



ACTIA

Australian Capital Territory Insurance Authority

ANNUAL
REPORT

2001-2002

001-2002

ACT Insurance Authority

ANNUAL REPORT

1 July 2001 to 30 June 2002

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<http://www.act.gov.au>



Mr Ted Quinlan
Treasurer
ACT Legislative Assembly
PO Box 1020
Canberra ACT 2601

Dear Treasurer

I am pleased to present the ACT Insurance Authority's Annual Report for the year ended 30 June 2002.

This Report has been prepared under section 8(5)(a) of the Annual Reports (Government Agencies) Act 1995 and in accordance with the requirements referred to in the Chief Minister's Annual Reports Directions. It has been prepared in conformity with other legislation applicable to the preparation of the Annual Report by the ACT Insurance Authority.

I hereby certify that the attached Annual Report is an honest and accurate account of the operations of the ACT Insurance Authority during the period 1 July 2001 to 30 June 2002 and that it complies with the Chief Minister's Annual Reports Directions.

Section 14 of the Annual Reports (Government Agencies) Act 1995 requires that you cause a copy of the Report to be laid before the Legislative Assembly within six sitting days of receiving the Report.

Yours sincerely

A handwritten signature in black ink, consisting of a large, stylized initial 'R' followed by a long horizontal line that ends in an arrowhead.

Roger Broughton
Chairperson
ACT Insurance Authority
6 September 2002

ACT Insurance Authority

The Australian Capital Territory Insurance Authority was established under Section 8 of the *ACT Insurance Authority Act 2000* to replace the Insurance Management Account that was introduced from 1 July 1998. This account was implemented to meet the insurable claims and losses of ACT Government agencies from that date. The Authority commenced operations on 1 April 2001.

The Authority reports to the Treasurer and is financed through risk-based premiums that reflect the asset holdings and liability risks faced by each agency.

The Authority may be contacted at:

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MESSAGE FROM THE CHAIRMAN

The year 2001-02 was a difficult year for the insurance industry. A variety of factors were involved, including the withdrawal of a number of insurers from some sectors of the market, the collapse of HIH Insurance in the previous financial year and the terrorist attack in the United States of America. One of the large international medical negligence insurers withdrew from that class of business globally and closed its Australian office.

The subsequent reduction in market capacity, the increase in the number and size of claims and the resultant effect on the profitability of insurers had a substantial impact on premiums for all buyers. Indeed, some business and community groups had difficulties in securing any cover at all, while others experienced increases that were more than double their previous premiums.

Despite these factors, the Authority was able to negotiate premiums with its insurers that were generally below the increase in the market. The total of premiums for all classes increased by 72%, with the major increases being 87.5 % in property insurance, 55% in forestry, 40% in public and professional liability and 29% in medical negligence insurance.

This result was achieved by the Authority through:

- the establishment of long term relationships with key insurers since the formation of the risk management fund;
- a readiness to meet insurers regularly to discuss claims and issues arising from Territory operations;
- a well-planned strategy for the renewal of the cover; and
- the provision of timely, comprehensive data for the consideration of insurers.

The overall increase in the cost exceeded the budgeted increase (30%), but this was a result of the rapidly changing market that made estimation of the increase extremely difficult.

During the last term of 2001, there was a serious fire at Wanniasa Primary School, causing substantial damage to the building and the contents. Through the engagement of an external insurance assessor and the use of competitive tendering, ACTIA was able to ensure that the repairs to the school were completed satisfactorily within budget and in time for the resumption of school in the First Term of 2002.

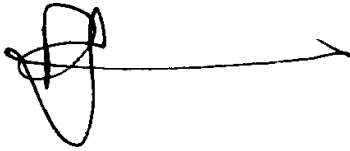
The claim arising from the Christmas Eve 2001 fires in ACT Forests was also managed by the engagement of an external insurance assessor. Although parts of the claim remained unpaid at the end of the financial year, the assessor managed the claim in a professional manner. The difficulties of assessing the value of the loss net of salvage and the cost of fighting the fires are being addressed by an independent source and this will assist with the settlement of the claim.

The Authority cooperated with the Treasury to establish an Insurance Hotline to advise community groups and businesses that were having difficulties obtaining insurance. Enquires were received from sporting, recreational, community organisations and small business owners. The Hotline assisted callers by analysing the particular insurance issues faced and suggested various remedies,

including alternative avenues for insurance and contacting various insurance brokers for expert help. For some groups, officers of the Authority provided presentations at meetings to provide more detailed assistance and advice.

Situations addressed included cover for musical events at schools, obtaining public liability cover for sporting activities in the higher risk categories and refund of stamp duty on insurance policies.

I would like to thank the staff of ACTIA for their contribution to the effective management of the Authority. Their commitment and dedication has greatly assisted the Board in ensuring that the first full year of operation has been accomplished successfully.

A handwritten signature in black ink, consisting of a stylized, cursive 'R' followed by a long horizontal line that ends in an arrowhead pointing to the right.

Roger Broughton
Chairperson

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A.1 Principal Objectives

The objectives of the Authority are:

- enable the Territory to meet the cost of its insurable claims and losses in an orderly, timely and cost effective manner;
- ensure the costs are fully reflected in the Territory's accounts in accordance with accrual accounting principles;
- protect the Territory's budget from the risk of very large claims; and
- improve risk management practices in all agencies.

A.2 Organisational Structure

The Authority is responsible to the ACT Treasurer and is overseen by a Board. Section 18 of the Act establishes the ACT Insurance Authority Board, which is comprised of six directors, as shown below:

- The Under Treasurer or nominee
- Two representatives from client agencies
- Two other persons with relevant qualifications or experience
- The general manager of the Authority.

All Board members are appointed by the Minister except for the General Manager who is appointed by the Board.

The members of the Board are:

Mr Roger Broughton (Treasury representative and chairperson)
Dr Penny Gregory (client representative)
Ms Julie McKinnon (client representative)
Ms Sue Clark (specialist member)
Mr Rex Spinley (specialist member)
Mr Peter Matthews (General Manager).

The Board met on four occasions during 2001-02.

A.3 Legislative Framework

A.3.1 Legislation

The ACT Insurance Authority is a statutory authority established under the *ACT Insurance Authority Act 2000*. The Authority commenced operations on 1 April 2001.

PART A – ORGANISATIONAL PROFILE

A.3.2 Functions

The functions of the Authority are specified in section 9 of the Act and include:

- carrying on the business of insurer of Territory risks;
- insuring of Territory risks with other entities;
- managing claims in relation to Territory risks; and
- promoting good risk management practices.

A.3.3 Statutory Powers

The Authority has all the powers of an individual and may, among other things, enter into contracts, acquire, hold, deal and dispose of property and issue policies of insurance.

PART B – HIGHLIGHTS

Highlights of the Year

The Authority made significant improvements in the valuation of claim reserves with the assistance of external consultants, despite difficulties with reports from the claims management system. This enabled the Authority to make a better estimate of outstanding liabilities.

Effective staff recruitment allowed underwriting of agency risks to be placed on a more professional and technical footing, and the management of claims relating to ACT Government assets was able to become more timely and efficient.

The estimation and management process for liability claims was reviewed by two external claim management experts and a new protocol developed and implemented. As well, a charging methodology for legal services provided by the Government Solicitor's Office was developed and agreed between the Solicitor and the Authority.

Links to the risk management benchmarking system run by Comcover were completed during the year, and the first group of agencies completed their self assessment questionnaires. This enabled them to be rated against Commonwealth agencies and large commercial companies in terms of their progress in implementing risk management strategies. As expected, ACT agencies were rated slightly lower than the other participants in this regard, but this was against entities that have been rated previously and have had time to improve their performance. Although the number of ACT participants was fairly low, the outcome was promising for future years.

Considerable work was done on risk management with a view to developing a policy, strategy and framework for adoption at the highest level of Government. When approved, this process will encourage greater risk management in agencies and validate what they are already doing on their own initiative.

Extensive assistance on insurance and risk management issues was again provided to agencies on a daily basis. This assistance included advice on insurance in contracts, risk and insurance management of public events and assistance with day to day management of the risks of agency operations.

Authority staff provided considerable assistance to the Treasury in relation to the problems being experienced by the public in obtaining insurance. This included data collection, technical insurance advice, liaison with other Governments and the preparation of and comment on Government policy papers.

The difficulties being experienced with the claims management system led to the engagement of a consultant to prepare a business analysis of the system with a view to developing or purchasing a suitable replacement. Preparation of a tender commenced with this purpose in mind.

The placement by 30 June of the 2002-03 re-insurance policies in a difficult market, with the overall increase in premiums of 72%, was a good outcome in a market where some buyers were unable to obtain certain insurance lines at any price.

PART C – OPERATIONS**C.1 Achievements Against Key Performance Indicators**

The performance indicators for the Authority for 2001-02 are outlined below:

- *Respond to insurance and risk management issues*

Outcome

During 2001-02 the Authority responded to 897 requests from agencies and the Government.

- *Review risk levies for agencies*

Outcome

In February 2002 an Insurance Questionnaire was sent to all agencies. The questionnaire, combined with claims experience, enables the renewal premiums to reflect current risk profiles.

- *Placement of Authority's insurance*

Outcome

The Authority has reinsurance in place for all major classes of insurance cover.

- *Quarterly reports on claims*

Outcome

Three claims review meetings were held for both general liability and medical malpractice claims during 2001-02. Claims estimated at \$100,000 or greater were reviewed and adjusted where appropriate.

- *Manage insurance claims*

Outcome

The Authority managed 76 claims during 2001-02. New claims accounted for 79% of the total.

- *Conduct of risk management training courses*

Outcome

The Authority conducted four facilitation workshops as part of the development of the Benchmarking Risk Management Program. The program aims to help agencies measure their progress in implementing risk management as an integral part of their business and management activities. ACTIA also supported two Comcover Getting Wired for Risk Management seminars during 2001-02.

PART C – OPERATIONS

- *Issue insurance invoice*

Outcome

The Authority issued 230 invoices for insurance premiums during 2001-02.

C.2 Issues Impacting on Operations and Future Directions

The Authority has significant cash reserves in order to pay future insurance claims. As medical malpractice and public liability claims can take a number of years to be paid, these funds are set aside for investment. The Authority currently holds all investments at-call. The development of an appropriate investment strategy is an issue that the Board will consider in 2002-03.

Based on the specifications recommended by the consultant, the tender for a replacement claims information system will be issued early in the financial year and the new system should be in operation by mid year. This will assist the accurate claim reporting, review and reserving processes.

In line with the provision of the enhanced claims information system, a change in procedure will be implemented whereby claims administration will be undertaken solely by the Authority. This will also remove administrative tasks from the Government Solicitor's Office and allow that area to concentrate on the provision of legal services.

It is planned to discontinue the practice of collecting premium commission rebates from reinsurers. This will allow reinsurance to be purchased on a net basis, which is more acceptable to reinsurers and which will result in lower final premiums to the Authority.

The Authority will continue to assist community and other groups through the Insurance Hotline. This assistance will be enhanced by providing both insurance and risk management advice primarily by face to face meetings with interested groups.

C.3 Corporate Overview

Under the Government's Administrative Arrangement Orders the ACT Insurance Authority resides within the Treasury portfolio.

The day to day operations of the ACT Insurance Authority are managed by the General Manager. The General Manager is supported by a small core of staff.

C.3.1 Staffing

The current staffing profile of the Authority is as follows:

PART C – OPERATIONS**EMPLOYMENT AND STAFFING STRUCTURE**

Salary Level 2002-03	No.	Gender		ATSI	Disability	ESL
		M	F			
General Manager – Senior Officer Grade A	1	1		0	0	0
Senior Risk Manager - Senior Officer Grade B	1	1		0	0	0
Risk Manager - Senior Officer Grade C	1	1		0	0	0
Underwriting Manager – Senior Officer Grade C	1		1	0	0	0
Finance Manager- Senior Officer Grade C (AWA)	1		1	0	0	0
Office Manager- Administrative Service Officer 5	1		1	0	0	1
TOTAL	6	3	3	0	0	1

Individual Australian Workplace Agreements

Classification	Salary Range	Duration
SOG C	\$52,875 - \$74,899	24 months

All staff are permanent and full time. All employees of the Authority are employed under the *Public Sector Management Act 1994*.

C.3.2 Equity and Diversity

The Authority adheres to the principles of equity and diversity as detailed in the Public Sector Management Act. While the staff have been employed by the Authority on the basis of merit of their qualifications and skills, the Authority is committed to providing employment opportunities for those in identified EEO groups.

C.3.3 Consultants and Contractors**Consultants with a total financial year cost greater than \$5,000 and contractors with a total financial year cost greater than \$15,000**

Name	Description	Cost	Date let
Web Risk	Support claims management system	\$18,592	1998
Marsh	Insurance consultants	\$305,932	1998
Pricewaterhouse Coopers	Actuarial and accounting advice and services	\$57,463	May 2001
Hays Personnel	Contractor Services	\$42,382	Ongoing

PART C – OPERATIONS

There were no select tenders or non-prequalified construction suppliers in 2001-02.

C.3.4 Staff Training and Development

All staff of the Authority have performance management plans that address their personal development needs. The performance management plans have identified the key development and learning priorities for the Authority's staff as risk management, insurance and finance. During 2001-02 staff undertook formal training courses, the Studybank Program and attended conferences and seminars in these areas.

The training undertaken in 2001-02 totalled \$6,400.00. This expenditure represents the direct cost of training and development courses and does not include the salary equivalent of time away from the workplace in respect of staff who attended seminars and other training opportunities at no direct cost.

C.3.5 Customer Focused Public Service

The Authority is developing a Commitment to Service Statement and a copy of this statement will be available on our website.

C.3.6 Occupational Health and Safety

The Authority adheres to the Occupational Health and Safety principles as set out in the ACT Public Sector Management Standards. The Authority is committed to promoting and maintaining a high standard of health, safety and well being for all staff and implements appropriate work practices particularly in relation to the provision of furniture. The Authority participates in the fire safety evacuation practices for Eclipse House tenants. The Authority has a fire warden in the office.

C.3.7 Fraud Prevention

The risk of fraud associated with the activities of the Authority is recognised as low. In 2001-02 a three year internal audit plan was developed for the Authority which will concentrate on a number of activities which could be considered as potential sources of fraud. These activities include:

- processing of insurance claims;
- payment of claims settlements;
- outstanding claims;
- recoveries from negligent parties;
- dealing with claim salvage;
- investments; and
- manual cheques

Appropriate delegations and separation of duties are in place for financial and administrative operations. There were no incidents of fraud detected or reported in the financial year.

PART C – OPERATIONS**C.3.8 Public Interest Disclosure**

There were no incidents requiring disclosure during the financial year.

C.3.9 Freedom of Information

The Authority has received no requests for information disclosure under the terms of the *Freedom of Information Act 1990*.

C.3.10 Ecologically Sustainable Development

The Authority applies appropriate management practices that are consistent with the principles of ecological sustainable development. The authority uses recycled paper and cardboard where possible and uses energy efficient office machines.

C.3.11 Commissioner for the Environment

The Authority has made no reports to, nor received requests for information from, the Commissioner for the Environment.

C.3.12 Workers Compensation

The Authority had no workers compensation claims during the financial year.

C.3.13 Asset Management Strategy

The Authority has no capital assets other than furniture and fittings and at-call cash investments. The Authority has some capacity to invest funds over the medium and long term. The development of an appropriate investment strategy is an issue that the Board will consider in 2002-03.

C.3.14 Directions by the Minister

Section 12 of the Act gives the Minister the power to give written directions to the Authority about the exercise of its functions. The Minister issued no directions to the Authority in relation to the performance of its functions in 2001-02.

C.3.15 Multicultural Framework

The Authority adheres to the principles as set out in *the Framework for a Multicultural ACT 2001-2005*. The Authority is committed to a client focused service delivery in a culturally diverse society. Where possible the Authority will integrate the framework into its strategic and operational planning processes.

PART E – FINANCIAL AND PERFORMANCE STATEMENTS



Mr Ted Quinlan MLA
Treasurer
ACT Legislative Assembly

Dear Treasurer

I hereby provide the audited Financial and Performance Statements for inclusion in the 2001-2002 ACT Insurance Authority Annual Report for the year ended 30 June 2002.

Yours sincerely

A handwritten signature in black ink, which appears to be 'R. Broughton', is written over a horizontal line. The signature is stylized and cursive.

Roger Broughton
Chairperson

19 September 2002



AUDITOR-GENERAL

Australian Capital Territory



INDEPENDENT AUDIT REPORT

ACT INSURANCE AUTHORITY

To the Members of the Legislative Assembly for the Australian Capital Territory

GENERAL

I have audited the financial statements of the ACT Insurance Authority for the financial year ended 30 June 2002. The statements that were forwarded to me by the ACT Insurance Authority consist of the following financial statements together with the notes thereto:

- Statement of Financial Performance;
- Statement of Financial Position;
- Statement of Cash Flows; and
- Statement of Performance

The preparation and presentation of the financial statements, and the information contained therein, is the responsibility of the ACT Insurance Authority. My responsibility is to express an opinion on the financial statements based on my audit as required by Section 61 of the *Financial Management Act 1996*.

FINANCIAL STATEMENTS OTHER THAN THE STATEMENT OF PERFORMANCE

AUDIT SCOPE

My audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance as to whether the financial statements are free of material misstatement. My procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements and the evaluation of accounting policies and significant accounting estimates.

These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial statements are presented fairly in accordance with the *Financial Management Act 1996*, Australian Accounting Standards and other mandatory professional reporting requirements so as to present a view of the ACT Insurance Authority which is consistent with my understanding of its financial position, the results of its operations and its cash flows.

The audit opinion expressed in this report has been formed on the above basis.

AUDIT OPINION

In my opinion the accompanying Statement of Financial Performance, Statement of Financial Position and Statement of Cash Flows of the ACT Insurance Authority present fairly in accordance with the *Financial Management Act 1996*, Australian Accounting Standards and other mandatory professional reporting requirements the financial position of the ACT Insurance Authority as at 30 June 2002 and the results of its operations and its cash flows for the year.

STATEMENT OF PERFORMANCE

AUDIT SCOPE

I have conducted my audit of the Statement of Performance in accordance with Australian Auditing Standards to form an opinion based on a reasonable level of assurance. My procedures included examination, on a test basis, of evidence supporting figures and other disclosures in the performance statement and the evaluation of policies adopted in arriving at those figures and disclosures. These procedures have been undertaken to form an opinion as to whether, in all material respects, the Statement of Performance has been prepared in accordance with the *Financial Management Act 1996* and fairly represents the indicated performance.

The audit opinion expressed in the report has been formed on the above basis.

AUDIT OPINION

In my opinion the accompanying Statement of Performance of the ACT Insurance Authority is prepared in accordance with the *Financial Management Act 1996* and fairly represents the indicated performance of the ACT Insurance Authority for the year ended 30 June 2002.

EMPHASIS OF MATTER

The Statement of Performance discloses that the result for one measure was 'not measured'. This measure is listed below. No audit opinion is expressed on this performance measure.

Performance Measures on which No Audit Opinion is Expressed

- a) Responses on insurance and risk management issues.



John A Parkinson
Auditor-General

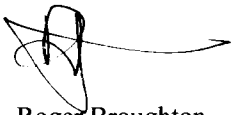
18 September 2002

PART E – FINANCIAL AND PERFORMANCE STATEMENTS

ACT INSURANCE AUTHORITY ANNUAL FINANCIAL STATEMENTS 2002 For the year ended 30 June 2002

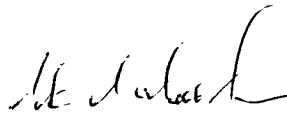
STATEMENT OF RESPONSIBILITY

In our opinion, the financial statements are in accordance with the ACT Insurance Authority's accounts and records, and fairly reflect the financial operations and service performance of the ACT Insurance Authority for the year ended 30 June 2002, and the financial position of the Authority on that date.



Roger Broughton
Chairman
ACT Insurance Authority

11 September 2002



Peter Matthews
General Manager
ACT Insurance Authority

11 September 2002

PART E – FINANCIAL AND PERFORMANCE STATEMENTS

ACT INSURANCE AUTHORITY STATEMENT OF FINANCIAL PERFORMANCE For the period 1 July 2001 to 30 June 2002

	Note	2002 \$'000	Budget 2002 \$'000	April - June 2001 \$'000
Ordinary activities				
Underwriting				
Gross earned premiums	2	16,704	18,817	3,389
Outwards reinsurance premium	2	(4,595)	(4,526)	(632)
Net earned premiums		<u>12,109</u>	<u>14,291</u>	<u>2,757</u>
Claims expense	2	(15,668)	(13,538)	(737)
Reinsurance recoveries	2	(1,178)	-	(202)
Net incurred claims		<u>(16,846)</u>	<u>(13,538)</u>	<u>(939)</u>
Workers compensation premiums collected	2	24,123	21,790	5,405
Workers compensation premiums expense	2	(23,849)	(22,270)	(5,432)
Other underwriting income	2	1,616	-	141
		<u>1,890</u>	<u>(480)</u>	<u>114</u>
Underwriting result		<u>(2,847)</u>	<u>273</u>	<u>1,932</u>
Investment revenue				
Interest		<u>1,929</u>	<u>2,538</u>	<u>422</u>
		1,929	2,538	422
Other revenue				
Brokerage refunds		603	505	-
Stamp duty		<u>10</u>	<u>-</u>	<u>-</u>
		613	505	-
General and administration				
Employee expenses		(406)	(319)	(31)
Superannuation expenses		(45)	(43)	(6)
Stamp duty		(10)	-	-
Administrative expenses		(558)	(432)	(66)
Bad and doubtful debts expense	8	(150)	-	-
		<u>(1,169)</u>	<u>(794)</u>	<u>(103)</u>
Profit/(loss) from ordinary activities before income tax		<u>(1,474)</u>	<u>2,522</u>	<u>2,251</u>
Income tax attributable to ordinary activities	6	<u>442</u>	<u>-</u>	<u>(749)</u>
Net profit/(loss)		<u>(1,032)</u>	<u>2,522</u>	<u>1,502</u>

The above statement of financial performance should be read in conjunction with the accompanying notes.

PART E – FINANCIAL AND PERFORMANCE STATEMENTS

ACT INSURANCE AUTHORITY STATEMENT OF FINANCIAL POSITION As at 30 June 2002

	Note	2002 \$'000	Budget 2002 \$'000	2001 \$'000
CURRENT ASSETS				
Cash	7	43,982	-	34,847
Receivables	8	877	856	1,154
Investments	7	-	46,450	-
Other assets	9	37	-	-
Total current assets		44,896	47,306	36,001
NON-CURRENT ASSETS				
Reinsurance receivable	10	1,365	-	926
Future income tax benefit	6	461	-	4
Total non-current assets		1,826	-	930
TOTAL ASSETS		46,722	47,306	36,931
CURRENT LIABILITIES				
Payables	11	49	174	17
Outstanding claims	12	14,003	5,383	10,453
Provisions	13	61	28	25
Deferred income tax equivalent provision	6	19	-	126
Provision for income tax	6	-	-	627
Total current liabilities		14,132	5,585	11,248
NON-CURRENT LIABILITIES				
Outstanding claims	12	31,167	27,191	23,267
Provisions	13	97	60	58
Total non-current liabilities		31,264	27,251	23,325
TOTAL LIABILITIES		45,396	32,836	34,573
NET ASSETS		1,326	14,470	2,358
EQUITY				
Capital	14	856	856	856
Retained profits	15	470	13,614	1,502
TOTAL EQUITY	16	1,326	14,470	2,358

The above statement of financial position should be read in conjunction with the accompanying notes.

PART E – FINANCIAL AND PERFORMANCE STATEMENTS

ACT INSURANCE AUTHORITY STATEMENT OF CASH FLOWS For the period 1 July 2001 to 30 June 2002

	Note	Budget 2002 \$'000	April - June 2001 \$'000
Cash flows from operating activities			
Insurance premiums received		17,021	19,694
Workers Compensation premiums received		24,534	21,790
Outwards reinsurance paid		(4,595)	(4,526)
Insurance claims paid		(4,218)	(4,538)
Workers compensation claims paid		(23,849)	(22,270)
Reinsurance recoveries received		(1,617)	-
		<u>7,276</u>	<u>678</u>
<i>Other</i>			958
Interest received		1,866	2,538
Other income received		1,841	505
General and administration expenses paid		(1,099)	(772)
Income taxes paid		(749)	-
GST receipts		-	(6)
GST payments		-	5,800
		<u>1,859</u>	<u>(6,679)</u>
			73
Net cash inflow from operating activities	20	<u>9,135</u>	<u>11,542</u>
Cash flows from investing activities			
Payments for investments		-	(11,542)
Proceeds from investments		-	-
Net cash inflow/(outflow) from investing activities		<u>-</u>	<u>(11,542)</u>
Net increase (decrease) in cash held		<u>9,135</u>	<u>-</u>
Cash at the beginning of the financial year		<u>34,847</u>	<u>-</u>
Cash at the end of the financial year	7	<u>43,982</u>	<u>34,847</u>

The above statement of cash flows should be read in conjunction with the accompanying notes.

PART E – FINANCIAL AND PERFORMANCE STATEMENTS

ACT INSURANCE AUTHORITY

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

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PART E – FINANCIAL AND PERFORMANCE STATEMENTS

Note 1. Summary of significant accounting policies

(a) Operations and principal activities

The ACT Insurance Authority (the Authority) was established on 1 April 2001 under the *ACT Insurance Authority Act 2000* and all activities, assets and liabilities of ACT Insurance Management Department were transferred into the entity on that date. Consequently, the comparative financial report reflects the period 1 April 2001 to 30 June 2001.

(b) Basis of accounting

The *Financial Management Act 1996* (FMA) requires the preparation of financial statements of Territory authorities.

Subsection 59(3) and the Financial Management Guidelines, requires that the financial statements include:

- (i) a Statement of Financial Performance for the authority for the year;
- (ii) a Statement of Financial Position of the authority at the end of the year;
- (iii) a Statement of Cash Flows of the authority for the year;
- (iv) a Statement of the Performance of the authority in achieving the objectives specified in the statement of intent for the year for authorities; and
- (v) a summary of the significant accounting policies adopted by the authority for the year.

These general purpose financial statements have been prepared in accordance with “generally accepted accounting practice” pursuant to the FMA. The financial statements have been prepared to comply with:

- (i) Australian Accounting Standards;
- (ii) Urgent Issues Group Consensus Views;
- (iii) Other authoritative pronouncements of the Australian Accounting Standards Board; and
- (iv) ACT accounting policies.

The financial statements have been prepared using the accrual basis of accounting which recognises the effects of transactions and events when they occur. The financial statements have also been prepared according to the historical cost convention, except for certain assets which were valued in accordance with the (re)valuation policies applicable to the authority during the financial year.

(c) Premium revenue

Direct premium comprises amounts charged to the policyholders, but excluding stamp duties, GST and other amounts collected on behalf of third parties. The earned portion of premiums received and receivable, including unclosed business, is recognised as revenue. Premium is treated as earned from the date of attachment of risk. Premiums on unclosed business are brought to account by reference to the previous year’s premium processing delays with due allowance for any changes in the pattern of new business and renewals.

The pattern of recognition of income over the policy or indemnity periods is based on time, where this closely approximates the pattern of risks underwritten. Where time does not approximate the pattern of risk, previous claims experience is used to derive the incidence of risk. Unearned premium is determined by apportioning the premiums written in the year on a daily pro-rate basis or in the same pattern as the claims experience where time does not approximate the pattern of risk.

(d) Worker’s Compensation

The Authority processes the payment of the ACT Government workers’ compensation premium to Comcare, which levies a single premium covering all Government agencies. Each agency pays its share of the premium into the Authority for the purpose of financing the premium payment to Comcare. As the Authority is not underwriting this worker’s compensation business but rather acting as an agent for Comcare, the amounts involved are not included in premiums revenue and claims expense.

(e) Cash

For purposes of the statement of cash flows, cash includes deposits at call which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value, net of outstanding bank overdrafts.

(f) Receivables

All premium and other debtors are recognised at the amounts receivable as they are due for settlement no more than 30 days from the date of recognition. Collectibility of premium and other debtors is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful debts is raised when some doubt as to collection exists and in any event when the debt is more than 60 days overdue, to the extent that any relevant premium has been earned.

PART E – FINANCIAL AND PERFORMANCE STATEMENTS

Note 1. Summary of significant accounting policies (continued)

(g) Outwards Reinsurance Premium

The Authority reinsures at a catastrophe level for those classes which it accepts insurance, which includes insurance against:

- Loss, damage, or destruction of Territory assets, and
- The legal liabilities incurred by the Territory for third party property damage and injury to third parties.

Premiums ceded to reinsurers is recognised as an expense in accordance with the pattern of reinsurance service received. Accordingly, a portion of outwards reinsurance premium is treated at the balance date as a prepayment, to the extent that any relevant premium has been incurred.

(h) Claims

Claims expense and a liability for outstanding claims are recognised in respect of direct and inwards reinsurance business. The liability covers claims reported but not yet paid, incurred but not yet reported claims ("IBNR") and the anticipated direct and indirect costs of settling those claims. Claims outstanding are assessed by review of individual claim files and estimating changes in the ultimate cost of settling claims, IBNRs and settlement costs using statistics based on past experience and trends. The Authority has not used the services of an independent actuary to review the calculation of claims for the current financial year.

The liability for outstanding claims is measured as the present value of the expected future payments, reflecting the fact that all the claims do not have to be paid out in the immediate future. 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 discount rates based on investment opportunities available to the organisation on the amounts of funds sufficient to meet claims as they become payable. The details of rates applied are included in note 12.

(i) Reinsurance and other recoveries receivable

Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid and IBNRs are recognised as revenue. Recoveries receivable are assessed in a manner similar to the assessment of outstanding claims.

(j) Acquisition costs

Under the ACT Insurance Authority Act, the Authority is responsible for managing the insurance costs of the Territory and Territory entities. Consequently, the costs incurred in obtaining and recording policies of insurance (acquisition costs) are not material and are not separately identified from other underwriting expenses.

(k) Fire brigade and other charges

A liability for fire brigade and other charges is recognised on business written to the balance date. Levies and charges payable are expensed on the same basis as the recognition of premium revenue.

(l) Investments

Investments are measured at net market value at each balance date and are managed for the Authority by the Central Financing Unit of the Department of Treasury.

Changes in the market values of investments at the balance date from their market values at the previous balance date (or cost of acquisition, if acquired during the financial year) are recognised as revenue or expense in the statement of financial performance.

Market values are determined as follows:

Government securities	-	by reference to market quotations
Money market deposits	-	by reference to amount on deposit

Investment revenue is brought to account on an accrual basis.

PART E – FINANCIAL AND PERFORMANCE STATEMENTS

Summary of significant accounting policies (continued)

(m) Income tax

The Authority has been granted an exemption from the payment of income tax under Section 24AM of the Income Tax Assessment ACT 1936. However, the Authority is required to make an equivalent payment to the Commissioner of the ACT Revenue by virtue of Part 4 s.32 of the ACT Insurance Authority Act of 2001, which refers to the Territory Owned Corporations ACT 1990.

Tax effect accounting procedures are followed whereby the income tax expense in the statement of financial performance is matched with the accounting profit after allowing for permanent differences. The future tax benefit relating to tax losses is not carried forward as an asset unless the benefit is virtually certain of realisation. Income tax on cumulative timing differences is set aside to the deferred income tax or future income tax benefit accounts at the rates which are expected to apply when those timing differences reverse.

(n) Trade and other creditors

These amounts represent liabilities for goods and services provided to the Authority prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(o) Provision for Employee entitlements

The liability for employee entitlements includes provision for annual leave and long service leave. No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave taken in future years by employees of the Authority is estimated to be less than the annual entitlement for sick leave.

The provision for long service leave reflects the value of the estimated future cash flows to be made in respect of all employees. In determining the present value of the liability, the Authority has taken into account attrition rates and pay increases through promotion and inflation.

Nominal amounts are used for measurement of wages and salaries, annual leave and other employee entitlements which are expected to be settled within twelve months of the reporting date (ie. the current portion).

The non-current portion of employee entitlements, eg. provision for long service leave, is measured at the present value of the estimated future cash outflows to be made by the employer in respect of services provided by the employees up to the reporting date.

(p) Rounding of amounts

All amounts shown in this financial report are in thousands of dollars (\$'000) in Australian currency except notes 18 and 19.

(q) Comparative amounts

As the entity was established on 1 April 2001, the comparative figures are for a 3 month period only. A number of comparative amounts were reclassified to ensure comparability with the current reporting period.

(r) "Current" and "Non-current" items

Assets and liabilities are characterised as either "current" or "non-current" in nature. All assets and liabilities are categorised as current assets or liabilities if they are expected to be realised within twelve months of the reporting date. Assets or liabilities not recognised as 'current' are classified as 'non-current'.

(s) Superannuation

The ACT Insurance Authority makes a superannuation expense payment to the Superannuation Unit each year, to cover its superannuation liability. The superannuation expense is determined by the number of employees The Authority has and the average salary of these employees. Each employee's total salary and any allowances for superannuation purposes are multiplied by a rate determined by the ACT Government's actuary. The rate differs depending on whether the employee is in the Commonwealth Superannuation Scheme (CSS) or whether they are in the Public Sector Superannuation Scheme (PSS).

	CSS	PSS
Territory authorities	21.7%	11.6%

The ACT Insurance Authority does not carry a superannuation liability in its Statement of Financial Position as the Superannuation Unit carries the superannuation liability of all agencies within the Territory.

PART E – FINANCIAL AND PERFORMANCE STATEMENTS

Note 2. Underwriting result

	Notes	2002 \$'000	April to June 2001 \$'000
(a) Underwriting revenues			
Gross earned premiums			
General Government Sector	3	14,024	2,719
Public Trading Enterprises	3	2,655	670
External entities	3	25	-
		<u>16,704</u>	<u>3,389</u>
Reinsurance recoveries	4	<u>(1,178)</u>	<u>(202)</u>
Workers Compensation Premiums collected:			
General Government Sector		19,315	4,520
Public Trading Enterprises		4,808	885
		<u>24,123</u>	<u>5,405</u>
		<u>39,649</u>	<u>8,592</u>
All underwriting revenues relate to operating activities.			
(b) Underwriting expense			
Gross claims expense	4	15,668	737
Outwards reinsurance premium expense	3	4,595	632
Workers Compensation premiums expense		23,849	5,432
Other underwriting income	5	(1,616)	(141)
		<u>42,496</u>	<u>6,660</u>
(c) Underwriting result			
Underwriting revenues		39,649	8,592
Underwriting expenses		(42,496)	(6,660)
		<u>(2,847)</u>	<u>1,932</u>

Note 3. Net earned premiums

	Notes	2002 \$'000	April to June 2001 \$'000
Gross earned premiums			
General Government Sector	2	14,024	2,719
Public Trading Enterprises	2	2,655	670
External	2	25	-
		<u>16,704</u>	<u>3,389</u>
Outwards reinsurance premium expense	2	<u>4,595</u>	<u>632</u>
Net earned premiums		<u>12,109</u>	<u>2,757</u>

PART E – FINANCIAL AND PERFORMANCE STATEMENTS

Note 4. Net incurred claims

Claims development

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.

	2002			April to June 2001		
	Current Year \$'000	Prior Years \$'000	Total \$'000	Current Year \$'000	Prior Years \$'000	Total \$'000
Gross incurred claims and related expenses						
- Undiscounted	16,962	-	16,962	677	-	677
- Discounted	(1,294)	-	(1,294)	60	-	60
	<u>15,668</u>	<u>-</u>	<u>15,668</u>	<u>737</u>	<u>-</u>	<u>737</u>
Reinsurance and other recoveries						
- Undiscounted	2,033	-	2,033	275	-	275
- Discounted	(855)	-	(855)	(73)	-	(73)
	<u>1,178</u>	<u>-</u>	<u>1,178</u>	<u>202</u>	<u>-</u>	<u>202</u>
Net incurred claims	<u>16,846</u>	<u>-</u>	<u>16,846</u>	<u>939</u>	<u>-</u>	<u>939</u>

Note 5. Other underwriting revenue

Individually significant item

During the last financial year, one of the Authority's reinsurers, HIH Insurance Limited, was placed in provisional liquidation. A provision for doubtful debt of \$2,305,000 was made in that year. During the prior period, this provision was revised down by \$141,000 to \$2,163,000. The provision has been revised down further in the current year by \$1,616,000 to \$547,000.

	2002 \$'000	April to June 2001 \$'000
Reinsurance and other recoveries provision	<u>1,616</u>	<u>141</u>

PART E – FINANCIAL AND PERFORMANCE STATEMENTS

Note 6. Income tax

	2002 \$'000	April to June 2001 \$'000
(a) The income tax equivalent expense for the financial year differs from the amount calculated on the profit. The differences are reconciled as follows:		
Profit from ordinary activities before income tax equivalents	(1,474)	2,251
Income tax equivalents calculated at 30% (2001: 34%)	(442)	765
Tax effect of permanent difference:		
Abnormal income tax items:		
Restatement of deferred tax balances due to change in company tax rate	-	(16)
Income tax equivalent expense adjusted for permanent differences	<u>(442)</u>	<u>749</u>
Income tax equivalent expense comprises:		
Deferred income tax equivalent provision	19	126
Future income tax equivalent benefit	(461)	(4)
Current taxation provision	-	627
	<u>(442)</u>	<u>749</u>
Adjustment to deferred income tax balances		
Legislation reducing the company tax rate from 34% to 30% in respect of 2001-2002 income tax year was announced on 21 September 1999 and received Royal Assent on 10 December 1999. As a consequence, deferred tax balances which are expected to reverse in the 2002-2003 income year have been remeasured using appropriate new rates, depending on the timing of their reversal.		
(b) Provision for current income tax equivalents		
Provision for current income tax equivalents	<u>-</u>	<u>627</u>
(c) Provision for deferred income tax equivalents		
Provision for deferred income tax equivalents comprises the estimated expense at the applicable rate of 30%, depending on when the component of the liability is expected to be realised (2001: 34%) on the following items:		
Provision for deferred income tax:		
- Tax losses	-	-
- Timing differences	19	126
	<u>19</u>	<u>126</u>
(d) Future income tax equivalent benefit		
Future income tax equivalent benefit comprises the estimated future benefit at the applicable rate of 30%, depending on when the benefit of the component is expected to be realised (2001: 34%) on the following items:		
Tax losses	214	-
Timing differences	247	4
	<u>461</u>	<u>4</u>

PART E – FINANCIAL AND PERFORMANCE STATEMENTS

Note 7. Cash

	2002 \$'000	2001 \$'000
Cash at bank and on hand	<u>43,982</u>	<u>34,847</u>

The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:

Balances per statement of cash flows (as above)	<u>43,982</u>	<u>34,847</u>
---	---------------	---------------

Surplus funds are held as investments with the Central Financing Unit Departmental account. The balance of funds is 'at-call' and is required as liquid investment. In the preparation of the 2001/2002 budget the amounts shown above for cash were classified as investments.

Note 8. Receivables

	2002 \$'000	2001 \$'000
Current		
Interest receivable	484	421
Insurance premiums receivable	-	317
Workers' Compensation premiums receivable	150	411
Other receivables	<u>393</u>	<u>5</u>
	1,027	1,154
Less: Provision for doubtful debts	<u>(150)</u>	<u>-</u>
	<u>877</u>	<u>1,154</u>

Aging of receivables

Receivables are Aged as Follows:

Not overdue	877	1,154
Overdue for less than 30 days	-	-
Overdue for 30 to 60 days	-	-
Overdue for more than 60 days	150	-
Less: Total allowance for Doubtful debts	<u>(150)</u>	<u>-</u>
	<u>877</u>	<u>1,154</u>

Split of Government/Non-Government Entities

Receivables with Other ACT Government Entities

Interest receivable	484	421
Workers' Compensation premiums receivable	-	214
Other receivables	<u>370</u>	<u>5</u>
	854	640

Receivables with Entities Outside Government

Insurance premiums receivable	-	317
Workers' Compensation premiums receivable	-	197
Other receivables	<u>23</u>	<u>-</u>
	<u>23</u>	<u>514</u>
	<u>877</u>	<u>1,154</u>

PART E – FINANCIAL AND PERFORMANCE STATEMENTS

Note 9. Other assets

	2002 \$'000	2001 \$'000
Current		
Prepayments	7	-
Prepaid income tax equivalent	<u>30</u>	<u>-</u>
	<u>37</u>	<u>-</u>

Note 10. Reinsurance and other recoveries receivable

	2002 \$'000	2001 \$'000
(a) Non-current		
Expected future recoveries (undiscounted)	2,181	4,215
Discount to present value	<u>(269)</u>	<u>(1,126)</u>
Reinsurance and other recoveries receivable (before provision)	1,912	3,089
<i>Less: Provision for doubtful debts</i>	<u>(547)</u>	<u>(2,163)</u>
	<u>1,365</u>	<u>926</u>

Note 11. Payables

	2002 \$'000	2001 \$'000
Trade creditors	<u>49</u>	<u>17</u>
	<u>49</u>	<u>17</u>
Aging of payables		
Payables are Aged as Follows:		
Not overdue	<u>49</u>	<u>17</u>
	<u>49</u>	<u>17</u>
Split of Government/Non-Government Entities		
Payables with Other ACT Government Entities		
Trade creditors	<u>7</u>	<u>17</u>
	<u>7</u>	<u>17</u>
Payables with Entities Outside Government		
Trade creditors	<u>42</u>	<u>-</u>
	<u>42</u>	<u>-</u>
	<u>49</u>	<u>17</u>

PART E – FINANCIAL AND PERFORMANCE STATEMENTS

Note 12. Outstanding claims

	2002 \$'000	2001 \$'000
(a) Expected future claim payments		
Central estimate	47,590	36,556
Prudential margin	4,996	3,838
Handling costs	2,380	1,828
	<u>54,966</u>	<u>42,222</u>
Discount to present value	(9,796)	(8,502)
Liability for outstanding claims	<u>45,170</u>	<u>33,720</u>
Current	14,003	10,453
Non-current	31,167	23,267
	<u>45,170</u>	<u>33,720</u>
(b) the following average inflation (normal and superimposed) rates and discount rates were used in the measurement of outstanding claims		
	2002	2001
For the succeeding year		
Inflation rate	5.76%	6.04%
Discount rate	5.76%	6.04%
For the subsequent year		
Inflation rate	5.76%	6.04%
Discount rate	5.76%	6.04%
(c) The weighted average expected term to settlement of the outstanding claims from the balance date is estimated to be 7 years (2001 – 7 years).		

Note 13. Provisions

	2002 \$'000	2001 \$'000
Current		
Salaries payable	18	-
Employee entitlements	43	25
	<u>61</u>	<u>25</u>
Non-current		
Employee entitlements	97	58
	<u>97</u>	<u>58</u>
Employee numbers	2002	2001
Average number of employees during the financial year	Number <u>4</u>	Number <u>4</u>

Superannuation

Staff of the Authority contribute to the Commonwealth Superannuation Scheme (CSS) and the Public Sector Superannuation Scheme (PSS). The employer contributions for the year are recognised as part of employee expenses. The amount is calculated using actual staffing profiles.

PART E – FINANCIAL AND PERFORMANCE STATEMENTS

Note 14. Equity

	2002 \$'000	2001 \$'000
Contributed capital	<u>856</u>	<u>856</u>

The capital of ACTIA was contributed on 1 April 2001 on the formation of ACTIA under the *ACT Insurance Authority Act 2000*.

Note 15. Retained profits

	2002 \$'000	2001 \$'000
Retained profits at the beginning of the financial year	1,502	-
Net profit/(loss) attributable to the Authority	<u>(1,032)</u>	<u>1,502</u>
Retained profits at the end of the financial year	<u>470</u>	<u>1,502</u>

Note 16. Reconciliation of Equity Fund

Total equity at the beginning of the financial year	2,358	-
Contributed capital	-	856
Operating profit/(loss)	<u>(1,032)</u>	<u>1,502</u>
Total equity at the end of the financial year	<u>1,326</u>	<u>2,358</u>

PART E – FINANCIAL AND PERFORMANCE STATEMENTS

Note 17. Financial instruments

(a) Accounting Policies, Terms & Conditions

The accounting policies and terms and conditions for each class of financial asset and liability are detailed below. The *Financial Management Act 1996* prohibits the use of financial derivative in the management of investments.

Recognised Financial Instruments	Accounting Policies	Terms and Conditions
<u>Financial Assets</u>		
Cash at Bank	Cash at bank is stated at its nominal amount	The Unit is required to bank with the Government's preferred banking institution, currently the Commonwealth Bank of Australia. Interest earned on credit balances of the operating account is paid on a monthly basis.
Receivables	Receivables are recognised at the nominal amount due, less any provision for bad or doubtful debts.	The Departments trading terms are for payment within 30 days from the date of invoice.
Investments	Investments are recorded at market value. The Statement of Financial Performance reports all interest that has been earned.	All investments are managed by the Central Financing Unit Departmental account. All investments are tradable and are managed accordingly with regard to current market interest rates.
<u>Financial Liabilities</u>		
Creditors	Creditors are recognised at their nominal value, for goods received, whether or not the Department has received an invoice.	Creditors are normally settled within 30 days.

(b) Derivative instruments

The Agency is not party to derivative financial instruments.

(c) Net fair value of financial assets and liabilities

The net fair value of financial assets and financial liabilities approximates their carrying amounts. As noted in accounting policy note 1(f), investments are measured at net market value at balance date.

(d) Credit risk exposures

The credit risk on financial assets which have been recognised on the statement of financial position is generally the carrying amount, net of any provisions for doubtful debts and the net unearned premium component in respect of premiums receivable. Regarding related party receivables from the ACT Government, the ACT Government has the highest credit rating available, this being short term, A1+ and long term, AAA.

(e) Interest rate risk exposures

The Agency's exposure to interest rate risk is managed primarily through adjustments to existing investment portfolios. There are no interest rate derivatives open at balance date. The Agency's exposure to interest rate risk and the effective weighted average interest rate by maturity periods is set out in the following table.

PART E – FINANCIAL AND PERFORMANCE STATEMENTS

2002	Notes	Fixed interest maturing in:					Total \$'000
		Floating interest rate \$'000	1 year or less \$'000	over 1 to 5 years \$'000	more than 5 years \$'000	Non- interest bearing \$'000	
Financial assets							
Cash	7	43,982	-	-	-	-	43,982
Receivables	8,10	-	-	-	-	2,242	2,242
Other	9	-	-	-	-	37	37
		<u>43,982</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,279</u>	<u>46,261</u>
Weighted average interest rate		5.1%	-	-	-		
Financial liabilities							
Payables	11	-	-	-	-	67	67
Claims outstanding	12	-	-	-	-	45,170	45,170
		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>45,237</u>	<u>45,237</u>
Weighted average interest rate		-	-	-	-		
Net financial assets/(liabilities)		<u>43,982</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(42,958)</u>	<u>1,024</u>

Reconciliation of Net Financial Assets to Net Assets	Notes	2002 \$'000)
Net Financial Assets (as above)		1,024
Provisions	15	(140)
Tax provisions		(19)
Future income tax benefit		461
Net Assets as per Statement of Financial Position		<u>1,326</u>

2001	Notes	Fixed interest maturing in:					Total \$'000
		Floating interest rate \$'000	1 year or less \$'000	over 1 to 5 years \$'000	more than 5 years \$'000	Non- interest bearing \$'000	
Financial assets							
Cash	7	34,847	-	-	-	-	34,847
Receivables	8,10	-	-	-	-	2,080	2,080
		<u>34,847</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,080</u>	<u>36,927</u>
Weighted average interest rate		5.1%	-	-	-		
Financial liabilities							
Payables	11	-	-	-	-	17	17
Claims outstanding	12	-	-	-	-	33,720	33,720
		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>33,737</u>	<u>33,737</u>
Weighted average interest rate		-	-	-	-		
Net financial assets/(liabilities)		<u>34,847</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(31,657)</u>	<u>3,190</u>

Reconciliation of Net Financial Assets to Net Assets	Notes	2001 \$'000
Net Financial Assets (as above)		3,190
Employee Entitlements	13	(83)
Future income tax benefit		4
Tax provisions		(753)
Net Assets as per Statement of Financial Position		<u>2,358</u>

PART E – FINANCIAL AND PERFORMANCE STATEMENTS

Insert Financial Statements

Note 18. Remuneration of directors

	2002	2001
	\$	\$
Income paid or payable to directors in connection with the management of affairs of the authority.		
	<u>30,000</u>	<u>7,500</u>

The numbers of directors whose total income from the company was within the specified bands are as follows:

	\$	\$	2002	2001
	0	9,999	-	2
	10,000	19,999	2	-

Note 19. Remuneration of auditors

	2002	2001
	\$	\$
Remuneration of the auditors of the Authority for:		
Audit of the financial report	<u>19,000</u>	<u>18,080</u>

Note 20. Reconciliation of net profit/(loss) to net cash inflow from operating activities

	2002	2001
	\$'000	\$'000
Net profit/(loss)	(1,032)	2,251
Change in operating assets and liabilities, net of effects from purchase of business		
Decrease/(increase) in insurance premiums receivable	317	1,088
Decrease/(increase) in workers compensation receivable	411	
Increase/(decrease) in reinsurance receivable	(439)	-
Increase/(decrease) in interest receivable	(63)	-
Increase/(decrease) in other receivables	(388)	6,064
Increase/(decrease) in other assets	(37)	-
Increase/(decrease) in payables	50	16
Decrease/(increase) in unearned premiums	-	(8,794)
Increase/(decrease) in outstanding claims	11,450	420
Increase/(decrease) in tax benefits	(457)	-
Decrease/(increase) in tax provision	(627)	-
Decrease/(increase) in deferred tax provision	(107)	
Increase/(decrease) in employee provisions	57	(14)
Net cash inflow from operating activities	<u>9,135</u>	<u>1,031</u>

Note 21. Related parties

Names of persons who were directors of the ACT Insurance Authority at any time during the financial year are as follows:

R Broughton; R Spinley; S Clark; P Gregory; J McKinnon and P Matthews.

The only payments to related parties are the income amounts outlined in Note 18.

PART E – FINANCIAL AND PERFORMANCE STATEMENTS

Insert Financial Statements

Note 18. Remuneration of directors

	2002	2001
	\$	\$
Income paid or payable to directors in connection with the management of affairs of the authority.		
	<u>30,000</u>	<u>7,500</u>

The numbers of directors whose total income from the company was within the specified bands are as follows:

	\$	\$	2002	2001
0		9,999	-	2
10,000		19,999	2	-

Note 19. Remuneration of auditors

	2002	2001
	\$	\$
Remuneration of the auditors of the Authority for:		
Audit of the financial report	<u>19,000</u>	<u>18,080</u>

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	\$'000	\$'000
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Decrease/(increase) in insurance premiums receivable	317	1,088
Decrease/(increase) in workers compensation receivable	411	
Increase/(decrease) in reinsurance receivable	(439)	-
Increase/(decrease) in interest receivable	(63)	-
Increase/(decrease) in other receivables	(388)	6,064
Increase/(decrease) in other assets	(37)	-
Increase/(decrease) in payables	50	16
Decrease/(increase) in unearned premiums	-	(8,794)
Increase/(decrease) in outstanding claims	11,450	420
Increase/(decrease) in tax benefits	(457)	-
Decrease/(increase) in tax provision	(627)	-
Decrease/(increase) in deferred tax provision	(107)	
Increase/(decrease) in employee provisions	57	(14)
Net cash inflow from operating activities	<u>9,135</u>	<u>1,031</u>

Note 21. Related parties

Names of persons who were directors of the ACT Insurance Authority at any time during the financial year are as follows:

R Broughton; R Spinley; S Clark; P Gregory; J McKinnon and P Matthews.

The only payments to related parties are the income amounts outlined in Note 18.

PART E – FINANCIAL AND PERFORMANCE STATEMENTS

ACT INSURANCE AUTHORITY STATEMENT OF PERFORMANCE

For Period Ending 30 June 2002

Measure	Original Target	Result	Variance from Target %	Explanation of Material Variances
Responses on insurance and risk management issues	400	Not measured	-	Not measured because there were no procedures in place to record telephone call. However 897 emails and ministerials were received.
Review risk levies for agencies	1	1	0	
Placement of Authority's insurance	1	1	0	
Quarterly reports on claims	4	2	(50)	A claims review was planned for November as the London insurers on medical negligence were due in Sydney at that time, but they had to return to London prior to the appointment. A claims review was conducted in September 2001 but a report was not written. The reporting process is evolving as the Authority develops.
Conduct risk management training courses	2	6	200	A full time risk manager was employed which has increased the training resources of the Authority
Insurance invoices issued	80	230	188	Workers comp. Had to be invoiced twice (once for premium & once for salary adjust 00/01). Original estimate did not include all invoice types
Management of insurance claims	30	76	153	More claims received than expected in the first year of the Authorities operations.

PART E – FINANCIAL AND PERFORMANCE STATEMENTS

Management Discussion and Analysis ACT Insurance Authority Financial Year Ended 30 June 2002

General Overview

Strategies and Objectives

The objectives of the Authority are to:

- enable the Territory to meet the cost of its insurable claims and losses in an orderly, timely and cost effective manner;
- ensure the costs are fully reflected in the Territory's accounts in accordance with accrual accounting principles;
- protect the Territory's budget from the risk of very large claims; and
- improve risk management practices in all agencies.

Risk Management

The Authority's management has identified the following potential risks that may influence the future financial position of the Authority.

- Inadequate cash reserves within the ACTIA fund to meet the cost of future insurance claims on the Territory.
- Insufficient reinsurance coverage due to reduced reinsurance market capacity. Self-insured retention levels are now at a level considered to be the maximum prudent.
- Reduced investment income due to a subdued investment market

Departmental Financial Performance

The following financial information is based on audited Financial Statements for 2000-01 and 2001-02, and the forward estimates contained in Budget Paper Number 4 2002-03.

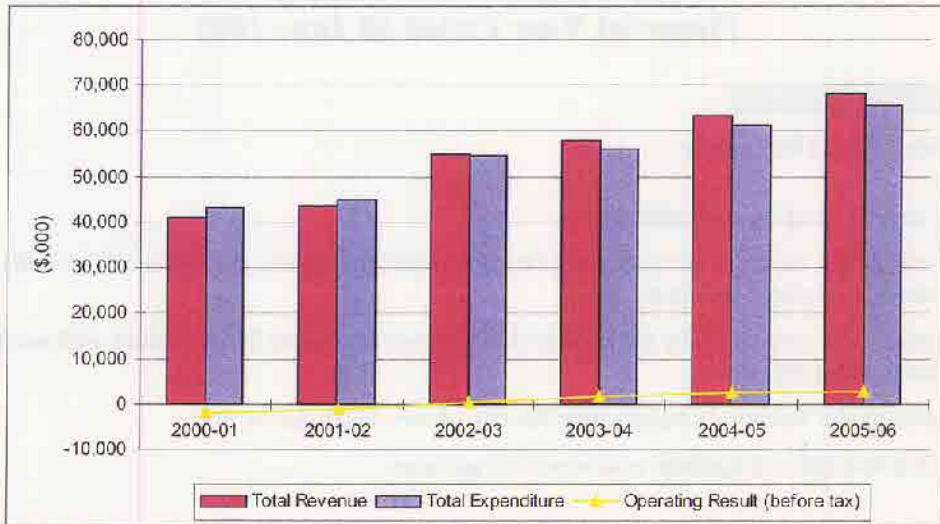
For the purposes of this Management Discussion and Reporting Analysis, the consolidated results of the Insurance Management Department and the ACT Insurance Authority for 2000-01 have been used. This provides a meaningful comparison of the full year equivalent results against the 2001-02 financial year.

Operating Result

The operating result before tax for the 2001-02 financial year is an operating deficit from ordinary activities of **\$1.5m**. This result was **\$4.0m** worse than the revised budget, due to increases in claims provisioning. However, the actual operating loss decreased by **\$0.5m** from the previous year, due to increases in annual insurance premiums to raise the level of reserves held in order to meet future claims.

PART E – FINANCIAL AND PERFORMANCE STATEMENTS

Figure 1
Statement of Financial Performance Trends

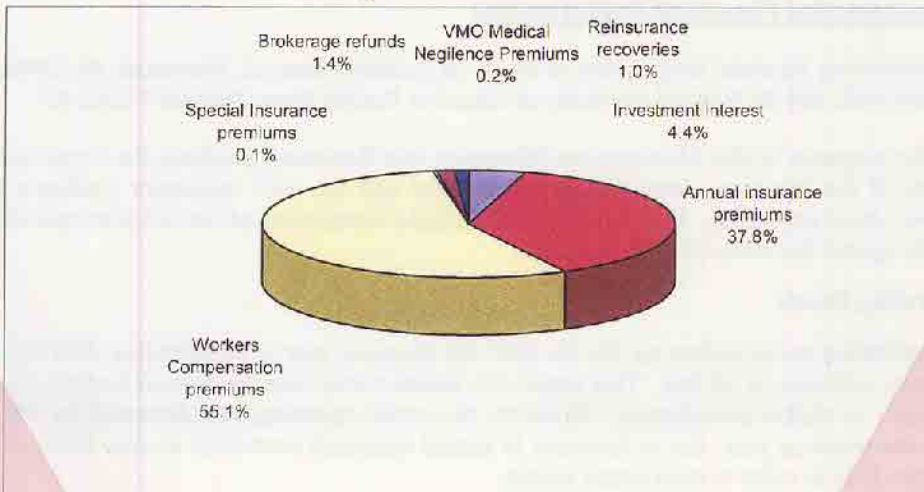


As Figure 1 illustrates, the Authority forecasts increasing revenue and expenses, with the operating surplus from ordinary activities to increase reflecting reserves to meet the cost of future claims.

Total Revenue

As illustrated in Figure 2, the Authority derives 55% of its revenue from agency reimbursement for the workers compensation premium, 38% from annual insurance premiums, 4% from investment returns and a further 3% from other sources.

Figure 2
Components of Revenue 2001-02



PART E – FINANCIAL AND PERFORMANCE STATEMENTS

Total revenue for the year ending 30 June 2002 was marginally higher (**\$0.1m**) at **\$43.8m** than the revised budget of **\$43.7m**. The increase is due to revised reinsurance recoveries. It is expected that the total cost of claims against the Forestry policy for 2001-02 will exceed the reinsurance threshold.

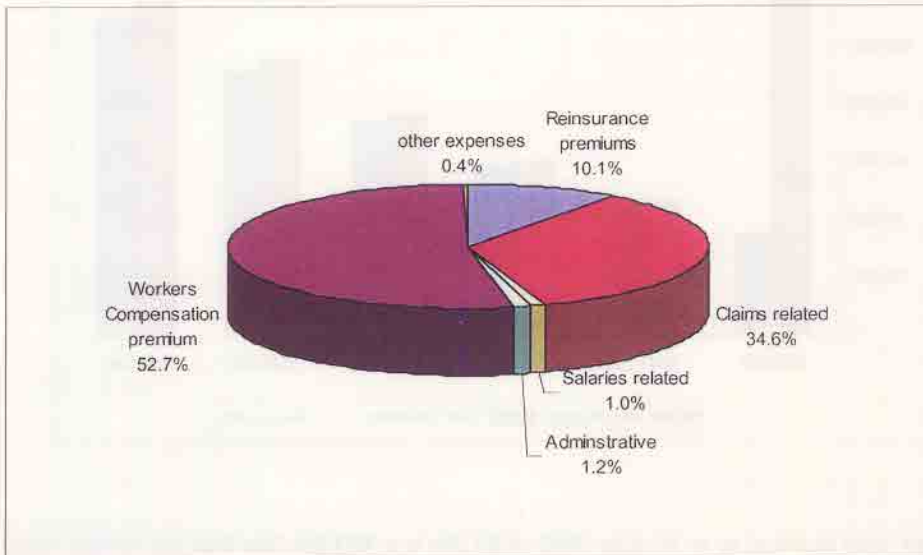
Total revenue was **\$2.7m (7%)** greater than revenue in the previous year as the annual premiums were increased to build up a reserve to pay claims in future years.

Revenue is budgeted to increase in 2002-03 by **\$11.0m**. There are two main reasons for this increase. Annual premiums increased (**\$3.7m**) in order to build up sufficient reserves to meet the cost of future claims and to reflect the cost of buying insurance in the current market. Other revenue increased (**\$7.3m**) due to the expected increase in workers compensation premium collections and additional premiums for visiting medical officers.

Total Expenditure

As the Authority's core business objective is to cover the insurable risks of Territory agencies, the main expenditure items during the year were insurance claims related and the payment of the workers compensation premium on behalf of the Territory.

Figure 3
Components of Expenditure 2001-02



Total expenditure of **\$45.3m** was **\$4.2m (10%)** greater than the revised budget of **\$41.1m**. This increase relates to a higher level of claims provisioning.

Total expenditure of **\$45.3m** during the year was an increase of **\$2.2m (5%)** from the prior year due to increases in the workers compensation premium and claims provisioning.

PART E – FINANCIAL AND PERFORMANCE STATEMENTS

Expenditure is budgeted to increase in 2002-03 by **\$9.4m** due to a further increase in external claims incurred and claim payments. It is anticipated that expenditure will further increase in the forward years as the expected cost of claims rises.

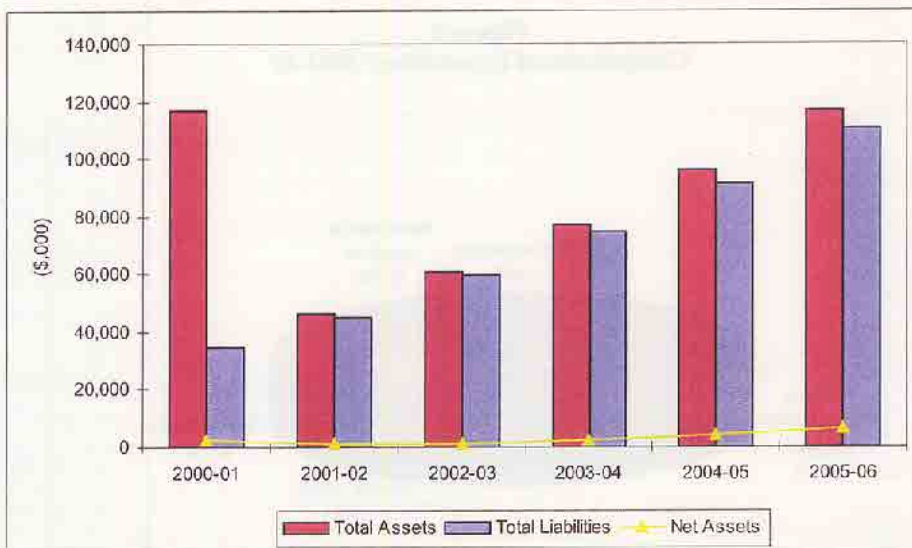
Departmental Financial Position

Key indicators of the health of the Authority's financial position are its ability to sustain its asset base, the ability to pay debts falling due in the short term, and maintaining prudent levels of longer term liabilities.

Sustained Asset Base

The ability of the Authority to sustain its assets base is indicated by changes in its net assets. As Figure 4 below illustrates, the Authority maintains a net asset position, even though it has a large quantity of claim related liabilities, in comparison with its assets.

Figure 4
Summary Statement of Financial Position



The net asset position as at 30 June 2002 of **\$1.3m** was **\$13.2m** less than the revised budget due to the increased claims liability. The Authority's net asset position has decreased by **\$1.1m** from the prior year's position of **\$2.4m**, indicating the building of reserves to meet the cost of future claims.

At call investments comprise **98%** of the Authority's current assets, with reinsurance recoveries accounting for **61%** and tax adjustments accounting for **39%** of non-current assets.

Outstanding claims account for **98%** of the Authority's liabilities.

PART E – FINANCIAL AND PERFORMANCE STATEMENTS

Liquidity

'Liquidity' is the ability of the Authority to satisfy its short-term debts as they fall due. A common indicator for liquidity is the current ratio, which compares the ability to fund short term liabilities from short term assets. A ratio greater than 1-to-1 indicates a good ability to satisfy current obligations.

Table 5 below illustrates the liquidity position of the Authority.

Table 5
Liquidity Data and Ratios

	Prior Year Actual	Current Year	Current Year	Forward Year	Forward Year	Forward Year
	\$'000s 2000-01	Budget \$'000s 2001-02	Actual \$'000s 2001-02	Budget \$'000s 2002-03	Budget \$'000s 2003-04	Budget \$'000s 2004-05
Total Current Assets	36,001	47,306	44,896	60,549	76,820	95,545
Total Current Liabilities	11,248	5,585	14,553	17,898	19,488	20,750
Current Ratio	3.2:1	8.5:1	3.1:1	3.4:1	3.9:1	4.6:1

The Authority's current ratio for the financial year is **3.1 to 1**, and improves slightly in the forward years. This indicates that the Authority has the capacity to repay all current liabilities 3 times over, reflecting the fact that all reserves are held in liquid investments.

Long Term Liabilities

The majority of the Authority's non-current liabilities relate to future claim awards and settlements that will be made against the Territory.

The Authority's non-current liabilities for the year ended 30 June 2002 are **\$31.3m**, which is **\$4.0m** greater than the revised budget due to increased claims provisioning. The end of financial year position, is **\$8.0m** more than prior year also due to increased claims provisioning. Non-current liabilities will increase in the forward years as the number of long tail claims against the Authority's fund grows.

The 'financial assets to liabilities' measure is an indicator of financial strength and represents the ability to meet current and recognised future obligations, from those assets capable of conversion to cash. Financial assets include cash, investments and receivables. The ratio for 30 June 2002 is **1 to 1**, remaining constant in the forward years.

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