LGM ASSETS | LGM LIABILITY | LGW WORKCARE | LGMS LOCAL GOVERNMENT MUTUAL SERVICES

2017-2018

LGW / LGM REPORT TO MEMBERS

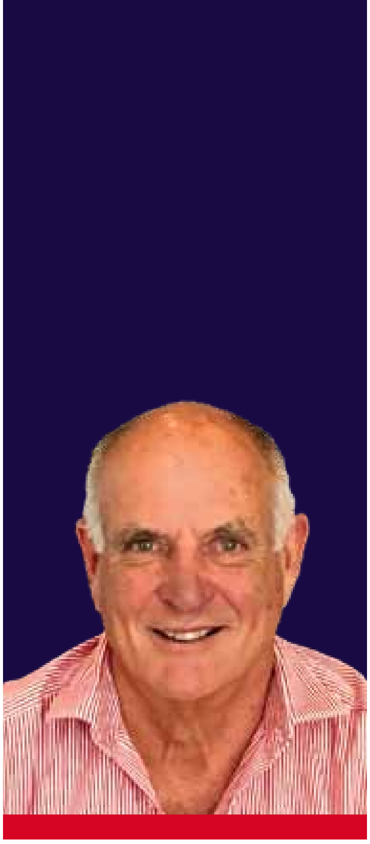
DEPENDABLE INSURANCE | UNRIVALLED VALUE | OWNED BY MEMBERS

QUEENSLAND LOCAL
GOVERNMENT MUTUAL

QUEENSLAND LOCAL GOVERNMENT
WORKERS COMPENSATION
SELF-INSURANCE SCHEME

REPORT TO MEMBERS
2017/2018

Contents



IAN LECKENBY

Chair, LGM Board of Management
Chair, LGW Management Committee

THE FINANCIAL STATEMENTS FOR 2017-2018 CONTAINED IN THIS ANNUAL REPORT DETAIL ANOTHER POSITIVE YEAR FOR LOCAL GOVERNMENT MUTUAL SERVICES (LGMS) WHEREBY THE RESULTS CONFIRM THAT THE IMPROVED RISK MANAGEMENT PERFORMANCE OF MEMBERS IN RECENT YEARS HAS CONTINUED TO BENEFIT THE SCHEMES AND THE MEMBERS AT LARGE.

The LGMS schemes have been the vehicle that has enabled Queensland Local Government to exercise control over and manage their liability, workers' compensation and asset-based risk exposures for more than 20 years. It continues to provide Councils with a 'one-stop-shop' for tailored and Local Government-specific coverage through the mutual insurance schemes.

LGMS was established as a Member owned mutual to utilise the combined bargaining power of the collective to withstand all claims and market cycles for the sole benefit of the Local Government sector. A long-term vision and substantive commitment to this model is critical to its success. Without this commitment, Councils may again find themselves captive to a single insurance market and all that entails in terms of their inability to drive competitive tension and exert significant control over the outcomes to be achieved.

There were no increases to LGM Liability Member contributions for the 2017-2018 year. In addition, Members also benefited from a $2.35M distribution as well as a strengthened balance sheet position buoyed by positive claims performance and strong investment returns.

LGM Assets also finished the year with a small surplus, notwithstanding the impact of a number of large claims emanating from severe weather events. Whilst large losses can affect Member contributions the capping of LGM Assets' direct exposure to events, prudent reinsurance arrangements, and spreading risk across supporting insurers, minimises the impact on Member contributions.

There was no increase to the LGW rate

Chairman's Message

In March 2018, the LGAQ Board voted to collectively return up to $5million per year to both scheme member Councils, for such a period of time that material surpluses exist in the scheme...

for Members' workers compensation contributions from the previous year. Members of LGW also benefitted from a $2.35M distribution, as with LGM Liability annual operations continued to produce a surplus result, which was boosted by positive investment returns.

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

As a result, there has been a strong focus on Workplace Health & Safety this year including the development of a WHS Strategy to be undertaken by Councils to ensure that their Safety Management Systems are at a satisfactory level in accordance with the scheme's licence conditions. This strategy includes the engagement of an external LGW Advisor to improve operational oversight and provide specific independent technical and legislative expertise in the health and safety area on an ongoing basis.

The strong financial position of the LGM and LGW Schemes has come about as a result of sustained improvements in risk management over many years. These assets provide an added layer of protection against unexpected events with a portion set aside as risk capital to a level consistent with the requirements the Australian Prudential Regulation Authority has of private sector insurers.

In March 2018, the LGAQ Board voted to collectively return up to $5 million per year to both scheme Member Councils, for such a period of time that material available surpluses exist in the schemes (over and above what is agreed to be an adequate prudential surplus margin).

LGMS is working closely with the Trustee LGAQ, to ensure the schemes are focused on approved training, products and services designed to improve the Member's risk management. This will be confirmed to scheme Members once all the legal and legislative issues have been fully considered. The aim is to lower risk even further, resulting in less damage, fewer injuries and lower cost to Members.

After more than 25 years in operation it is clear that LGMS has provided Queensland Councils with sustainable and successful insurance schemes which continue to deliver many benefits over and above the initial insurance needs first contemplated.

The LGMS schemes continue to exist for the sole purpose of providing Queensland Local Government with comprehensive cover (not otherwise available in the commercial insurance market), with a long-term goal of achieving cost stability and minimising the impacts of volatility in the insurance and financial sectors by avoiding direct dependence on the traditional insurance market.

I welcome your Councils ongoing support. ■

LGM Board of Management

(Back row, left to right) Bill Lyon, John Brent, Stephen Fynes-Clinton, Bob Millar, Terry Brennan, Greg Hallam
(Front row, left to right) Karen Williams, Ian Leckenby, Rachel Chambers

MR IAN LECKENBY
Chair

MR BOB MILLAR
Consultant

MR BILL LYON
Division Manager, Organisation Services
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
(Term concluded 31/12/18)

LGW Management Committee

(Back row, left to right) Stephen Fynes-Clinton, Terry Brennan, Greg Hallam
(Front row, left to right) Bob Millar, Ian Leckenby, Rachel Chambers

MR IAN LECKENBY
Chair

MR BOB MILLAR
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

Manager's Message

Jardine Lloyd Thompson

Craig Hinchliffe

THE 2017-18 LGMS MEMBERSHIP YEAR AGAIN SAW POSITIVE OPERATING RESULTS ACROSS EACH OF LGW WORKCARE, LGM LIABILITY AND LGM ASSETS.

- The LGW Workcare contribution rate was maintained, notwithstanding an expanded legislative exposure and potential claims expense.
- LGM Liability again delivered Membership contributions which were further reduced in real terms for all Members, with some hard-won favourable claims outcomes.
- LGM Assets operated in more benign climatic conditions than the previous year and achieved a modest operating surplus, with renewal contributions again comparing favourably with those available from an increasingly difficult commercial insurance market.

The collaboration and aggregation of information, data and ultimately influence achieved by LGMS Membership has continued to enable ongoing 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.

The continuous improvement in all elements of the management of the underlying risks continues the most effective way to achieve sustainability, and commitment to this approach has also made possible the provision of broader support in related risk and governance areas.

LGMS is the vehicle by which Queensland Local Government has been able to collaboratively aggregate risk, and then engage with insurance markets for necessary supporting protection, as a risk driven market influencer rather than participate as individual market led price takers.

As anticipated previously, this influence has become even more important as engaging with increasingly global insurance and risk markets become even more challenging.

The JLT team acknowledges the LGM Liability and Assets Board of Management, LGW Management Committee and LGAQ for the opportunity to assist and their collaboration.

Thank you again to all LGMS Member Councillors and staff colleagues for your collaboration, inclusion and ongoing commitment to LGMS Membership and the philosophy of mutuals. We look forward to continuing to work with you to further advance the benefits of Queensland Local Government ownership and control. ■

Our Purpose

LGMS IS MORE THAN JUST INSURANCE

LGMS exists for the sole purpose of enabling Queensland local government to proactively manage its liability, asset and workers compensation exposures whilst simultaneously ensuring stability and sustainability of cost over the long term.

LGM Liability

MANAGE RISK:
Risk management advice specific to local government needs with examples such as the volunteers and community gardens articles featured in the LGMS eNEWS.

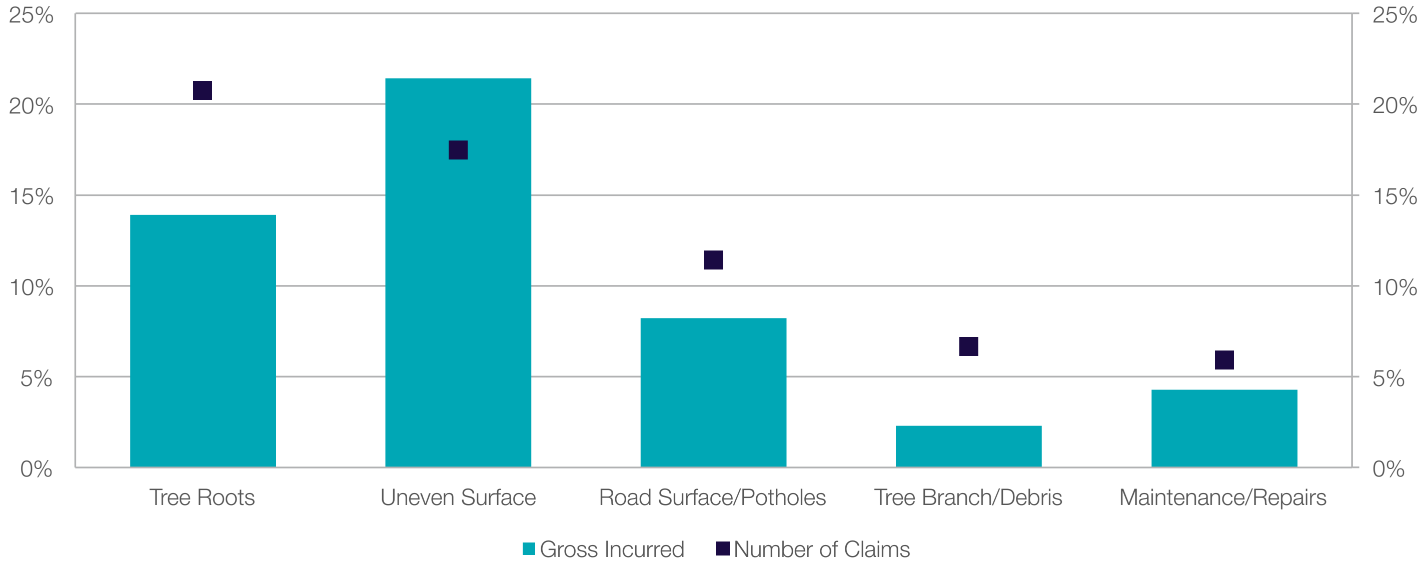
OWNED BY MEMBERS:
$2.35 million surplus distribution was returned to scheme Members.

THE RIGHT COVER:
The schemes are always looking for ways to enhance the covers to meet Members' needs – the LGM Casual Hirers Liability now covers not only individuals but also groups hiring Council facilities on a casual basis.

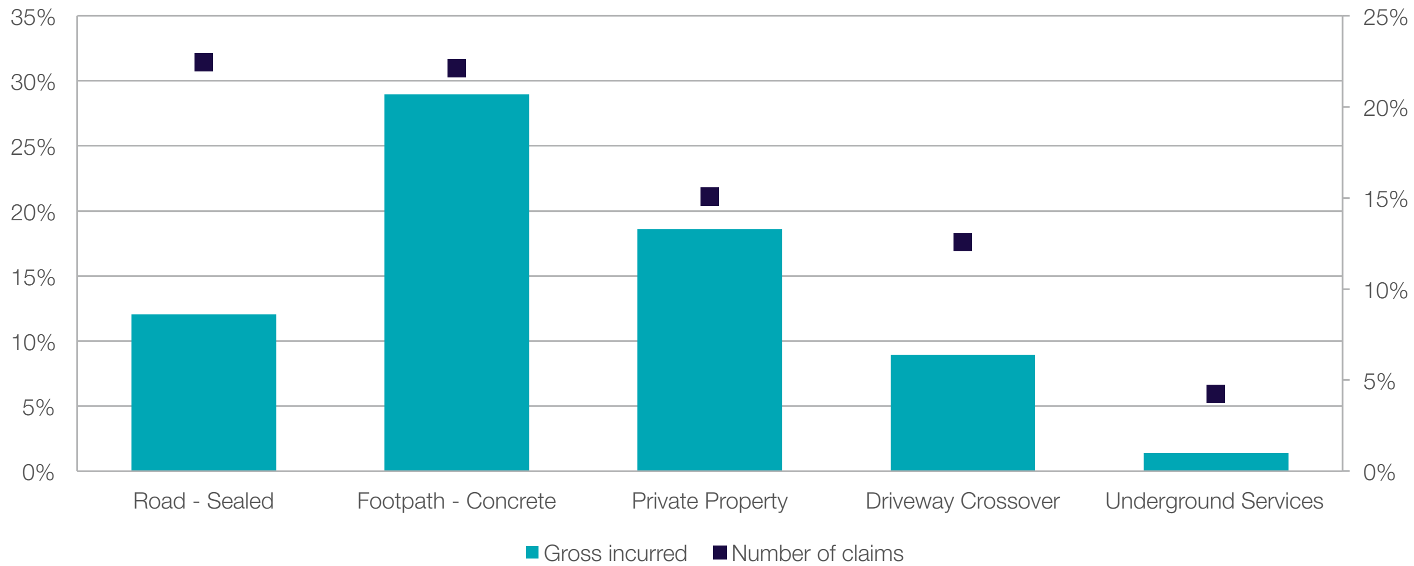
WHAT WERE THE TOP REASONS FOR COUNCIL CLAIMS?

Types of Cover 2017/2018 by Number of Claims and Claims Cost

Top 5 Liability Claim Causes 2017/2018 by number of claims and claims cost



Top 5 Liability Locations 2017/2018 by number of claims and claims cost



LGM Assets

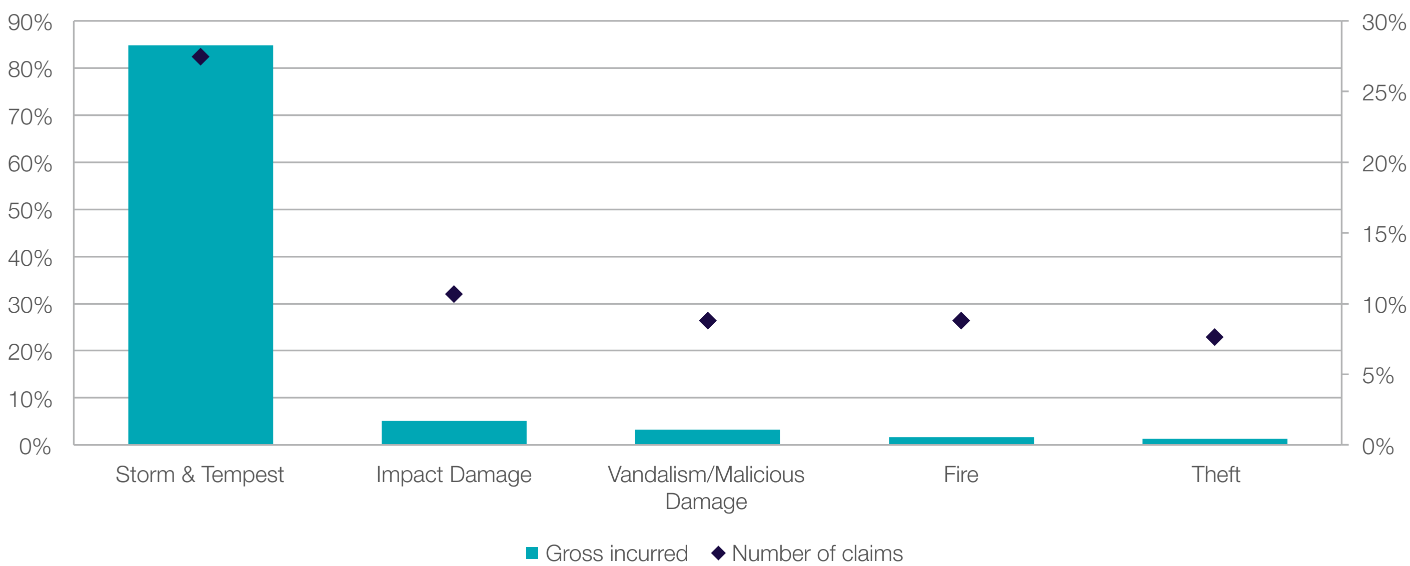
OWNED BY MEMBERS:
Developed strengths and structural capacities – A significant self-insured retention and strengthened supporting insurance arrangements to best position Members to withstand the hardening market cycle and continued volatility being experienced with respect to both cost and availability of cover.

MANAGE RISK:
Provision of materials and advice to support and assist Members to ensure that assets are appropriately captured on Council's asset schedule and the potential for adverse claims impacts arising from assets not being covered are minimised.

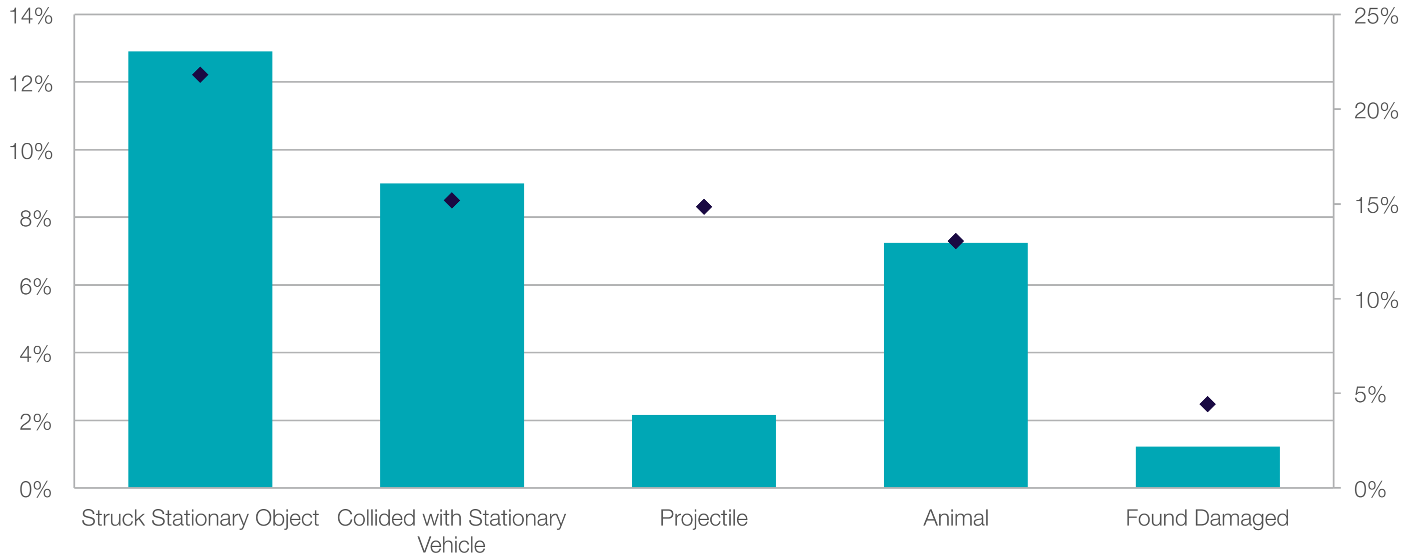
REDUCE INSURANCE COST:
Working hand in hand with Members to support and assist them to understand and address the substantive risk exposures identified in materials such as the LGM Assets claims dashboards, risk survey reports and catastrophe modelling outputs.

WHAT WERE THE TOP REASONS FOR COUNCIL CLAIMS?

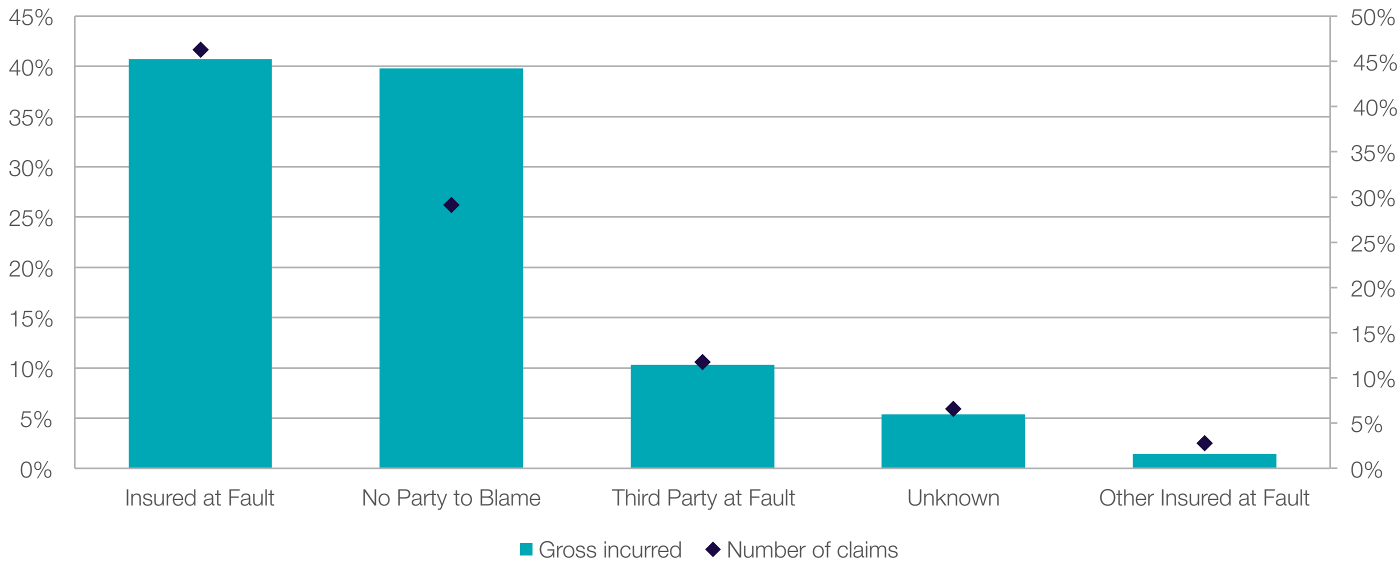
Top 5 General Property Claim Causes by number of claims and claims cost



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



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



LGW Workcare

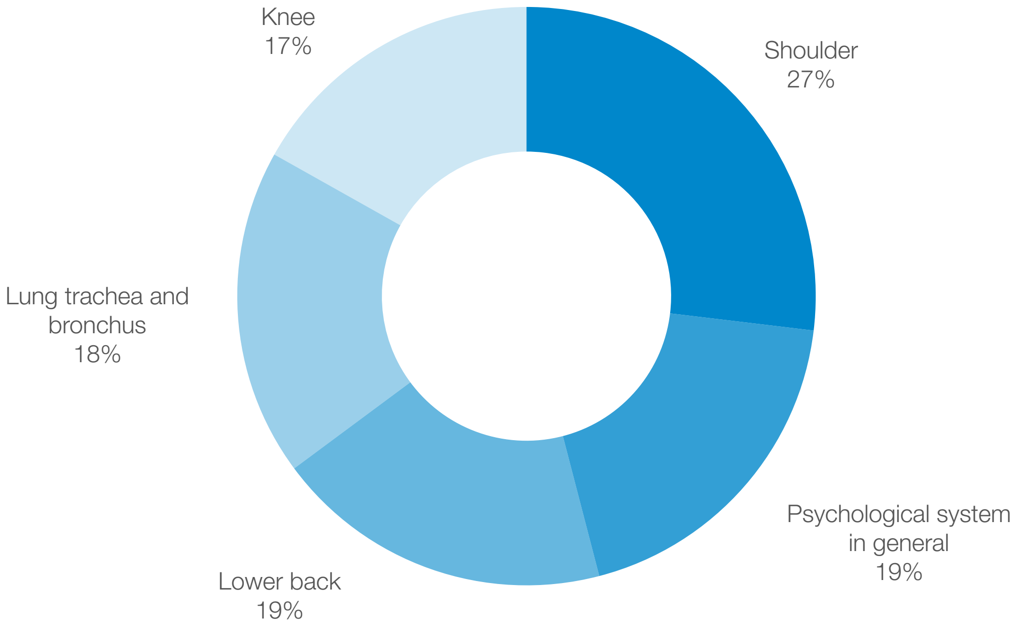
BEST CLAIMS PRACTICE:
LGW has a return to work rate of 98.5% with the majority of injured workers returning to their pre-injury role at Council. This rate is significantly higher than that achieved by the statutory provider of workers' compensation cover.

THE RIGHT PRICE:
The scheme rate has again remained steady at an all-time low of 1.3%.

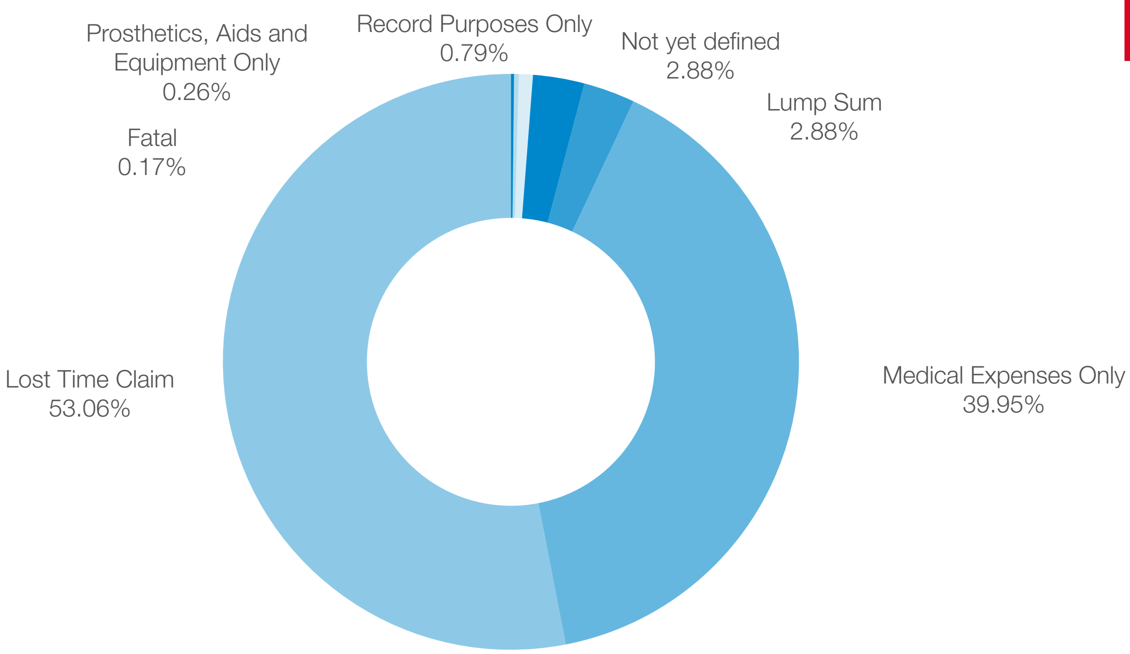
OWNED BY MEMBERS:
$2.35 million surplus distribution was returned to scheme Members.

WHAT WERE THE INJURIES SUSTAINED BY COUNCIL WORKERS?

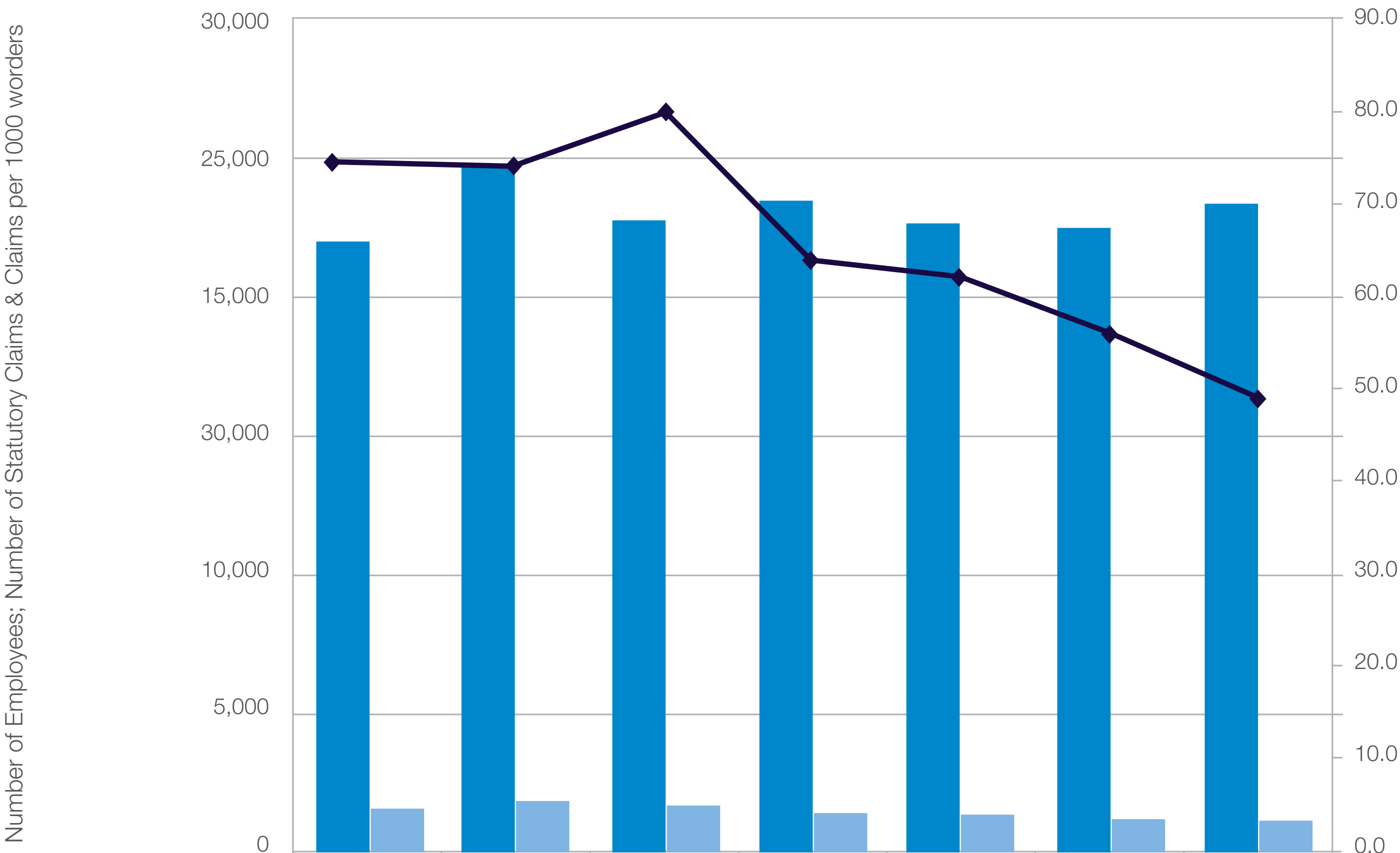
Top 5 General Property Claim Causes by number of claims and claims cost



Type of Claim by No. of Claims



Claims Frequency by Injury Year



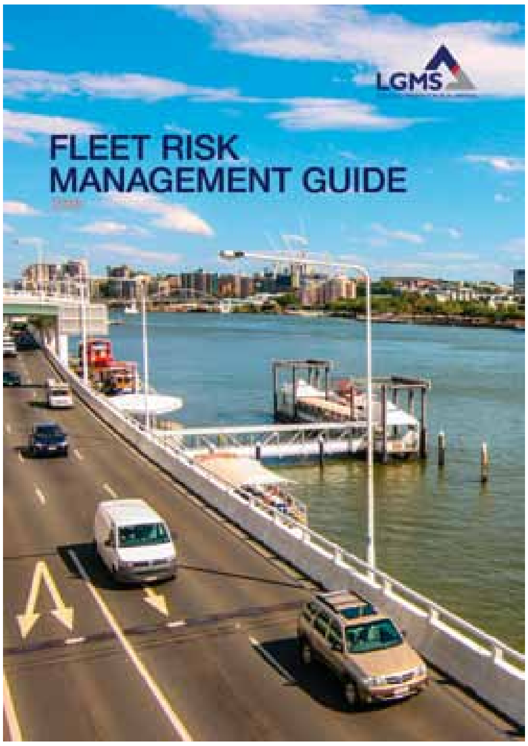
	2006	2008	2010	2012	2014	2016	2018
No. of Employees	22,136	24,675	22,826	23,433	22,606	22,494	23,381
No. of Statutory Claims	1606	1774	1760	1443	1365	1250	1146
Claims per 1,000 workers	74.6	73.9	80.0	64.0	62.0	55.7	49.0

Fleet risk
Management Guide

THE NEW LGMS FLEET RISK MANAGEMENT GUIDE 2018

As vehicle accidents can result in various types of insurance claims including motor vehicle, liability and workers compensation, the new LGMS Fleet Risk Management Guide 2018 has been created to assist Members in managing the associated risks.

The Guide is an information resource and reference document to support the development and adoption of plans, policies and procedures. ■



INDUSTRIAL MANSLAUGHTER – LEGISLATION IN QUEENSLAND

The Queensland Government on 12 October 2017 passed the Work Health & Safety and other Legislation Amendment Bill.

Whilst the key amendment of the Bill was the introduction of the offence of industrial manslaughter, other changes relate to the reinstatement of Codes of Practice and the role of the Workplace Health and Safety Officer (although not mandatory) which were in both place prior to national harmonisation laws being introduced in 2011.

What are the new laws of Industrial Manslaughter?

Under the amendments the offence of industrial manslaughter may be committed by a person where:

- a worker dies in the course of carrying out work;
- the Person Conducting a Business or Undertaking (PCBU) or a senior officer of a PCBU (either by act or omission) causes the death of that worker; or
- the PCBU or senior officer was negligent about causing the death of the worker by the conduct.

A senior officer is defined as an executive officer of a corporation or the holder of an executive position (however described) in relation to the person who makes, or takes part in making, decisions affecting all, or a substantial part, of the persons functions.

The maximum penalty is 20 years imprisonment for an individual and $10 million for a body corporate. As it is a crime the criminal standard of proof beyond a reasonable doubt will apply.

What should Councils do?

Whilst the introduction of the industrial manslaughter offense is significant it does not alter an employer's obligation under the WH&S Act nor those of its officers to take reasonable care and ensure that their acts or omissions do not affect the health and safety of their workers.

It is timely with the introduction of these reforms for Councils to review their safety management system and ensure:

- management (senior officers) have received appropriate training to ensure they understand their obligations and responsibilities;
- the safety management system is embedded into the organisation and is regularly reviewed for its effectiveness and any identified system failures are addressed in a time frame appropriate to the severity of the risk.
- appropriate control measures have been put in place to eliminate or minimise (as far as practicable) fatal risk hazards.

Other Changes

From 1 July 2018 the Codes of Practice as they existed under the former WHS Act 1995 will be restored. This will require that a PCBU must be able to demonstrate:

1. strict compliance with the relevant Codes/s of Practice; or
2. that the manner in which risk and hazards are controlled at an equivalent or higher standard than required under the Code of Practice.

The Bill also restores (incentivises) the ability of the PCBU to appoint a WHS Officer to manage health and safety risks and provides immunity to a WHSO against personal liability in the performance of that function if anything is done or omitted to be done in good faith. ■

Volunteers

HOW CAN MEMBERS PROTECT THEIR VOLUNTEERS?

There are many benefits to encouraging the voluntary assistance of members of the community. There are also many considerations in the management of these volunteers including appropriate insurances to cover risks associated with their involvement on behalf of Council.

What happens if a volunteer is injured?

As volunteers are not a "worker" as defined by the Workers' Compensation and Rehabilitation Act 2003 (Qld), LGW Workcare cannot extend to cover volunteers' injuries.

Many Councils have in place a Personal Accident (PA) cover that extends to cover their volunteers. Some PA covers are subject to age limits. PA cover which is not subject to any age restrictions can be arranged as part of a Council's LGM Assets membership.

There may also be cover under the LGM Liability cover if the injury (or any property damage) sustained by the volunteer occurs as a result of Council's negligence.

What happens if a volunteer causes property damage or personal injury to someone else?

LGM Liability cover extends to provide liability coverage to volunteers to Council while those volunteers are acting within the scope of their duties for and on behalf of Council. For the cover to respond there needs to have been some negligence on the part of the volunteer which causes the damage / injury to a third party.

It is important to note that Council volunteers need to be appropriately appointed, managed and supervised by Council. Council's need to ensure the volunteers receive relevant training and that the various Workplace Health and Safety legislation requirements are satisfied.

There is no age limit specified in the LGM Liability wording for volunteers. This effectively notes and respects the fact that the Council is in the best position to determine whether a volunteer is appropriate for the intended tasks after consideration of all relevant factors including age.

What about spontaneous volunteers?

The term "spontaneous volunteers" usually refers to members of the public willing to chip in and assist but who do not go through a formal channel whether that is appointment by Council or through a Council endorsed program such as Volunteering Queensland. These volunteers are more common in natural disaster scenarios. They often act independently and Council has no knowledge and / or involvement with their activities.

It is understood that WorkCover Qld has cover in place for certain volunteer organisations such as SES volunteers. This cover is limited to such organisations and is unlikely to extend to Council volunteers or spontaneous / independent volunteers.

In the absence of some formal process by which Council endorses spontaneous volunteers and assumes responsibility for training, supervision and the like, spontaneous volunteers won't fall under the covers Council has in place.

Please contact the Member Services should you wish to discuss the cover Council has or requires for its volunteers. ■

LGM Risk Management
Excellence Awards

(left to right) Craig Hinchliffe (JLT), Councillor Greg Christensen (Mayor of Scenic Rim Regional Council), Councillor Jack Dempsey (Mayor of Bundaberg Regional Council), Ian Leckenby (LGMS Chairman

Winner 1:

Bundaberg Regional Council received an award for its "Managing fraud and corruption risks with an enterprise risk management framework", which provides a clear example of how the principles of effective risk management outlined by Australian Standard 31000 can be applied in the identification, assessment, mitigation of fraud and corruption risks, and how this process has been integrated within the Council's approach to enterprise risk management. This approach was considered by the LGM Board to demonstrate the organisation's focus on ongoing, incremental and continual improvement in risk management.

Winner 2:

Scenic Rim Regional Council received an award for its "Risk management maturation" initiative. The submission from Scenic Rim Regional Council outlines how an iterative and responsive approach to enterprise risk management enables the Council to understand and actively manage its strategic and operational risk profile. Council is able to demonstrate dedication and commitment to continual improvement and maturity in risk management through the integration of risk assessments in strategic decision-making processes; review of the ERM framework by the Council; a Risk Reference Group to evaluate, monitor and report on Council's strategic risk profile; and definition of Council's appetite and tolerance for risk.

The awards are proudly sponsored by JLT with a trip for a delegate from each of the winning Councils to the 2019 National Local Government Risk Management Conference (Statewide Mutual) consisting of airfares, accommodation and Conference registration fees.

LGW Safeplan
Awards

(left to right) Joe Pappalardo, Stewart Furness, Craig Hamilton, Pauline Heath, Gerard Carlyon, Andrew Knight, Craig Doyle, Bridget Mather, Nicole Davis

LGW Member Councils are continuing in their efforts to maintain and improve their work health and safety systems. WHS awards are provided to Members who achieve a 70% (bronze), 75% (silver) and 85% (gold) benchmark. Recently recognised with a Silver award was Mackay Regional Council.

As with all risk management initiatives, there is an ongoing need for continuous work. The LGW WHS team who work closely with Councils to provide guidance and practical assistance enjoy the opportunity to acknowledge Councils for their achievements in this space.

QUEENSLAND LOCAL GOVERNMENT MUTUAL

Financial Statements

for the year ended 30 June 2018

Contents

Statement of Profit or Loss and other Comprehensive Income

for the year ended 30 June 2018

This statement should be read in conjunction with the notes to the financial statements set out on pages 23 to 38.

	Note	2018 $	2017 $
REVENUE			
Member contributions	3	43,234,368	42,532,514
Reinsurance and other recoveries revenue	3	5,024,136	6,454,254
Other income	3	43,338	155,783
Insurer Buy-Out revenue	3	177,455	8,873
Investment income	3	1,393,922	779,003
Changes in the fair value of investments	3	1,348,739	1,088,348
Interest revenue	3	2,349,700	2,548,312
Total revenue		**53,571,658**	53,567,087
EXPENSES			
Claims expense	3	(14,145,216)	(15,986,695)
Outwards risk premium expense	3	(21,624,423)	(19,529,855)
Other underwriting expenses	3	(4,655,567)	(4,332,001)
General expenses	3, 7	(1,394,252)	(2,428,289)
Total expenses		**(41,819,458)**	(42,276,840)
Operating result		11,752,200	11,290,247
Other comprehensive income		-	-
Total comprehensive income for the year attributable to Members		**11,752,200**	11,290,247

Statement of Financial Position

as at 30 June 2018

This statement should be read in conjunction with the notes to the financial statements set out on pages 23 to 38.

	Note	2018 $	2017 $
CURRENT ASSETS			
Cash and cash equivalents	11(a)	59,902,375	113,025,763
Trade and other receivables		196,698	87,136
Reinsurance and other recoveries receivables		6,068,020	6,850,414
Financial assets	8	80,413,345	21,307,802
Total current assets		**146,580,437**	141,271,115
NON-CURRENT ASSETS			
Reinsurance and other recoveries receivables		20,647,056	14,079,847
Total non-current assets		20,647,056	14,079,847
Total assets		**167,227,493**	**155,350,962**
CURRENT LIABILITIES			
Trade and other payables		177,317	464,013
Unearned contributions		16,133,748	13,396,431
Distribution payables	16	457,336	334,475
Future claims and associated costs	9	25,804,751	23,680,437
Total current liabilities		**42,573,152**	**37,875,356**
NON-CURRENT LIABILITIES			
Future claims and associated costs	9	48,820,000	46,954,317
Total non-current liabilities		48,820,000	46,954,317
Total liabilities		91,393,152	84,829,673
NET ASSETS		**75,834,341**	**70,521,289**
EQUITY			
Retained surplus		75,834,341	70,521,289
TOTAL EQUITY		**75,834,341**	**70,521,289**

Statement of Changes in Equity

for the year ended 30 June 2018

This statement should be read in conjunction with the notes to the financial statements set out on pages 23 to 38.

	Note	2018 $	2017 $
Total equity at the beginning of the financial year		70,521,289	60,234,042
Total comprehensive income:			
Net result for the year		11,752,200	11,290,247
Total comprehensive income		11,752,200	11,290,247
Surplus Distribution	16	(6,439,148)	(1,003,000)
Total equity at the end of the financial year		**75,834,341**	**70,521,289**

Statement of Cash Flows

for the year ended 30 June 2018

This statement should be read in conjunction with the notes to the financial statements set out on pages 23 to 38.

	Note	2018 $	2017 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Member contributions		45,360,572	41,661,055
Outwards risk premium expense		(21,624,423)	(19,529,857)
Claims expense		(15,700,519)	(16,759,246)
Other underwriting and general expenses		(6,037,799)	(5,447,459)
Interest revenue		2,254,400	2,548,932
Reinsurance and other recoveries revenue		4,763,521	6,312,149
GST collected from Members		4,514,685	4,086,344
GST paid to suppliers and ATO		(4,195,449)	(6,319,165)
Other income		43,338	155,783
Insurer Buy-Out revenue		177,455	8,873
NET CASH PROVIDED BY OPERATING ACTIVITIES	11(b)	9,555,781	**6,717,409**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds/(Payments) from Investments		(57,756,805)	21,463,839
Investment income		1,393,922	1,073,163
NET CASH PROVIDED BY/(USED IN) INVESTING ACTIVITIES		(56,362,883)	22,537,002
SURPLUS DISTRIBUTION PAID		(6,316,285)	(1,858,206)
NET INCREASE IN CASH AND CASH EQUIVALENTS		(53,123,387)	27,396,205
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL YEAR		113,025,761	85,629,558
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR		59,902,375	113,025,763

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 1st July 2015. The principal activity of Queensland Local Government Mutual is the provision of cover for civil liability (Liability Fund) and asset loss (Asset Fund) incurred by local governments and local government controlled entities within Queensland and the management of associated claims.

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

Local Government House
27 Evelyn Street
Newstead QLD 4006

All employees are employed by the Scheme Manager, 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. The Trust is a not for profit entity and the Australian Accounting Standards includes requirements for not for profit entities which are inconsistent with International Financials Reporting Standards (IFRS). Therefore in some instances these financial statements do not comply with IFRS. They have been prepared on the basis of historical costs except where stated. The Liability Fund actuary has increased projected future claims payments to allow for inflation and discounted the expected payments to 30 June 2018 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. The functional and presentation currency of the Trust is Australian Dollars.

Comparative information has been re-classified, where necessary, to be consistent with disclosures in the current reporting period. During 2018, the Trust modified the classification of GST collected from Members and paid to suppliers and the ATO to separately present these in the statement of cash flows. Previously, the GST collected from Members was included in the Receipt of contributions from Members. The GST paid to suppliers and ATO was included in the Other underwriting and general expenses paid. Comparative amounts in the statement of cash flows were re-classified for consistency.

	2017 $ Previously Reported	2017 $ Reclassified
Receipt of contributions from Members	43,786,586	41,661,055
Other underwriting and general expenses paid	(9,805,812)	(5,447,459)
GST collected from Members	-	4,086,344
GST paid to suppliers and ATO	-	(6,319,165)

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 the QTC cash fund and ANZ bank.

Asset Fund - Other income

Other income relates to commissions received for the management of the Asset Fund's assets. Other income is recognised when the funds are received.

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 Trust takes all reasonable steps to ensure that it has appropriate information regarding its claim exposures, with estimates and judgements continually being evaluated and updated based on historical experience and other factors.

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

Liability fund

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

The expected future payments are estimated on the basis of the ultimate cost of settling claims, which is affected by factors arising during the period to settlement such as normal inflation and "superimposed inflation". Superimposed inflation refers to factors such as trends in court awards, for example, increases in the level and period of compensation for injury. The expected future payments are then discounted to a present value at the reporting date using market determined risk adjusted discount rates. The details of rates applied are included in Note 9.

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 the 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. Cashflows are included in the statement of cashflows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

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

Other financial assets are classified at 'fair value through profit or loss' (FVTPL) if it is classified as held for trading or is designated as such upon initial recognition. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss in the period in which they arise. Other financial assets are investments in QIC managed unit trusts of $80.41 million at 30 June 2018 (2017: $21.31 million). Fair value for managed unit trusts is based on the quoted bid price of the investment at reporting date.

Impairment of Financial assets

Assets measuread at fair value, where changes in fair value are reflected in the Statement of profit or loss and other comprehensive income are not subject to impairment testing.

For financial assets measured at amortised cost, impairment is recognised in the Statement of profit or loss and other comprehensive income when there is objective evidence that a loss has been incurred. It is measured as the difference between the carrying amount and the present value of estimated future cashflows, discounted at the effective interest rate.

(ii) Cash and cash equivalents

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

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 10.
- Future claims and associated costs, refer notes 2c and 9.

m) New accounting standards for application in future periods

AASB 9 Financial Instruments

AASB 9 Financial Instruments sets out requirements for recognising and measuring financial assets, liabilities and some contracts to buy or sell non-financial items. This standard replaces AASB 139: Financial Instruments: Recognition and Measurement. AASB 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

These standards will first apply to the Trust from its financial statements for 2018-19 with a 1 July 2018 date of transition. The main impacts of these standards on the Trust are that they will change the requirements for the classification, measurement, impairment and disclosures associated with the Trust's financial assets.

AASB 9 will introduce different criteria for whether financial assets can be measured at amortised cost or fair value.

"The Trust has reviewed the impact of AASB 9 on the classification and measurement of its financial assets. The following summarises the estimated impact (or ranges of estimates) of AASB 9 :

- There will be no change to either the classification or valuation of the cash and cash equivalents item.
- Trade receivables will be classified and measured at amortised cost, similar to the current classification. New impairment requirements may result in a provision being applied to all receivables rather than those receivables that are credit impaired, however the amount of impairment for trade and other receivables is expected to be insignificant and immaterial due to the low credit risk of the parties involved. No impairment provision will be raised for these amounts on transition.
- All financial assets will continue to be measured at fair value through profit or loss. The Board of Management does not expect a material change in the reported value of financial assets as a result of the adoption of AASB 9.
- All financial liabilities will continue to be measured at amortised cost. The Board of Management does not expect a material change in the reported value of financial liabilities.

Any changed amounts will form the opening balance of those items on the date AASB 9 is adopted. However, the Trust will not restate comparative figures for financial instruments on adopting AASB 9 as from 2018-19. Aside from a number of one-off disclosures in the 2018-19 financial statements to explain the impact of adopting AASB 9, a number of new or changed disclosure requirements will apply from that time. Assuming no change in the types of financial instruments that the Trusr enters into, the most likely ongoing disclosure impacts are expected to relate to the credit risk of financial assets subject to impairment.

The Trust does not believe that impairment losses are likely to increase and become more volatile for assets in the scope of the AASB 9 impairment model. However, the Trust has not yet finalised the impairment methodologies that it will apply under AASB 9.

AASB 17 Insurance

AASB 17 Insurance becomes effective from reporting periods beginning after 1 January 2021 and introduces a new measurement model for insurance contracts. The Trust has not yet assessed the impact of the accounting standard on the financial statements.

n) 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.

3. Revenue and expenses

	Total Liability & Asset Funds 2018 $	Total Liability & Asset Funds 2017 $	Liability Fund 2018 $	Liability Fund 2017 $	Asset Fund 2018 $	Asset Fund 2017 $
REVENUE						
Member contributions	**43,234,368**	42,532,514	**21,067,871**	22,419,984	**22,166,497**	20,112,530
Reinsurance and other recoveries revenue	**5,024,136**	6,454,254	**4,995,576**	6,438,804	**28,560**	15,450
Other income	**43,338**	155,783	-	-	**43,338**	155,783
Insurer Buy-Out revenue	**177,455**	8,873	**177,455**	8,873	**-**	-
Investment income	**1,393,922**	779,003	**1,393,922**	779,003	**-**	-
Changes in the fair value of investments	**1,348,739**	1,088,348	**1,348,739**	1,088,348	**-**	-
Interest revenue	**2,349,700**	2,548,312	**2,029,601**	2,346,563	**320,099**	201,749
Total revenue	**53,571,658**	53,567,087	**31,013,164**	33,081,575	**22,558,494**	20,485,512
EXPENSES						
Claims expense	**(14,145,216)**	(15,986,695)	**(9,549,229)**	(11,081,076)	**(4,595,987)**	(4,905,619)
Outwards risk premium expense	**(21,624,423)**	(19,529,855)	**(6,697,202)**	(6,331,994)	**(14,927,221)**	(13,197,861)
Other underwriting expenses	**(4,655,567)**	(4,332,001)	**(3,664,567)**	(3,601,508)	**(991,000)**	(730,493)
General expenses	**(1,394,252)**	(2,428,289)	**(1,197,634)**	(2,283,311)	**(196,618)**	(144,978)
Total expenses	(41,819,458)	(42,276,840)	(21,108,632)	(23,297,889)	(20,710,826)	(18,978,951)
Operating Surplus	**11,752,200**	11,290,247	**9,904,532**	9,783,686	**1,847,668**	1,506,561

4. Financial position

	Total Liability & Asset Funds 2018 $	Total Liability & Asset Funds 2017 $	Liability Fund 2018 $	Liability Fund 2017 $	Asset Fund 2018 $	Asset Fund 2017 $
CURRENT ASSETS						
Cash and cash equivalents	**59,902,375**	113,025,763	**51,172,861**	104,594,624	**8,729,514**	8,431,139
Trade and other receivables	**196,697**	87,136	**170,876**	87,136	**25,821**	-
Reinsurance and other recoveries receivables	**6,068,020**	6,850,414	**6,068,020**	6,850,414	-	-
Financial assets	**80,413,345**	21,307,802	**80,413,345**	21,307,802	-	-
Total current assets	**146,580,437**	141,271,115	**137,825,102**	132,839,976	**8,755,335**	8,431,139
NON-CURRENT ASSETS						
Reinsurance and other recoveries receivables	**20,647,056**	14,079,847	**20,647,056**	14,079,847	-	-
Total non-current assets	**20,647,056**	14,079,847	**20,647,056**	14,079,847	-	-
Total assets	**167,227,493**	155,350,962	**158,472,158**	146,919,823	**8,755,335**	8,431,139
CURRENT LIABILITIES						
Trade and other payables	**177,317**	464,013	**89,331**	48,509	**87,986**	415,504
Unearned contributions	**16,133,748**	13,396,431	**16,133,748**	13,396,431	-	-
Distribution payable	**457,336**	334,475	**457,336**	334,475	-	-
Future claims and associated costs	**25,804,751**	23,680,437	**21,661,000**	18,340,733	**4,143,751**	5,339,704
Total current liabilities	**42,573,152**	37,875,356	**38,341,415**	32,120,148	**4,231,737**	5,755,208
NON-CURRENT LIABILITIES						
Future claims and associated costs	**48,820,000**	46,954,317	**48,820,000**	46,954,317	-	-
Total non-current liabilities	**48,820,000**	46,954,317	**48,820,000**	46,954,317	-	-
Total liabilities	**91,393,152**	84,829,673	**87,161,415**	79,074,465	**4,231,737**	5,755,208
NET ASSETS	**75,834,341**	70,521,289	**71,310,743**	67,845,358	**4,523,598**	2,675,931
EQUITY						
Retained surplus	**75,834,341**	70,521,289	**71,310,743**	67,845,358	**4,523,598**	2,675,931
TOTAL EQUITY	**75,834,341**	70,521,289	**71,310,743**	67,845,358	**4,523,598**	2,675,931

5. Cash flows

	Total Liability & Asset Funds 2018 $	Total Liability & Asset Funds 2017 $	Liability Fund 2018 $	Liability Fund 2017 $	Asset Fund 2018 $	Asset Fund 2017 $
CASH FLOW FROM OPERATING ACTIVITIES						
Member contributions	45,360,572	41,661,055	23,487,185	21,255,311	21,873,386	20,405,744
Outwards risk premium expense	(21,624,423)	(19,529,857)	(6,697,202)	(6,331,994)	(14,927,221)	(13,197,861)
Net claims expense	(15,700,519)	(16,759,246)	(9,908,578)	(14,572,426)	(5,791,941)	(2,186,820)
Other underwriting and general expenses	(6,037,799)	(5,447,459)	(4,821,379)	(4,680,308)	(1,216,420)	(767,151)
Interest revenue	2,254,400	2,548,932	1,951,655	2,347,184	302,745	201,748
Reinsurance and other recoveries	4,763,521	6,312,149	4,734,961	6,296,698	28,560	15,450
GST collected from Members	4,514,685	4,086,344	2,348,719	2,125,532	2,165,966	1,960,812
GST paid to suppliers and ATO	(4,195,449)	(6,319,165)	(2,015,411)	(4,367,836)	(2,180,038)	(1,951,329)
Other income	43,338	155,783	-	-	43,338	155,783
Insurer Buy-Out revenue	177,455	8,873	177,455	8,873	-	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	9,555,781	6,717,409	9,257,405	2,081,033	298,375	4,636,375
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds/(Payments) from Investments	(57,756,805)	21,463,839	(57,756,805)	21,463,839	-	-
Investment income	1,393,922	1,073,163	1,393,922	1,073,163	-	-
NET CASH PROVIDED BY/(USED IN) INVESTING ACTIVITIES	(56,362,883)	22,537,002	(56,362,883)	22,537,002	-	-
SURPLUS DISTRIBUTION PAID	(6,316,285)	(1,858,206)	(6,316,285)	(1,858,206)	-	-
NET INCREASE IN CASH AND CASH EQUIVALENTS	(53,123,387)	27,396,205	(53,421,762)	22,759,829	298,375	4,636,375
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL YEAR	113,025,761	85,629,558	104,594,624	81,834,795	8,431,138	3,794,763
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR	59,902,375	113,025,763	51,172,862	104,594,624	8,729,512	8,431,138

6. Underwriting result

Member contributions	43,234,368	42,532,514	21,067,871	22,419,984	22,166,497	20,112,530
Outwards risk premium expense	(21,624,423)	(19,529,855)	(6,697,202)	(6,331,994)	(14,927,221)	(13,197,861)
Net contribution revenue	21,609,945	23,002,659	14,370,669	16,087,990	7,239,276	6,914,669
Claims expense	(14,145,216)	(15,986,695)	(9,549,229)	(11,081,076)	(4,595,987)	(4,905,619)
Reinsurance and other recoveries revenue	5,024,136	6,454,254	4,995,576	6,438,804	28,560	15,450
Net claims expense	(9,121,080)	(9,532,441)	(4,553,653)	(4,642,272)	(4,567,427)	(4,890,169)
Other underwriting expenses*	(4,655,567)	(4,332,001)	(3,664,567)	(3,601,508)	(991,000)	(730,493)
Underwriting result	7,833,298	9,138,217	6,152,449	7,844,210	1,680,849	1,294,007

* Other underwriting expenses pertain to Scheme expenses management fee.

7. General expenses

	Total Liability & Asset Funds 2018 $	Total Liability & Asset Funds 2017 $	Liability Fund 2018 $	Liability Fund 2017 $	Asset Fund 2018 $	Asset Fund 2017 $
Regional Risk Co-ordinators	672,417	661,974	672,417	661,974	-	-
Investment fees and charges	275,179	208,282	257,094	196,899	18,085	11,383
Administration expenses	446,656	341,367	268,123	207,772	178,533	133,595
TUIC unrecoverable reinsurance receivables*	-	1,216,666	-	1,216,666	-	-
	1,394,253	2,428,289	1,197,634	2,283,311	196,618	144,978

*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. Financial assets

Units in managed investment trusts	80,413,345	21,307,802	80,413,345	21,307,802	-	-
	80,413,345	21,307,802	80,413,345	21,307,802	-	-

9. Future claims and associated costs

Expected future claims (undiscounted)	78,524,751	74,078,704	74,381,000	68,739,000	4,143,751	5,339,704
Discount to present value	(3,900,000)	(3,443,950)	(3,900,000)	(3,443,950)	-	-
Liability for outstanding claims	74,624,751	70,634,754	70,481,000	65,295,050	4,143,751	5,339,704
Current	25,804,751	23,680,437	21,661,000	18,340,733	4,143,751	5,339,704
Non-current	48,820,000	46,954,317	48,820,000	46,954,317	-	-
Liability for outstanding claims	74,624,751	70,634,754	70,481,000	65,295,050	4,143,751	5,339,704

Asset Fund

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

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

Liability Fund actuarial assumptions and methods

Liability adequacy test

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

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

The actuary has incorporated a risk margin of 20% of the central estimate of the outstanding liability plus claims handling expenses as the recommended provision at 30 June 2018. This provides a probability of sufficiency of approximately 75%. This is the same risk margin as adopted at the previous review.

Uncertainty

The actuary advised that there are many factors which can and will cause the ultimate cost of claims incurred to 30 June 2018 to deviate from the actuary's central estimate.

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

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

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

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

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

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

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

Actuarial assumptions

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

Key Actuarial Assumptions	2018	2017
Inflation	3%	3%
Claim administration expense	12%	10%
Discount rate	2.3%	2.1%
Term to settlement (years)	2.4	2.6

The actuary has set out an analysis by incident year which shows the decrease in the outstanding liability from $37.0 million as at 30 June 2017 to $36.7 million as at 30 June 2018, that is, a decrease of $0.3 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 $42.6 million.

The estimated liability as at 30 June 2018 in this valuation has been estimated to be $36.7 million. The reduction of $5.9 million is summarised below.

Item	Impact on Liability $M
Claims experience for claims incurred prior to 1 July 2017	(3.0)
Claims experience for claims incurred during the year ending 30 June 2018	(1.6)
Change in claims assumptions	(1.2)
Change in economic assumptions (discount rate only)	(0.1)
Total	**(5.9)**

Method

The estimated outstanding liability at 30 June 2018 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. The overall level of payments can increase at a faster rate than inflation. This is referred to as superimposed inflation.

Claim administration (handling) expense

In accordance with accounting requirements, claims administration expenses have been included. 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 averaged approximately 12% of the payments made since 1 July 2009 although higher in more recent years and 15% of claims incurred net of non reinsurance recoveries. Taking into account that a significant proportion of the claims administration costs are incurred early in the life of a claim, the actuary has assumed that future claims administration expenses will be 12% of future payments net of non reinsurance recoveries. The expense assumption adopted in the previous valuation was 10% of future payments net of non reinsurance recoveries.

Discount rate

The combination of the expected net payments by payment year with the future payments for the run-off of LGM's net liabilities (excluding administration expenses), together with the yields available on Government bonds of equivalent durations produces a uniform discount rate for all future years of 2.3% per annum. At the previous valuation, the discount rate was assumed to be 2.1% per annum. The difference is due to the movements in market interest rates since the previous valuation.

Term to settlement

The actuary has assumed an expected term to settlement of 2.4 years (2017:2.6 years) based on historical experience and the results of historical claims.

Sensitivity analysis

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

Inflation assumption

Liability Fund Financial instruments	2018 Carrying Amount $	2018 -1% Movement	2018 1% Movement	2017 Carrying Amount $	2017 -1% Movement	2017 1% Movement
Future claims and associated cost	70,481,000	(1,640,000)	1,640,000	65,295,050	(1,593,000)	1,593,000
Reinsurance and other recoveries receivables	(26,715,076)	624,000	(624,000)	(20,930,261)	457,000	(457,000)
Potential Impact		**(1,016,000)**	**1,016,000**		(1,136,000)	1,136,000

Discount rate assumption

Liability Fund Financial instruments	2018 Carrying Amount $	2018 -1% Movement	2018 1% Movement	2017 Carrying Amount $	2017 -1% Movement	2017 1% Movement
Future claims and associated cost	70,481,000	1,563,000	(1,563,000)	65,295,050	1,516,000	(1,516,000)
Reinsurance and other recoveries receivables	(26,715,076)	(601,000)	601,000	(20,930,261)	(442,000)	442,000
Potential Impact		**962,000**	**(962,000)**		1,074,000	(1,074,000)

Expense rate assumption

Liability Fund Financial instruments	2018 Carrying Amount $	2018 -1% Movement	2018 1% Movement	2017 Carrying Amount $	2017 -1% Movement	2017 1% Movement
Future claims and associated cost	70,481,000	503,000	(503,000)	65,295,050	459,950	(459,950)
Reinsurance and other recoveries receivables	(26,715,076)	-	-	(20,930,261)	(56,261)	56,261
Potential Impact		**503,000**	**(503,000)**		403,690	(403,690)

Increase in cost of claims assumption

Liability Fund Financial instruments	2018 Carrying Amount $	2018 -10% Movement	2018 10% Movement	2017 Carrying Amount $	2017 -10% Movement	2017 10% Movement
Future claims and associated cost	70,481,000	1,625,000	(1,625,000)	65,295,050	1,863,950	(1,863,950)
Reinsurance and other recoveries receivables	(26,715,076)	567,000	(567,000)	(20,930,261)	525,739	(525,739)
Potential Impact		**2,192,000**	**(2,192,000)**		2,389,690	(2,389,690)

10. Net claims incurred

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

Liability Fund	2018 $	2017 $
Net claims expense (note 6)	**4,553,653**	4,642,272

2018 – Details of net incurred claims are as follows:

	Current Year $'000	Prior Years $'000	Total $'000
Claims incurred and related expenses – undiscounted	18,991	(3,462)	15,529
Reinsurance and other recoveries – undiscounted	(8,914)	(2,101)	(11,015)
Net claims incurred – undiscounted	10,077	(5,563)	4,514
Discount – Claims incurred and related expenses	(912)	456	(456)
Discount – Reinsurance and other recoveries	387	109	496
Net discount movement	(525)	565	40
Net incurred claims	9,552	(4,998)	4,554

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

Asset Fund	2018 $	2017 $
Net claims expense (note 6)	4,567,427	4,890,169

2018 – Details of net incurred claims are as follows:

	Current Year $'000	Prior Years $'000	Total $'000
Claims incurred and related expenses – undiscounted	4,773	(177)	4,596
Reinsurance and other recoveries – undiscounted	(5)	(24)	(29)
Net claims incurred – undiscounted	4,768	(201)	4,567

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

11. 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 2018 $	Total Liability & Asset Funds 2017 $	Liability Fund 2018 $	Liability Fund 2017 $	Asset Fund 2018 $	Asset Fund 2017 $
Cash at bank and in hand	10,166,820	7,651,627	10,031,651	7,077,980	135,169	573,647
Deposits at call	49,735,555	105,374,136	41,141,210	97,516,644	8,594,345	7,857,492
	59,902,375	113,025,763	**51,172,861**	104,594,624	**8,729,514**	8,431,139

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

	Total Liability & Asset Funds 2018 $	Total Liability & Asset Funds 2017 $	Liability Fund 2018 $	Liability Fund 2017 $	Asset Fund 2018 $	Asset Fund 2017 $
Operating surplus	11,752,200	11,290,247	9,904,532	9,783,686	1,847,668	1,506,561
Net cash provided by operating activities	11,752,200	11,290,247	9,904,532	9,783,686	1,847,668	1,506,561
Non cash operating items						
Change in the fair value of investments	(1,348,739)	(1,088,348)	(1,348,739)	(1,088,348)	-	-
Investing income classified as investing activities	(1,393,922)	(1,073,163)	(1,393,922)	(1,073,163)	-	-
Change in assets and liabilities						
(Increase)/Decrease in reinsurance and other recoveries receivable	(5,784,815)	2,382,162	(5,784,815)	2,382,162	-	-
Increase/(Decrease) in trade and other payables	(286,696)	(1,132,964)	40,822	(1,540,209)	(327,518)	407,245
Decrease/(Increase) in trade and other receivables	(109,562)	303,762	(83,740)	299,991	(25,822)	3,771
Increase/(Decrease) in unearned revenue	2,737,317	(1,884,134)	2,737,317	(1,884,134)	-	-
Increase/(Decrease) in future claims and associated costs	3,989,997	(2,080,153)	5,185,950	(4,798,952)	(1,195,953)	2,718,799
Net cash from operating activities	**9,555,781**	6,717,409	**9,257,405**	2,081,033	**298,375**	4,636,376

12. Related parties

Local Government Association of Queensland Ltd (LGAQ) has resolved to establish Queensland Local Government Mutual Trust ("the Trust"). The Trust 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 Board, in its capacity as a trustee of the Trust under the Trust Deed.

Key Management Personnel

Board of Management

The Trust Deed provides for the business of LGM to be managed by a Board of Management. The Board is responsible to the LGAQ Board for achieving the Trust's objectives and for financial management. Financial management responsibilities include arranging for preparation of annual financial statements. The Trust Deed makes provision for the LGAQ Board to appoint the scheme manager and establish a Trust management agreement with the manager. The LGAQ Board is responsible for arranging establishment of bank accounts, investment of funds and (if necessary) borrowing of funds. The LGAQ Board 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 Ian Leckenby was appointed Chairman on 01/07/2018

Mr Noel Playford was Chairman in 2018, resigned on 30/06/2018

Mr Greg Hallam *

Mr Bob Millar

Mr Stephen Fynes-Clinton

Mr David Wiggins *

Mr Brett Turville *

Mr John Brent

Mr Terry Brennan

Cr Karen Williams was appointed on 17/02/2017

Cr Rachel Chambers was appointed on 17/02/2017

*No Committee meeting fees are paid to these Members

KMP Category / Position	Short-Term Employee Benefits 2018 $	Short-Term Employee Benefits 2017 $
Chairman	14,101	13,498
Board of Management	40,307	26,617
Total	**54,408**	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 also key management personnel as they are responsible for the ultimate oversight of the business of the Trust. No remuneration has been paid to them.

Cr Mark Jamieson

Cr Jenny Hill

Cr Ray Brown

Cr Matthew Burke

The Trust 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 on a commercial basis:	2018: $15,263	2017: $4,783
Cost recovery transactions paid to LGAQ & its controlled entities:	2018: $35,447	2017: $12,859
Surplus distribution for the LG Sherlock's first year funding requirements was paid to LGAQ:	2018: $4,100,000	

Surplus distribution for the LG Sherlock's first year funding requirements was paid to LGAQ in accordance with the terms and conditions of the Trust Deed for the benefit of scheme Members, with the necessary approvals by the LGAQ Board and LGM Board of Management.

Services provided by LGAQ are on a cost recovery basis and represent transactions paid on behalf of the Trust. 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 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.

13. 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 transfer strategy

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

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 particular 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.

Other

Interest rate risk 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 1.49% at 30 June 2018 (2017: 1.5%). Interest on QTC investments is charged at prevailing market rates which is approximately 2.41% at 30 June 2018 (2017: 2.49%) for the Liability Fund. Interest on QTC investments is charged at prevailing market rates which is approximately 2.41% at 30 June 2018 (2017: 2.49%) for the Asset Fund.

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 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 $80,413,345 worth of units with QIC as at 30 June 2018 (2017: $21,307,802).

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

Interest rate sensitivity analysis

The following 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 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 $511,729 (2017: $1,045,946) for interest rate risk. The Asset Fund would have a surplus increase/(decrease) of $87,295 (2017: $84,311) for interest rate risk.

Unit price sensitivity analysis

The following unit price sensitivity analysis is based on a report similar to that which would be provided to management, depicting the outcome to profit and loss if interest rates and unit prices would change by +/- 1% for the QIC Cash Enhanced Fund and by +/-5% for the QIC Growth Fund from the year-end rates applicable to LGM's financial assets and liabilities. With all other variables held constant, the Liability Fund would have a surplus increase/(decrease) of $504,615 (2017: $0) for unit price risk for the QIC Cash Enhanced Fund and surplus increase/(decrease) of $1,497,590 (2017: $1,065,390) for unit price risk for the QIC Growth Fund.

Credit risk

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.

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.

The following table represents LGM's maximum exposure to credit risk based at the end of the reporting period.

Maximum exposure to credit risk

	Total Liability & Asset Funds 2018 $	Total Liability & Asset Funds 2017 $	Liability Fund 2018 $	Liability Fund 2017 $	Asset Fund 2018 $	Asset Fund 2017 $
Category						
Financial Assets						
Cash and cash equivalents	59,902,375	113,025,763	51,172,861	104,594,624	8,729,514	8,431,139
Trade and other receivables	196,697	87,136	170,876	87,136	25,821	-
Financial assets	80,413,345	21,307,802	80,413,345	21,307,802	-	-
	140,512,416	134,420,701	131,757,082	125,989,562	8,755,335	8,431,139

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

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.

Concentration of credit risk is managed by client or counterparty and industry sector. Financial assets are actively monitored and frequently reviewed to identify, assess and protect against unacceptable risk concentrations.

A concentration risk management framework is in place to monitor exposure levels against levels which are considered acceptable in line with the Trust's risk strategy.

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 $89,331 (2017:$48,509) and distribution payables of $457,336 (2017:$334,475). Asset Fund's financial liabilities comprise of trade and other payables of $87,986 (2017:$415,504). 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 2018 LGM's financial assets are recognised as Level 2.

14. Auditor's remuneration

	Total Liability & Asset Funds 2018 $	Total Liability & Asset Funds 2017 $	Liability Fund 2018 $	Liability Fund 2017 $	Asset Fund 2018 $	Asset Fund 2017 $
Audit of the financial statements	**51,000**	46,250	**36,500**	34,250	**14,500**	12,000

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

15. Commitments for expenditure

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

	Total Liability & Asset Funds 2018 $	Total Liability & Asset Funds 2017 $	Liability Fund 2018 $	Liability Fund 2017 $	Asset Fund 2018 $	Asset Fund 2017 $
Within one year	**4,741,892**	4,655,567	**3,732,261**	3,664,567	**1,009,631**	991,000
Later than one year but not later than 5 years	-	4,719,731	-	3,728,731	-	991,000
	4,741,892	9,375,298	**3,732,261**	7,393,298	**1,009,631**	1,982,000

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

Within one year	**685,184**	672,153	**685,184**	672,153	-	-
Later than one year but not later than 5 years	**1,770,330**	-	**1,770,330**	-	-	-
	2,455,514	672,153	**2,455,514**	672,153	-	-

16. Distributions

In June 2018 the Board of Management noted and approved the proposed $2,350,000 surplus distribution to be distributed to individual Liability Fund Members in 2017-18. Out of that $1,892,665 has been already taken up by the Members who have paid their contributions for 2018-19 year before 30 June 2018. As a result, there is an amount of $457,335 as a surplus distribution payable amount in the Statement of Financial Position for 2017-18.

In February 2018 the Board of Management noted and approved a surplus distribution of $4,100,000 for the LG Sherlock's first year funding requirements which was paid to LGAQ in April 2018.

In 2016-17, the distribution declared was $1,003,000 million but the actual amount paid in 2017-18 was $992,148 which was $10,852 lower than the approved and proposed distribution of $1,003,000 million as Qld Urban Utilities advising the non-continuation of the Membership with LGM Liability. This has been shown as an adjustment to the $2.35 million surplus which was approved in June 2018, resulting a total distribution of $6,439,148 in the Statement of Changes in Equity in 2017-18.

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 2018 and its performance, as represented by the results of its operations and its cash flows, for the year ended on that date;

ii) comply with Accounting Standards in Australia; and

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

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

Signed in accordance with a resolution of the Board:

Mr Ian Leckenby

Chairman

30 November 2018
Date

Mr Greg Hallam

Member of the Board of Management

30 November 2018
Date

Queensland Audit Office
Better public services

INDEPENDENT AUDITOR'S REPORT

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

Report on the audit of the financial report

Opinion

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

In my opinion, the financial report:

a) presents fairly the trust's financial position as at 30 June 2018, 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 2018, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes to the financial statements including summaries of significant accounting policies and other explanatory information, and the 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.

Responsibilities of the trust for the financial report

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

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

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Auditor's responsibilities for the audit of the financial report

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

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

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

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

11 December 2018

Patrick Flemming
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 2018

Contents

Statement of Profit or Loss and other Comprehensive Income

for the year ended 30 June 2018

This statement should be read in conjunction with the notes to the financial statements set out on pages 45 to 58.

	Note	2018 $	2017 $
Revenue			
Member contributions	3	25,031,228	25,360,499
Reinsurance and other recoveries	3	347,855	1,147,819
Interest revenue		1,096,253	1,408,345
Investment revenue		1,329,685	925,891
Changes in the fair value of investments		1,203,819	873,094
new			
Total revenue		29,008,840	29,715,648
Expenses			
Claims expense	3	(18,872,001)	(13,225,206)
Outwards reinsurance expense	3	(394,112)	(428,610)
Other underwriting expenses	3	(6,735,480)	(6,653,645)
General expenses	4	(1,270,852)	(1,094,729)
Total expenses		(27,272,445)	(21,402,190)
Operating result from continuing operations		1,736,395	8,313,458
Other Comprehensive Income		-	-
Total comprehensive income for the year attributable to Members		1,736,395	8,313,458

Statement of Financial Position

as at 30 June 2018

This statement should be read in conjunction with the notes to the financial statements set out on pages 45 to 58.

	Note	2018 $	2017 $
CURRENT ASSETS			
Cash and cash equivalents		22,460,707	48,407,735
Trade and other receivables	5	757,602	776,818
Reinsurance and other recoveries receivables		1,039,000	920,055
Other financial assets	6	60,826,329	31,912,432
Total current assets		85,083,638	82,017,040
NON-CURRENT ASSETS			
Reinsurance and other recoveries receivables		1,730,000	1,876,112
Total non-current assets		1,730,000	1,876,112
Total assets		86,813,638	83,893,152
CURRENT LIABILITIES			
Trade and other payables		800,485	703,609
Distribution payables	13	2,350,000	682,816
Future claims and associated costs	7	15,113,039	13,646,876
Total current liabilities		18,263,524	15,033,301
NON-CURRENT LIABILITIES			
Future claims and associated costs	7	18,856,916	18,553,048
Total non-current liabilities		18,856,916	18,553,048
Total liabilities		37,120,440	33,586,349
NET ASSETS		49,693,198	50,306,803
EQUITY			
Retained surplus		49,693,198	50,306,803
TOTAL EQUITY		49,693,198	50,306,803

Statement of Changes in Equity

for the year ended 30 June 2018

This statement should be read in conjunction with the notes to the financial statements set out on pages 45 to 58.

	Note	2018 $	2017 $
Total equity at the beginning of the financial year		50,306,803	42,676,161
TOTAL COMPREHENSIVE INCOME			
Net result for the year		1,736,395	8,313,458
Total comprehensive income		1,736,395	8,313,458
Distribution to Members	13	(2,350,000)	(682,816)
Total equity at the end of the financial year		**49,693,198**	**50,306,803**

Statement of Cash Flows

for the year ended 30 June 2018

This statement should be read in conjunction with the notes to the financial statements set out on pages 45 to 58.

	Note	2018 $	2017 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipt of contributions from Members		25,192,907	25,067,448
Reinsurance premiums paid		(394,112)	(428,610)
Claims paid		(17,074,804)	(13,844,832)
Other underwriting and general expenses paid		(7,946,613)	(7,748,107)
Interest received		1,052,350	1,339,707
Other recoveries received		347,855	1,147,819
GST collected from Members		2,519,291	2,506,745
GST paid to suppliers and ATO		(2,580,693)	(2,515,761)
NET CASH PROVIDED BY OPERATING ACTIVITIES	9(b)	**1,116,181**	**5,524,409**
CASH FLOWS FROM INVESTING ACTIVITIES			
(Payments for) / proceeds from investments		(27,710,078)	(8,420,875)
(Payments for) / proceeds from term deposits		-	12,183,625
Investment revenue		1,329,685	1,112,200
NET CASH PROVIDED BY / (USED IN) INVESTING ACTIVITIES		(26,380,393)	4,874,950
SURPLUS DISTRIBUTION PAID		(682,816)	(3,000,000)
NET (DECREASE) / INCREASE IN CASH HELD		(25,947,028)	7,399,359
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL YEAR		48,407,735	41,008,376
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR		**22,460,707**	**48,407,735**

1. Background

Queensland Local Government Workers Compensation Self-Insurance Scheme (the Scheme) is a Trust which has been established in Australia by the Local Government Association of Queensland Ltd (previously known as Local Government Association of Queensland Inc) (LGAQ) under a Trust Deed dated 19 June 1997.

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

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

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

The principal place of business of the Scheme is:

Local Government House
27 Evelyn Street
Newstead QLD 4006

All employees involved in the management of workers' compensation claims for the Scheme are employed by Jardine Lloyd Thompson Pty Ltd and their associated costs are recharged to the Scheme through a monthly scheme management fee which is disclosed in the 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. The Scheme is a not for profit entity and the Australian Accounting Standards includes requirements for not for profit entities which are inconsistent with International Financials Reporting Standards (IFRS). Therefore in some instances these financial statements do not comply with IFRS. They have been prepared on the basis of historical costs except where stated.The Scheme actuary has increased projected future claims payments to allow for inflation and discounted the expected payments to 30 June 2018 to obtain the present value of the liability.

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

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

During 2018, the Scheme modified the classification of GST collected from Members and paid to suppliers and the ATO to separately present these in the statement of cash flows. Previously, the GST collected from Members was included in the Receipt of contributions from Members. The GST paid to suppliers and ATO was included in the Other underwriting and general expenses paid. Comparative amounts in the statement of cash flows were re-classified for consistency.

	2017 $ Previously Reported	2017 $ Reclassified
Receipt of contributions from Members	27,574,191	25,067,448
Other underwriting and general expenses paid	(10,263,866)	(7,748,107)
GST collected from Members	-	2,506,745
GST paid to suppliers and ATO	-	(2,515,761)

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.

Interest revenue

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

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.

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 Scheme takes all reasonable steps to ensure that it has appropriate information regarding its claim exposures with estimates and judgements continually being evaluated and updated based on historical experience and other factors.

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

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

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 collectibility 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. The GST component of cashflows arising from inveting and financing activities which are recoverable from, or payable to, the ATO, are classified as operating cash flows.

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

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

Impairment of Financial assets

Assets measuread at fair value, where changes in fair value are reflected in the Statement of profit or loss and comprehensive income are not subject to impairment testing.

For financial assets measured at amortised cost, impairment is recognised in the Statement of profit or loss and comprehensive income when there is objective evidence that a loss has been incurred. It is measured as the difference between the carrying amount and the present value of estimated future cashflows, discounted at effective interest rate.

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' (FVTPL) if it is classified as held for trading or is designated as such upon initial recognition. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss in the period in which they arise. Other financial assets are investments in QIC managed unit trusts of $60.83 million at 30 June 2018 (2017: $31.91 million). Fair value for managed unit trusts is based on the quoted bid price of the investment at reporting date.

(ii) Cash and cash equivalents

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

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 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 in the future periods

AASB 9 Financial Instruments

AASB 9 Financial Instruments sets out requirements for recognising and measuring financial assets, liabilities and some contracts to buy or sell non-financial items. This standard replaces AASB 139: Financial Instruments: Recognition and Measurement. AASB 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

These standards will first apply to the Scheme from its financial statements for 2018-19 with a 1 July 2018 date of transition. The main impacts of these standards on the Scheme are that they will change the requirements for the classification, measurement, impairment and disclosures associated with the Scheme's financial assets.

AASB 9 will introduce different criteria for whether financial assets can be measured at amortised cost or fair value.

The Scheme has reviewed the impact of AASB 9 on the classification and measurement of its financial assets. The following summarises the estimated impact (or ranges of estimates) of AASB 9 :

- There will be no change to either the classification or valuation of the cash and cash equivalents item.
- Trade receivables will be classified and measured at amortised cost, similar to the current classification. New impairment requirements may result in a provision being applied to all receivables rather than those receivables that are credit impaired, however the amount of impairment for trade and other receivables is expected to be insignificant and immaterial due to the low credit risk of the parties involved. No impairment provision will be raised for these amounts on transition.
- All other financial assets will continue to be measured at fair value through profit or loss. The Management Committee does not expect a material change in the reported value of other financial assets as a result of the adoption of AASB 9.
- All financial liabilities will continue to be measured at amortised cost. The Management Committee does not expect a material change in the reported value of financial liabilities.

Any changed amounts will form the opening balance of those items on the date AASB 9 is adopted. However, the Scheme will not restate comparative figures for financial instruments on adopting AASB 9 as from 2018-19. Aside from a number of one-off disclosures in the 2018-19 financial statements to explain the impact of adopting AASB 9, a number of new or changed disclosure requirements will apply from that time. Assuming no change in the types of financial instruments that the Scheme enters into, the most likely ongoing disclosure impacts are expected to relate to the credit risk of financial assets subject to impairment.

AASB 17 Insurance

AASB 17 Insurance becomes effective from reporting periods beginning after 1 January 2021 and introduces a new measurement model for insurance contracts. The Scheme has not yet assessed the impact of the accounting standard on the financial statements.

(m) 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.

3. Underwriting result

	2018 $	2017 $
Member contributions	25,031,228	25,360,499
Outward reinsurance premium expense	(394,112)	(428,610)
Net contributions revenue	24,637,116	24,931,889
Claims expense	(18,872,001)	(13,225,206)
Reinsurance and other recoveries revenue	347,855	1,147,819
Net claims expense	(18,524,146)	(12,077,387)
Other underwriting expenses*	(6,735,480)	(6,653,645)
Underwriting result	(622,510)	6,200,857
*Other underwriting expenses include:		
Workcover Levy	(661,525)	(683,993)
Scheme expenses management fee	(6,073,955)	(5,969,652)
	(6,735,480)	(6,653,645)

4. General expenses

Regional Risk Co-ordinators	672,416	661,974
Investment fees and charges	248,642	175,755
Administration expenses	349,794	257,000
	1,270,852	1,094,729

5. Trade & other receivables

Current		
Member contributions	185,269	309,792
Sundry debtors	572,333	467,026
	757,602	776,818

6. Other financial assets

Units in managed investment trusts	60,826,329	31,912,432

7. Future claims and associated costs

Expected future claims (undiscounted)	35,024,000	33,334,921
Discount to present value	(1,054,045)	(1,134,997)
Liability for outstanding claims	33,969,955	32,199,924
Current	15,113,039	13,646,876
Non - current	18,856,916	18,553,048
Liability for outstanding claims	33,969,955	32,199,924

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.

Uncertainty

The actuary advised that there are many factors which can and will cause the ultimate cost of claims incurred to 30 June 2018 to deviate from the actuary's central estimate.

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

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

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

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

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

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

The central estimate is determined, in principle, such that there is no bias to over or under estimation. However, an adequate provision for the outstanding liability under AASB1023 requires a risk margin to be included such that the probability that the provision will prove to be sufficient is increased. An appropriate probability of sufficiency would usually be between 65% and 90%, depending on the acceptable level of risk to the insurer, whilst APRA requires a 75% probability of sufficiency for private sector insurers. The Scheme's Management Committee have determined to adopt a 75% probability of sufficiency.

Actuarial assumptions and methods

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

Key Actuarial Assumptions	2018	2017
Claims administration expenses	7%	7%
Wage inflation	3%	3%
Discount rate	2.1%	2%
Term to settlement (years)	1.66	1.76

The actuary has set out an analysis by accident year of the increase in the outstanding liability from $25.134 million as at 30 June 2017 to $26.588 million as at 30 June 2018, that is, an increase of $1.454 million.

Process used to determine actuarial assumptions

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

The methods used are:

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

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

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

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

Claim administration expense

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

Taking into account an estimate of the administration costs expected to be incurred to finalise or settle the outstanding claims from the claims manager, the actuary considers that it is reasonable to set aside 7% (2017:7%) of the gross future claims payments as adopted in the previous valuation.

Inflation

Income benefits are increased in line with wage inflation. Other costs such as hospital and medical expenses are also expected to rise broadly in line with inflation. Having regards for various economic forecasts of wage and price inflation for Queensland over the next 4 to 5 years, the actuary has assumed a rate of future wage inflation of 3% (2017:3%) 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 2006 to 30 June 2018, 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 4.1% per annum, and over the last 5 years the average has increased by 4.2% 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 2019 to 2028. The projected future payments total $25,563,000. The yields available are in the range of 1.89% to 2.65%.

The combination of these payments and yields 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 2% per annum. The increase in the discount rate reflects changes in the general level of market interest rates.

Term to Settlement

The actuary has assumed an expected term to settlement of 1.66 years (2017:1.76 years) based on the historical experience and the results of historical claims.

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

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

Inflation assumption

2018

LGW **Financial instruments**	**Carrying Amount $**	**-1% Movement**	**1% Movement**
Future claims and associated costs	33,969,955	(543,000)	543,000
Other recoveries receivables	(2,497,000)	47,000	(47,000)
Potential Impact		**(496,000)**	**496,000**

2017

LGW **Financial Instruments**	**Carrying Amount $**	**-1% Movement**	**1% Movement**
Future claims and associated costs	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

2018

LGW Financial Instruments	Carrying Amount $	-1% Movement	1% Movement
Future claims and associated costs	33,969,955	529,000	(529,000)
Other recoveries receivables	(2,497,000)	47,000	(47,000)
Potential Impact		**482,000**	**(482,000)**

2017

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

Expense rate assumption

2018

LGW Financial Instruments	Carrying Amount $	-1% Movement	1% Movement
Future claims and associated costs	33,969,955	312,000	(312,000)
Other recoveries receivables	(2,497,000)	-	-
Potential Impact		**312,000**	**(312,000)**

2017

LGW Financial Instruments	Carrying Amount $	-1% Movement	1% Movement
Future claims and associated costs	32,199,924	297,000	(297,000)
Other recoveries receivables	(2,520,000)	-	-
Potential Impact		**297,000**	**(297,000)**

Estimated cost of claims assumption

2018

LGW Financial Instruments	Carrying Amount $	-10% Movement	10% Movement
Future claims and associated costs	33,969,955	1,447,000	(1,447,000)
Other recoveries receivables	(2,497,000)	76,000	(76,000)
Potential Impact		**1,523,000**	**(1,523,000)**

2017

LGW Financial Instruments	Carrying Amount $	-10% Movement	10% Movement
Future claims and associated costs	32,199,924	1,376,000	(1,376,000)
Other recoveries receivables	(2,520,000)	88,000	(88,000)
Potential Impact		**1,464,000**	**(1,464,000)**

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.

	2018 $	2017 $
Net claims expense (Note 3)	**18,524,146**	12,077,386

2018

Details of net incurred claims are as follows:

	Current Year $'000	Prior Years $'000	Total $'000
Claims incurred and related expenses – undiscounted	21,067	(2,302)	18,765
Reinsurance and other recoveries – undiscounted	(804)	483	(321)
Net claims incurred - undiscounted	20,263	(1,819)	18,444
Discount – Claims incurred and related expenses	530	(449)	81
Discount – Reinsurance and other recoveries	42	(43)	(1)
Net discount movement	572	(492)	80
Net incurred claims	20,835	(2,311)	18,524

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

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)

	2018 $	2017 $
Cash and cash equivalents	**22,460,707**	48,407,735

(CONTINUED)

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

	2018 $	2017 $
Operating surplus	1,736,395	8,313,458
Add non-cash items		
Changes in fair value of investments – unrealised (net of distributions re-invested)	(1,203,819)	(873,094)
Investing income classified as investing activities	(1,329,685)	(1,112,200)
Net cash provided by operating activities before change in assets and liabilities	(797,109)	6,328,164
Change in assets and liabilities		
(Increase)/decrease in reinsurance and other recoveries receivable	27,167	(360,167)
(Increase)/decrease in Member contributions receivable	124,522	70,424
(Increase)/decrease in sundry debtors	(105,306)	108,653
Increase/(decrease) in trade and other payables	96,876	(363,207)
Increase/(decrease) in future claims and associated costs	1,770,031	(259,458)
Net cash provided by operating activities	1,116,181	5,524,409

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

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 Ian Leckenby was appointed Chairman on 01/07/2018

Mr Noel Playford was Chairman in 2018, resigned on 30/06/2018

Mr Stephen Fynes-Clinton

Mr Terry Brennan

Mr Bob Millar

Mr Greg Hallam*

Cr Rachel Chambers was appointed on 17/02/2017

*No Committee meeting fees are paid to these Members

KMP Category / Position	Short-Term Employee Benefits 2018 $	Short-Term Employee Benefits 2017 $
Chairman	14,101	13,757
Management Committee Members	6,340	3,279
Total	20,441	17,036

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 also 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 on a commercial basis:	$15,263	(2017: $4,783)
Cost recovery transactions paid to LGAQ & its controlled entities:	$22,901	(2017: $12,859)

Services provided by LGAQ are on a cost recovery basis and represent transactions paid on behalf of the Scheme. 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

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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 particular 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 contracts

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 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).

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 1.49% at 30 June 2018 (2017:1.50%). Interest on QTC investments is charged at prevailing market rates which was 2.41% at 30 June 2018 (2017: 2.49%).

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 $60,826,329 worth of units with QIC as at 30 June 2018 (2017:$ 31,912,432).

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

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

Interest Rate Sensitivity Analysis

The following 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 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 $224,607 (2017: $484,077) for interest rate risk.

Unit Price Sensitivity Analysis

The following unit price sensitivity analysis is based on a report similar to that which would be provided to management, depicting the outcome to the operating result, if unit prices would change by +/- 1% for the QIC Cash Enhanced Fund and by +/-5% for the QIC Growth Fund from the year-end rates applicable to the Scheme's financial assets and liabilities. With all other variables held constant, the Scheme would have a surplus and equity increase or decrease of $331,696 (2017: $127,256) for unit price risk for the QIC Cash Enhanced Fund and $1,382,836 (2017: $959,342) for unit price risk for the QIC Growth Fund.

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.

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

The following table represents the Scheme's maximum exposure to credit risk at the end of the reporting period.

Maximum Exposure to Credit Risk

	Notes	2018 $	2017 $
Category			
Financial Assets			
Cash and cash equivalents		22,460,707	48,407,735
Trade and other receivables	5	757,601	776,817
Financial assets at fair value through profit or loss	6	60,826,329	31,912,432
Total		84,044,637	81,096,984

LGW considers that all of the financial assets at a amortised cost that are not impaired for each of the reporting dates under review are of low credit risk due to the high quality credit rating of the parties involved.

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.

Concentration of credit risk is managed by client or counterparty and industry sector. Financial assets are actively monitored and frequently reviewed to identify, assess and protect against unacceptable risk concentrations.

A concentration risk management framework is in place to monitor exposure levels against levels which are considered acceptable in line with the Scheme's risk strategy.

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 $800,485 (2017:$703,609), 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.

As at 30 June 2018 the Scheme's financial assets are recognised as Level 2.

12. Auditor's remuneration

	2018 $	2017 $
Audit of the financial statements	**41,000**	39,250

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

13. Distribution payables

In June 2018, the Management Committee noted and approved the proposed $2,350,000 (2017: $682,816 declared in May 2017) surplus distributions to individual Members in 2018-19.

14. Commitments for expenditure

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

	2018 $	2017 $
Within one year	**6,186,830**	6,073,955
Later than one year but not later than 5 years	**6,301,804**	12,468,312
	12,488,634	18,542,267

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

Within one year	**685,184**	672,153
Later than one year but not later than 5 years	**1,770,330**	-
	2,455,514	672,153

15. Contingent liabilities

The Scheme holds bank guarantees worth $38,613,000 with QTC. The Scheme's Members have provided an indemnity towards this bank guarantee to cover bad debts which may remain should the self insurance licence be cancelled and there was insufficient funds to cover outstanding liabilities. Only the Queensland Government's worker compensation authority may call on any part of the guarantee should the above circumstances arise.

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 23:

i) present fairly the financial position of Queensland Local Government Workers Compensation Self-Insurance Scheme as at 30 June 2018 and its performance, as represented by the results of its operations and its cash flows, for the year ended on that date;

ii) comply with Accounting Standards in Australia; and

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

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

Signed in accordance with a resolution of the Management Committee:

Mr Ian Leckenby
Chairman

Date 30 November 2018

Mr Greg Hallam
Member of the Management Committee

Date 30 November 2018

Independent

Auditor's Report

Queensland Audit Office
Better public services

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 2018, 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 2018, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes to the financial statements including summaries of significant accounting policies and other explanatory information, and the 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.

Responsibilities of the trust for the financial report

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

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

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Auditor's responsibilities for the audit of the financial report

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

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

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

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

11 December 2018

Patrick Flemming
as delegate of the Auditor-General

Queensland Audit Office
Brisbane

LGW / LGM REPORT TO MEMBERS

2017-2018