us who remain realise how much local government owes to both of them.

> "Despite a reduction in the LGM Liability contributions pool for the year and an investment dividend paid to members, annual operations showed a surplus, which was added to by positive investment returns."

We miss Russell's friendly nature, his approachability, knowledge, dedication, competence and professionalism. We acknowledge the critical contribution he made to the success of LGMS as revealed in this Annual Report. ▶

LGM Board of Management

(left to right front row) Mayor Karen Williams, Mr Noel Playford, Mayor Rachel Chambers, Mr Stephen Fynes-Clinton
(left to right back row) Mr Greg Hallam, Mr John Brent, Mr Bob Millar, Mr David Wiggins, Mr Terry Brennan
Absent: Mr Ian Leckenby

Mr Noel Playford AM
Chairman

Mr Bob Millar
Consultant

Mr Ian Leckenby
Consultant

Mr David Wiggins
Principal Risk & Insurance Advisor
Brisbane City Council

Mr Terry Brennan
Chief Executive Officer
Burdekin Shire Council

Mr Stephen Fynes-Clinton
Barrister

Mr Greg Hallam AM
Chief Executive Officer
Local Government Association of Queensland

Mayor Karen Williams
Redland City Council

Mayor Rachel Chambers
North Burnett Regional Council

Mr John Brent
Consultant

LGW Management Committee

(left to right front row) Mr Bob Millar, Mr Noel Playford, Mayor Rachel Chambers
(left to right back row) Mr Greg Hallam, Mr Stephen Fynes-Clinton, Mr Terry Brennan
Absent: Mr Ian Leckenby

Mr Noel Playford AM
Chairman

Mr Bob Millar
Consultant

Mr Ian Leckenby
Consultant

Mr Terry Brennan
Chief Executive Officer
Burdekin Shire Council

Mr Stephen Fynes-Clinton
Barrister

Mr Greg Hallam AM
Chief Executive Officer
Local Government Association of Queensland

Mayor Rachel Chambers
North Burnett Regional Council

Craig Hinchliffe
Jardine Lloyd Thompson

In the face of some challenging climatic conditions in particular, the 2016/17 LGMS membership year was again characterised by positive operating results across each of LGW Workcare, LGM Liability and LGM Assets.

- The LGW Workcare contribution rate reduced again against the background of improved claims legislative environment and experience.
- LGM Liability delivered further reduced membership contributions and increased limits of liability.
- LGM Assets performed as intended in the face of very significant claims from TC Debbie alone with renewal contributions outperforming those available from the commercial market.

These consolidated results across each of the LGMS mutuals have again produced and enabled increased member equity and further distributions by way of dividends to members, while maintaining protection against potential volatility.

The collaboration and aggregation of information, data and ultimately influence achieved by LGMS membership has powered the ongoing and cumulative improvement of the underlying risk by the development and implementation of risk management across the workers compensation, liability and assets exposures covered for the benefit of Members.

Indeed the commitment of the membership has also made possible the provision of broader support in related risk and governance areas beyond workers' and public safety, asset security and related financial outcomes.

These ongoing positives

Manager's Message

have been achieved upon an acceptance that continuous improvement in all elements of the management of the underlying risks is the most effective way to develop and maintain ultimate sustainability.

Cooperation on this basis has allowed LGMS to be the vehicle by which Queensland Local Government has been able to collaboratively share risk and then position when engaging with insurance markets for remaining necessary supporting insurance protection, as a risk based market influencer rather than participate as individual market led price takers.

This influence will become even more important as dealing with world insurance and risk markets evolve and become more challenging.

On behalf of the team at JLT acknowledgement goes the LGM Liability and Assets Board of Management, LGW Management Committee and colleagues at LGAQ for the opportunity to assist and their collaboration.

To all LGMS Member elected and staff representatives, thank you for your commitment to membership

These ongoing positives have been achieved upon an acceptance that continuous improvement in all elements of the management of the underlying risks is the most effective way to develop and maintain ultimate sustainability.

and the principles of mutuals, as well as your collaborative and inclusive attitudes.

We look forward to continuing to work with you to further advance your LGMS and the benefits of your ownership and control. ▶

LGM Assets

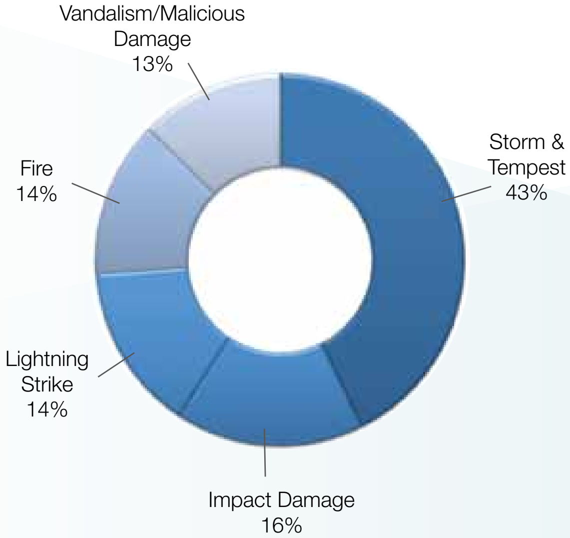
- **Dependable insurance:** significant claims have arisen as a result of TC Debbie however supporting insurance arrangements have responded to deal with the claims over and above the self-insurance aggregate
- **Unrivalled value:** further risk management survey work has been undertaken with Members to provide substantive assistance to improve the exposure
- **Superior service:** working hand in hand
  - with Members to assist them to better understand what they're insuring and why and the long term asset management implications
  - with Insurers to improve understanding of the exposure with high resolution location data now available for 80% of Council assets and better pricing as a result

WHAT WERE THE TOP REASONS FOR COUNCIL CLAIMS?

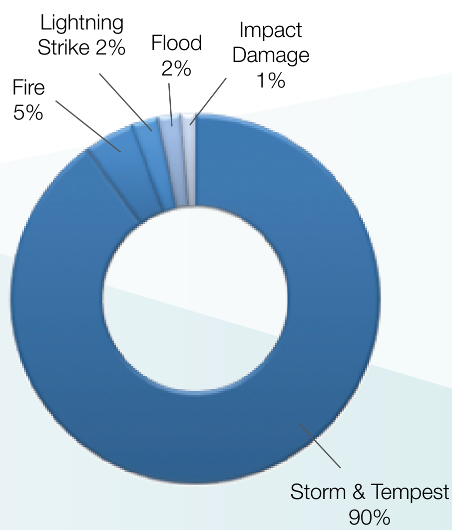
Property Claims

The graphs below highlight the top 5 causes of property claims for LGM Assets members by both number and cost. LGM Assets continues to work with Members through initiatives such as the risk management survey program to identify and provide proactive assistance to respond to asset based risk exposures.

Top 5 General Property Claim Causes (by number of claims)



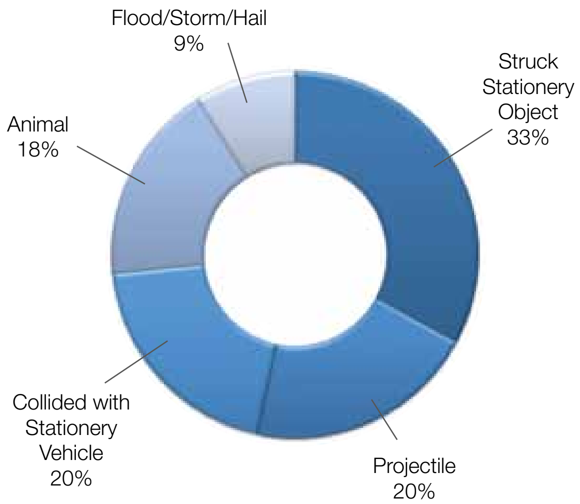
Top 5 General Property Claim Causes (by claims cost)



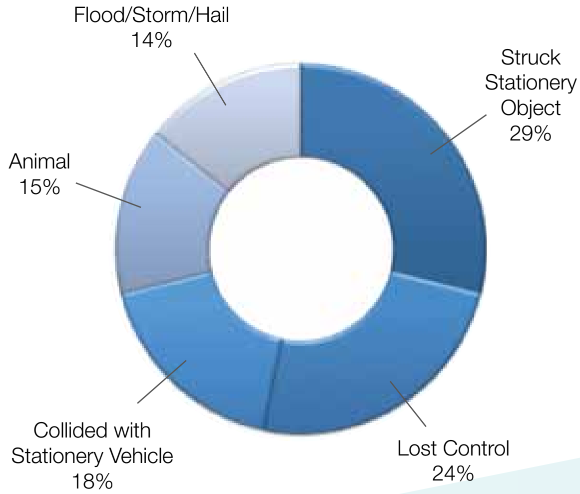
Motor Vehicle Claims

Motor vehicle accidents continue to be a significant contributor to Council claim costs. The following graphs illustrate the top 5 causes of claims by both number and cost as well as which party is at fault. Achieving only a small reduction in the number and cost of otherwise preventable claims such as those involving collisions with stationary vehicles will have significant benefits for Members. LGM Assets is continuing to work with Councils to assist them to better manage their motor vehicle exposures.

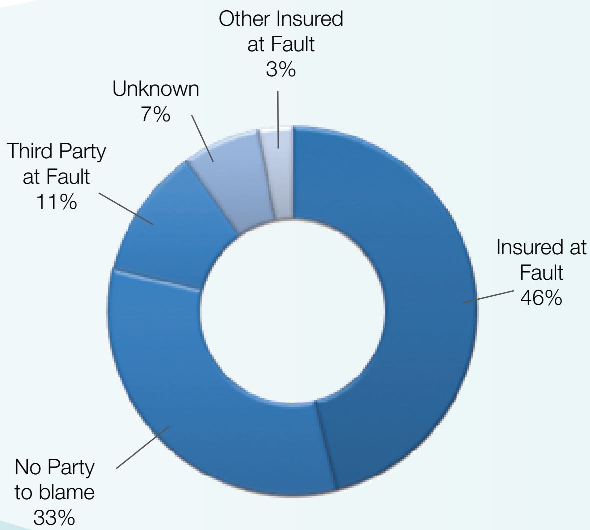
Top 5 Motor Vehicle Claim Causes (by number of claims)



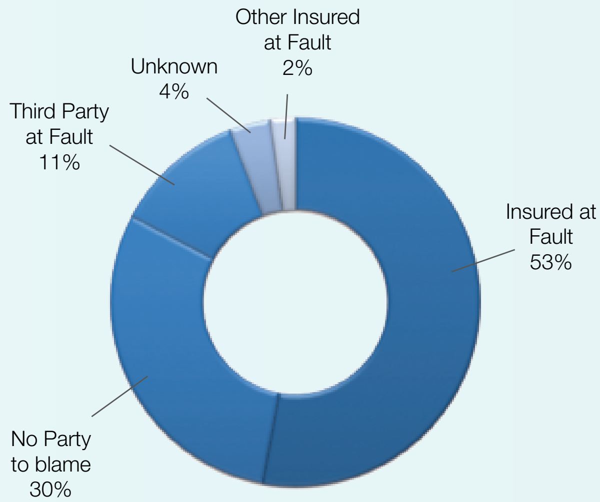
Top 5 Motor Vehicle Claim Causes (by claims cost)



Top 5 Party Responsible for Motor Vehicle Claim (by number of claims)



Top 5 Party Responsible for Motor Vehicle Claim (by claims cost)

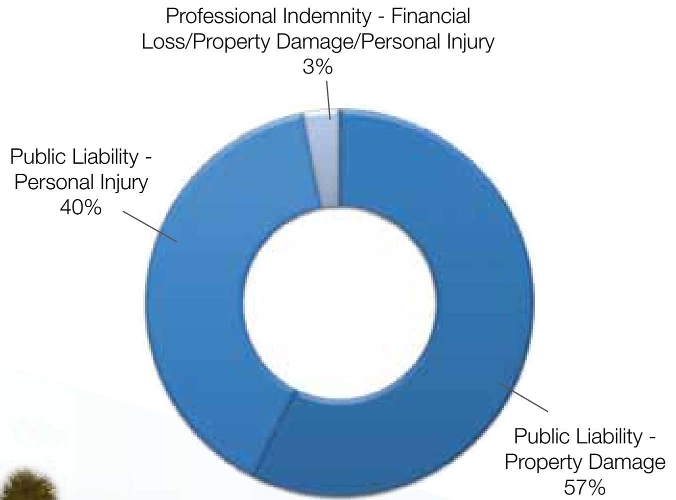


LGM Liability

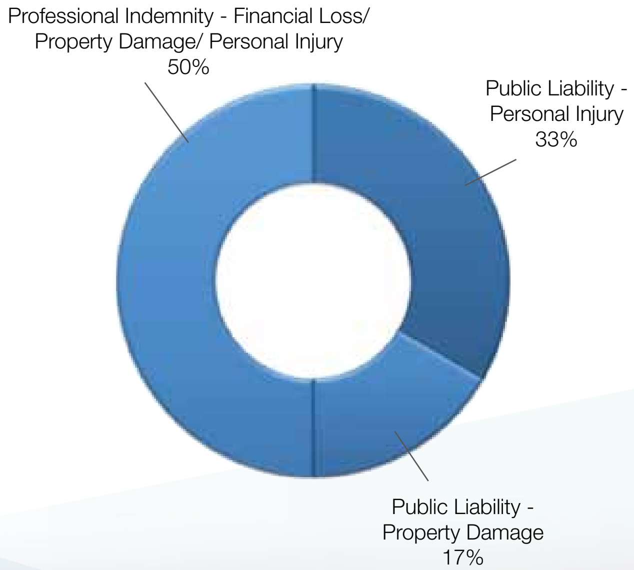
- **Owned by Members:** $3 million surplus distribution returned to scheme Members
- **Unrivalled value:** supporting Members risk management endeavours with guidance material, advice on specific Council scenarios, ongoing support by the Regional Risk Coordinators and $413,000 in risk management rebates
- **Dependable insurance:** membership contributions reduced by 10% in the 4 years to 2016/17 with cover enhancements and improved services

WHAT WERE THE TOP REASONS FOR COUNCIL CLAIMS?

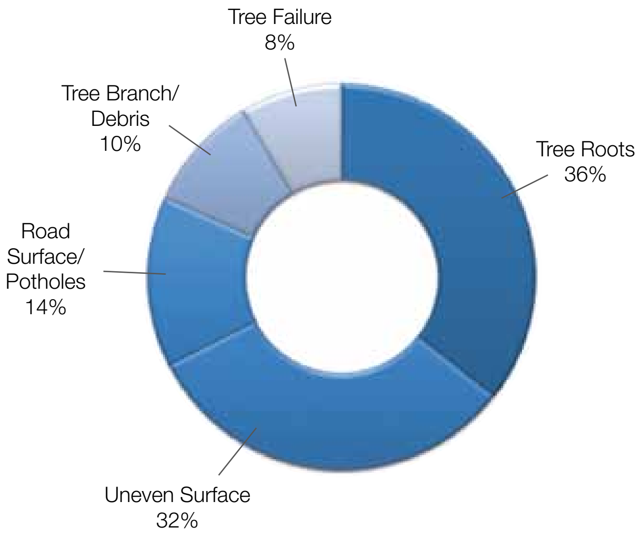
Split Between General Liability Types of Cover 2016/17 (by number of claims)



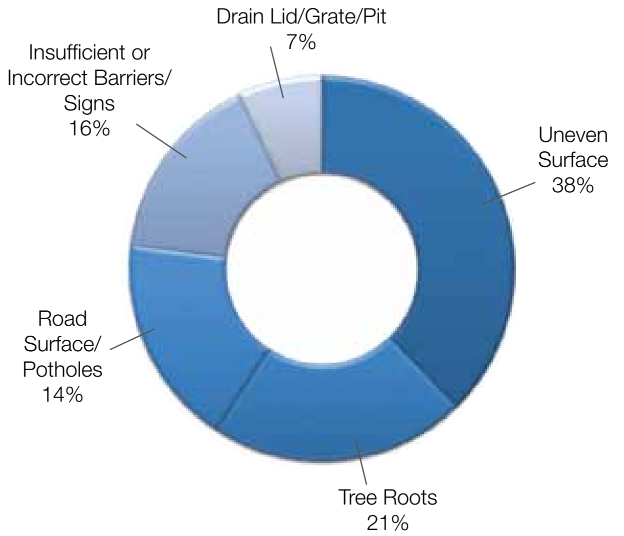
Split Between General Liability Types of Cover 2016/17 (by claims cost)



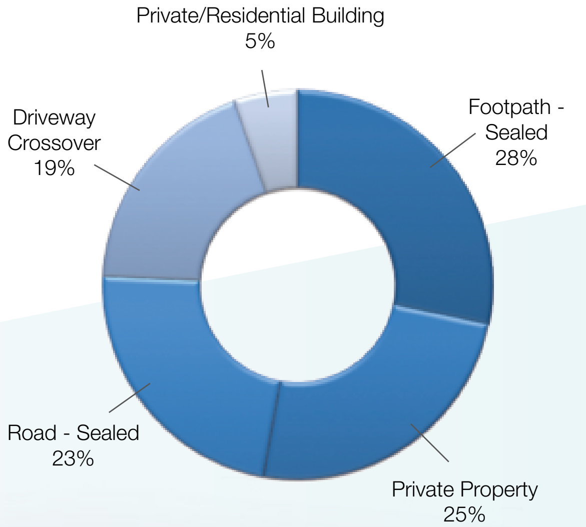
Top 5 Liability Claim Causes 2016/17 (by number of claims)



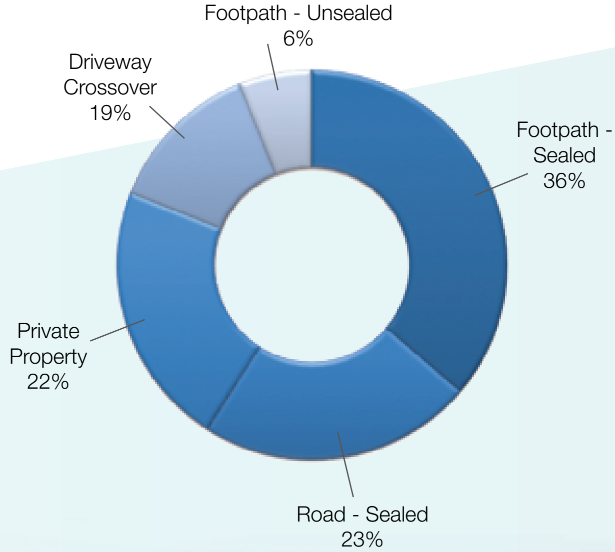
Top 5 Liability Claim Causes 2016/17 (by claims cost)



Top 5 Liability Claim Locations 2016/17 (by number of claims)



Top 5 Liability Claim Locations 2016/17 (by claims cost)

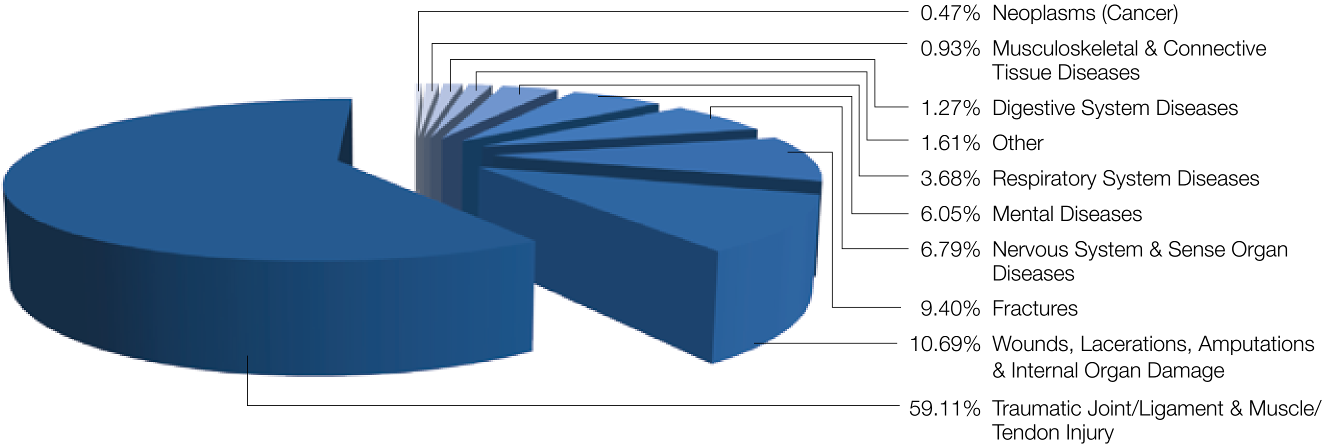


LGW Workcare

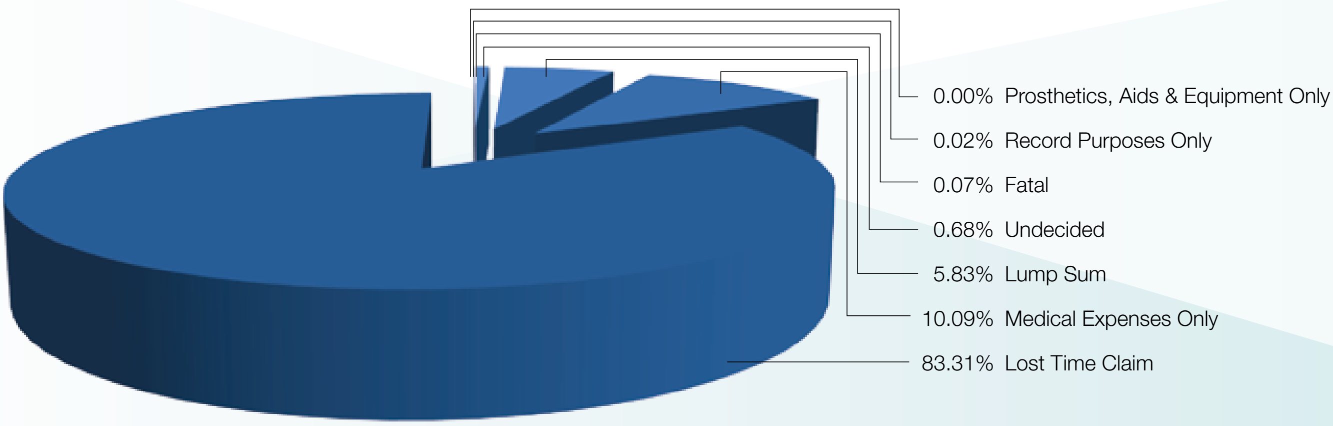
- **Superior Service:** further improved claims outcomes by dedicated LGW claims / allied health professionals with:
  - – average claims cost now 47% less than WorkCover cost
  - – average work days lost 56% less than WorkCover
  - – an impressive 96.1% return to work rate
- **Owned by Members:** $3 million surplus distribution returned to scheme Members
- **Unrivalled Value:** working with Councils to develop and enhance their safety management systems to reduce both the frequency and severity of injuries in the workplace

WHAT WERE THE INJURIES SUSTAINED BY COUNCIL WORKERS?

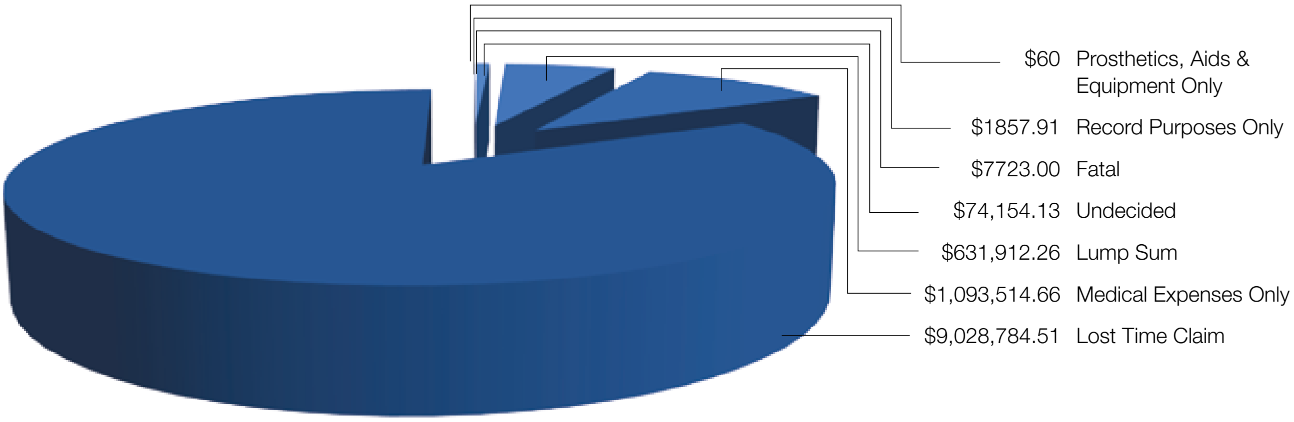
Split of Injury Types for LGW Workcare Claims (by Injury Nature Group)



Split of Injury Types for LGW Workcare Claims (by Claim Type)



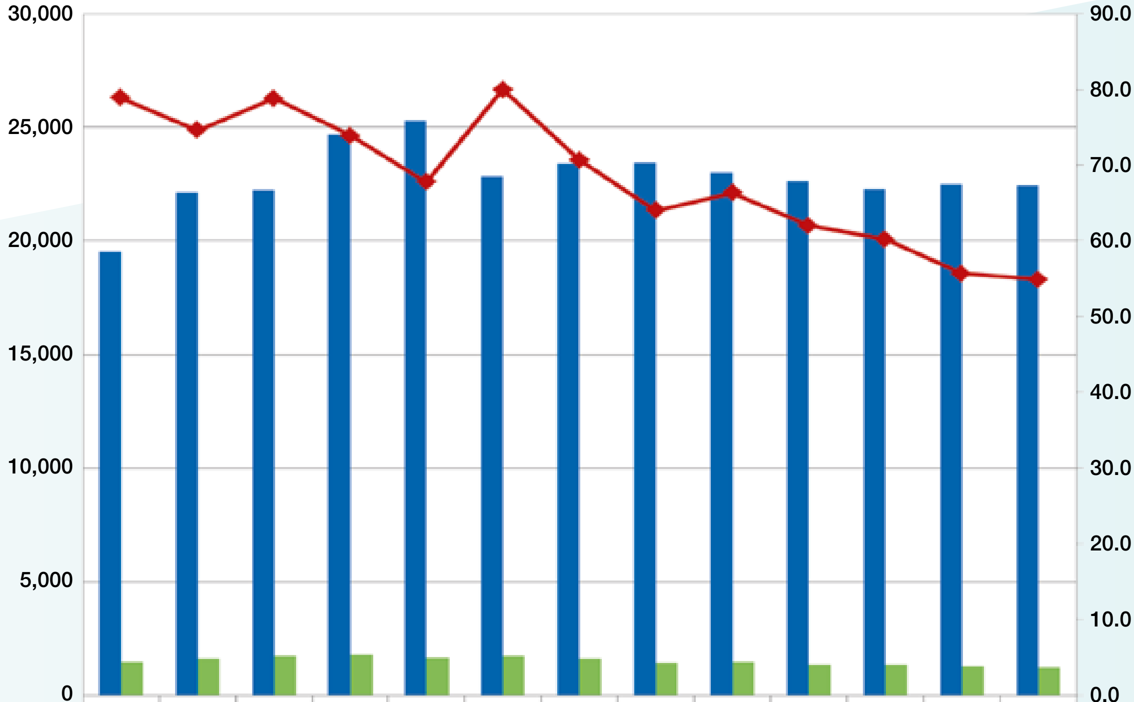
Split of Injury Types for LGW Workcare Claims (by Claim Cost)



THE IMPACT OF THE COLLABORATIVE APPROACH TO CLAIMS BY LGW WORKCARE AND ITS MEMBERS

Claim Frequency by Injury Year

Number of Employees; Number of Statutory Claims and Claims per 1000 Workers



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
No. of Employees	19,519	22,136	22,236	24,675	25,307	22,826	23,392	23,433	23,001	22,606	22,270	22,494	22,469
No. of Statutory Claims	1499	1606	1722	1774	1665	1760	1606	1443	1499	1365	1352	1250	1234
Claims per 1000 Workers	78.9	74.6	78.8	73.9	67.8	80.0	70.7	64.0	66.3	62.0	60.2	55.7	54.9

The LGMS Difference

MEMBERSHIP OF LGMS MUTUAL SCHEMES VS TRADITIONAL INSURANCE MODELS

MEMBERSHIP OF LGMS SCHEMES	TRADITIONAL INSURANCE
Self-insurance Pooling of funds to meet the costs of claims for Members. Managed carefully to protect Members' interests.	**Purchased insurance** Pay underwriter a premium to cover claims.
Member based Part owner of a mutual scheme protecting Members with common interests and entitled to make claims.	Insured is party to a commercial contract with a company. No equitable interest, but entitled to make claims.
Benefits of the scheme Not just about insurance – in addition to the covers, there are risk management and other services and extensive support networks available.	**Benefits of insurance** Coverage varies between Insurers according to individual policy wordings and exclusions.
Contributions The funds provided by each Member contribute towards each year's anticipated claims costs. Controlled management keeps costs down and removes vulnerability to external market fluctuations.	**Premiums** The annual cost to purchase the insurance cover. May vary widely year to year according to market influences and conditions.
Surplus returned to Members or used for the benefit of Members Surplus distributions and membership dividends in excess of $10 million have been returned to Members from LGM Liability and LGW Workcare in last 2 years.	Profit-focussed activities to maximise shareholder returns.
Broadest coverage possible Tailored to the wide and varied activities of Local Government and closely related bodies. Long-term arrangements in place to maximise coverage of insurable risks affecting local government.	**Standard policy wording** Applicable to various clients regardless of industry.
Claims consultation Dedicated, consultative, Qld based claims management service. Regular interaction with the Member to resolve matters and discuss potential settlement (or otherwise) of a claim.	**Claims decisions** Insurer has the right to make claims decisions without input by or reference to the Insured.
People Long-term personnel with depth of knowledge over range of disciplines including local government, risk, insurance, legal, allied health, financial.	Generic insurance services.

LGM Risk Management Excellence Awards

2017

Congratulations not only to Redland City Council and Isaac Regional Council but also all Councils who submitted an entry. The quality and number of submissions received was particularly high.

Members are encouraged to start thinking of appropriate risk management initiatives that might form the basis of an entry in 2018.

Redland City Council received an award for its "Risk management e-learning module", an online risk management training program delivered to all employees. The e-learning module caters for all categories of employees, combining fundamental risk management learnings with visual activities to ensure accessibility and relevance. This approach was considered by the LGM Board to provide an excellent example of a practical and targeted approach to raising knowledge and awareness about risk appetite and management across an entire local government organisation.

Mayor Councillor Karen Williams accepting the award from Craig Hinchliffe

Isaac Regional Council received an award for its "Think ISAAC" initiative. This initiative provides an example of how risk management can be applied to suit individual Council needs and priorities. Positive outcomes achieved as a result of "Think ISAAC" include the establishment of a consistent and recognisable approach to risk management across the organisation that also accounts for diversity in work, roles and employees.

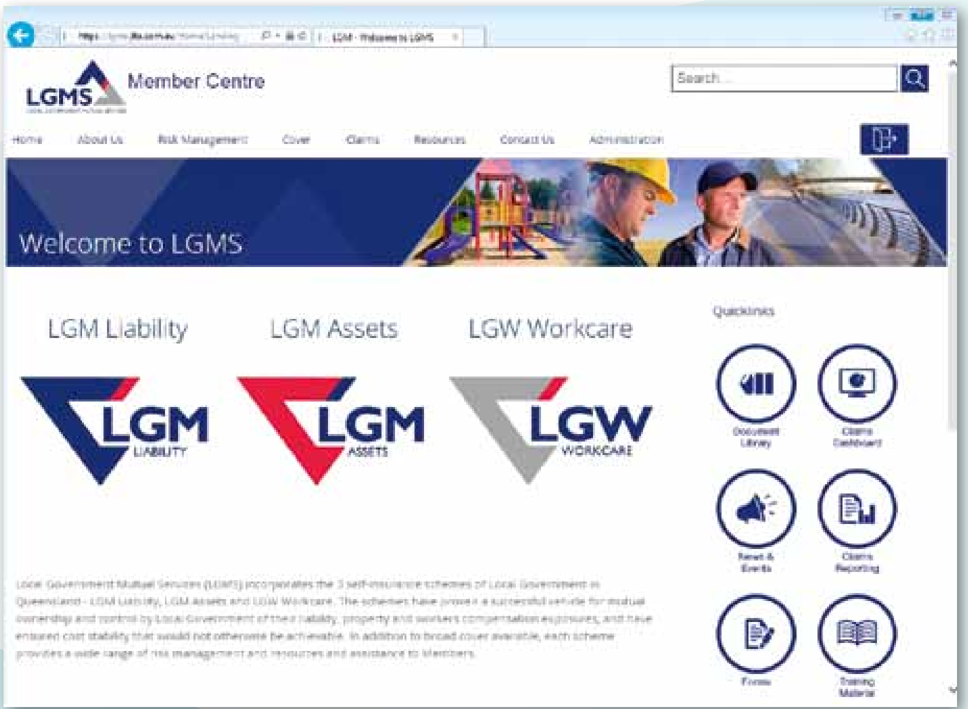
Mayor of Isaac Regional Council, Councillor Anne Baker, with Craig Hinchliffe at the awards ceremony.

LGW Safeplan Awards
2017

LGW Safeplan Awards –Acknowledgement of Members Achieving WHS Audit Results Above 70%

Livingstone Shire Council receiving a LGW Safeplan Bronze Award (from left), CEO Chris Murdoch, LGW WH&S Consultant Pauline Heath and Council WH&S Coordinator Wayne Walters

LGMS Member Centre



New LGMS Member Centre launched 1 August 2016

QUEENSLAND LOCAL
GOVERNMENT MUTUAL

Financial Statements

for the year ended 30 June 2017

Contents

Statement of Comprehensive Income

for the year ended 30 June 2017

The statement of comprehensive income to be read in conjunction with the notes to the financial statements set out on pages 19 to 35.

	Note	2017 $	2016 $
REVENUE			
Member contributions	3	42,532,514	40,083,472
Reinsurance and other recoveries revenue	3	6,454,254	6,701,014
Other income	3	155,783	46,474
Insurer Buy-Out revenue	3	8,873	-
Investment income	3	779,003	588,708
Changes in the fair value of investments	3	1,088,348	139,152
Interest revenue	3	2,548,312	2,693,515
Total revenue		***53,567,087***	***50,252,336***
EXPENSES			
Claims expense	3	(15,986,695)	(7,020,467)
Outwards risk premium expense	3	(19,529,855)	(16,792,846)
Other underwriting expenses	3	(4,332,001)	(4,170,665)
General expenses	3, 7	(2,428,289)	(1,042,545)
Total expenses		***(42,276,840)***	***(29,026,524)***
Operating Surplus		**11,290,247**	**21,225,812**
Total comprehensive income for the year attributable to Members		**11,290,247**	**21,225,812**

Statement of Financial Position

as at 30 June 2017

The statement of comprehensive income to be read in conjunction with the notes to the financial statements set out on pages 19 to 35.

	Note	2017 $	2016 $
CURRENT ASSETS			
Cash and cash equivalents	13(a)	113,025,763	85,629,558
Trade and other receivables	8	87,136	390,898
Reinsurance and other recoveries receivables		6,850,414	8,619,986
Financial assets	9	21,307,802	41,683,293
Total current assets		**141,271,115**	**136,323,734**
NON-CURRENT ASSETS			
Reinsurance and other recoveries receivables		14,079,847	14,692,437
Total non-current assets		14,079,847	14,692,437
Total Assets		**155,350,962**	**151,016,171**
CURRENT LIABILITIES			
Trade and other payables	10	464,013	1,596,977
Unearned contributions		13,396,431	15,280,566
Distribution payables	18	334,475	1,189,682
Future claims and associated costs	11	23,680,437	21,204,905
Total current liabilities		**37,875,356**	**39,272,130**
NON-CURRENT LIABILITIES			
Future claims and associated costs	11	46,954,317	51,510,000
Total non-current liabilities		46,954,317	51,510,000
Total liabilities		84,829,673	90,782,130
NET ASSETS		**70,521,289**	**60,234,042**
EQUITY			
Retained surplus		70,521,289	60,234,042
TOTAL EQUITY		**70,521,289**	**60,234,042**

Statement of Changes in Equity

for the year ended 30 June 2017

The statement of changes in equity is to be read in conjunction with the notes to the financial statements set out on pages 19 to 35.

	Note	2017 $	2016 $
Total equity at the beginning of the financial year		60,234,042	41,971,699
Total comprehensive income:			
Net result for the year		11,290,247	21,225,812
Total comprehensive income		11,290,247	21,225,812
Surplus Distribution	18	(1,003,000)	(2,963,469)
Total equity at the end of the financial year		**70,521,289**	**60,234,042**

Statement of Cash Flows

for the year ended 30 June 2017

The statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 19 to 35.

	Note	2017 $	2016 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Member contributions		43,786,586	42,874,438
Outwards risk premium expense		(19,529,855)	(16,792,846)
Claims expense		(16,759,246)	(15,647,943)
Other underwriting and general expenses		(9,805,812)	(7,653,854)
Interest revenue		2,548,932	2,693,268
Investment income		1,073,163	504,739
Reinsurance and other recoveries revenue		6,312,148	6,468,026
Other income		155,783	46,474
Insurer Buy-Out revenue		8,873	-
NET CASH PROVIDED BY OPERATING ACTIVITIES		**7,790,572**	**12,492,302**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds/(Payments) from Investments		21,463,839	(37,557,613)
NET CASH PROVIDED BY/(USED IN) INVESTING ACTIVITIES		21,463,839	(37,557,613)
SURPLUS DISTRIBUTION PAID		(1,858,206)	(2,570,965)
NET INCREASE IN CASH AND CASH EQUIVALENTS		27,396,205	(27,636,276)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL YEAR		85,629,558	113,265,834
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR		**113,025,763**	**85,629,558**

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. 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 1 July 2015.

The principal activity of Queensland Local Government Mutual during the course of the financial year was the provision of cover for civil liability and asset loss incurred by local governments and local government controlled entities within Queensland and the management of associated claims arising in connection with the exercise by the Members of their powers, duties or functions.

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, Jardine Lloyd Thompson Pty Ltd and their associated costs are recharged to Queensland Local Government Mutual through a monthly scheme management fee. This fee is disclosed in the statement of 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. They have been prepared on the basis of historical costs and take into account changing money values or fair values of assets, except in the case of investments which are stated at fair value. The Liability Fund actuary has increased projected future claims payments to allow for inflation and discounted the expected payments to 30 June 2017 to obtain the present value of the liability.

LGM is a not for profit entity. The accounting policies are consistent with those of the previous year unless otherwise stated.

Comparative information has been re-classified, where necessary, to be consistent with disclosures in the current reporting period.

b) 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.

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.

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 QTC cash fund and ANZ bank.

(CONTINUED)

c) 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 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 11.

d) 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.

e) Trade and other receivables

Trade receivables are measured at amortised cost which approximates their fair values at the reporting date. Trade debtors are recognised at the amounts based on agreed policy / purchase price. The collectability of debts is assessed at reporting date and if considered necessary, a provision is made for any impaired accounts. Receivables are generally due for settlement within 30 days.

f) Trade and other payables

Liabilities are recognised for amounts to be paid in the future for goods or services received. Trade accounts payable are normally settled within 60 days.

g) Unearned contributions

These are the contributions billed for the next financial year but received in bank in the current financial year net of GST.

h) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

i) Taxation

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.

j) Financial instruments

Initial recognition and 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.

Classification and subsequent measurement

Financial instruments are subsequently measured at either 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 the profit or loss.

(i) Financial assets

Financial assets are classified at 'fair value through profit or loss' when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss. The managed funds, managed by fund manager QIC, are generally available at call. These investments are held at market value. LGM does not engage any transactions for speculative purposes. Financial assets include QIC investments of $21.31 million.

(ii) Cash and cash equivalents

For the purpose of the presentation in the statement of cash flows, cash and cash equivalents comprise of cash balances and investments with QTC. The Liability fund holds $97.52 million with the QTC cash fund, $7.07 million in ANZ bank account. The Asset Fund holds $7.87 million with the QTC cash fund, $0.57 million in ANZ bank.

k) Rounding

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

l) Critical accounting 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 estimates and related assumptions are based on experience and other factors that are considered to be reasonable. These results form the basis for judgements about the carrying values of assets and liabilities. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised, and future periods, if relevant.

The areas where the estimates and assumptions involve a high degree of judgement or complexity, and are considered significant to the financial statements, listed together with reference to the notes to the financial statements where more information is provided, are:

- Reinsurance and other recoveries on outstanding claims, refer notes 2b and 11.
- Future claims and associated costs, refer notes 2c and 11.

m) First year application of new accounting standards

This year, LGM has applied AASB 124 Related Party Disclosures for the first time. As a result LGM has disclosed more information about related parties and transactions with those related parties. This information is presented in note 14.

n) New accounting standards for application in future periods

At the date of authorisation of the financial report, the expected impacts of new or amended Australian Accounting Standards with future commencement dates are as set out below.

AASB 9 Financial Instruments

AASB 9 Financial Instruments and AASB 2014-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2014) will become effective from reporting periods beginning on or after 1 January 2018. The main impacts of these standards on the entity are that they will change the requirements for the classification, measurement, impairment and disclosures associated with the entity's financial assets. AASB 9 will introduce different criteria for whether financial assets can be measured at amortised cost or fair value.

o) 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.

(CONTINUED)

3. Revenue & expenses

	Total Liability & Asset Funds 2017 $	Total Liability & Asset Funds 2016 $	Liability Fund 2017 $	Liability Fund 2016 $	Asset Fund 2017 $	Asset Fund 2016 $
REVENUE						
Member contributions	42,532,514	40,083,472	22,419,984	24,473,638	20,112,530	15,609,834
Reinsurance and other recoveries revenue	6,454,254	6,701,014	6,438,804	6,696,014	15,450	5,000
Other income	155,783	46,474	-	-	155,783	46,474
Insurer Buy-Out revenue	8,873	-	8,873	-	-	-
Investment income	779,003	588,708	779,003	588,708	-	-
Changes in the fair value of investments	1,088,348	139,152	1,088,348	139,152	-	-
Interest revenue	2,548,312	2,693,515	2,346,563	2,555,869	201,749	137,646
Total revenue	53,567,087	50,252,336	33,081,575	34,453,381	20,485,512	15,798,954
EXPENSES						
Claims expense	(15,986,695)	(7,020,467)	(11,081,076)	(3,255,925)	(4,905,619)	(3,764,542)
Outwards risk premium expense	(19,529,855)	(16,792,846)	(6,331,994)	(6,625,897)	(13,197,861)	(10,166,949)
Other underwriting expenses	(4,332,001)	(4,170,665)	(3,601,508)	(3,541,435)	(730,493)	(629,230)
General expenses	(2,428,289)	(1,042,545)	(2,283,311)	(973,683)	(144,978)	(68,862)
Total expenses	(42,276,840)	(29,026,524)	(23,297,889)	(14,396,940)	(18,978,951)	(14,629,583)
Operating Surplus	11,290,247	21,225,812	9,783,686	20,056,441	1,506,561	1,169,371

4. Financial position

	Total Liability & Asset Funds 2017 $	Total Liability & Asset Funds 2016 $	Liability Fund 2017 $	Liability Fund 2016 $	Asset Fund 2017 $	Asset Fund 2016 $
CURRENT ASSETS						
Cash and cash equivalents	113,025,763	85,629,558	104,594,624	81,834,795	8,431,139	3,794,763
Trade and other receivables	87,136	390,898	87,136	387,127	-	3,771
Reinsurance and other recoveries receivables	6,850,414	8,619,986	6,850,414	8,619,986	-	-
Financial assets	21,307,802	41,683,293	21,307,802	41,683,293	-	-
Total current assets	141,271,115	136,323,734	132,839,976	132,525,201	8,431,139	3,798,534
NON-CURRENT ASSETS						
Reinsurance and other recoveries receivables	14,079,847	14,692,437	14,079,847	14,692,437	-	-
Total non-current assets	14,079,847	14,692,437	14,079,847	14,692,437	-	-
Total assets	155,350,962	151,016,171	146,919,823	147,217,638	8,431,139	3,798,534
CURRENT LIABILITIES						
Trade and other payables	464,013	1,596,977	48,509	1,588,719	415,504	8,258
Unearned contributions	13,396,431	15,280,566	13,396,431	15,280,566	-	-
Distribution payable	334,475	1,189,682	334,475	1,189,682	-	-
Future claims and associated costs	23,680,437	21,204,905	18,340,733	18,584,000	5,339,704	2,620,905
Total current liabilities	37,875,356	39,272,130	32,120,148	36,642,967	5,755,208	2,629,163
NON-CURRENT LIABILITIES						
Future claims and associated costs	46,954,317	51,510,000	46,954,317	51,510,000	-	-
Total non-current liabilities	46,954,317	51,510,000	46,954,317	51,510,000	-	-
Total liabilities	84,829,673	90,782,130	79,074,465	88,152,967	5,755,208	2,629,163
NET ASSETS	70,521,289	60,234,042	67,845,358	59,064,671	2,675,931	1,169,371
EQUITY						
Retained surplus	70,521,289	60,234,042	67,845,358	59,064,671	2,675,931	1,169,371
TOTAL EQUITY	70,521,289	60,234,042	67,845,358	59,064,671	2,675,931	1,169,371

5. Cash flows

	Total Liability & Asset Funds 2017 $	Total Liability & Asset Funds 2016 $	Liability Fund 2017 $	Liability Fund 2016 $	Asset Fund 2017 $	Asset Fund 2016 $
CASH FLOW FROM OPERATING ACTIVITIES						
Member contributions	43,786,586	42,874,438	23,380,842	27,264,604	20,405,744	15,609,834
Outwards risk premium expense	(19,529,855)	(16,792,846)	(6,331,994)	(6,625,897)	(13,197,861)	(10,166,949)
Net claims expense	(16,759,246)	(15,647,943)	(14,572,426)	(14,504,307)	(2,186,820)	(1,143,636)
Other underwriting and general expenses	(9,805,812)	(7,653,854)	(9,048,144)	(6,960,249)	(757,668)	(693,606)
Interest revenue	2,548,932	2,693,268	2,347,184	2,555,622	201,748	137,646
Investment income	1,073,163	504,739	1,073,163	504,739	-	-
Reinsurance and other recoveries	6,312,148	6,468,026	6,296,698	6,463,026	15,450	5,000
Other income	155,783	46,474	-	-	155,783	46,474
Insurer Buy-Out revenue	8,873	-	8,873	-	-	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	7,790,572	12,492,302	3,154,196	8,697,539	4,636,376	3,794,763
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds/(Payments) from Investments	21,463,839	(37,557,613)	21,463,839	(37,557,613)	-	-
NET CASH PROVIDED BY/(USED IN) INVESTING ACTIVITIES	21,463,839	(37,557,613)	21,463,839	(37,557,613)	-	-
SURPLUS DISTRIBUTION PAID	(1,858,206)	(2,570,965)	(1,858,206)	(2,570,965)	-	-
NET INCREASE IN CASH AND CASH EQUIVALENTS	27,396,205	(27,636,276)	22,759,829	(31,431,039)	4,636,376	3,794,763
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL YEAR	85,629,558	113,265,834	81,834,795	113,265,834	3,794,763	-
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR	113,025,763	85,629,558	104,594,624	81,834,795	8,431,139	3,794,763

6. Underwriting result

Member contributions	42,532,514	40,083,472	22,419,984	24,473,638	20,112,530	15,609,834
Outwards risk premium expense	(19,529,855)	(16,792,846)	(6,331,994)	(6,625,897)	(13,197,861)	(10,166,949)
Net contribution revenue	23,002,659	23,290,626	16,087,990	17,847,742	6,914,669	5,442,885
Claims expense	(15,986,695)	(7,020,467)	(11,081,076)	(3,255,925)	(4,905,619)	(3,764,542)
Reinsurance and other recoveries revenue	6,454,254	6,701,014	6,438,804	6,696,014	15,450	5,000
Net claims expense	(9,532,441)	(319,453)	(4,642,272)	3,440,089	(4,890,169)	(3,759,542)
Other underwriting expenses*	(4,332,001)	(4,170,665)	(3,601,508)	(3,541,435)	(730,493)	(629,230)
Underwriting result	9,138,218	18,800,508	7,844,210	17,746,395	1,294,006	1,054,113

*Other underwriting expenses pertain to Scheme expenses management fee.

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7. General expenses

	Total Liability & Asset Funds 2017 $	Total Liability & Asset Funds 2016 $	Liability Fund 2017 $	Liability Fund 2016 $	Asset Fund 2017 $	Asset Fund 2016 $
Regional Risk Co-ordinators	661,974	649,280	661,974	649,280	-	-
Investment fees and charges	208,282	128,935	196,899	124,202	11,383	4,733
Administration expenses	341,367	264,330	207,772	200,200	133,595	64,129
TUIC unrecoverable reinsurance receivables*	1,216,666	-	1,216,666	-	-	-
	2,428,289	1,042,545	2,283,311	973,682	144,978	68,862

*The Board approved that following settlement of the last remaining claims reinsured by The Underwriter Insurance Company (TUIC) program, that the balance of $1,216,666 to be written off.

8. Trade & other receivables

Current						
Sundry debtors	87,136	390,898	87,136	387,127	-	3,771
	87,136	390,898	87,136	387,127	-	3,771

9. Financial assets

Units in managed investment trusts	21,307,802	12,161,673	21,307,802	12,161,673	-	-
Term deposits	-	29,521,619	-	29,521,619	-	-
	21,307,802	41,683,292	21,307,802	41,683,292	-	-

10. Trade & other payables

Sundry creditors	170,799	1,596,977	48,509	1,588,719	122,290	8,258
	170,799	1,596,977	48,509	1,588,719	122,290	8,258

11. Future claims and associated costs

Expected future claims (undiscounted)	74,078,704	75,874,905	68,739,000	73,254,000	5,339,704	2,620,905
Discount to present value	(3,443,950)	(3,160,000)	(3,443,950)	(3,160,000)	-	-
Liability for outstanding claims	70,634,754	72,714,905	65,295,050	70,094,000	5,339,704	2,620,905
Current	23,680,437	21,204,905	18,340,733	18,584,000	5,339,704	2,620,905
Non-current	46,954,317	51,510,000	46,954,317	51,510,000	-	-
Liability for outstanding claims	70,634,754	72,714,905	65,295,050	70,094,000	5,339,704	2,620,905

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. The actuary understands that 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 2017. This provides a probability of sufficiency of approximately 75%. This is the same risk margin as adopted at the previous review.

Actuarial assumptions

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

Key Actuarial Assumptions	2017	2016
Inflation	3%	3.5%
Claim administration expense	10%	10%
Discount rate	2.1%	1.7%
Term to settlement (years)	2.6	2.9

Method

The estimated outstanding liability at 30 June 2017 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". 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 3% per annum.

Claim administration (handling) expense

In accordance with accounting requirements, claims administration expenses have been included. They have been determined as a proportion of future claim payments made by LGM in excess of Council recoveries and non-reinsurance recoveries. The assumed proportion has been based on the past experience of LGM.

The claims administration expenses have been approximately 11% of the payments made since 1 July 2008 and 14% 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 10% of payments net of non reinsurance recoveries. This is the same rate as adopted in the previous valuation.

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 2.1% per annum. At the previous valuation, the discount rate was assumed to be 1.7% per annum. The difference is due to the change in bonds rates adopted as well as movements in market interest rates since the previous valuation.

(CONTINUED)

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.

Inflation assumption

Liability Fund Financial instruments	Carrying Amount	-1% Movement	1% Movement
Future claims and associated cost	65,295,050	(1,593,000)	1,593,000
Reinsurance receivables	(20,930,261)	457,000	(457,000)
Potential Impact		(1,136,000)	1,136,000

Discount rate assumption

Liability Fund Financial instruments	Carrying Amount	-1% Movement	1% Movement
Future claims and associated cost	65,295,050	1,516,000	(1,516,000)
Reinsurance receivables	(20,930,261)	(442,000)	442,000
Potential Impact		1,074,000	(1,074,000)

12. Net claims incurred

Liability Fund	2017 $	2016 $
Net claims expense (note 6)	4,642,272	(3,440,089)

2017 – Details of net incurred claims are as follows:

	Current Year $'000	Prior Years $'000	Total $'000
Claims incurred and related expenses – undiscounted	21,251	(11,194)	10,057
Reinsurance and other recoveries – undiscounted	(9,270)	3,948	(5,322)
Net claims incurred – undiscounted	11,981	(7,246)	4,735
Discount – Claims incurred and related expenses	(996)	711	(285)
Discount – Reinsurance and other recoveries	397	(205)	192
Net discount movement	(599)	506	(93)
Net incurred claims	11,382	(6,740)	4,642

Explanation of material variances – 2017

The actuary has set out an analysis by incident year which shows the decrease in the outstanding liability from $39.9 million as at 30 June 2016 to $37 million as at 30 June 2017, that is, a decrease of $2.9 million. For incident years to 2008 there is very little net liability outstanding as LGM remain fully reinsured in respect of almost all those incident years. Accordingly it is expected that the outstanding liability would increase from last year to this year as LGM has taken on the liability for an extra year, while a proportion of the payments made are from fully reinsured claims. Based on the results of the previous review and payments made since the previous review the actuary would have expected the outstanding liability to increase to $42.3 million.

The estimated liability as at 30 June 2017 in this valuation has been estimated to be $37 million. The reduction of $5.3 million is summarised below.

Item	Impact on Liability $M
Claims experience for claims incurred prior to 1 July 2016	(2.2)
Claims experience for claims incurred during the year ending 30 June 2017	(1.8)
Change in claims assumptions	(0.9)
Change in economic assumptions (discount rate only)	(0.4)
Total	**(5.3)**

2016 – Details of net incurred claims are as follows:

	Current Year $'000	Prior Years $'000	Total $'000
Claims incurred and related expenses – undiscounted	26,173	(32,994)	(6,821)
Reinsurance and other recoveries – undiscounted	(9,831)	11,625	1,794
Net claims incurred – undiscounted	16,342	(21,369)	(5,027)
Discount – Claims incurred and related expenses	(1,055)	3,182	2,127
Discount – Reinsurance and other recoveries	354	(895)	(541)
Net discount movement	(701)	2,287	1,586
Net incurred claims	15,641	(19,082)	(3,441)

Explanation of material variances – 2016

The actuary has set out an analysis by incident year which shows the decrease in the outstanding liability from $49.3 million as at 30 June 2015 to $39.9 million as at 30 June 2016, that is, a decrease of $9.4 million. For incident years to 2008 there is very little net liability outstanding as LGM remain fully reinsured in respect of almost all those incident years. Accordingly it is expected that the outstanding liability would increase from last year to this year as LGM has taken on the liability for an extra year, while a proportion of the payments made are from fully reinsured claims. Based on the results of the previous review and payments made since the previous review the actuary would have expected the outstanding liability to increase to $53.9 million.

The estimated liability as at 30 June 2016 in this valuation has been estimated to be $39.9 million. The reduction of $14.0 million is summarised below.

Item	Impact on Liability $M
Claims experience for claims incurred prior to 1 July 2015	(11.1)
Claims experience for claims incurred during the year ending 30 June 2016	2.6
Change in claims assumptions	(6.1)
Change in economic assumptions (discount rate only)	0.6
Total	**(14.0)**

Asset Fund	2017 $	2016 $
Net claims expense (note 6)	4,890,169	3,759,542

2017 – Details of net incurred claims are as follows:

	Current Year $'000	Prior Years $'000	Total $'000
Claims incurred and related expenses – undiscounted	5,476	(571)	4,905
Reinsurance and other recoveries – undiscounted	(15)	-	(15)
Net claims incurred – undiscounted	5,461	(571)	4,890

(CONTINUED)

2016 – Details of net incurred claims are as follows:

	Current Year $'000	Prior Years $'000	Total $'000
Claims incurred and related expenses – undiscounted	3,764	-	3,764
Reinsurance and other recoveries – undiscounted	(5)	-	(5)
Net claims incurred – undiscounted	3,759	-	3,759

13. 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 2017 $	Total Liability & Asset Funds 2016 $	Liability Fund 2017 $	Liability Fund 2016 $	Asset Fund 2017 $	Asset Fund 2016 $
Cash at bank and in hand	7,651,627	3,292,772	7,077,980	3,147,306	573,647	145,466
Deposits at call	105,374,136	82,336,786	97,516,644	78,687,489	7,857,492	3,649,297
	113,025,763	85,629,558	104,594,624	81,834,795	8,431,139	3,794,763

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

Operating surplus	11,290,247	21,225,812	9,783,686	20,056,441	1,506,561	1,169,371
Net cash provided by operating activities	11,290,247	21,225,812	9,783,686	20,056,441	1,506,561	1,169,371
Non cash operating items						
Change in the fair value of investments	(1,088,348)	(139,152)	(1,088,348)	(139,152)	-	-
Change in assets and liabilities						
(Increase)/Decrease in reinsurance and other recoveries receivable	2,382,162	7,716,629	2,382,162	7,716,629	-	-
Increase/(Decrease) in trade and other payables	(1,132,964)	49,606	(1,540,209)	41,348	407,245	8,258
Decrease/(Increase) in trade and other receivables	303,762	(96,082)	299,991	(92,311)	3,771	(3,771)
Increase/(Decrease) in unearned revenue	(1,884,134)	312,583	(1,884,134)	312,583	-	-
Increase/(Decrease) in future claims and associated costs	(2,080,153)	(16,577,095)	(4,798,952)	(19,198,000)	2,718,799	2,620,905
Net cash from operating activities	7,790,572	12,492,302	3,154,196	8,697,539	4,636,376	3,794,763

14. Related parties

Local Government Association of Queensland Ltd (LGAQ) has resolved to establish Queensland Local Government Mutual Trust ("the Pool"). The Pool exists 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.

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

Key Management Personnel For the period 1/7/16 - 30/6/17

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 for achieving the Pool's objectives and for financial management. Financial management responsibilities include arranging for preparation of annual financial statements. The Trust Deed makes provision for the LGAQ to appoint the scheme manager and establish a Pool management agreement with the manager. The LGAQ is responsible for arranging establishment of bank accounts, investment of funds and (if necessary) borrowing of funds. The LGAQ is also provided with powers relating to the identification and use of surplus funds.

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 Noel Playford
Mr Stephen Fynes-Clinton
Mr Ian Leckenby
Mr John Brent
Mr Terry Brennan
Mr Michael Byrne*
Mr Bob Millar
Mr Greg Hallam*
Mr Brent Reeman (Alternate for Mr Greg Hallam)*
Cr Karen Williams
Cr Rachel Chambers
Mr David Wiggins*
Mr Brett Turville*

*No Committee meeting fees are paid to these Members

KMP Category / Position	Short-Term Employee Benefits $
Chairman	13,498
Management Committee Members	26,617
Total	40,115

Apart from the details disclosed in this note, no Member of the Board of Management has entered into a material contract with Queensland Local Government Mutual Trust since the end of the previous financial year, and there were no material contracts involving Members of the Board of Management's interests existing at year end.

Directors of the Trustee

The Directors of the Trustee of the Trust which have been listed below are the 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
Cr Matthew Burke

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

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 $17,642

Services provided by LGAQ are on a cost recovery basis and represent transactions paid on behalf of the fund. Services provided by Local Buy relate to conference sponsorship and are on commercial terms.

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.

(CONTINUED)

Transactions with related parties that have not been disclosed

Some of LGM's key management personnel (KMP) are also KMP of their respective Councils, these Councils do 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 the Trust.

15. Risk management

Risk management objectives and policies for mitigating risk

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 financing 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.

Terms and conditions of membership

Membership of LGM is offered to eligible bodies. Payment of the annual contribution confirms continuation of membership. Termination of membership is subject to written notice of intention as laid out by the Scheme Rules. Once a claim is accepted and indemnity granted each claim is handled individually on the circumstances peculiar to the claim.

Product features

LGM operates in Queensland. Should a claim be accepted, Liability Fund provides indemnity to the Member in respect of their civil liabilities, subject to any excess for any claim incurred, subject to the terms and conditions of LGM's Scheme Rules and Mutual Protection Broad Form Liability Wording.

Further, Asset Fund provides indemnity in respect of loss or damage to covered assets subject to any excess for any claim incurred, subject to the terms and LGM's Scheme Rules and relevant policy wordings.

Operating surpluses arise from the total contributions charged to Members less the amounts paid to cover claims and the expenses incurred by 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.

Interest rate risk

Reinsurance contracts

The reinsurance indemnity contracts contain no clauses that expose the Liability Fund directly to interest rate risk. The reinsurance contracts are reviewed and payable annually and include a number of long term arrangements.

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 companies. The Liability Fund holds $21,307,802 worth of units with QIC as at 30 June 2017.

Other

Interest rate risk in the statement of financial position arises from the potential for a change in interest rates to have an adverse effect on the revenue earnings in the current reporting period and in future years.

Interest rate risk arises from the investments in interest bearing securities. Any change in market value of investments as a result of changes in market interest rates is immediately recognised in the statement of comprehensive income in accordance with the accounting policies set out in Note 2.

Any assessment of the impact of changes in interest rates on investment revenues must include the offsetting adjustment to claims expense for changes in discount rates adopted in outstanding claims' valuations. Appropriate matching principles are established so as to ensure the impact on the operating result of changes in interest rates is minimised.

Interest on cash is charged at prevailing market rates being approximately 1.5% at 30 June 2017(2016: 1.74%). Interest on QTC investments is charged at prevailing market rates which is approximately 2.49% at 30 June 2017 (2016: 2.86%) for the Liability Fund. Interest on QTC investments is charged at prevailing market rates which is approximately 2.49% at 30 June 2017 (2016: 2.85%) for the Asset Fund. The weighted average interest rate on investments for 2017 is 2.42%; (2016: 2.88%).

Investment strategy

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

Unit price and interest rate sensitivity analysis

The following unit price and interest rate 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% 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 $1,259,024 (2016: $1,235,181) for interest rate risk. The Asset Fund would have a surplus increase/(decrease) of $81,379 (2016: $37,948).

Credit risk

LGM is exposed to credit risk as a result of exposure to insurers and reinsurers. The credit risk is managed through LGM regularly monitoring the financial rating of the insurers and reinsurers both prior to and during the period of protection.

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

(CONTINUED)

The following table represents LGM's maximum exposure to credit risk based on contractual amounts net of any allowances:

Maximum exposure to credit risk

	Total Liability & Asset Funds 2017 $	Total Liability & Asset Funds 2016 $	Liability Fund 2017 $	Liability Fund 2016 $	Asset Fund 2017 $	Asset Fund 2016 $
Category						
Financial Assets						
Cash and cash equivalents	113,025,763	85,629,558	104,594,624	81,834,795	8,431,139	3,794,763
Trade and other receivables	87,136	390,898	87,136	387,127	-	3,771
Financial assets	21,307,802	41,683,293	21,307,802	41,683,293	-	-
	134,420,701	127,703,748	125,989,562	123,905,215	8,431,139	3,798,534

No collateral is held as security and no credit enhancements relate to financial assets held by LGM.

LGM manages credit risk through the use of a credit management strategy. This strategy aims to reduce exposure to credit default by ensuring that LGM invests in secure assets and monitors funds owed on a timely basis. Exposure to credit risk is monitored on an ongoing basis.

No financial assets and financial liabilities have been offset and presented net in the Statement of Financial Position.

The method of calculating any provisional impairment for risk is based on past experience, current and expected changes in economic conditions and changes in client credit ratings. These economic and geographic changes form part of LGM's documented risk analysis assessment in conjunction with historic experience and associated industry data.

No financial assets have had their terms renegotiated so as to prevent them from being past due or impaired, and are stated at the carrying amounts as indicated.

Liquidity risk

LGM is exposed to liquidity risk in respect of its payables. LGM manages liquidity risk by continuously monitoring cash flows. Liability Fund's financial liabilities comprise of trade and other payables of $51,859 and investment dividend distribution payables of $334,475. Asset Fund's financial liabilities comprise of trade and other payables of $118,940. These liabilities are non-interest bearing with a maturity date of less than 1 year.

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 2017, LGM's financial assets are recognised as Level 2.

16. Auditors' remuneration

	Total Liability & Asset Funds 2017 $	Total Liability & Asset Funds 2016 $	Liability Fund 2017 $	Liability Fund 2016 $	Asset Fund 2017 $	Asset Fund 2016 $
Audit of the financial statements	46,250	41,250	34,250	33,250	12,000	8,000

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

17. Commitments for expenditure

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

Within one year	4,655,567	4,330,508	3,664,567	3,601,508	991,000	729,000
Later than one year but not later than 5 years	4,719,731	7,387,340	3,728,731	7,387,340	991,000	-
	9,375,298	11,717,848	7,393,298	10,988,848	1,982,000	729,000

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

Within one year	672,153	663,219	672,153	663,219	-	-
Later than one year but not later than 5 years	-	674,759	-	674,759	-	-
	672,153	1,337,978	672,153	1,337,978	-	-

18. Distribution payable

In February 2017 the Board of Management noted and approved the proposed $1,003,000 investment dividend to be distributed to individual Liability Fund Members in 2017-18. Out of the $1,003,000 million surplus, $668,525 has been already taken up by the Members who have paid their contributions for 2017-18 year before 30 June 2017. As a result, there is an amount of $334,475 as a surplus distribution payable amount in the Statement of Financial Position for 2016-17.

19. LGM Assets Cyclone event

The Councils in North Queensland were hit by the Tropical Cyclone Debbie. As a result of these losses, the amount of the self-insurance aggregate in 2016/17 has been exhausted. The liability of LGM Assets for these losses is limited to the amount of the aggregate. Claims over and above the aggregate amount are now being dealt with and paid by the supporting insurers as agreed.

Board of Management's Certificate

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 2017 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 Noel Playford — Date 1/12/2017

Chairman

Mr Greg Hallam — Date 1/12/2017

Member of the Board of Management

Independent Auditor's Report

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.

In my opinion, the financial report:

a) presents fairly the trust's financial position as at 30 June 2017, 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 2017, the statement of 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 board of management declaration.

Basis for opinion

I conducted my audit in accordance with the *Auditor-General of Queensland 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 of Queensland Auditing Standards*.

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

Other information

The trustee and board of management are responsible for the other information. Other information comprises the information included in the trust's annual report for the year ended 30 June 2017. The annual report is expected to be made available to me after the date of this auditor's report.

My opinion on the financial report does not cover the other information and accordingly I do not express any form of assurance conclusion thereon.

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

If, when I read the annual report, I conclude that there is a material misstatement of this other information, I am required to report that fact.

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 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.

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.

5 DEC 2017
AUDIT OFFICE

J MACGREGOR
as delegate of the Auditor-General

Queensland Audit Office
Brisbane

QUEENSLAND LOCAL GOVERNMENT WORKERS COMPENSATION SELF-INSURANCE SCHEME

Financial Statements

for the year ended 30 June 2017

Contents

Financial Statements

For the year ended 30 June 2017

Statement of Comprehensive Income

for the year ended 30 June 2017

The statement of comprehensive income to be read in conjunction with the notes to the financial statements set out on pages 41 to 54.

	Note	2017 $	2016 $
Revenue from ordinary activities			
Member contributions	3	25,360,499	26,643,118
Reinsurance and other recoveries	3	1,147,819	661,188
Interest revenue		1,408,345	1,502,719
Investment revenue		925,891	734,195
Changes in the fair value of investments		873,094	-
Total revenue from ordinary activities		***29,715,648***	***29,541,220***
Expenses from ordinary activities			
Changes in the fair value of investments		-	(55,080)
Claims expense	3	(13,225,206)	(9,288,103)
Outwards reinsurance expense	3	(428,610)	(428,610)
Other underwriting expenses	3	(6,653,645)	(6,598,194)
General expenses	4	(1,094,729)	(1,005,438)
Total expenses from ordinary activities		***(21,402,190)***	***(17,375,425)***
Operating result from continuing operations		**8,313,458**	**12,165,795**
Total comprehensive income for the year attributable to Members		**8,313,458**	**12,165,795**

Statement of Financial Position

as at 30 June 2017

The statement of financial position is to be read in conjunction with the notes to the financial statements set out on pages 41 to 54.

	Note	2017 $	2016 $
CURRENT ASSETS			
Cash and cash equivalents	9(a)	48,407,735	41,008,376
Trade and other receivables	5	776,818	955,895
Reinsurance and other recoveries receivables		920,055	837,000
Other financial assets	6	31,912,432	34,802,088
Total current assets		**82,017,040**	**77,603,359**
NON-CURRENT ASSETS			
Reinsurance and other recoveries receivables		1,876,112	1,599,000
Total non-current assets		1,876,112	**1,599,000**
Total assets		**83,893,152**	**79,202,359**
CURRENT LIABILITIES			
Trade and other payables		703,609	1,066,816
Distribution payables	13	682,816	3,000,000
Future claims and associated costs	7	13,646,876	13,383,312
Total current liabilities		**15,033,301**	**17,450,128**
NON-CURRENT LIABILITIES			
Future claims and associated costs	7	18,553,048	19,076,070
Total non-current liabilities		**18,553,048**	**19,076,070**
Total liabilities		**33,586,349**	**36,526,198**
NET ASSETS		**50,306,803**	**42,676,161**
EQUITY			
Retained surplus		50,306,803	42,676,161
TOTAL EQUITY		**50,306,803**	**42,676,161**

Statement of Changes in Equity

for the year ended 30 June 2017

The statement of changes in equity is to be read in conjunction with the notes to the financial statements set out on pages 41 to 54.

	Note	2017 $	2016 $
Total equity at the beginning of the financial year		42,676,161	33,510,366
TOTAL COMPREHENSIVE INCOME			
Net result for the year		8,313,458	12,165,795
Total comprehensive income		8,313,458	12,165,795
Distribution to members	13	(682,816)	(3,000,000)
Total equity at the end of the financial year		50,306,803	42,676,161

Statement of Cash Flows

for the year ended 30 June 2017

The statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 41 to 54.

	Note	2017 $	2016 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipt of contributions from Members		27,574,193	29,287,669
Other recoveries received		1,147,819	661,188
Reinsurance premiums paid		(428,610)	(428,610)
Claims paid		(13,844,832)	(14,817,595)
Investment revenue		1,112,200	642,260
Other underwriting and general expenses paid		(10,263,866)	(10,275,386)
Interest received		1,339,707	1,502,794
NET CASH PROVIDED BY OPERATING ACTIVITIES	9(b)	6,636,609	6,572,320
CASH FLOWS FROM INVESTING ACTIVITIES			
(Payments for) / proceeds from investments		(8,420,875)	(497,347)
(Payments for) / proceeds from term deposits		12,183,625	(12,183,626)
NET CASH PROVIDED BY / (USED IN) INVESTING ACTIVITIES		3,762,750	(12,680,973)
SURPLUS DISTRIBUTION PAID		(3,000,000)	(2,000,000)
NET INCREASE IN CASH HELD		7,399,359	(8,108,653)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL YEAR		41,008,376	49,117,029
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR	9(a)	48,407,735	41,008,376

1. Background

Queensland Local Government Workers Compensation Self-Insurance 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*. It is governed by contractual arrangements between the local governments, local government controlled entities and the Local Government Association of Queensland Ltd (previously Local Government Association of Queensland Inc).

The principal activity of Queensland Local Government Workers Compensation Self-Insurance 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 Queensland Local Government Workers Compensation Self-Insurance Scheme is:

Local Government House
27 Evelyn Street
Newstead QLD 4006

All employees involved in the management of workers' compensation claims for Queensland Local Government Workers Compensation Self-Insurance 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 income statement 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. They have been prepared on the basis of historical costs and take into account changing money values or fair values of assets, except in the case of investments which are stated at fair value. The Scheme actuary has increased projected future claims payments to allow for inflation and discounted the expected payments to 30 June 2017 to obtain the present value of the liability.

The scheme is a not for profit entity. The accounting policies are consistent with those of the previous year unless otherwise stated.

Comparative information has been re-classified, where necessary, to be consistent with disclosures in the current reporting period.

b) 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 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 QTC cash fund and ANZ bank.

c) 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.

(CONTINUED)

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 details of rates applied are included in Note 7.

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.

d) Outwards reinsurance

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

e) Trade and other receivables

Trade receivables are measured at amortised cost which approximates their fair values at the reporting date. Trade debtors are recognised at the amounts based on agreed policy / purchase price. The collectability of debts is assessed at reporting date and if considered necessary, a provision is made for any impaired accounts. Receivables are generally due for settlement within 30 days.

f) Payables

Liabilities are recognised for amounts to be paid in the future for goods or services received. Trade accounts payable are normally settled within 60 days.

g) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from (or payable to) the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis.

h) Taxation

Queensland Local Government Workers Compensation Self-Insurance Scheme (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.

i) Financial instruments

Initial recognition and measurement

Financial assets are recognised when the entity becomes a party to receive cash and cash equivalents, cash 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.

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.

(i) Other financial assets

Other financial assets are classified at 'fair value through profit or loss' when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, when they are designated to avoid an accounting mismatch, or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. 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 include QIC investments of $31.91 million at 30 June 2017.

(ii) Cash and cash equivalents

For the purpose of the presentation in the statement of cash flows, cash and cash equivalents comprise of cash balances and investments with QTC. The Scheme holds $47.74 million with the QTC cash fund, $0.66 million in ANZ bank account.

j) Rounding

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

k) Critical accounting 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 estimates and related assumptions are based on experience and other factors that are considered to be reasonable. These results form the basis for judgements about the carrying values of assets and liabilities. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised, and future periods if relevant.

The areas where the estimates and assumptions involve a high degree of judgement or complexity, and are considered significant to the financial statements, listed together with reference to the notes to the financial statements where more information is provided, are:

- Future claims and associated costs, refer Note 2(c) and Note 7
- Reinsurance and other recoveries on outstanding claims, refer Note 2(b)

l) New accounting standards for application in future periods

At the date of authorisation of the financial report, the expected impacts of new or amended Australian Accounting Standards with future commencement dates are as set out below.

AASB 9 Financial Instruments

AASB 9 Financial Instruments and AASB 2014-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2014) will become effective from reporting periods beginning on or after 1 January 2018. The main impacts of these standards on the company are that they will change the requirements for the classification, measurement, impairment and disclosures associated with the company's financial assets. AASB 9 will introduce different criteria for whether financial assets can be measured at amortised cost or fair value.

m) First year application of new accounting standards

This year, the Scheme has applied AASB 124 Related Party Disclosures for the first time. As a result the Scheme has disclosed more information about related parties and transactions with those related parties. This information is presented in note 10.

n) Authorisation of financial statements for issue

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

(CONTINUED)

3. Underwriting result

	2017 $	2016 $
Member contributions	25,360,499	26,643,118
Outwards reinsurance premium expense	(428,610)	(428,610)
Net contributions revenue	24,931,889	26,214,508
Claims expense	(13,225,206)	(9,288,103)
Reinsurance and other recoveries revenue	1,147,819	661,188
Net claims expense	(12,077,387)	(8,626,915)
Other underwriting expenses*	(6,653,645)	(6,598,194)
Underwriting result	6,200,857	10,989,399
* Other underwriting expenses include:		
Scheme expenses management fee	(5,969,652)	(5,869,226)
Regulator Levy	(683,993)	(728,968)
	(6,653,645)	(6,598,194)

4. General expenses

Regional Risk Co-ordinators	661,974	649,280
Investment fees and charges	175,755	125,895
Administration expenses	257,000	230,263
	1,094,729	1,005,438

5. Trade & other receivables

Current		
Member contributions	309,791	380,215
Sundry debtors	467,026	575,680
	776,817	955,895

6. Other financial assets

Units in managed investment trusts	31,912,432	22,618,462
Term deposits	-	12,183,626
	31,912,432	34,802,088

7. Future claims and associated costs

Expected future claims (undiscounted)	33,334,921	33,400,393
Discount to present value	(1,134,997)	(941,011)
Liability for outstanding claims	32,199,924	32,459,382
Current	13,646,876	13,383,312
Non-current	18,553,048	19,076,070
Liability for outstanding claims	32,199,924	32,459,382

Liability adequacy test

At its August 2007 meeting, the Management Committee resolved to establish a specific reserve for asbestos and similar latent onset claims. It was determined that the initial amount of the reserve would be $500,000 with the amount to be reviewed annually.

Uncertainty

The actuary advised that there are many factors which can and will cause the ultimate cost of claims incurred to 30 June 2017 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

(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 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 actuary understands that 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:

Key Actuarial Assumptions	2017	2016
Claims administration expense	7%	7%
Wage inflation	3%	3%
Discount rate	2%	1.6%
Term to settlement (years)	1.76	1.81

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 that the legislation requires WorkCover to take responsibility for any liability if the Scheme should close, and in return be paid an amount that includes a legislated expense allowance of 7% (2016:7%) of the discounted liability for outstanding claim payments, the actuary considers that it is reasonable to set aside 7% (2016:7%) of the gross amounts outstanding as an allowance for future claims handling expenses. This is the same percentage as used last year.

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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 3% (2016:3%) 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 2005 to 30 June 2017, the actuary has not observed superimposed inflation in common law disbursements and settlements.

However, there is evidence of ongoing superimposed inflation in statutory payments, particularly in the first two development years (which comprise about 88% of total statutory payments). Over the last 10 years the average of inflation adjusted statutory payments in the first two development years has increased by 3.9% per annum, and over last 6 years the average has increased by 4.1% per annum.

The actuary considers that it is appropriate to allow for superimposed inflation of 4 % per annum for the first two development years. At the previous valuation, the same allowance for superimposed inflation was used.

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 from 2018 to 2028. The projected future payments total $24,164,000. The yields available are in the range of 1.62 to 2.73%.

The combination of these payments and yields produces a uniform discount rate for all future years of 2.0% per annum. At the previous valuation, the discount rate was assumed to be 1.6% per annum. The increase in the discount rate reflects changes in the general level of market interest rates.

Inflation and discount rate sensitivity analysis

The following will be the impact of movements in the discount and inflation rates for the outstanding provisions.

Inflation assumption

LGW Financial instruments	Carrying Amount	-1% Movement	1% Movement
Future claims and associated cost	32,199,924	(545,000)	545,000
Other recoveries receivables	(2,520,000)	49,000	(49,000)
Potential Impact		(496,000)	496,000

Discount rate assumption

LGW Financial instruments	Carrying Amount	-1% Movement	1% Movement
Future claims and associated cost	32,199,924	535,000	(535,000)
Other recoveries receivables	(2,520,000)	(49,000)	49,000
Potential Impact		486,000	(486,000)

8. 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.

	2017 $	2016 $
Net claims expense (Note 3)	12,077,386	8,626,915

2017 – Details of net incurred claims are as follows:

	Current Year $'000	Prior Years $'000	Total $'000
Claims incurred and related expenses – undiscounted	19,962	(6,183)	13,779
Reinsurance and other recoveries – undiscounted	(928)	(611)	(1,539)
Net claims incurred – undiscounted	19,034	(6,794)	12,240
Discount – Claims incurred and related expenses	(514)	320	(194)
Discount – Reinsurance and other recoveries	45	(13)	32
Net discount movement	(469)	307	(162)
Net incurred claims	18,565	(6,487)	12,078

Explanation of material variances – 2017

The actuary has set out an analysis by accident year of the decrease in the outstanding liability from $25.672 million as at 30 June 2016 to $25.134 million as at 30 June 2017, that is, a decrease of $0.538 million.

2016 – Details of net incurred claims are as follows:

	Current Year $'000	Prior Years $'000	Total $'000
Claims incurred and related expenses – undiscounted	19,498	(11,189)	8,309
Reinsurance and other recoveries – undiscounted	(797)	455	(342)
Net claims incurred – undiscounted	18,701	(10,734)	7,967
Discount – Claims incurred and related expenses	(415)	1,108	693
Discount – Reinsurance and other recoveries	30	(64)	(34)
Net discount movement	(385)	1,044	659
Net incurred claims	18,316	(9,690)	8,626

Explanation of material variances – 2016

The actuary has set out an analysis by accident year of the decrease in the outstanding liability from $30.481 million as at 30 June 2015 to $25.672 million as at 30 June 2016, that is, a decrease of $4.809 million.

9. 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.

(a) 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:

	2017 $	2016 $
Cash and cash equivalents	48,407,735	41,008,376

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

Operating surplus/(deficit)	8,313,458	12,165,795
Add non-cash items		
Changes in fair value of investments – unrealised (net of distributions re-invested)	(873,094)	55,080
Net cash provided by operating activities before change in assets and liabilities	7,440,364	12,220,875
Change in assets and liabilities		
(Increase)/decrease in reinsurance and other recoveries receivable	(360,167)	285,000
(Increase)/decrease in Member contributions receivable	70,424	(63,343)
(Increase)/decrease in Sundry debtors	108,653	(97,197)
Increase/(decrease) in trade and other payables	(363,207)	41,477
Increase/(decrease) in future claims and associated costs	(259,458)	(5,814,492)
Net cash provided by operating activities	6,636,609	6,572,320

10. Related parties

Local Government Association of Queensland Ltd (LGAQ) has resolved to establish a mutual scheme ("the Scheme") by which it will act as agent to manage the self-insurance liabilities of local governments which decide to obtain, and are successful in obtaining, a group self-insurance licence under the WorkCover Queensland Act 1996.

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

Key Management Personnel For the period 1/7/16 - 30/6/17

Management Committee

The day to day business of the Scheme is managed by a Management Committee appointed by the LGAQ. The Management Committee is responsible to the LGAQ for achieving the scheme's objectives and for financial management. Financial management responsibilities include arranging for preparation of annual financial statements. The Scheme Rules make provision for the LGAQ to appoint the scheme manager and establish a management agreement with the manager. The LGAQ arranges for opening of bank accounts, investment of funds and (if necessary) borrowing of funds. The Scheme Rules also require the LGAQ to make determinations on the existence of surplus funds.

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 Noel Playford
Mr Stephen Fynes-Clinton
Mr Terry Brennan
Mr Ian Leckenby
Mr Bob Millar
Mr Greg Hallam*
Mr Brent Reeman (alternate for Mr Greg Hallam)*
Cr Rachel Chambers

KMP Category / Position	Short-Term Employee Benefits $
Chairman	13,757
Management Committee Members	3,279
Total	17,036

*No Committee meeting fees are paid to these Members

Apart from the details disclosed in this note, no Member of the Management Committee has entered into a material contract with Queensland Local Government Workers Compensation Self-Insurance Scheme since the end of the previous financial year, and there were no material contracts involving Members of the Management Committee's interests existing at year end.

Directors of the Trustee

The Directors of the Trustee of the Scheme which have been listed below are the key management personnel as they are responsible for the ultimate oversight of the business of the Scheme. No remuneration has been paid to them.

Cr Mark Jamieson
Cr Jenny Hill
Cr Ray Brown
Cr Matthew Burke

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

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 $17,642

Services provided by LGAQ are on a cost recovery basis and represent transactions paid on behalf of the fund. Services provided by Local Buy relate to conference sponsorship and are on commercial terms.

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.

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.

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 any one-year may vary from those estimated using established statistical techniques.

Objectives in managing risk and policies for mitigating those risks

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 utilising 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.

Terms and conditions of membership

Membership of the Scheme is offered to eligible bodies and renewed annually on the 30th of June. Payment of the annual contribution confirms continuation of membership. Termination of membership is subject to at least 30 days written notice of intention as laid out by the Scheme Rules. Once a claim is accepted, each claim is handled individually on the circumstances peculiar to the claim.

Product features

The Scheme operates in Queensland, whereby the members jointly hold a group employer workers' compensation self-insurance licence under the *Workers Compensation and Rehabilitation Act 2003*.

Should a claim be accepted, the Scheme provides indemnity to the member in respect of their workers compensation liabilities for amounts and benefits detailed in the Act.

Operating surpluses arise from the total contributions charged to members less the amounts paid to cover claims and the expenses incurred by 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.

Interest rate risk

Reinsurance contacts

The reinsurance indemnity contracts contain no clauses that expose the Scheme directly to interest rate risk. The reinsurance contracts are reviewed and payable annually.

Other financial assets

Interest rate risk in the statement of financial position arises from the potential for a change in interest rates to have an adverse effect on the revenue earnings in the current reporting period and in future years.

Interest rate risk arises from the investments in interest bearing securities. Any change in market value of investments as a result of changes in market interest rates is immediately recognised in the statement of comprehensive income in accordance with the accounting policies set out in Note 2(i). Weighted rate of return for 2017: 2.47%; (2016:2.89%).

Any assessment of the impact of changes in interest rates on investment revenues must include the offsetting adjustment to claims expense for changes in discount rates adopted in outstanding claims' valuations. Appropriate matching principles are established so as to ensure the impact on the operating result of changes in interest rates is minimised.

Interest on cash is charged at prevailing market rates being approximately 1.50% at 30 June 2017 (2016:1.74%). Interest on QTC investments is charged at prevailing market rates which was 2.49% at 30 June 2017 (2016: 2.85%).

Market risk

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 companies. The Scheme holds $31,912,432 worth of units with QIC as at 30 June 2017 (2016:$ 22,618,462).

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

The impact of market risk on scheme liabilities including inflation and discount rates are considered in a sensitivity analysis in note 7.

Unit Price and Interest Rate Sensitivity Analysis

The following unit price and interest rate sensitivity analysis is based on a report similar to that which would be provided to management, depicting the outcome to the operating result, if interest rates and unit prices would change by +/- 1% 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 and equity increase or decrease of $484,077 (2016: $531,920) for interest rate risk and $319,124 (2016: $226,418) for unit price risk.

Credit risk

The Scheme is exposed to credit risk as a result of exposure to reinsurers. The credit risk to reinsurers is managed through the Scheme regularly monitoring the financial rating of the reinsurers both prior to and during the reinsurance program.

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

The following table represents the Scheme's maximum exposure to credit risk based on contractual amounts net of any allowances:

Maximum Exposure to Credit Risk

	2017 $	2016 $
Category		
Financial Assets		
Cash and cash equivalents	48,407,735	41,008,376
Trade and other receivables	776,817	955,895
Other financial assets	31,912,432	34,802,088
Total	81,096,984	76,766,359

(CONTINUED)

No collateral is held as security and no credit enhancements relate to financial assets held by the Scheme.

The Scheme manages credit risk through the use of a credit management strategy. This strategy aims to reduce exposure to credit default by ensuring that the Scheme invests in secure assets and monitors funds owed on a timely basis. Exposure to credit risk is monitored on an ongoing basis.

No financial assets and financial liabilities have been offset and presented net in the statement of financial position.

The method of calculating any provisional impairment for risk is based on past experience, current and expected changes in economic conditions and changes in client credit ratings. These economic and geographic changes form part of the Scheme's documented risk analysis assessment in conjunction with historic experience and associated industry data.

No financial assets have had their terms renegotiated, so as to prevent them from being past due or impaired, and are stated at the carrying amounts as indicated.

Liquidity risk

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 $703,609 (2016: $1,066,816), which are non-interest bearing with maturity date of less than one year.

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 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 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. The term deposits are held with Suncorp and National Australia Bank.

As at 30 June 2017, the Scheme's financial assets are recognised as Level 2.

12. Auditors remuneration

	2017 $	2016 $
Audit of the financial statements	39,250	35,250

There are no non-audit services included in this amount

13. Distribution payables

In May 2017, the Management Committee noted and approved the proposed $682,816 dividend distributions to individual Members in 2017-18.

14. Commitments for expenditure

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

Within one year	6,073,955	5,969,652
Later than one year but not later than five years	12,468,312	18,528,885
	18,542,267	24,498,537

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

Within one year	672,153	663,218
Later than one year but not later than five years	-	674,758
	672,153	1,337,976

Management Committee 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 25:

   i) present fairly the financial position of Queensland Local Government Workers Compensation Self-Insurance Scheme as at 30 June 2017 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 Noel Playford
Chairman

1/12/2017
Date

Mr Greg Hallam
Member of the Management Committee

1/12/2017
Date

Independent Auditor's Report

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.

In my opinion, the financial report:

a) presents fairly the trust's financial position as at 30 June 2017, 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 2017, the statement of 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 management committee declaration.

Basis for opinion

I conducted my audit in accordance with the *Auditor-General of Queensland 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 of Queensland Auditing Standards*.

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

Other information

The trustee and management committee are responsible for the other information. Other information comprises the information included in the trust's annual report for the year ended 30 June 2017. The annual report is expected to be made available to me after the date of this auditor's report.

My opinion on the financial report does not cover the other information and accordingly I do not express any form of assurance conclusion thereon.

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

If, when I read the annual report, I conclude that there is a material misstatement of this other information, I am required to report that fact.

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 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.

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.

QUEENSLAND
5 DEC 2017
AUDIT OFFICE

J MacGregor

J MACGREGOR
as delegate of the Auditor-General

Queensland Audit Office
Brisbane