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

2018-2019

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 2018-2019

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Chairman's Message

IAN LECKENBY

Chair, LGM Board of Management
Chair, LGW Management Committee

THE FINANCIAL STATEMENTS FOR 2018-2019 CONTAINED IN THIS ANNUAL REPORT PROVIDES DETAILS OF ANOTHER STRONG YEAR FOR LOCAL GOVERNMENT MUTUAL SERVICES (LGMS) AND DEMONSTRATES THAT THE IMPROVED RISK MANAGEMENT PERFORMANCE OF MEMBERS IN RECENT YEARS HAS CONTINUED TO BENEFIT THE SCHEMES AND ITS MEMBERS.

Despite hardening market conditions, LGM Liability was able to keep Member contributions contained in most cases for the 2018-2019 year and a $2.4M distribution was returned directly to scheme Members while annual operations continued to produce a surplus result and steady investment returns.

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

LGMS was established as a Member owned mutual to utilise the combined bargaining power of the collective to better withstand all claims and market cycles for the sole benefit of the Local Government sector. A long-term strategy and commitment to the mutual model is critical to its success, without this commitment, Councils may again find themselves captive to a single insurance market and an inability to obtain the right cover, drive competitive tension and exert control over the outcomes to be achieved.

In 2019, LGMS engaged with scheme Members to better understand Member satisfaction, quality of products, service levels and the esteem in which the mutual schemes are held. Whilst the review found the majority of scheme Members had no ongoing issues, a number of recommendations to further enhance the scheme emerged from this engagement. It is on this basis that LGMS endorsed the inclusion of these matters raised in the LGM and LGW scheme Management Agreements, development of a LGMS Stakeholder Engagement Strategy and Code of Practice. This will provide greater accountability and transparency to scheme Members generally.

Despite hardening market conditions, LGM Liability was able to keep Member contributions contained in most cases for the 2018-2019 year and a $2.4M distribution was returned directly to scheme Members, while annual operations continued to produce a surplus result and steady investment returns.

LGM Assets provides Members with comprehensive cover for their asset-based risk exposures with long term goals of stability and sustainability of cost in all market conditions. After a decade of soft market conditions, 2018-19 saw sustained cost increases and reductions in insurer capacity in the global insurance market. This is not limited to local government risks, with many other industries also faced with escalating insurance costs or limited cover with increased excess levels.

Again, Members of LGM Assets benefit from the mutual pool model, with average increases across the breadth of the scheme limited to 5% in the 2018-19 period which is in contrast to the commercial insurance market where pricing has increased on average by 16% in recent months. By way of comparison, Local Government risks in Queensland outside the scheme have in some instances increased in excess of 40%, even when claims performance has been good.

LGM Assets finished the year with a small surplus, despite ongoing settlement of claims from the North Queensland monsoon event. Whilst natural disasters can affect Member contributions it is the capping of LGMS' direct exposure to events, prudent reinsurance arrangements, and spreading of risk across supporting insurers minimises the impact on Member contributions.

There was no increase to the LGW rate for Members' workers compensation contributions from the previous year, and a $2.4M distribution was returned directly to scheme Members. Annual operations continued to produce a surplus result and steady investment returns.

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

This year has seen a strong focus by LGW on Workplace Health & Safety which included the implementation of a WHS Strategy for 2019-20 and a number of initiatives for Councils to ensure that their Safety Management Systems are at a satisfactory level in accordance with the scheme's licence conditions.

The financial position of the LGM and LGW schemes has come about as a result of sustained improvements in risk management and claims over many years. These assets and investments provide an important buffer against unexpected events with a portion being set aside as risk capital similar to what the Australian Prudential Regulation Authority requires of private sector insurers.

In 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 but expect that this could potentially be sustained for a decade or more.

It is clear that after more than 20 years in operation LGMS has provided Queensland Councils with sustainable and successful mutual pools which continue to deliver benefits and value over and above the insurance needs initially contemplated on inception of the schemes.

The LGMS schemes continue to exist for the sole purpose of providing Queensland Local Government with comprehensive covers (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.

We appreciate Councils ongoing support of the schemes. ■

LGM Board of Management

Pictured L-R: Mr Bill Lyon, Mr Greg Hallam, Mayor Karen Williams, Mr Ian Leckenby, Mayor Rachel Chambers, Mr John Sharman, Mr Terry Brennan, Mr Stephen Fynes-Clinton.
Absent: Mr Bob Millar

MR IAN LECKENBY
Chair

MR BILL LYON
Divisional Manager
Organisational Services
Brisbane City Council

MR TERRY BRENNAN
Chief Executive Officer
Burdekin Shire Council

MAYOR RACHEL CHAMBERS
North Burnett Regional Council

MR BOB MILLAR
Consultant

MR STEPHEN FYNES-CLINTON
Barrister

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

MAYOR KAREN WILLIAMS
Redland City Council

MR JOHN SHARMAN
Consultant

LGW Management Committee

Pictured L-R: Mr Terry Brennan, Mr John Sharman, Mr Ian Leckenby, Mayor Rachel Chambers, Mr Greg Hallam, Mr Stephen Fynes-Clinton.
Absent: Mr Bob Millar

MR IAN LECKENBY
Chair

MR BOB MILLAR
Consultant

MR TERRY BRENNAN
Chief Executive Officer
Burdekin Shire Council

MR JOHN SHARMAN
Consultant

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

CRAIG HINCHLIFFE

General Manager Queensland & NT
JLT Public Sector

The reality remains that continuous improvement of the substantive risks covered by the LGW Workcare, LGM Liability and LGM Assets mutuals for the benefit of Members is required to maintain stability and contribute to certainty.

POSITIVE OUTCOMES WERE ACHIEVED IN THE 2018-19 LGMS MEMBERSHIP YEAR FOR EACH OF THE LGMS MUTUALS IN A CHALLENGING OPERATING ENVIRONMENT.

The LGW Workcare contribution rate was again maintained at the same level with the group self-insurance licence being successfully renewed for the maximum possible term.

LGM Liability Membership contributions were once again further reduced in real terms for all Members.

LGM Assets was subject to much less benign climatic conditions than the previous year with the impact of the NQ Monsoon event in early 2019 particularly significant.

LGM Assets Membership did increase and a real positive was the opportunity for LGM Assets to work in partnership with Members to repair extensively damaged assets and venues expeditiously so as to enable the holding of major scheduled events for the benefit of impacted communities.

The reality remains that continuous improvement of the substantive risks covered by the LGW Workcare, LGM Liability and LGM Assets mutuals for the benefit of Members is required to maintain stability and contribute to certainty. Collaboration and aggregation of information, data and ultimately influence achieved by LGMS Membership has continued to make this possible.

The ongoing improvement in all elements of the management of the underlying risks continues as the effective way to achieve sustainability, and commitment to this approach has also informed and enabled ongoing broader support to Members in increasingly onerous related risk and governance areas.

On the basis of Member participation LGMS remains the vehicle by which Queensland Local Government has been able to collaboratively aggregate risk, execute informed decisions as to the retention and sharing of that risk, and then engage with insurance markets for residual supporting protection, as a risk driven market influencer rather than be left as individual market led price takers.

As anticipated previously, this influence continues to become even more important as engaging with increasingly global insurance and risk markets, subject to their own financial and regulatory imperatives and environments, becomes ever more challenging. Recent catastrophic events affecting communities across so much of Australia confirm and emphasis these realities.

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

Once again, thank you to all LGMS Member Councillors and staff colleagues for your inclusiveness and ongoing commitment to LGMS Membership and the philosophy of mutuals. We look forward to continuing to work with you to further develop and explore the benefits of Queensland Local Government ownership and control of the LGMS mutuals.

The Concept and Benefits of Mutuality

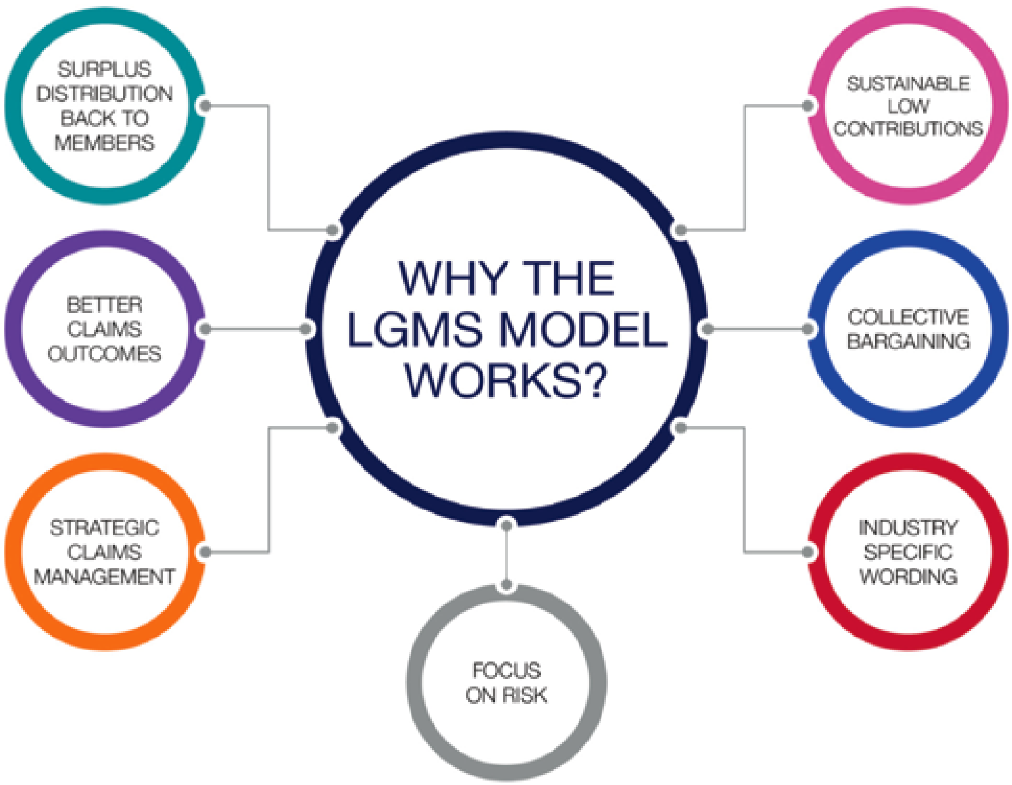
What is LGMS?

- LGMS is a discretionary mutual providing cover for its Member Council's major insurable risks
- It is a self-insurance mutual backed by supporting insurance and reinsurance
- Members own the mutual and benefit from building equity resulting from surplus contributions

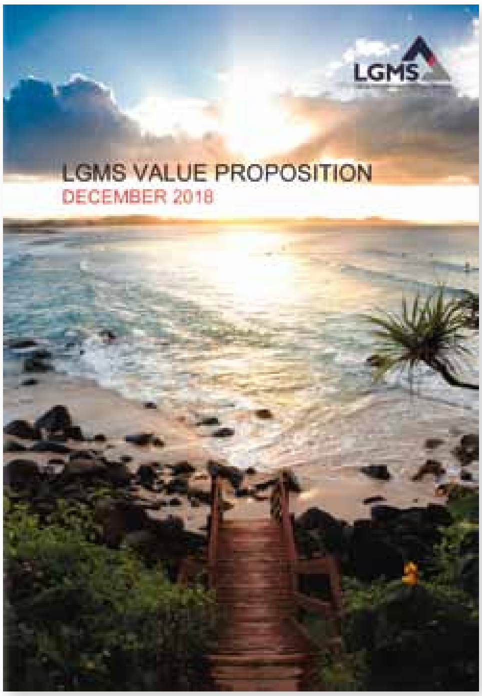
The LGMS Difference

- Collective buying power provides covers of a standard and value that Queensland Councils could not find in the commercial insurance market
- Financial returns and benefits to Members with cash rebates, improved services and surplus distributions, of more than $30 million so far and which is likely to be sustainable for a decade or more
- Unrivalled value with risk assessment and management services to Members to improve processes, minimise risk and lower contributions
- The schemes operate as not-for-profit mutuals – no profit margins
- Focus on risk management improvement delivers lower, stable costs and long-term price consistency – mean no surprises for budget planning

Why the LGMS model works?



Unrivalled Value for Members



IN DECEMBER 2018, THE LGMS BOARD ISSUED ALL MEMBERS WITH THE **LGMS VALUE PROPOSITION**.

The Value Proposition highlights the purpose, vision and value of the LGMS schemes as well as its commitment to the achievement of the shared objectives of the schemes' Members.

LGMS was established as a genuine alternative to commercial insurance arrangements and continues to exist for the sole purpose of enabling Queensland local government to proactively and collectively manage its liability, asset and workers' compensation exposures whilst simultaneously ensuring stability and sustainability of both cost and cover over the long term. This is achieved through the provision of a fully integrated claims, risk management and coverage solution tailored to the unique risks of its members.

Through their collective ownership and a collaborative approach, Members of LGMS continue to exert influence over and drive positive outcomes in respect of their unique risk exposures. After 25 years in operation, it is clear that the schemes have provided Queensland Councils with sustainable and successful vehicles which deliver many benefits over and above the initial insurance needs of the right covers, specialist claims handling and sustainability of costs.

Examples of the value delivered by LGMS to Members over its life include:

- Returns to Members in the form of rebates and surplus distributions – supporting Members and their communities in the achievement of their financial and other objectives.
- Ongoing sustainability of covers and costs through proactive and targeted risk and claims management and an industry wide approach to the collective purchase of supporting insurance covers.
- Specialist claims management and collaboration with Members drives favourable outcomes and precedents to benefit all Members, which is above and beyond what commercial insurers provide.

The LGMS schemes continue to be owned by and operated solely for the benefit of their members. The LGMS Value Proposition has been provided to members to communicate the value the schemes deliver and highlight their ongoing commitment to supporting members in the achievement of their financial and other corporate objectives. As a member owned vehicle LGMS continues to welcome and encourage the input of members in building schemes that are truly reflective and responsive to their unique needs.

The Value Proposition is available to Members on the LGMS Member Centre website. ■

> ***After 25 years in operation, it is clear that the schemes have provided Queensland Councils with sustainable and successful vehicles which deliver many benefits over and above the initial insurance needs contemplated.***

LGM Liability & Claims Statistics

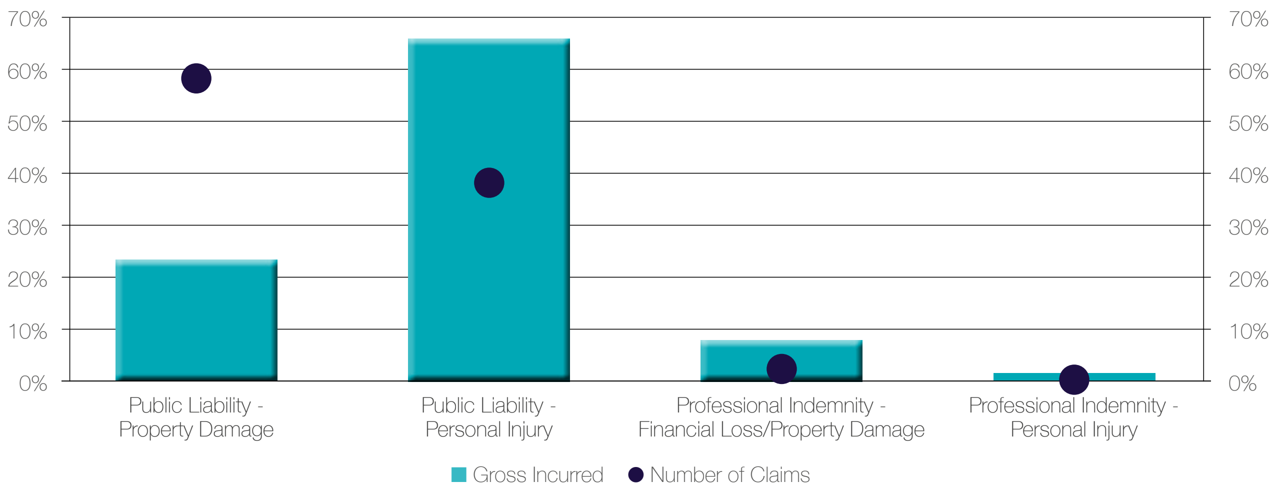
MANAGE RISK:
Specific risk management advice to local government needs with articles in the LGMS eNews on a regular basis, in addition to Information Sheets and Guides available on the LGMS website.

OWNED BY MEMBERS:
$2.4 million surplus distribution was returned to scheme Members.

THE RIGHT COVER:
The schemes this year have seen a continued focus on covers and risk management needs for scheme Members which includes cyber cover following the increased exposure of global risk and enhanced liability cover for airport operations.

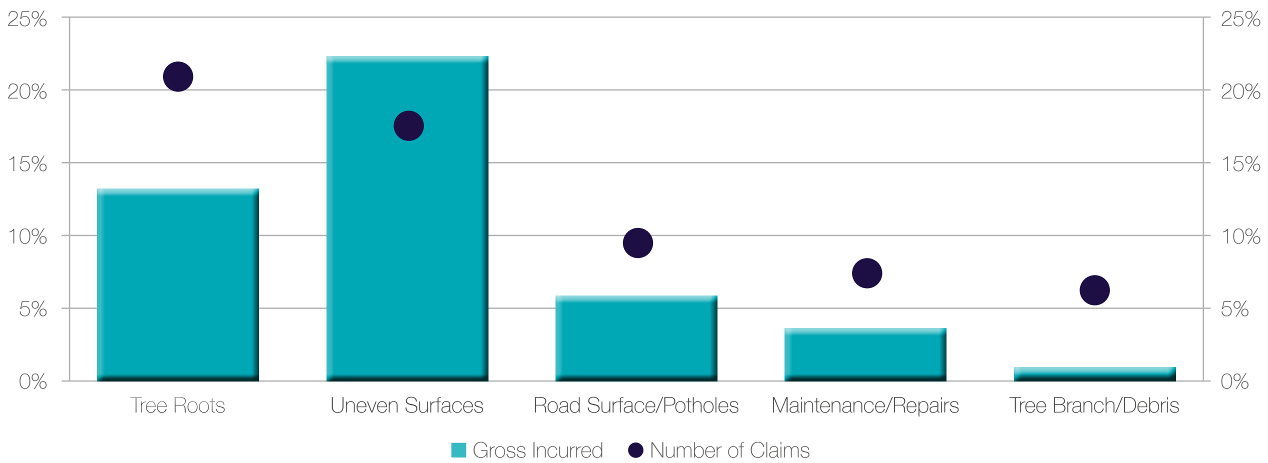
What were the top reasons for Council claims?

Types of Cover 2018/2019 by Number of Claims and Claims Cost

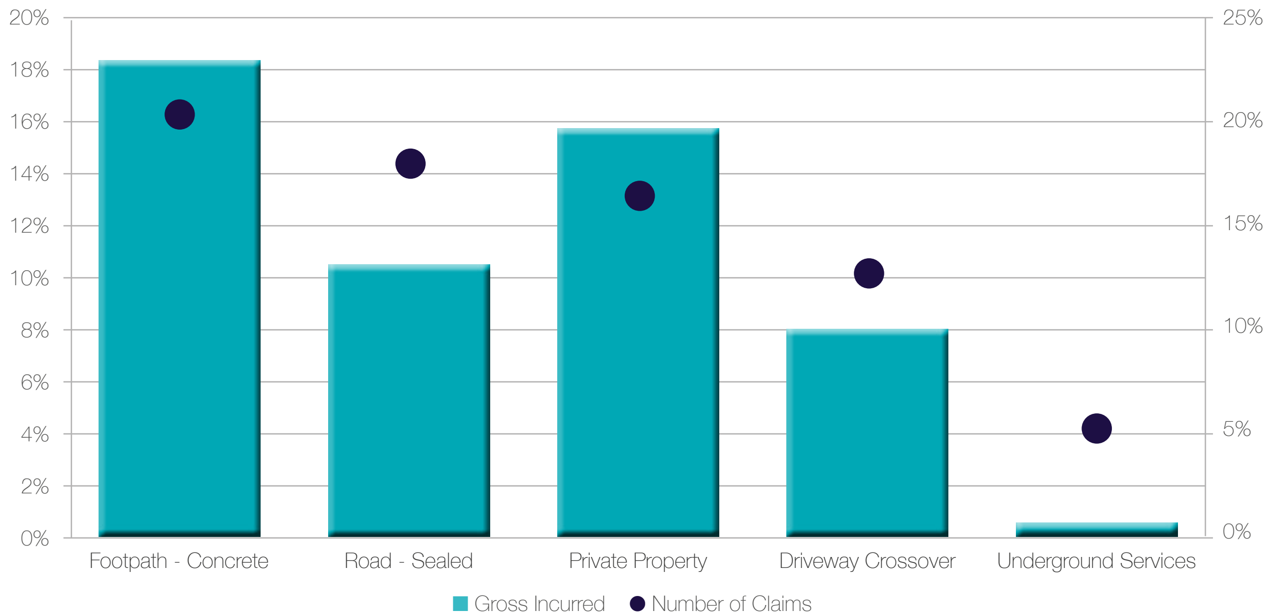


LGM Liability & Claims Statistics

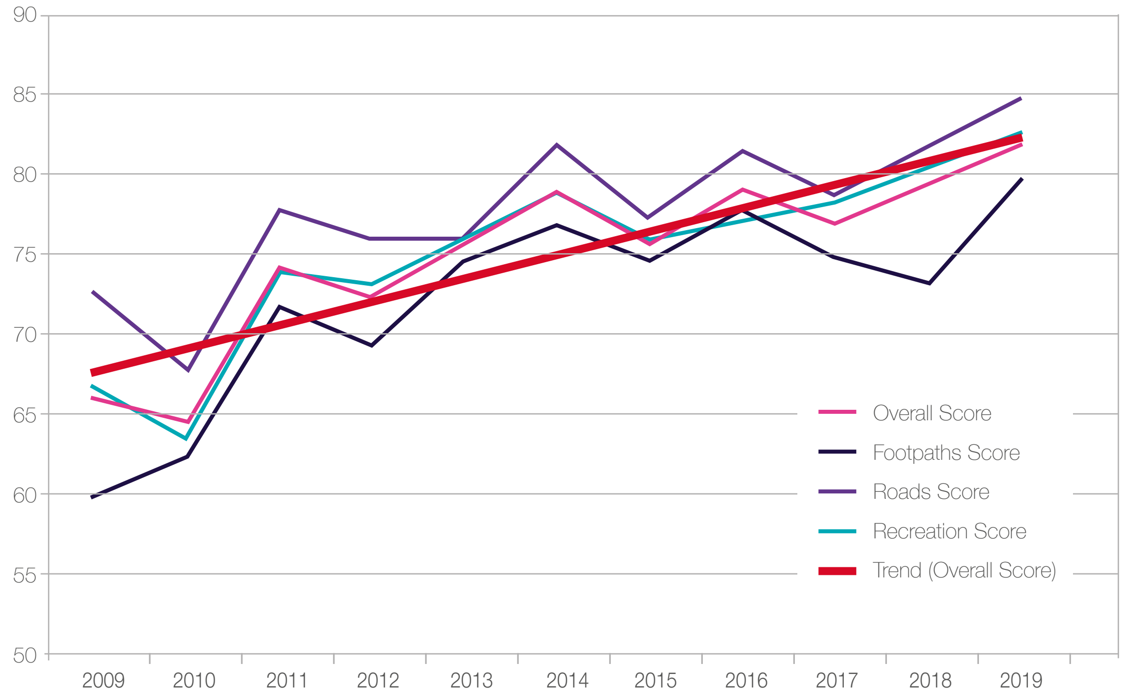
Top 5 Liability Claim Causes 2018/2019 by number of claims and claims cost



Top 5 Liability Locations 2018/2019 by number of claims and claims cost



LGM Liability Risk Self Assessment Results

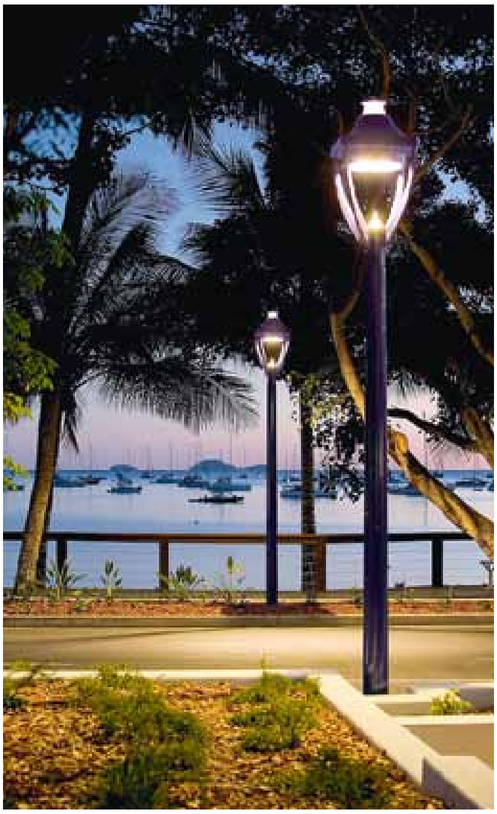


LGM Assets & Claims Statistics

BEST CLAIMS PRACTICE::
Working with Members in the aftermath of events to expedite the repair of damaged assets and resume operations with as little impact to business as possible. LGM Assets works in partnership with Members during the claim process to understand critical needs, establish priorities and arrange resources to support recovery efforts for the ultimate benefit of the Member's community.

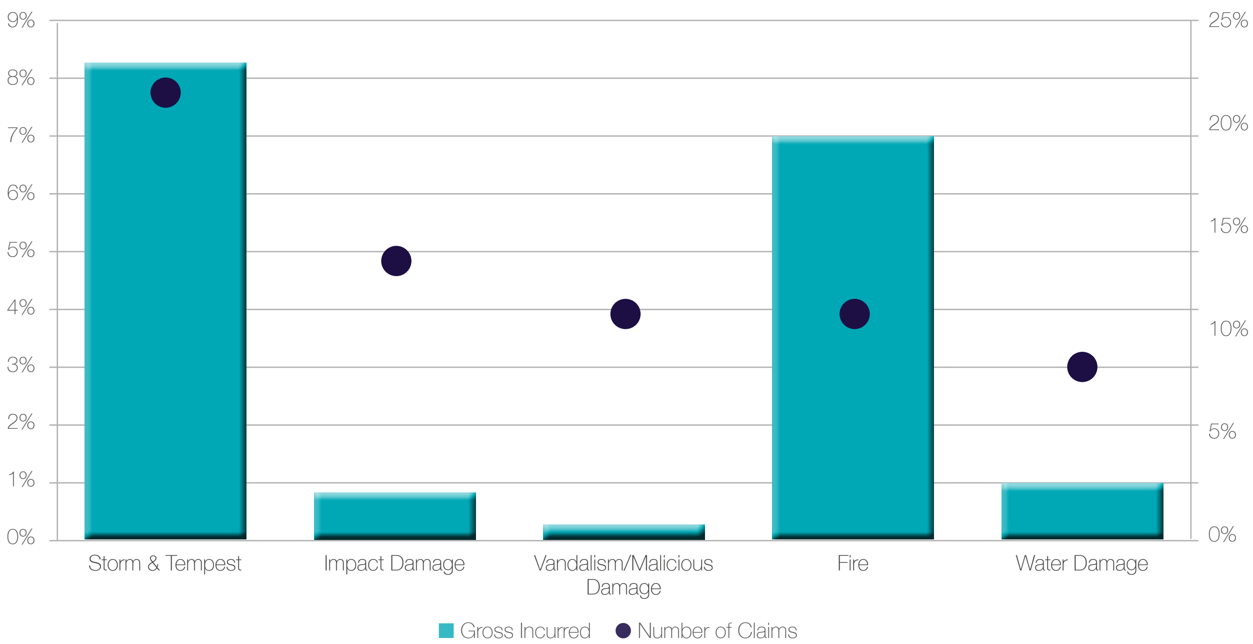
NEW INITIATIVES:
LGM Assets continues to investigate new initiatives to assist members to better understand, engage with and respond to identified risk exposures. This year the implementation of CATography, a software tool that maps members' assets and identifies the perils at a location assets may be exposed to, which enables Members to own their asset based risk exposures and allows informed risk based decisions to mitigate ongoing asset management.

REDUCE INSURANCE COST:
LGM Assets continues to achieve its objectives of minimising volatility and ensuring stability and sustainability of both cost and coverage. This year saw a continuation of challenging insurance market conditions, with property insurance rates in the commercial market increasing by an average of 16%, in comparison to an average increase of around 5% for LGM Assets Members.

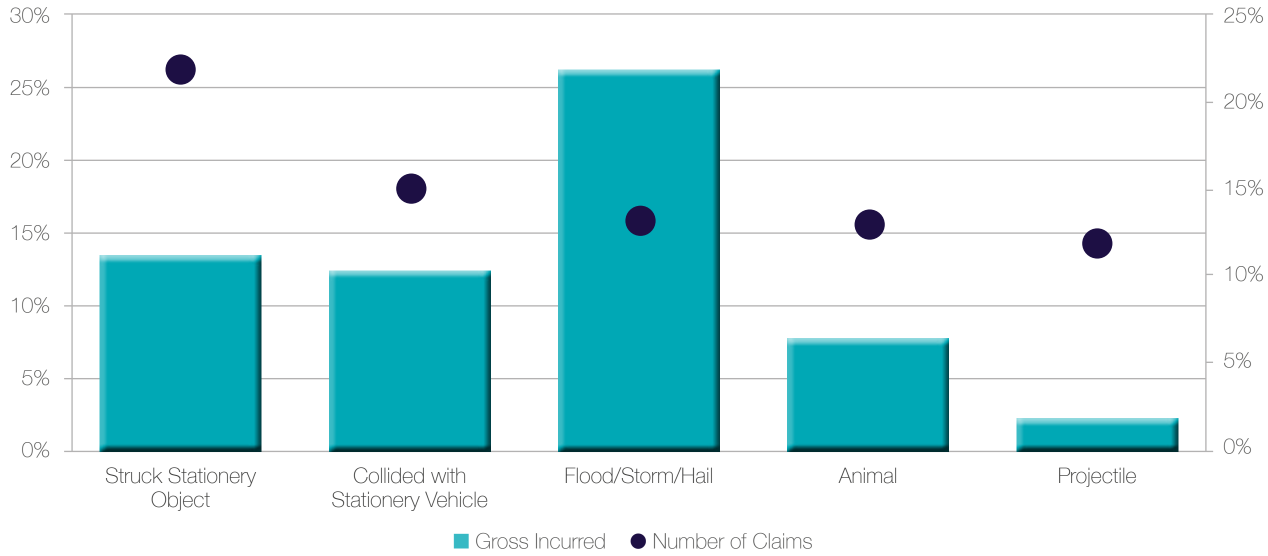


What were the top reasons for Council claims?

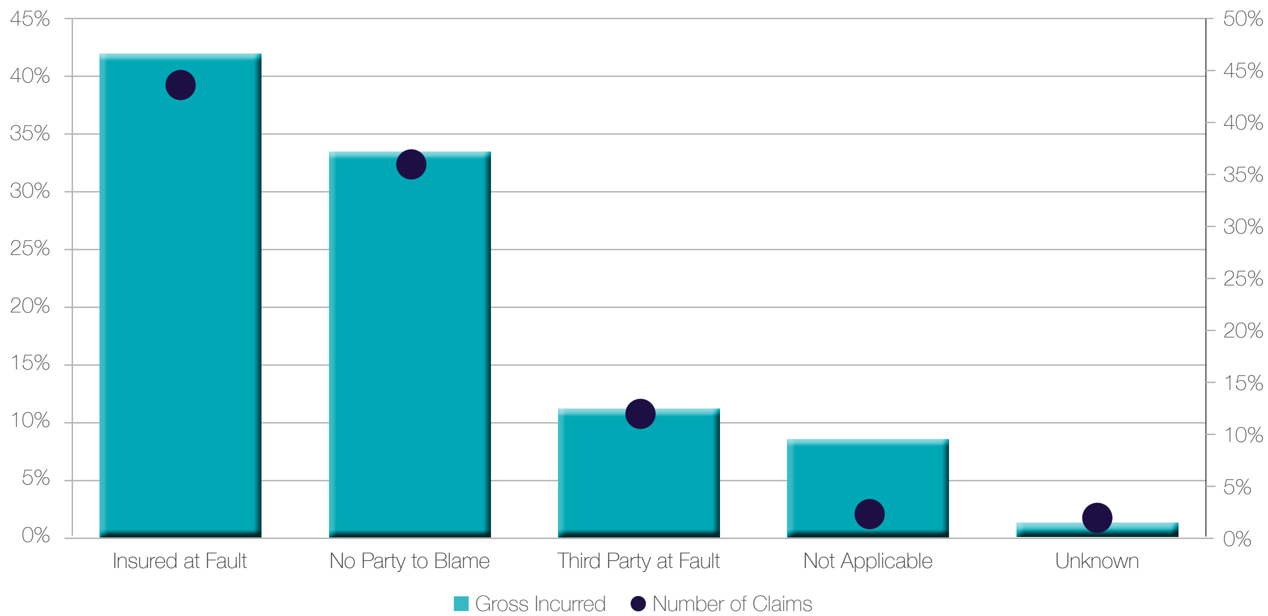
Top 5 General Property Claim Causes by number of claims and claims cost



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



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



LGW Workcare & Claims Statistics

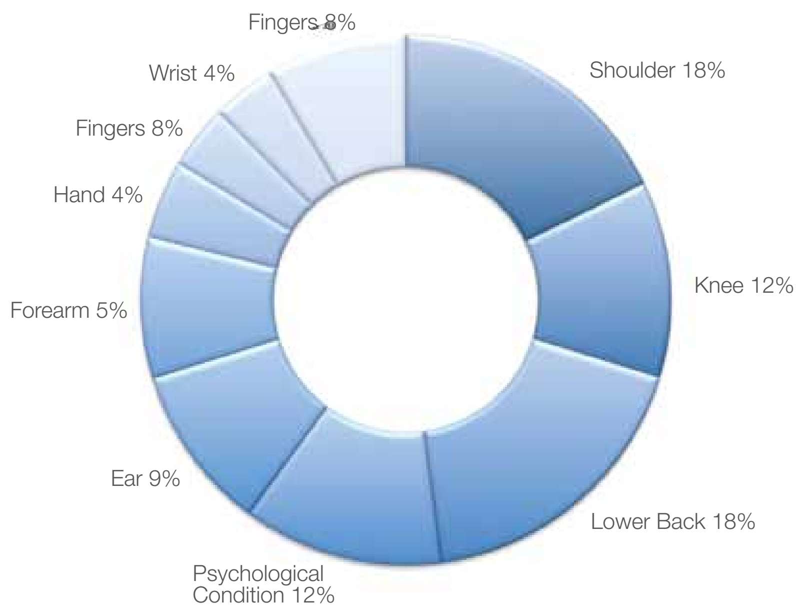
SUSTAINABLE COST:
The LGW scheme rate has remained steady again this year at 1.3% which is a great outcome for Members.

OWNED BY MEMBERS:
$2.4 million surplus distribution was returned to scheme Members.

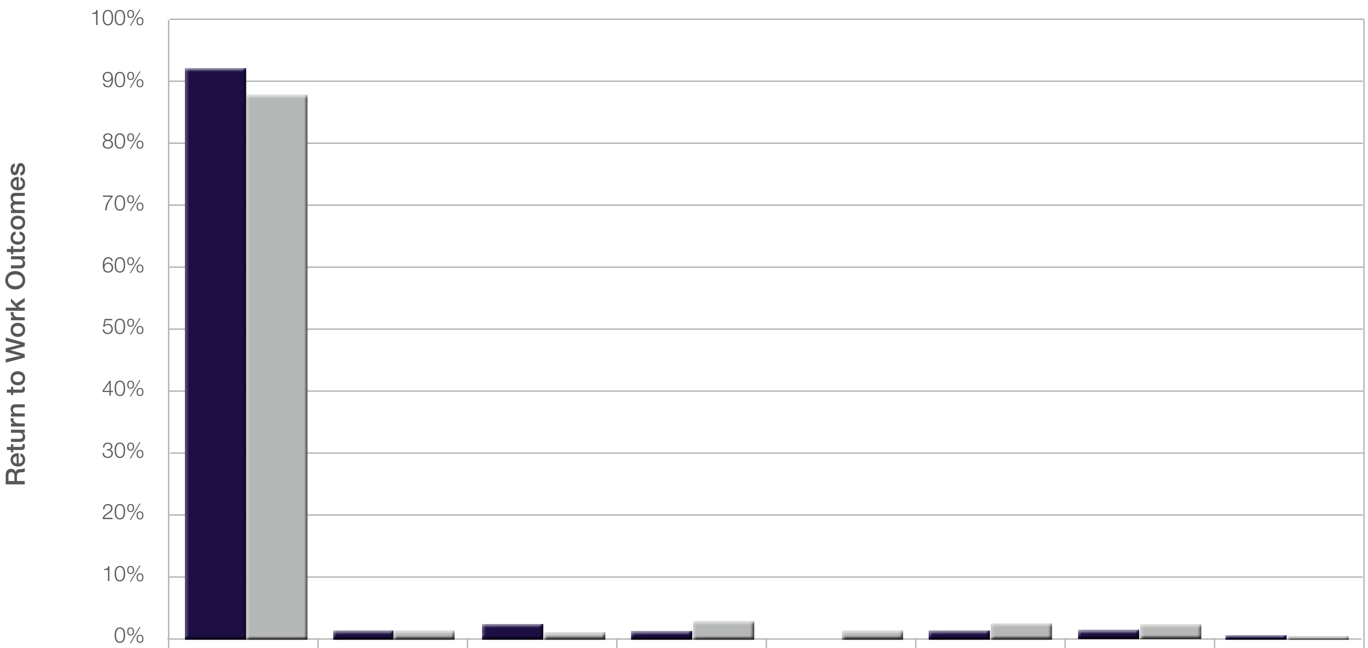
BEST CLAIMS PRACTICE:
The return to work rate for LGW of 97% demonstrates that the majority of injured workers are returning to their pre-injury role with Council. This rate is significantly higher that that of the statutory Workers Compensation provider at 93.7%.

What were the injuries sustained by Council workers?

Top Injury Locations by cost

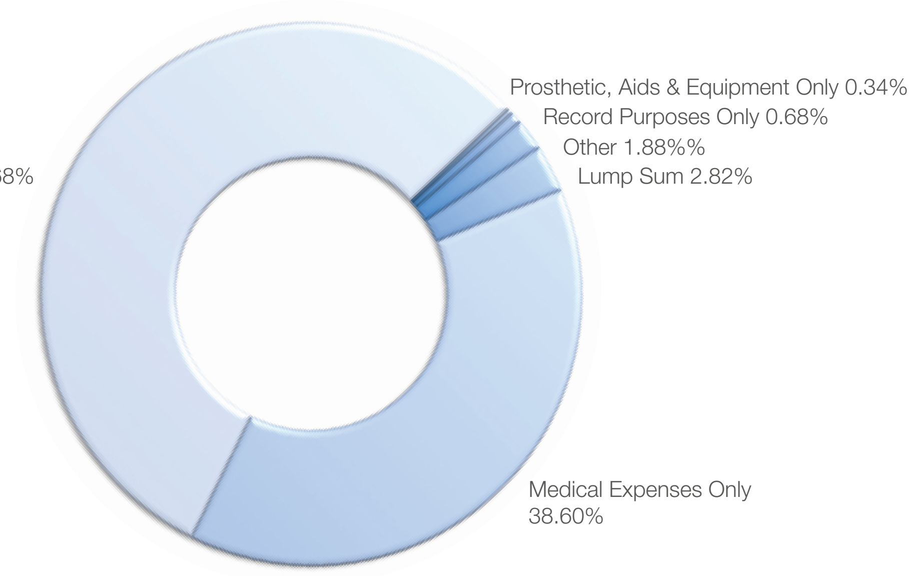


LGW vs WorkCover



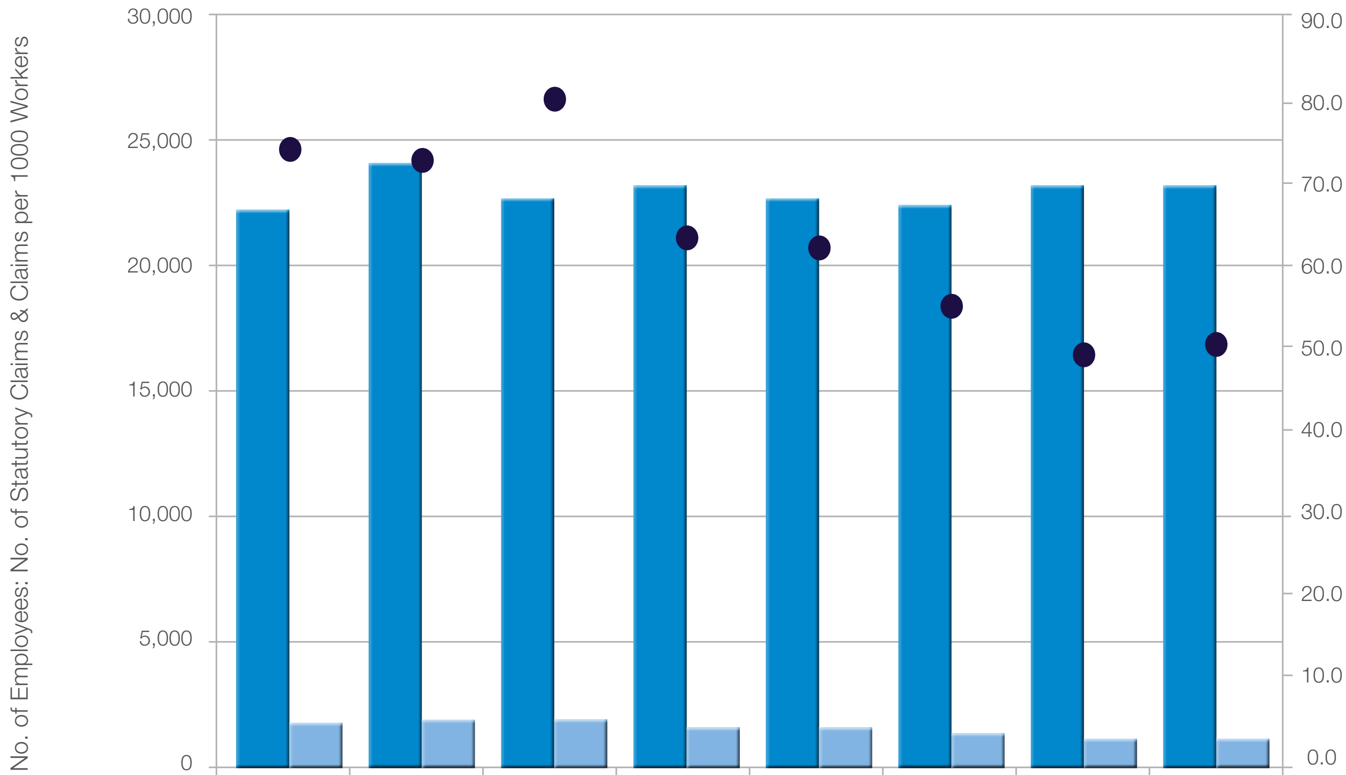
	Fit for work: same job/tasks with same employer	Fit for work: same job/tasks with different employer	Fit for work: different job/ tasks with same employer	Fit for work: different job/ tasks with different employer	Fit for work: No job	Fit for work: worker does not return	Not fit for work	Alternative outcome not claim related
LGW	92.0%	1.7%	2.4%	0.9%	0.0%	1.2%	1.4%	0.3%
WorkCover	87.9%	1.4%	1.2%	3.2%	1.7%	2.7%	1.9%	0.1%

Type of Claim by Number of Claims



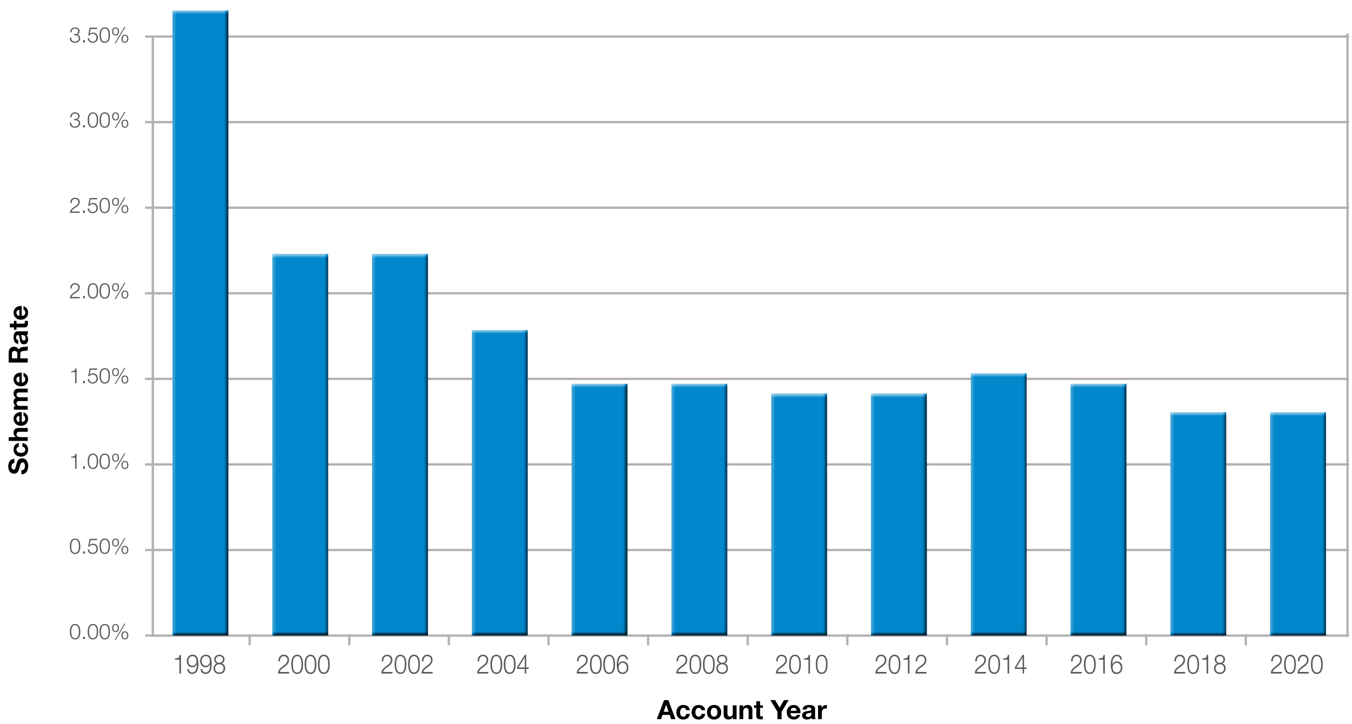
LGW Workcare & Claims Statistics

Claims Frequency by Injury Year



	2006	2008	2010	2012	2014	2016	2018	2020
No. of Employees	22,136	24,675	22,826	23,433	22,606	22,494	23,381	
No. of Statutory Claims	1606	1775	1761	1444	1367	1236	1140	
Claims per 1,000 workers	74.6	73.9	80.0	64.0	62.0	55.7	48.8	

LGW Workcare Scheme Rate



Pictured L-R in 2018: Fran Gilbert (RRC SEQ), Shane Gray (RRC CQ), Alan Balloch (RRC SWQ) and Ian Barton (RRC NQ)

Regional Risk Co-ordinator Program

IN 2008, QLD LOCAL GOVERNMENT WAS IN THE MIDST OF SIGNIFICANT AMALGAMATIONS, WHEN THE REGIONAL RISK COORDINATOR (RRC) PROGRAM COMMENCED.

The RRC Program has formed an integral and highly regarded element of the supporting services over the last decade. It was initially founded to provide member Councils with Enterprise Risk Management (ERM) support, advice and assistance to achieve the common goal of minimising the liability and workcare exposures of local governments. The model is based on a 'whole of industry' approach having a positive impact on all potential exposures and on member Councils total cost of risk. It has been significantly enhanced with the commencement of the LGM Assets scheme in June 2015 which is focused on minimising property risks for Members.

Central to the RRC Program is the retention of the prevailing benefits and features of the LGMS schemes, being they:

- are owned on a mutual basis by the Members;
- continue to exist for the sole purpose of benefitting Queensland local government by providing effective and appropriate coverage for Members;
- retain the long-term goal of achieving cost stability and minimising the impacts of volatility experienced in the general insurance and financial sectors;
- are managed by highly qualified, experienced personnel with long term commitment;
- have contribution levels that protect the financial security of the Members; and
- are financially viable and sustainable.

Throughout this period, the RRC Program has operated within the ongoing backdrop of change affecting local government. Significant impacts have been associated with amalgamations, de-amalgamations, legislative reforms, changing and unpredictable voter sentiment and the influence of social media, the global financial crisis, economic fluctuation in regions with high levels of mining and resource activity, rapid technological development and change, deepening and evolving cybersecurity related threats, climate variability and change and widespread and significant flooding and tropical cyclone driven natural disaster events.

Despite, or perhaps in response to these

Despite, or perhaps in response to these challenges, the Program has remained relevant and dynamic, and continues to assist Councils to respond to the ever-changing political demands and priorities

challenges, the Program has remained relevant and dynamic, and continues to assist Councils to respond to the ever-changing political demands and priorities.

This is in large part because the support and engagement function provided by the RRCs to each of the Councils in their region is tailored to specific needs rather than taking a one-size-fits-all approach. The RRC team all have significant local government experience which enables them to understand and assist Councils to achieve the best outcomes possible. While the Councillors in one Council may call on their RRC to discuss a particular issue, it may be a Director or technical officer at other Councils who request RRC support or involvement in managing that Council's risks.

Highlights the RRCs have witnessed over the past 10 years:

- An Enterprise Risk Management approach has been adopted by Councils and the maturity of risk management frameworks and practices for Councils have improved over this time and is reflected in Council claims results and ultimately their contribution levels;
- Contributing to the assistance of member Councils with improving claims management. By way of specific example, in the last 5 years the RRCs have been actively involved in encouraging Councils to commence early rehabilitation intervention and lodge claims with LGW Workcare in a more timely manner. This has resulted in the percentage of the Time Lost Claims component of claims reducing from approximately 65% in 2013 to 52% in 2018;
- The direct impact risk management can have on cost for insurance covers for member Councils with a 15% decrease in contributions for LGM Liability members over the last 5 years and 50% decrease in scheme rate over the life of the LGW Workcare scheme;
- The Local Government Risk Management Focus Group meetings, facilitated by RRCs, have continued to evolve into a valuable resource and networking platform for Councils' risk professionals;
- Assisting with the LGM Assets risk management surveys undertaken by supporting underwriters. The underwriters involved in these surveys have appreciated the RRCs guidance so they can have contact with the right people within Council and obtain the most accurate information on each asset reviewed and their related exposures. The survey reports then provided to the Council are more comprehensive. With time, the Councils' use of the information provided by the survey reports will not only feed into risk management initiatives but also directly impact claims;
- On a personal level, the RRCs have enjoyed long term professional and friendly relationships with elected members, officers and employees of Council across the State.

In early 2019, we saw Fran Gilbert retire as RRC for SEQ and Paul Bright join the team from Noosa Council to replace her as RRC for SEQ. ■

Pictured L-R: Rachael Lindsay (Principal Governance Advisor – Insurance Services, LGAQ), Shane Gray (RRC CQ), Mayor Karen Williams (LGMS Board Member) and Alan Balloch (RRC SWQ)

Pictured L-R: Shane Gray (RRC CQ), Rachael Lindsay (Principal Governance Advisor – Insurance Services, LGAQ) and Ian Barton (RRC NQ)

LGMS Risk Management Excellence Awards 2018-19

Pictured L-R: Craig Hinchliffe (JLT Public Sector), Michael Whittaker (CEO Sunshine Coast Council), Mayor Rachel Chambers (LGMS Board Member), Ian Leckenby (Chair LGMS Boards), Councillor Tim Dwyer (Sunshine Coast Council), Mayor Paul Antonio (Toowoomba Regional Council), Mayor Greg Williamson (Mackay Regional Council), Christine Mushaya and Mayor Jenny Hill (Townsville City Council), Mayor Karen Williams (LGMS Board Member / Redland City Council)

THE LGMS RISK EXCELLENCE AWARDS RECOGNISE THE EFFORTS OF COUNCIL MEMBERS WHO HAVE TAKEN STRONG AND EFFECTIVE ACTION TO UNDERSTAND AND RESPOND TO RISK.

An Award was made available for North, Central, South West and South East Queensland, with recipients determined in consideration of the following factors:

- alignment with Australian Standard ISO 31000:2018 Risk management – Guidelines
- the efficiency, effectiveness and impact on reducing risk, and
- progress in risk management maturity.

Each Award Winner will receive:

- a trophy to display;
- recognition at the LGAQ annual conference; and
- flights, accommodation and conference registration for a Council representative to attend the following year's National Local Government Risk Management Conference and funding for targeted and eligible risk management maturity services to a total cost $20,000 (incl GST).

Congratulations to the following 2018-19 winners!

NORTH QLD	CENTRAL QLD	SOUTH WEST QLD	SOUTH EAST QLD
Townsville City Council	Mackay Regional Council	Toowoomba Regional Councill	Sunshine Coast Council
ERM System Implementation & ISO 31000:2018 Alignment Project	Strategic ERM Reform Project	Austroads Collaboration on Temporary Traffic Management	Integrated Risk and Performance Management Project

LGW & Regional WHS Forums

IN 2018-19 LGW HAS CONTINUED THE FOCUS ON WORKPLACE HEALTH & SAFETY BY ASSISTING AND SUBSIDISING SCHEME MEMBERS TO FACILITATE REGIONAL WHS FORUMS.

The renewed focus on these Regional WHS Forums has been welcomed by scheme Members who are keen for additional training opportunities and to share their learnings on issues affecting Local Government.

QUEENSLAND LOCAL GOVERNMENT MUTUAL

Financial Statements

for the year ended 30 June 2019

Contents

Financial Statements

For the year ended 30 June 2019

Statement of Profit or Loss and other Comprehensive Income

for the year ended 30 June 2019

This statement should be read in conjunction with the notes to the financial statements set out on pages 23 to 39.

	Note	2019 $	2018 $
REVENUE			
Member contributions	3	46,001,912	43,234,368
Reinsurance and other recoveries revenue	3	5,752,251	5,024,136
Other income	3	113,397	43,338
Insurer Buy-Out revenue	3	4,160	177,455
Investment income	3	2,356,241	1,393,922
Changes in the fair value of investments	3	1,228,911	1,348,739
Interest revenue	3	1,479,188	2,349,700
Total revenue		**56,936,060**	**53,571,658**
EXPENSES			
Claims expense	3	(19,883,078)	(14,145,216)
Outwards risk premium expense	3	(25,362,208)	(21,624,423)
Other underwriting expenses	3	(4,741,888)	(4,655,567)
General expenses	3	(1,490,273)	(1,394,252)
Total expenses		**(51,477,447)**	**(41,819,458)**
Operating result		5,458,613	11,752,200
Other comprehensive income		-	-
Total comprehensive income for the year attributable to Members		**5,458,613**	**11,752,200**

Statement of Financial Position

as at 30 June 2019

This statement should be read in conjunction with the notes to the financial statements set out on pages 23 to 39.

	Note	2019 $	2018 $
CURRENT ASSETS			
Cash and cash equivalents	7(a)	54,137,420	59,902,375
Trade and other receivables		214,557	196,698
Reinsurance and other recoveries receivables		5,860,798	6,068,020
Financial assets		87,781,987	80,413,345
Total current assets		**147,994,762**	**146,580,437**
NON-CURRENT ASSETS			
Reinsurance and other recoveries receivables		21,461,499	20,647,056
Total non-current assets		21,461,499	20,647,056
Total assets		**169,456,261**	**167,227,493**
CURRENT LIABILITIES			
Trade and other payables		179,846	177,317
Unearned contributions		10,843,605	16,133,748
Distribution payables	18	1,093,173	457,336
Future claims and associated costs	9	28,470,683	25,804,751
Total current liabilities		**40,587,306**	**42,573,152**
NON-CURRENT LIABILITIES			
Future claims and associated costs	9	51,876,000	48,820,000
Total non-current liabilities		51,876,000	48,820,000
Total liabilities		92,463,306	91,393,152
NET ASSETS		**76,992,954**	**75,834,341**
EQUITY			
Retained surplus		76,992,954	75,834,341
TOTAL EQUITY		**76,992,954**	**75,834,341**

Statement of Changes in Equity

for the year ended 30 June 2019

This statement should be read in conjunction with the notes to the financial statements set out on pages 23 to 39.

	Note	2019 $	2018 $
Total equity at the beginning of the financial year		75,834,341	70,521,289
Total comprehensive income:			
Net result for the year		5,458,613	11,752,200
Total comprehensive income		5,458,613	11,752,200
Surplus Distribution	18	(4,300,000)	(6,439,148)
Total equity at the end of the financial year		**76,992,954**	**75,834,341**

Statement of Cash Flows

for the year ended 30 June 2019

This statement should be read in conjunction with the notes to the financial statements set out on pages 23 to 39.

	Note	2019 $	2018 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Member contributions		41,293,611	45,360,572
Outwards risk premium expense		(25,362,208)	(21,624,423)
Claims expense		(14,985,113)	(15,700,519)
Other underwriting and general expenses		(6,221,526)	(6,037,799)
Interest revenue		1,483,681	2,254,400
Reinsurance and other recoveries revenue		5,954,581	4,763,521
GST collected from Members		4,064,118	4,514,685
GST paid to suppliers and ATO		(4,668,077)	(4,195,449)
Other income		113,397	43,338
Insurer Buy-Out revenue		10,234	177,455
NET CASH PROVIDED BY OPERATING ACTIVITIES	7(b)	**1,682,697**	**9,555,781**
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments from Investments		(6,139,731)	(57,756,805)
Investment income		2,356,241	1,393,922
NET CASH PROVIDED BY/(USED IN) INVESTING ACTIVITIES		(3,783,489)	(56,362,883)
SURPLUS DISTRIBUTION PAID		(3,664,163)	(6,316,285)
NET INCREASE IN CASH AND CASH EQUIVALENTS		(5,764,955)	(53,123,888)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL YEAR		59,902,375	113,025,763
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR		**54,137,420**	**59,902,375**

1. Background

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

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

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

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

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

Local Government House
27 Evelyn Street
Newstead QLD 4006

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

2. Statement of Significant Accounting Policies

a) Basis of preparation

These financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards, (including the Australian Accounting Interpretations) to satisfy reporting responsibilities under the Queensland Local Government Mutual (LGM) Trust Deed. LGM is a not for profit entity and the Australian Accounting Standards includes requirements for not for profit entities which are inconsistent with International Financials Reporting Standards (IFRS). Therefore in some instances these financial statements do not comply with IFRS. They have been prepared on the basis of historical costs except where stated. The Liability Fund actuary has increased projected future claims payments to allow for inflation and discounted the expected payments to 30 June 2019 to obtain the present value of the liability.

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

b) Rounding

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

c) Estimates and judgements

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

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

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

d) Taxation

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

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

e) Changes in significant accounting policies

This year LGM has applied AASB 9 Financial Instruments for the first time. AASB 9 replaces AASB 139 and relates to the recognition, classification and measurement of financial assets and financial liabilities. From 1 July 2018, the financial assets and financial liabilities of LGM are classified in the measurement categories as follows:

- those to be measured subsequently at fair value through profit or loss (FVPL), and
- those to be measured at amortised cost

The nature and effect of the changes as a result of adoption of this new accounting standard are described below.

Under AASB 9 there were changes to the classification category but no changes to the measurement category and carrying amount of each financial instrument.

Implementing AASB 9 has resulted in a change to the way LGM calculates impairment provisions, which are now based on expected credit losses instead of incurred credit losses. LGM has determined that there is no impact on the opening balance of the impairment provision.

3. Revenue and Expenses

	Total Liability & Asset Funds 2019 $	Total Liability & Asset Funds 2018 $	Liability Fund 2019 $	Liability Fund 2018 $	Asset Fund 2019 $	Asset Fund 2018 $
REVENUE						
Member contributions	46,001,912	43,234,368	20,550,629	21,067,871	25,451,283	22,166,497
Reinsurance and other recoveries revenue	5,752,251	5,024,136	5,632,261	4,995,576	119,990	28,560
Other income	113,397	43,338	-	-	113,397	43,338
Insurer Buy-Out revenue	4,160	177,455	4,160	177,455	-	-
Investment income	2,356,241	1,393,922	2,356,241	1,393,922	-	-
Changes in the fair value of investments	1,228,911	1,348,739	1,228,911	1,348,739	-	-
Interest revenue	1,479,188	2,349,700	1,092,492	2,029,601	386,696	320,099
Total revenue	**56,936,060**	53,571,658	**30,864,694**	31,013,164	**26,071,366**	22,558,494

Revenue recognition

Member contributions

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

Investment revenue

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

Interest revenue

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

	Total Liability & Asset Funds 2019 $	Total Liability & Asset Funds 2018 $	Liability Fund 2019 $	Liability Fund 2018 $	Asset Fund 2019 $	Asset Fund 2018 $
EXPENSES						
Claims expense	(19,883,078)	(14,145,216)	(14,290,553)	(9,549,229)	(5,592,525)	(4,595,987)
Outwards risk premium expense	(25,362,208)	(21,624,423)	(7,584,381)	(6,697,202)	(17,777,827)	(14,927,221)
Other underwriting expenses	(4,741,888)	(4,655,567)	(3,732,257)	(3,664,567)	(1,009,631)	(991,000)
General expenses *	(1,490,273)	(1,394,252)	(1,303,954)	(1,197,634)	(186,319)	(196,618)
Total expenses	**(51,477,448)**	(41,819,458)	**(26,911,145)**	(21,108,632)	**(24,566,302)**	(20,710,826)

*General expenses include as per below

Regional Risk Co-ordinators	686,975	672,417	686,975	672,417	-	-
Investment fees and charges	279,525	275,179	258,329	257,094	21,196	18,085
Administration expenses	523,772	446,656	358,649	268,123	165,123	178,533
	1,490,273	**1,394,252**	**1,303,954**	**1,197,634**	**186,319**	196,618

Claims expense and future claims and associated costs liability

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

The liability for future claims for both the funds are measured as the present value of the expected future payments, reflecting the fact that all claims do not have to be paid out in the immediate future. The Trust takes all reasonable steps to ensure that it has appropriate information regarding its claim exposures, with estimates and judgements continually being evaluated and updated based on historical experience and other factors.

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

Liability fund

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

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

Outwards risk premiums

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

4. Financial Position

	Total Liability & Asset Funds 2019 $	Total Liability & Asset Funds 2018 $	Liability Fund 2019 $	Liability Fund 2018 $	Asset Fund 2019 $	Asset Fund 2018 $
CURRENT ASSETS						
Cash and cash equivalents	54,137,420	59,902,375	41,740,033	51,172,861	12,397,387	8,729,514
Trade and other receivables	214,557	196,697	156,691	170,876	57,866	25,821
Reinsurance and other recoveries receivables	5,860,798	6,068,020	5,860,798	6,068,020	-	-
Financial assets	87,781,987	80,413,345	87,781,987	80,413,345	-	-
Total current assets	**147,994,762**	146,580,437	**135,539,509**	137,825,102	**12,455,253**	8,755,335
NON-CURRENT ASSETS						
Reinsurance and other recoveries receivables	21,461,499	20,647,056	21,461,499	20,647,056	-	-
Total non-current assets	21,461,499	20,647,056	21,461,499	20,647,056	-	-
Total assets	**169,456,261**	167,227,493	**157,001,008**	158,472,158	**12,455,253**	8,755,335
CURRENT LIABILITIES						
Trade and other payables	179,846	177,317	118,938	89,331	60,907	87,986
Unearned contributions	10,843,605	16,133,748	10,843,605	16,133,748	-	-
Distribution payable	1,093,173	457,336	1,093,173	457,336	-	-
Future claims and associated costs	28,470,683	25,804,751	22,105,000	21,661,000	6,365,683	4,143,751
Total current liabilities	**40,587,306**	42,573,152	**34,160,716**	38,341,415	**6,426,591**	4,231,737
NON-CURRENT LIABILITIES						
Future claims and associated costs	51,876,000	48,820,000	51,876,000	48,820,000	-	-
Total non-current liabilities	51,876,000	48,820,000	51,876,000	48,820,000	-	-
Total liabilities	92,463,306	91,393,152	86,036,716	87,161,415	6,426,591	4,231,737
NET ASSETS	**76,992,954**	75,834,341	**70,964,292**	71,310,743	**6,028,663**	4,523,598
EQUITY						
Retained surplus	76,992,954	75,834,341	70,964,292	71,310,743	**6,028,663**	4,523,598
TOTAL EQUITY	**76,992,954**	75,834,341	**70,964,292**	71,310,743	**6,028,663**	4,523,598

Unearned contributions

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

Reinsurance, insurance, and other recoveries

Liability Fund

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

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

Asset Fund

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

5. Underwriting Result

	Total Liability & Asset Funds 2019 $	Total Liability & Asset Funds 2018 $	Liability Fund 2019 $	Liability Fund 2018 $	Asset Fund 2019 $	Asset Fund 2018 $
Member contributions	46,001,912	43,234,368	20,550,629	21,067,871	25,451,283	22,166,497
Outwards risk premium expense	(25,362,208)	(21,624,423)	(7,584,381)	(6,697,202)	(17,777,827)	(14,927,221)
Net contribution revenue	20,639,704	21,609,944	12,966,247	14,370,669	7,673,456	7,239,275
Claims expense	(19,883,078)	(14,145,216)	(14,290,553)	(9,549,229)	(5,592,525)	(4,595,987)
Reinsurance and other recoveries revenue	5,752,252	5,024,136	5,632,261	4,995,576	119,990	28,560
Net claims expense	(14,130,826)	(9,121,080)	(8,658,292)	(4,553,653)	(5,472,534)	(4,567,427)
Other underwriting expenses*	(4,741,888)	(4,655,567)	(3,732,257)	(3,664,567)	(1,009,631)	(991,000)
Underwriting result	**1,766,990**	7,833,298	**575,699**	6,152,449	**1,191,291**	1,680,849

* Other underwriting expenses pertain to scheme expenses management fee.

6. Cash Flows

Cash and cash equivalents

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

	Total Liability & Asset Funds 2019 $	Total Liability & Asset Funds 2018 $	Liability Fund 2019 $	Liability Fund 2018 $	Asset Fund 2019 $	Asset Fund 2018 $
CASH FLOW FROM OPERATING ACTIVITIES						
Member contributions	41,293,611	45,360,572	15,842,328	23,487,185	25,451,283	21,873,386
Outwards risk premium expense	(25,362,208)	(21,624,423)	(7,584,381)	(6,697,202)	(17,777,827)	(14,927,221)
Net claims expense	(14,985,113)	(15,700,519)	(11,614,521)	(9,908,578)	(3,370,592)	(5,791,941)
Other underwriting and general expenses	(6,221,526)	(6,037,799)	(4,998,417)	(4,821,379)	(1,223,109)	(1,216,420)
Interest revenue	1,483,681	2,254,400	1,103,301	1,951,655	380,381	302,745
Reinsurance and other recoveries	5,954,581	4,763,521	5,855,590	4,734,961	98,990	28,560
GST collected from Members	4,064,118	4,514,685	1,584,233	2,348,719	2,479,885	2,165,966
GST paid to suppliers and ATO	(4,668,077)	(4,195,449)	(2,183,543)	(2,015,411)	(2,484,533)	(2,180,038)
Other income	113,397	43,338	-	-	113,397	43,338
Insurer Buy-Out revenue	10,234	177,455	10,234	177,455	-	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	**1,682,697**	9,555,780	**(1,985,176)**	9,257,405	**3,667,874**	298,375
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds/(Payments) from Investments	(6,139,731)	(57,756,805)	(6,139,731)	(57,756,805)	-	-
Investment income	2,356,241	1,393,922	2,356,241	1,393,922	-	-
NET CASH PROVIDED BY/(USED IN) INVESTING ACTIVITIES	(3,783,489)	(56,362,884)	(3,783,489)	(56,362,884)	-	-
SURPLUS DISTRIBUTION PAID	(3,664,163)	(6,316,285)	(3,664,163)	(6,316,285)	-	-
NET INCREASE IN CASH AND CASH EQUIVALENTS	(5,764,955)	(53,123,389)	(9,432,829)	(53,421,764)	3,667,874	298,375
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL YEAR	59,902,375	113,025,763	51,172,861	104,594,624	8,729,514	8,431,139
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR	**54,137,420**	59,902,375	**41,740,032**	51,172,861	**12,397,388**	8,729,514

7. Notes to the Statement of Cash Flows

(a) Reconciliation of cash

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

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

	Total Liability & Asset Funds 2019 $	Total Liability & Asset Funds 2018 $	Liability Fund 2019 $	Liability Fund 2018 $	Asset Fund 2019 $	Asset Fund 2018 $
Cash at bank and in hand	4,935,075	10,166,820	4,627,129	10,031,651	307,946	135,169
Deposits at call	49,202,345	49,735,555	37,112,904	41,141,210	12,089,441	8,594,345
	54,137,420	59,902,375	**41,740,033**	51,172,861	**12,397,387**	8,729,514

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

Operating surplus	5,458,613	11,752,200	3,953,549	9,904,532	1,505,064	1,847,668
Net cash provided by operating activities	**5,458,613**	11,752,200	**3,953,549**	9,904,532	**1,505,064**	1,847,668
Non cash operating items						
Change in the fair value of investments	(1,228,911)	(1,348,739)	(1,228,911)	(1,348,739)	-	-
Investing income classified as investing activities	(2,356,241)	(1,393,922)	(2,356,241)	(1,393,922)	-	-
Change in assets and liabilities						
(Increase)/Decrease in reinsurance and other recoveries receivable	(607,221)	(5,784,815)	(607,221)	(5,784,815)	-	-
Increase/(Decrease) in trade and other payables	2,528	(286,696)	29,607	40,822	(27,079)	(327,518)
Decrease/(Increase) in trade and other receivables	(17,857)	(109,562)	14,185	(83,740)	(32,042)	(25,822)
Increase/(Decrease) in unearned revenue	(5,290,143)	2,737,317	(5,290,143)	2,737,317	-	-
Increase/(Decrease) in future claims and associated costs	5,721,932	3,989,997	3,500,000	5,185,950	2,221,932	(1,195,953)
NET CASH FROM OPERATING ACTIVITIES	**1,682,699**	9,555,781	**(1,985,175)**	9,257,406	**3,667,875**	298,375

8. Financial Assets

Financial assets are classified at ‘fair value through profit or loss’ (FVTPL) if it is classified as held for trading or is designated as such upon initial recognition. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss in the period in which they arise. Financial assets are investments in QIC managed unit trusts of $87.78 million at 30 June 2019 (2018: $80.41 million). Fair value for managed unit trusts is based on the quoted bid price of the investment at reporting date.

Fair value measurements

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

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

Fair Value Hierarchy

The different levels have been defined as follows:

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

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

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

The fair value of investments is measured at market value based on QIC advice. As at 30 June 2019 LGM’s financial assets are recognised as Level 2.

9. Future Claims and Associated Costs

	Total Liability & Asset Funds 2019 $	Total Liability & Asset Funds 2018 $	Liability Fund 2019 $	Liability Fund 2018 $	Asset Fund 2019 $	Asset Fund 2018 $
Expected future claims (undiscounted)	82,260,683	78,524,751	75,895,000	74,381,000	6,365,683	4,143,751
Discount to present value	(1,914,000)	(3,900,000)	(1,914,000)	(3,900,000)	-	-
Liability for outstanding claims	**80,346,683**	74,624,751	**73,981,000**	70,481,000	**6,365,683**	4,143,751
Current	28,470,683	25,804,751	22,105,000	21,661,000	6,365,683	4,143,751
Non-current	51,876,000	48,820,000	51,876,000	48,820,000	-	-
Liability for outstanding claims	**80,346,683**	74,624,751	**73,981,000**	70,481,000	**6,365,683**	4,143,751

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 2019. 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 2019 to deviate from the actuary's central estimate.

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

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

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

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

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

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

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

Actuarial assumptions

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

Key Actuarial Assumptions	2019	2018
Inflation	3.0%	3.0%
Claim administration expense	12%	12%
Discount rate	1.1%	2.3%
Term to settlement (years)	2.5	2.4

The actuary has set out an analysis by incident year which shows an increase in the outstanding liability from $36.7 million as at 30 June 2018 to $39.0 million as at 30 June 2019, that is, a increase of $2.3 million. For incident years to 30 June 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 $40.1 million.

The estimated liability as at 30 June 2019 in this valuation has been estimated to be $39.0 million. The reduction of $1.1 million is summarised below.

Item	Impact on Liability $M
Claims experience for claims incurred prior to 1 July 2018	(0.8)
Claims experience for claims incurred during the year ending 30 June 2019	(2.0)
Change in claims assumptions	0.6
Change in economic assumptions (discount rate only)	1.1
Total	**(1.1)**

Method

The estimated outstanding liability at 30 June 2019 is required to be adjusted to allow for future investment returns by discounting expected future claim payments. Future expected claim payments are to be discounted "using risk-free discount rates that are based on current observable, objective rates that relate to the nature, structure and term of the future obligations" as per AASB 1023. The actuary has used the zero coupon yields on Commonwealth government bonds as the basis for determining a uniform risk-free discount rate. The discount rate is the average yield, weighted by the expected future cash flows. The future differences between returns on the LGM investment portfolio and the risk free rate adopted for discounting purposes will emerge as profit or loss when they arise.

Inflation

The valuation makes no explicit allowance for inflation, although the future development in the incurred claims costs makes allowance for the effects of inflation and superimposed inflation by assuming that future inflation and superimposed inflation will be similar to past experience. In the past it would be reasonable to assume that inflation has been of the order of 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. The claims manager of the portfolio has estimated that the claims administration expenses comprise approximately 40% of management fees. As Members manage their own claims up to their excess, the actuary has provided the comparison of claims administration expenses, estimated as 40% of management fees to claims expenses net of non reinsurance recoveries.

The claims administration expenses have been averaged approximately 8% of the payments made since 1 July 2010 although higher in more recent years and 16% of claims incurred net of non reinsurance recoveries. Taking into account that a significant proportion of the claims administration costs are incurred early in the life of a claim, the actuary has assumed that future claims administration expenses will be 12% of future payments net of non reinsurance recoveries. The expense assumption adopted in the previous valuation was 12% of future payments net of non reinsurance recoveries.

Discount rate

The combination of the expected net payments by payment year with the future payments for the run-off of LGM's net liabilities (excluding administration expenses), together with the yields available on Government bonds of equivalent durations produces a uniform discount rate for all future years of 1.1% per annum. At the previous valuation, the discount rate was assumed to be 2.3% per annum. The difference is due to the movements in market yields since the previous valuation.

Term to settlement

The actuary has assumed an expected term to settlement of 2.5 years (2018: 2.4 years) based on historical experience and the results of historical claims.

Sensitivity analysis

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

Liability Fund

Inflation assumption

	2019 Carrying Amount $	2019 -1% Movement	2019 1% Movement	2018 Carrying Amount $	2018 -1% Movement	2018 1% Movement
Future claims and associated cost	73,981,000	(1,738,000)	1,738,000	70,481,000	(1,640,000)	1,640,000
Reinsurance and other recoveries receivables	(27,322,297)	576,000	(576,000)	(26,715,076)	624,000	(624,000)
Potential Impact		**(1,162,000)**	**1,162,000**		**(1,016,000)**	**1,016,000**

Discount rate assumption

	2019 Carrying Amount $	2019 -1% Movement	2019 1% Movement	2018 Carrying Amount $	2018 -1% Movement	2018 1% Movement
Future claims and associated cost	73,981,000	1,651,000	(1,651,000)	70,481,000	1,563,000	(1,563,000)
Reinsurance and other recoveries receivables	(27,322,297)	(563,000)	563,000	(26,715,076)	(601,000)	601,000
Potential Impact		**1,088,000**	**(1,088,000)**		**962,000**	**(962,000)**

Expense rate assumption

	2019 Carrying Amount $	2019 -1% Movement	2019 1% Movement	2018 Carrying Amount $	2018 -1% Movement	2018 1% Movement
Future claims and associated cost	73,981,000	531,000	(531,000)	70,481,000	503,000	(503,000)
Reinsurance and other recoveries receivables	(27,322,297)	-	-	(26,715,076)	-	-
Potential Impact		**531,000**	**(531,000)**		**503,000**	**(503,000)**

Increase in cost of claims assumption

	2019 Carrying Amount $	2019 -10% Movement	2019 10% Movement	2018 Carrying Amount $	2018 -10% Movement	2018 10% Movement
Future claims and associated cost	73,981,000	1,530,000	(1,530,000)	70,481,000	1,625,000	(1,625,000)
Reinsurance and other recoveries receivables	(27,322,297)	500,000	(500,000)	(26,715,076)	567,000	(567,000)
Potential Impact		**2,030,000**	**(2,030,000)**		**2,192,000**	**(2,192,000)**

10. Net Claims Incurred

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

Liability Fund	2019 $	2018 $
Net claims expense (note 5)	**8,658,292**	4,553,653

2019 – Details of net incurred claims are as follows:

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

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**

Asset Fund	2019 $	2018 $
Net claims expense (note 5)	**5,472,534**	4,567,427

2019 – Details of net incurred claims are as follows:

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

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**

11. Related Parties

a) Key Management Personnel (KMP)

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

Board of Management

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

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

Mr Ian Leckenby was appointed Chairman on 01/07/2018
Mr Greg Hallam *
Mr Bob Millar
Mr Stephen Fynes-Clinton
Mr Bill Lyon* - new Member appointed on 17/08/2018
Mr John Brent
Mr Terry Brennan
Cr Karen Williams
Cr Rachel Chambers
Mr John Sharman - new Member appointed on 01/01/2019

*No Committee meeting fees are paid to these Members

KMP Category / Position	Short-Term Employee Benefits 2019 $	Short-Term Employee Benefits 2018 $
Chairman	36,733	14,101
Board of Management	34,280	40,307
Total	**71,013**	54,408

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

Directors of the Trustee

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

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

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

b) Transactions with related parties

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

	2019 $	2018 $
Asset Fund - claims payments	13,935	-
Purchase of services from LGAQ and its controlled entities on a commercial basis	8,093	15,263
Cost recovery transactions paid to LGAQ & its controlled entities	62,624	35,447
Surplus distribution for the LG Sherlock's first year funding requirements was paid to LGAQ	1,900,000	4,100,000

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

Services provided by LGAQ are on a cost recovery basis and represent transactions paid on behalf of LGM. Services provided by Local Buy relate to conference sponsorship and are on commercial terms. The total amount owing to LGAQ as at 30 June 2019 for services provided is $29,000 (2018: Nil).

c) **Transactions with other related parties**

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

LGM has paid Hazlen Investment Pty Ltd an amount of $6,938 towards the fees and and incidentals for the Value Proposition project approved by the LGM Board of Management. John Brent is the sole director of Hazlen Investment Pty Ltd.

d) **Loans and guarantees to / from related parties**

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

e) **Transactions with related parties that have not been disclosed**

Some of LGM's KMP are also KMP of their respective Councils. These Councils 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 LGM.

12. Financial Instruments

Financial instruments

(i) **Recognition and initial measurement**

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

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

(ii) **Impairment of Financial assets**

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

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

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

(iii) **Classification and subsequent measurement**

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

Amortised cost is calculated as:

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

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

13. Risk Management

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

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

Objectives in managing risk and policies for mitigating those risks

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

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

Risk transfer strategy

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

Management of risks

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

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

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

Concentration of risks

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

Market Risk

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

In addition to cash and interest bearing securities, the investment portfolio contains exposures to equity markets through managed unit trusts held in QIC. These investments, integral to insurance activities, are measured at market value at each reporting date and changes in market value are immediately reflected in the statement of comprehensive income. Any overall downturn in the equities market may impact on future results of LGM. The impact of any significant movement is managed by ensuring that the investment portfolio consists of a diverse holding of investments. The Liability Fund holds $87,781,987 worth of units with QIC as at 30 June 2019 (2018: $80,413,345).

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

Interest Rate Risk

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

Interest on cash is charged at prevailing market rates being approximately 1.35% at 30 June 2019 (2018: 1.49%). Interest on QTC investments is charged at prevailing market rates which is approximately 2.38% at 30 June 2019 (2018: 2.41%) for both funds.

Interest rate sensitivity analysis

Interest rate sensitivity depicts what effect a reasonably possible change in interest rates of +/- 1% would have on the profit and equity, based on the carrying value of financial assets and liabilities. With all other variables held constant, the Liability Fund would have surplus increase/decrease of $417,400 (2018: $511,729) for interest rate risk. The Asset Fund would have a surplus increase/(decrease) of $123,973 (2018: $87,295) for interest rate risk.

Unit price sensitivity analysis

Unit price sensitivity analysis is based on a report similar to that which would be provided to management, depicting the outcome to profit and loss if interest rates and unit prices would change by +/- 1% for the QIC Cash Enhanced Fund and by +/-5% for the QIC 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 $516,794 (2018: $504,615) for unit price risk for the QIC Cash Enhanced Fund and surplus increase/(decrease) of $1,805,128 (2018: $1,497,590) for unit price risk for the QIC Growth Fund.

Credit risk

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

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

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

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

Liquidity risk

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

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

14. Auditor's Remuneration

Fees payable to the auditors for the audit of LGM's financial statements for 2018-19 is $47,150. Liability Fund - $35,150 and Asset Fund - $12,000, (2018: $51,000. Liability Fund - $36,500 and Asset Fund - 14,500). 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 2019 $	Total Liability & Asset Funds 2018 $	Liability Fund 2019 $	Liability Fund 2018 $	Asset Fund 2019 $	Asset Fund 2018 $
Within one year	4,834,696	4,741,892	3,804,873	3,732,261	1,029,823	1,009,631
Later than one year but not later than 5 years	-	-	-	-	-	-
	4,834,696	4,741,892	**3,804,873**	3,732,261	**1,029,823**	1,009,631

The renegotiation of the LGM Management Agreement between the LGAQ and JLT as scheme Manager of scheme Management fees is currently underway and is expected to be confirmed by 31 December 2019.

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

Within one year	698,214	685,184	698,214	685,184	-	-
Later than one year but not later than 5 years	1,071,793	1,770,330	1,071,793	1,770,330	-	-
	1,770,007	2,455,514	**1,770,007**	2,455,514	-	-

16. New Accounting Standards for Application in Future Periods

AASB 15 Revenue from Contracts with Customers

The AASB has issued a new standard for recognition of revenue. This standard will first apply to LGM's 2019-20 financial statements. The new standard is based on the principle that revenue is recognised when control of goods or service transfers to a customer. LGM is finalising its assessment of the impact of the new standard. However, based on preliminary analysis performed, the new standard is not expected to have a material impact on the financial statements.

17. Authorisation of Financial Statements for Issue

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

18. Distributions

In May 2019 the Board of Management noted and approved the proposed $2,400,000 surplus distribution to be distributed to individual Liability Fund Members in 2018-19. Out of that $1,306,827 has been already taken up by the Members who have paid their contributions for 2019-20 year before 30 June 2019. As a result, there is an amount of $1,093,173 as a surplus distribution payable amount in the Statement of Financial Position for 2018-19.

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

In June 2018 the Board of Management noted and approved $2,350,000 surplus distribution to be distributed to individual Liability Fund Members in 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.

Board of Management's Certificate

QUEENSLAND LOCAL GOVERNMENT MUTUAL

Queensland Local Government Mutual
Board of Management's Certificate

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

a) the financial statements and notes, set out on pages 3 to 22:

i) present fairly the financial position of Queensland Local Government Mutual as at 30 June 2019 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	28 November 2019
Chairman	Date
Mr Greg Hallam	28 November 2019
Member of the Board of Management	Date

Queensland Audit Office
Better public services

INDEPENDENT AUDITOR'S REPORT

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

Report on the audit of the financial report

Opinion

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

In my opinion, the financial report:

a) presents fairly the trust's financial position as at 30 June 2019, 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 2019, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes to the financial statements including summaries of significant accounting policies and other explanatory information, and the certificate given by the board of management.

Basis for opinion

I conducted my audit in accordance with the *Auditor-General 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.

Independent

Auditor's Report

QUEENSLAND LOCAL
GOVERNMENT MUTUAL

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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.

29 November 2019

Sri Narasimhan
as delegate of the Auditor-General

Queensland Audit Office
Brisbane


Mackay

QUEENSLAND LOCAL GOVERNMENT
WORKERS COMPENSATION
SELF-INSURANCE SCHEME

Financial Statements

for the year ended 30 June 2019

Contents

Statement of Profit or Loss and other Comprehensive Income

for the year ended 30 June 2019

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

	Note	2019 $	2018 $
Revenue			
Member contributions	3	**26,245,501**	25,031,228
Reinsurance and other recoveries	3	**750,798**	347,855
Interest revenue		**678,386**	1,096,253
Investment revenue		**1,883,241**	1,329,685
Changes in the fair value of investments		**1,100,098**	1,203,819
Total revenue		**30,658,024**	29,008,840
Expenses			
Claims expense	3	**(19,825,050)**	(18,872,001)
Outwards reinsurance expense	3	**(432,477)**	(394,112)
Other underwriting expenses	3	**(7,032,158)**	(6,735,480)
General expenses	4	**(1,443,687)**	(1,270,852)
Total expenses		**(28,733,372)**	(27,272,445)
Operating result from continuing operations		**1,924,652**	1,736,395
Other Comprehensive Income		**-**	-
Total comprehensive income for the year attributable to Members		**1,924,652**	1,736,395

Statement of Financial Position

as at 30 June 2019

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

	Note	2019 $	2018 $
CURRENT ASSETS			
Cash and cash equivalents		**16,142,471**	22,460,707
Trade and other receivables		**1,086,563**	757,602
Reinsurance and other recoveries receivables		**765,000**	1,039,000
Other financial assets	5	**67,629,693**	60,826,329
Total current assets		**85,623,727**	85,083,638
NON-CURRENT ASSETS			
Reinsurance and other recoveries receivables		**1,632,000**	1,730,000
Total non-current assets		**1,632,000**	1,730,000
Total assets		**87,255,727**	86,813,638
CURRENT LIABILITIES			
Trade and other payables		**756,827**	800,485
Distribution payables	13	**2,400,000**	2,350,000
Future claims and associated costs	6	**15,504,022**	15,113,039
Total current liabilities		**18,660,849**	18,263,524
NON-CURRENT LIABILITIES			
Future claims and associated costs	6	**19,377,028**	18,856,916
Total non-current liabilities		**19,377,028**	18,856,916
Total liabilities		**38,037,877**	37,120,440
NET ASSETS		**49,217,850**	49,693,198
EQUITY			
Retained surplus		**49,217,850**	49,693,198
TOTAL EQUITY		**49,217,850**	49,693,198

Statement of Changes in Equity

for the year ended 30 June 2019

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

	Note	2019 $	2018 $
Total equity at the beginning of the financial year		**49,693,198**	50,306,803
TOTAL COMPREHENSIVE INCOME			
Net result for the year		**1,924,652**	1,736,395
Total comprehensive income		**1,924,652**	1,736,395
Distribution to Members	13	**(2,400,000)**	(2,350,000)
Total equity at the end of the financial year		**49,217,850**	49,693,198

Statement of Cash Flows

for the year ended 30 June 2019

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

	Note	2019 $	2018 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipt of contributions from Members		**25,781,264**	25,192,907
Reinsurance premiums paid		**(432,477)**	(394,112)
Claims paid		**(18,541,954)**	(17,074,804)
Other underwriting and general expenses paid		**(8,475,072)**	(7,946,613)
Interest received		**690,929**	1,052,350
Other recoveries received		**750,798**	347,855
GST collected from Members		**2,578,126**	2,519,291
GST paid to suppliers and ATO		**(2,499,825)**	(2,580,693)
NET CASH (USED) / PROVIDED BY OPERATING ACTIVITIES		**(148,211)**	1,116,181
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for investments		**(5,703,266)**	(27,710,078)
Investment revenue		**1,883,241**	1,329,685
NET CASH PROVIDED BY / (USED IN) INVESTING ACTIVITIES		**(3,820,025)**	(26,380,393)
SURPLUS DISTRIBUTION PAID		**(2,350,000)**	(682,816)
NET DECREASE IN CASH HELD		**(6,318,236)**	(25,947,028)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL YEAR		**22,460,707**	48,407,735
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR		**16,142,471**	22,460,707

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.

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

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

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

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

The principal place of business of the scheme is:

Local Government House
27 Evelyn Street
Newstead QLD 4006

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

2. Statement of Significant Accounting Policies

a) Basis of preparation

These financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards, (including the Australian Accounting Interpretations) to satisfy reporting responsibilities under Queensland Local Government Workers Compensation Self-Insurance scheme (the scheme) Rules. The scheme is a not for profit entity and the Australian Accounting Standards includes requirements for not for profit entities which are inconsistent with International Financials Reporting Standards (IFRS). Therefore in some instances these financial statements do not comply with IFRS. They have been prepared on the basis of historical costs except where stated.The scheme actuary has increased projected future claims payments to allow for inflation and discounted the expected payments to 30 June 2019 to obtain the present value of the liability.

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

b) Taxation

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

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

c) Rounding

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

(d) Estimates and judgements

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

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

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

(e) Changes in significant accounting policies

This year the scheme has applied AASB 9 Financial Instruments for the first time. AASB 9 replaces AASB 139 and relates to the recognition, classification and measurement of financial assets and financial liabilities. From 1 July 2018, the financial assets and financial liabilities of the scheme are classified in the measurement categories as follows:

- those to be measured subsequently at fair value through profit or loss (FVPL), and
- those to be measured at amortised cost

The nature and effect of the changes as a result of adoption of this new accounting standard are described below.

Under AASB 9 there were changes to the classification category but no changes to the measurement category and carrying amount of each financial instrument.

Implementing AASB 9 has resulted in a change to the way the scheme calculates impairment provisions, which are now based on expected credit losses instead of incurred credit losses. The scheme has determined that there is no impact on the opening balance of the impairment provision.

3. Underwriting Result

(a) Revenue recognition

Member contributions

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

Reinsurance and other recoveries

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

Investment revenue

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

Interest revenue

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

(b) Outwards reinsurance

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

	2019 $	2018 $
Member contributions	**26,245,501**	25,031,228
Outward reinsurance premium expense	**(432,477)**	(394,112)
Net contributions revenue	**25,813,024**	24,637,116
Claims expense	**(19,825,050)**	(18,872,001)
Reinsurance and other recoveries revenue	**750,798**	347,855
Net claims expense	**(19,074,252)**	(18,524,146)
Other underwriting expenses*	**(7,032,158)**	(6,735,480)
Underwriting result	**(293,386)**	(622,510)
*Other underwriting expenses include:		
Workcover Levy	**(845,328)**	(661,525)
scheme expenses management fee	**(6,186,830)**	(6,073,955)
	(7,032,158)	(6,735,480)

4. General Expenses

	2019 $	2018 $
Regional Risk Co-ordinators	**686,975**	672,416
Investment fees and charges	**250,875**	248,642
Administration expenses	**505,836**	349,794
	1,443,686	1,270,852

5. Other Financial Assets

Other financial assets are classified at ‘fair value through profit or loss’ (FVTPL) if it is classified as held for trading 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 $67.63 million at 30 June 2019 (2018: $60.83 million). Fair value for managed unit trusts is based on the quoted bid price of the investment at reporting date.

Fair Value Hierarchy

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

The different levels have been defined as follows:

Level 1 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 2019 the scheme’s financial assets are recognised as Level 2.

6. Future Claims and Associated Costs

	2019 $	2018 $
Expected future claims (undiscounted)	**35,455,291**	35,024,000
Discount to present value	**(574,241)**	(1,054,045)
Liability for outstanding claims	**34,881,050**	33,969,955
Current	**15,504,022**	15,113,039
Non - current	**19,377,028**	18,856,916
Liability for outstanding claims	**34,881,050**	33,969,955

Claims

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

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

The expected future payments are estimated on the basis of the ultimate cost of settling claims, which is affected by factors arising during the period to settlement such as normal inflation and "superimposed inflation". Superimposed inflation refers to factors such as trends in court awards, for example, increases in the level and period of compensation for injury. The expected future payments are then discounted to their present value at the reporting date using market determined risk adjusted discount rates. The scheme takes all reasonable steps to ensure that it has appropriate information regarding its claim exposures with estimates and judgements continually being evaluated and updated based on historical experience and other factors.

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

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

Uncertainty

The actuary advised that there are many factors which can and will cause the ultimate cost of claims incurred to 30 June 2019 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	2019	2018
Claims administration expenses	7%	7%
Wage inflation	2.5%	3%
Discount rate	1%	2.1%
Term to settlement (years)	1.64	1.66

The actuary has set out an analysis by accident year of the increase in the outstanding liability from $26.5 million as at 30 June 2018 to $28.2 million as at 30 June 2019, that is, an increase of $1.7 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% (2018:7%) of the gross future claims payments as adopted in the previous valuation.

Inflation

Income benefits are increased in line with wage inflation. Other costs such as hospital and medical expenses are also expected to rise broadly in line with inflation. Having regards for various economic forecasts of wage and price inflation for Queensland over the next 4 to 5 years, the actuary has assumed a rate of future wage inflation of 2.5% (2018:3%) 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 2007 to 30 June 2019, the actuary has not observed superimposed inflation in common law disbursements and settlements.

However, there is evidence of ongoing superimposed inflation in statutory payments, the actuary considers that it is appropriate to allow for superimposed inflation of 4% per annum for all development years. At the previous valuation, superimposed inflation was also assumed to be 4% per annum, although in the previous valuation it was only applied to the first two development years.

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 2020 to 2030. The projected future payments total $26,691,000. The yields available are in the range of 1.04% to 1.36%.

The combination of these payments and yields produces a uniform discount rate for all future years of 1% per annum. At the previous valuation, the discount rate was assumed to be 2.1% per annum. The decrease in the discount rate reflects changes in the general level of market interest rates.

Term to Settlement

The actuary has assumed an expected term to settlement of 1.64 years (2018:1.66 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

2019

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

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**

Discount rate assumption

2019

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

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)**

Expense rate assumption

2019

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

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)**

Estimated cost of claims assumption

2019

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

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)**

7. Net Claims Incurred

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

	2019 $	2018 $
Net claims expense (Note 3)	**19,074,252**	18,524,146

2019

Details of net incurred claims are as follows:

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

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**

8. Notes to the statement of cash flows

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

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

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

	2019 $	2018 $
Operating surplus	**1,924,653**	1,736,395
Add non-cash items		
Changes in fair value of investments – unrealised (net of distributions re-invested)	**(1,100,098)**	(1,203,819)
Investing income classified as investing activities	**(1,883,241)**	(1,329,685)
Net cash provided by operating activities before change in assets and liabilities	**(1,058,686)**	(797,109)
Change in assets and liabilities		
(Increase)/decrease in reinsurance and other recoveries receivable	**372,000**	27,167
(Increase)/decrease in trade and other receivables	**(328,961)**	19,216
Increase/(decrease) in trade and other payables	**(43,660)**	96,876
Increase/(decrease) in future claims and associated costs	**911,096**	1,770,031
Net cash provided by operating activities	**(148,211)**	1,116,181

9. Related parties

a) Key Management Personnel (KMP)

Management Committee

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

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

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

Mr Ian Leckenby was appointed Chairman on 01/07/2018
Mr Noel Playford was the Chairman in 2018, resigned on 30/06/2018
Mr Stephen Fynes-Clinton
Mr Terry Brennan
Mr Bob Millar
Mr Greg Hallam*
Cr Rachel Chambers
Mr John Sharman - new Member appointed on 01/01/2019

KMP Category / Position	Short-Term Employee Benefits 2019 $	Short-Term Employee Benefits 2018 $
Chairman	37,960	14,101
Management Committee Members	7,728	6,340
Total	**45,688**	20,441

*No Committee meeting fees are paid to these Members.

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

Directors of the Trustee

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 Bourke

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

b) Transactions with related parties

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

Purchase of services from LGAQ and its controlled entities on a commercial basis - $6,517 (2018: $15,263)

Cost recovery transactions paid to LGAQ & its controlled entities - $15,125 (2018: $22,901)

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

c) Transactions with other related parties

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

d) Transactions with related parties that have not been disclosed

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

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

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

10. Financial Instruments

Initial recognition and measurement

Financial assets are 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

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

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

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

Classification and subsequent measurement

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

Amortised cost is calculated as:

- the amount at which the financial asset or financial liability is measured at initial recognition;
- less principal repayments;
- plus or minus the cumulative amortisation of the difference, if any, between the amount initially 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.

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.

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

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

Reinsurance strategy

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

Management of risks

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

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

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

Concentration of risks

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

Market risk

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

In addition to cash and interest bearing securities, the investment portfolio contains exposures to equity markets through managed unit trusts held in QIC. These investments, integral to insurance activities, are measured at net market value at each reporting date and changes in market value are immediately reflected in the statement of comprehensive income. Any overall downturn in the equities market may impact on future results of the scheme. The impact of any significant movement is managed by ensuring that the investment portfolio consists of a diverse holding of investments. The scheme holds $67,629,693 worth of units with QIC as at 30 June 2019 (2018: $60,826,329).

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

Interest rate risk

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

Interest on cash is charged at prevailing market rates being approximately 1.35% at 30 June 2019 (2018:1.49%). Interest on QTC investments is charged at prevailing market rates which is approximately 2.38% at 30 June 2019 (2018:2.41%).

Interest Rate Sensitivity Analysis

Interest rate sensitivity depicts what effect a reasonably possible change in interest rates of +/- 1% would have on the profit and equity, based on the carrying value of financial assets and liabilities. With all other variables held constant, the scheme would have surplus increase/decrease of $161,425 (2018: $224,607) for interest rate risk.

Unit Price Sensitivity Analysis

Unit price sensitivity analysis is based on a report similar to that which would be provided to management, depicting the outcome to profit and loss if interest rates and unit prices would change by +/- 1% for the QIC Cash Enhanced Fund and by +/-5% for the QIC Growth Fund from the year-end rates applicable to the scheme's financial assets and liabilities. With all other variables held constant, the scheme would have a surplus increase/(decrease) of $339,702 (2018: $331,696) for unit price risk for the QIC Cash Enhanced Fund and surplus increase/(decrease) of $1,682,976 (2018: $1,382,836) for unit price risk for the QIC Growth Fund.

Credit risk

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

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

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

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

Liquidity risk

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

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

The scheme is exposed to liquidity risk in respect of its payables. The scheme manages liquidity risk by continuously monitoring cash flows. The scheme's financial liabilities comprise of trade and other payables of $1,245,658 (2018:$800,485), which are non-interest bearing with maturity date of less than one year.

12. Auditor's Remuneration

	2019 $	2018 $
Audit of the financial statements	**40,000**	41,000

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

13. Distribution Payables

In May 2019, the Management Committee noted and approved the proposed $2,400,000 (2018: $2,350,000 declared in June 2018) surplus distributions to individual Members in 2019-20.

14. Commitments for Expenditure

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

	2019 $	2018 $
Within one year	6,308,336	6,186,830
Later than one year but not later than 5 years	-	6,301,804
	6,308,336	12,488,634

The renegotiation of the scheme's Management Agreement between the LGAQ and JLT as scheme Manager of scheme Management fees is currently underway and is expected to confirmed by 31 December 2019.

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

Within one year	698,214	685,184
Later than one year but not later than 5 years	1,071,793	1,770,330
	1,770,007	2,455,514

15. Contingent Liabilities

The scheme holds bank guarantees worth $40,253,000 with QTC. The scheme's Members have provided an indemnity towards this bank guarantee to cover bad debts which may remain should the self insurance licence be cancelled and there was insufficient funds to cover outstanding liabilities. Only the Queensland Government's worker compensation authority may call on any part of the guarantee should the above circumstances arise.

16. New Accounting Standards in the Future Periods

AASB 15 Revenue from Contracts with Customers

The AASB has issued a new standard for recognition of revenue. This standard will first apply to the scheme's 2019-20 financial statements. The new standard is based on the principle that revenue is recognised when control of goods or service transfers to a customer. The scheme is finalising its assessment of the impact of the new standard. However, based on preliminary analysis performed, the new standard is not expected to have a material impact on the financial statements.

17. 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.

Management Committee
Certificate

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

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

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

i) present fairly the financial position of Queensland Local Government Workers Compensation Self-Insurance Scheme as at 30 June 2019 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 28 November 2019

Mr Greg Hallam
Member of the Management Committee

Date 28 November 2019

Independent

Auditor's Report

Queensland Audit Office

Better public services

INDEPENDENT AUDITOR'S REPORT

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

Report on the audit of the financial report

Opinion

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

In my opinion, the financial report:

a) presents fairly the trust's financial position as at 30 June 2019, 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 2019, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes to the financial statements including summaries of significant accounting policies and other explanatory information, and the certificate given by the board of management.

Basis for opinion

I conducted my audit in accordance with the *Auditor-General 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.

29 November 2019

Sri Narasimhan
as delegate of the Auditor-General

Queensland Audit Office
Brisbane

2018-2019

LGW / LGM

REPORT TO MEMBERS