ACTIA
Australian Capital Territory Insurance Authority

ANNUAL REPORT
2015–16

ACT Insurance Authority

ACT Insurance Authority

The Australian Capital Territory Insurance Authority (the Authority) is established under Section 7 of the *ACT Insurance Authority Act 2005*. The Authority meets the insurable claims and losses of ACT Government agencies.

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.

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TRANSMITTAL CERTIFICATE

ACTIA
Australian Capital Territory Insurance Authority

Mr Andrew Barr MLA
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 2016.

This Report has been prepared under section 6(1) of the *Annual Reports (Government Agencies) Act 2004* and in accordance with the requirements under the Annual Report Directions.

It has been prepared in conformity with other legislation applicable to the preparation of the Annual Report by the ACT Insurance Authority.

I certify that information in the attached Annual Report, and information provided for whole of government reporting, is an honest and accurate account and that all material information on the operations of the ACT Insurance Authority has been included for the period 1 July 2015 to 30 June 2016.

I hereby certify that fraud prevention has been managed in accordance with Public Sector Management Standards, Part 2.

Section 13 of the *Annual Reports (Government Agencies) Act 2004* requires that you cause a copy of the Report to be laid before the Legislative Assembly within 4 months of the end of the financial year.

Yours sincerely

David Nicol
Under Treasurer
Chief Minister, Treasury and Economic Development Directorate
Delegate for the Chief Executive Officer
6 October 2016

GPO Box 158, Canberra ACT 2601 | phone: 6207 0184 | http://www.cwd.act.gov.au/act-insurance-authority
3rd floor, Canberra Nara Centre,
Cnr London Circuit & Constitution Avenue, CANBERRA CITY

COMPLIANCE STATEMENT

The *2015-16 ACT Insurance Authority Annual Report* must comply with the 2015 Annual Report Directions (the Directions). The Directions are found at the ACT Legislation Register: http://www.legislation.act.gov.au/ni/annual/2015.asp.

The Compliance Statement indicates the subsections, under the five parts of the Directions that are applicable to the ACT Insurance Authority. The location of information that satisfies these requirements are:

PART 1 DIRECTIONS OVERVIEW

The requirements under Part 1 of the Directions relate to the purpose, timing and distribution, and records keeping of annual reports. This Annual Report complies with all subsections of Part 1 under the Directions.

In compliance with Section 13 Feedback, Part 1 of the Directions, contact details for the Authority are provided within the ACT Insurance Authority Annual Report on page ii to provide readers with the opportunity to provide feedback.

PART 2 AGENCY ANNUAL REPORT REQUIREMENTS

The requirements within Part 2 of the Directions are mandatory for all agencies and the Authority complies with all subsections as follows:

A. Transmittal Certificate, page 2.

B. Organisational Overview and Performance, inclusive of all subsections, page 4.

C. Financial Management Reporting, inclusive of all subsections, page 21.

PART 3 REPORTING BY EXCEPTION

The Authority has nil information to report by exception under Part 3 subsection D of the Directions for the 2015-16 reporting period.

PART 4 AGENCY SPECIFIC ANNUAL REPORT REQUIREMENTS

Part 4 subsections E - L of the Directions is not applicable to the Authority.

PART 5 WHOLE OF GOVERNMENT ANNUAL REPORTING

All sections of Part 5 subsections M – P of the Directions apply to the Authority. Consistent with the Directions, the information satisfying these requirements is reported in the one place for all ACT Public Service Directorates, as follows:

M. Community Engagement and Support, see the 2015-16 annual report of the Chief Minister, Treasury and Economic Development Directorate;

N. Justice and Community Safety, including all subsections N.1 – N.4, see the 2015-16 annual report of the Justice and Community Safety Directorate;

O. Public Sector Standards and Workforce Profile, including all subsections O.1 – O.3, see the 2015-16 annual report of the State of the Service Report produced by the Commissioner for Public Administration; and

P. Territory Records see the 2015-16 annual report of the Chief Minister, Treasury and Economic Development Directorate.

ACT Public Service Directorate annual reports are found at the following web address: www.cmd.act.gov.au/open_government/report/annual_reports.

B. ORGANISATIONAL OVERVIEW AND PERFORMANCE

B.1 ORGANISATIONAL OVERVIEW

The Australian Capital Territory Insurance Authority (the Authority) is established under Section 7 of the *ACT Insurance Authority Act 2005* (the Act).

The Act establishes the Authority as the ACT Government's captive insurer providing insurance services to all ACT Government Directorates and statutory authorities, to meet the insurable claims and losses of ACT Government agencies.

The Authority's captive insurance model protects the ACT Government budget from a range of catastrophic and accumulated risk exposures through its reinsurance arrangements, and the accumulation of a fund reserve to meet the cost of future legal liabilities and asset losses generated through the activities of Government.

The Authority works to protect the assets and services of the Territory by providing risk management and insurance services to a large and diverse group of ACT Government client agencies and entities.

The portfolio represents over $23 billion of insured assets, with annual premium revenue of $56.9 million, and $377 million in investments and other assets.

The Authority reported to the Treasurer through the Under Treasurer Chief Minister, Treasury and Economic Development Directorate and is financed through risk-based premiums that reflect the asset holdings and liability risks faced by each agency.

The Authority is supported by the ACTIA Advisory Board (the Board) appointed under the Authority's enabling legislation. The current members are Mrs Maxine McDowell (Chair) and Mr David Sandoe (member).

The Board continues to provide important and valuable input to the Authority, particularly in relation to a strategic approach to its reinsurance program, the identification of emerging risks and improvements to risk and claims management activities. Details of Board members qualifications and experience appear under Advisory Board in Section B.1.4.

The Authority also performs the function of Fund Manager for the Office of the Nominal Defendant of the ACT, for default claims under the ACT Compulsory Third Party Insurance Scheme and the Default Insurance Fund, for default claims under the ACT Private Workers' Compensation Scheme.

B.1.1 FUNCTIONS

The functions of the Authority are specified in Section 8 of the Act and include:

- to carry on the business of insurer of Territory risks;
- to take out insurance of Territory risks with other entities;
- to satisfy or settle claims in relation to Territory risks (including claims that may not necessarily be valid in law);
- with the Treasurer's approval take action, for the realising, enforcing, assigning or extinguishing rights against third parties arising out of or in relation to its business, including, for example:
  - taking possession of, dealing with or disposing of, property; or
  - carrying on a third party's business as a going concern.
- develop and promote good practices for the management of Territory risks; and
- give advice to the Treasurer about insurance and the management of Territory risks;

In addition, the Authority also performs the function of:

- the Office of the Nominal Defendant of the ACT, for claims against uninsured/unidentified vehicles for the ACT Compulsory Third Party Insurance Scheme; and
- the Default Insurance Fund, for default claims under the ACT Private Workers' Compensation Scheme.

B.1.2 CLIENTS

The Authority insures all ACT Government Directorates and Statutory Authorities. The core services provided to Directorates are: insurance via indemnity agreements, claims and risk management services.

The insurance coverage provided is broad form cover that includes:

> public liability;

> medical malpractice;

> professional indemnity;

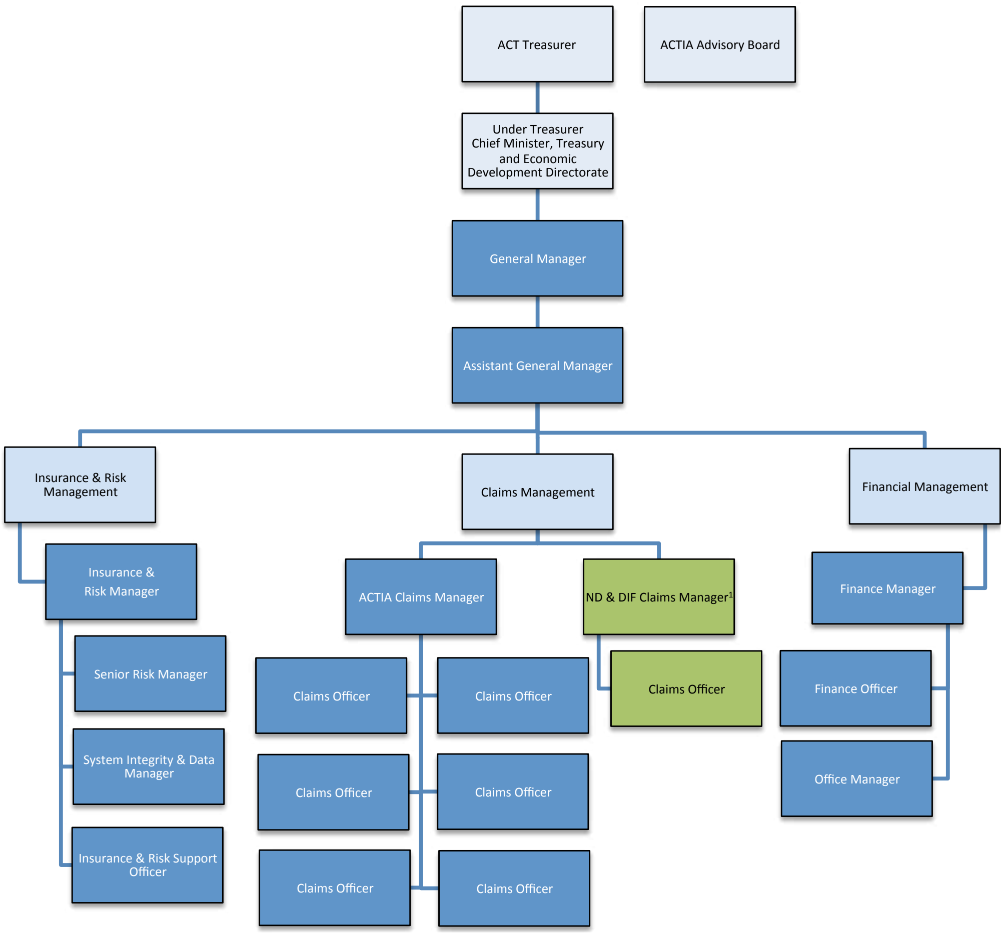
> property damage; and

> others including standing timber, specialised motor, overseas travel, directors and officers and financial crime.

B.1.3 ORGANISATIONAL STRUCTURE

The Authority is responsible to the ACT Treasurer and operates under the *Insurance Authority Act 2005*. Under the Act the Director-General is the Chief Executive Officer and an advisory board is established. The ACT Insurance Authority operates under the Chief Minister, Treasury and Economic Development Directorate.

There have not been any major structural changes to the Authority during the reporting period. The senior management structure and function units of the Authority at 30 June 2016 are as follows:



[1] *The Default Insurance Fund (DIF) for the ACT Private Workers' Compensation Scheme is managed by ACTIA under a Memorandum of Understanding with the Chief Minister, Treasury and Economic Development Directorate. In addition, the Office of the Nominal Defendant of the ACT (ND) is also managed by ACTIA.*

Executive Remuneration

Executives employed by the Authority were paid in accordance with the Determinations of the ACT Remuneration Tribunal and relevant laws and instruments, including the *Public Sector Management Act 1994* and the *Public Sector Management Standards 2006*.

B.1.4 INTERNAL ACCOUNTABILITY

Advisory Board

The Board is appointed under Section 12 and 14 (2) of the Act in accordance with *Insurance Management Guidelines 2005 (No. 1)*. The Board must consist of two members appointed by the Authority who must, in the opinion of the Authority, possess sufficient skill and judgement with respect to the following:

> at the request of the Treasurer or the Authority, providing advice to the Treasurer or the Authority on any question relating to the exercise by the Authority of its powers, functions or duties under the Act; and

> if, in the opinion of the Board, it should provide advice to the Treasurer or the Authority on any matter relating to the exercise by the Authority of its powers, functions or duties under the Act—providing advice on its own initiative.

In regard to these appointments, the Under Treasurer, Chief Minister, Treasury and Economic Development Directorate is the Authority and the appointees are selected based on skills relevant to the above requirements. Appointments must not exceed 3 years and can be revoked by the Authority for misconduct, neglect of duty or if the member becomes unable to carry out the duties of the office satisfactorily.

The Board members are:

Name of Member	Position	Duration	Meetings Attended
Mrs Maxine McDowell	Member	July 15 to June 16	4 of 4
Mr David Sandoe	Member	July 15 to June 16	4 of 4

Mr David Sandoe OAM - Dip BIA, MBA, ANZIIF (Fellow) CIP, MCMI, FAIM, FAICD. Mr Sandoe has over 45 years insurance and financial services industry experience in Australia, New Zealand, UK and Ireland. This included senior executive roles with South British United/New Zealand Insurance and Zurich Financial Services and as a Principal and General Manager of Finity Consulting, an independently owned Australian firm of actuaries and insurance consultants. He is an independent board member of Defence Service Homes Insurance Scheme Advisory Board and is an Honorary Life Member of the Australian & New Zealand Institute of Insurance & Finance, is an Honorary Life Member of the Swiss Australian Chamber of Commerce and Industry (now SwissCham Australia) and Prostate Cancer Foundation of Australia. He retired as National Chairman of Prostate Cancer Foundation of Australia on 31 March 2015.

Mrs Maxine McDowell (Chair) - Grad Mgt. UTS, ANZIIF (Fellow) CIP. Mrs McDowell has had over 41 years experience in managing general insurance underwriting, risk management, marketing and claims. This experience includes consulting roles with Finserv Consulting Pty Ltd and National Insurance Brokers Association (NIBA), also underwriting management roles with Vero Insurance, QBE Insurance Ltd, Calliden Insurance Group and Harbour Pacific Underwriting Management. She was a named underwriter for managing agents at Lloyds of London. She now conducts compliance and underwriting audits on behalf of Lloyds managing agents as well as compliance and technical training. She was the representative for NIBA on the Insurance Council Catastrophe Insurance Taskforce, and lectured in Property Insurance at the University of Technology, Sydney. She is an Honorary Life Member, Australian & New Zealand Institute of Insurance and Finance (ANZIIF).

The remuneration of the Advisory Board members is determined by the ACT Remuneration Tribunal.

The Board met on four occasions during 2015-16 and was consulted on the following issues:

> review of major claims;

> reinsurance program for 2016-17;

> risk management matters; and

> actuarial and financial matters.

B.1.5 ACHIEVEMENTS

Major achievements during the 2015-16 year were:

Reinsurance Program Placement 2016-17

The Authority's key operational priority is placement of the Territory's annual reinsurance program, developed to protect the Territory from losses resulting from a catastrophic event or an accumulation of insurable losses.

The Authority completed a review of the insurance and reinsurance structure to confirm suitability of these arrangements including consideration by the ACTIA Advisory Board of short and long term strategic objectives.

The Authority was able to take advantage of the competitive market by undertaking a complete remarketing of its medical and general liability insurance placements. The process provided an opportunity to target insurers in the Australian and London reinsurance markets keen to compete on each placement.

As part of the 2016-17 renewal, the Authority enhanced its approach by refining information contained in its underwriting submissions to insurers. The submissions were improved by focusing positively on key areas of risk, enhancing claims data and recasting presentation material.

As a result, the Authority was able to attract an excess of capacity and broker the placement of 100 per cent of the 2016-17 program with a reduction in annual reinsurance premiums of $0.2 million, $0.1 million and $1.0 million for the medical malpractice, public liability and property placements respectively. The Authority successfully negotiated the inclusion of the ACT Health Homebirth Trial within the cover provided under its expiring medical malpractice reinsurance cover.

The overall program savings of $1.3 million achieved is expected to be ongoing while conditions in the reinsurance market remain favourable. The result represents an excellent outcome from a financial point of view but also in terms of repositioning the Territory's risk profile with the market.

Reduction in Outstanding Claims Liability

The Authority completed a valuation of its outstanding claims liabilities as at 30 June 2016. The valuation resulted in a decrease in the Authority's outstanding claims liabilities of $6.9 million.

This decrease is predominantly the result of changing economic and actuarial assumptions used to calculate the outstanding claims liability. This change in assumptions was the result of reductions in the number of reported large claims and the average size of settlements in large claims for both medical malpractice and public liability insurance classes.

Risk Management Support

The Authority's Risk Managers continue to work with Directorates to promote best practice risk management within the Territory. The team provides a range of consultancy services to executive managers and staff involved in the delivery of a range of operational programs and capital works projects. This consultancy support includes a number of activities such as:

- facilitating general risk assessment workshops;
- facilitating project specific risk assessments;
- support of risk management and audit committees within Directorates;
- presentations to senior management teams and/or Directorate interest groups; and
- provision of risk specific training.

The strong working relationship of Authority Risk Managers with Directorate staff at all levels allows Risk Managers to respond to Directorate needs in the provision of services offered.

Records Management System Upgrade

The Authority has successfully implemented an Electronic and Document Records Management System in the form of Hewlett Packard Records Manager and a portal web interface, known to the front-end user as WIRE (Window to the Information and Records Environment). The implementation of WIRE has allowed the Authority to achieve a high level of legislative compliance with respect to section 16 of the *Territory Records Act 2002* and meets the requirements set out in the Standard for Records, Information and Data released by the Director of Territory Records.

The system provides improved functionality including enhanced search capability, a reduction in duplication of records, greater ability to discover and re-use records, enhanced security reducing the risk of unauthorised access, improved control of document versions, centralised record-keeping, increased staff productivity through defined business rules and mandatory formats and a decreased need for physical storage.

Accommodation Upgrade

In early 2016, the Authority completed an upgrade of its office accommodation located on level 3 of the Canberra Nara Centre. A project working group consisting of staff representatives developed a concept design consistent with the principles of activity based work. These principles, when applied to the work environment, allow an individual or group the opportunity to choose the location within the workspace that best suits the work being undertaken and the task they wish to perform. Some spaces are designed to accommodate different activities and include formal and informal meeting spaces, individual work points, quiet rooms for focused work and an amenity space. The Authority's work space now consists of: individual work points with sit-stand workstations grouped in clusters, three individual quiet rooms for staff to work away from the open plan environment, a twelve seat meeting room and an amenities space with a food preparation area for informal gatherings and social occasions.

The accommodation has resulted in increased levels of staff satisfaction and productivity, more efficient use of space, wider and more effective collaboration, communication and information sharing between staff.

B.1.6 OUTLOOK AND FUTURE PRIORITIES

The Authority will continue to work with Territory agencies and entities to protect the assets and services of the Territory by providing high quality risk management and insurance services.

While the Territory's liability profile is exhibiting increasing signs of maturity considerable volatility remains. The majority of the Authority's claims are long tailed in nature, which means that claims often take many years to settle resulting in further uncertainty.

Further revisions of the outstanding claims liability are expected as the Authority's portfolio continues to mature. The Authority's ability to value outstanding liabilities will be further informed by the accumulation of claims data including claims experience information.

It remains critical to the Authority that insurance related incidents are reported promptly to facilitate appropriate estimation of the future claims liabilities. The Authority will continue to monitor incident reporting practices by agencies and provide guidance on the nature of incidents that need to be reported.

Reinsurance premiums are expected to remain stable in the medium term. The medical malpractice, public liability and property insurance markets are expected to remain competitive. This situation is expected to continue on the back of a surplus of capital available in the market and increased levels of competition between insurers looking to maintain market share.

The Authority will continue working with agencies to develop strategies to reduce the incidence and cost of insurance claims against the Territory by promoting the implementation of good risk management practices.

The Authority's risk management team continues to provide assistance to agencies on a range of risk management related topics. During the year the Authority delivered a total of fourteen general and agency specific risk management training courses to various Territory agencies.

The Authority intends to deliver the following key strategies in 2016-17 to achieve its objectives:

> provide professional advice to Government and Territory agencies on insurance and risk management issues;

> deliver a value for money reinsurance program to protect the Territory budget;

> continue to maximise reinsurance recoveries;

> review the Territory asset register as part of the insurance renewal process;

> develop business practices which will enable the Authority to achieve best practice results, and if feasible, reduced premiums for clients;

> proactively manage claims against the Territory in consultation with agency stakeholders and in accordance with the ACT model litigant requirements;

> conduct regular reviews of existing claims to ensure that appropriate management is being applied and that realistic claim estimates are included in financial statements;

> facilitate agency access to the claims reporting and data analysis to support a risk managed approach to operational and asset management;

> continue to assist agencies with the application of the ACT Government Risk Management Framework;

> work with agencies to reduce the number and severity of incidents and ultimate claims cost;

> deliver to agencies a program of general and targeted risk management training;

> administer the Office of the Nominal Defendant of the ACT; and

> administer the Default Insurance Fund on behalf of the Chief Minister, Treasury and Economic Development Directorate.

B.2 PERFORMANCE ANALYSIS

The Authority has met and in many cases exceeded accountability indicator measures as detailed in the Authority's *2015-16 Statement of Intent.*

A summary of the outcome achieved against each of the Authority's principal objectives and accountability indicators are detailed below.

B.2.1 CARRY ON THE BUSINESS OF INSURER OF TERRITORY RISKS

Conduct an annual customer satisfaction survey

Outcome

The Authority's Customer Service Charter details the standards that agency customers can expect when doing business with the Authority. To gauge our effectiveness against these commitments the Authority surveyed agencies to identify their level of satisfaction with the services provided.

Surveys were sent to the Directors-General and agency insurance contacts of all ACT Government Directorates and Statutory Authorities insured by the Authority. The Authority received 24 responses from a cross section of agency clients who were positive about the services provided by the Authority.

The survey asked respondents to rate their level of satisfaction against key areas of service delivery including insurance management services, claims management, annual insurance renewal and financial management services. Respondents were asked to confirm that they were satisfied with each key area of the Authority as their insurance service provider.

Overall, respondents indicated that they were satisfied with the Authority's overall performance as their insurance services provider. Survey respondents identified a number of key elements of service provision that supported overall satisfaction levels. These areas include: the support provided when managing complex claims matters; support provided to capital infrastructure project teams; the strength of the Authority's network of risk management and insurance providers; our understanding of the government service delivery environment and our strong relationships with Directorate insurance contacts.

The Authority continues to work with customers to enhance the level of service provided and to identify and clarify those areas in which its performance does not meet expectations.

Determine annual insurance premiums for Territory agencies

Outcome

The Authority completed an annual review of agency insurance premiums, with assistance from the fund actuary, PricewaterhouseCoopers Actuarial Pty Ltd for the 2016-17 insurance year. Premiums are determined based on agency claims history, asset ownership and overall risk profile.

The Authority continues to refine its premium allocation model, informed by the accumulation of claims data including claims experience, risk exposure and asset ownership information.

Maintain a Funding Ratio within the targeted range stated in the ACTIA Capital Management Plan

Outcome

The ACTIA Capital Management Plan provides a comprehensive and structured approach to the long-term management of the Authority's financial assets.

The plan establishes the basis for an agreed approach to the management of the Authority's financial strategy and objectives and takes into consideration the variability of the Authority's capital position.

In summary, the Authority manages its capital position between the ranges of 100 – 110 per cent with an adopted target funding ratio of 100 per cent. These parameters guide decision making to address a capital position outside the target ratio range. This would include action to seek capital injections (in a deficit situation) or returning excess capital (in a surplus situation).

This position seeks to strike a balance between the appropriate and prudential management of the Territory's risk, while allowing suitable mechanisms to return capital in instances where the updated actuarial advice suggests a lower risk profile moving forward than originally anticipated. Unwarranted over provisioning of risk unnecessarily restricts the Government's budgetary flexibility.

As a trade-off, the plan also contemplates a mechanism to allow a request for capital injection (as has happened in the past), where the profile moving forward, for some reason, is revised upwards.

The Authority's funding ratio as at 30 June 2016, is 146 per cent which equates to a balance sheet surplus of $119.6 million.

In accordance with the ACTIA Capital Management Plan Budget 2016-17, the Authority has included in its 2016-17 Budget a return of $50 million in capital to the ACT Government.

Balance Sheet	**Actual 30 June 2015**	**Actual 30 June 2016**	**Forecast 30 June 2017–** *with $50 million capital return*	**Forecast 30 June 2018**	**Forecast 30 June 2019**	**Forecast 30 June 2020**
Assets	$389.4	$377.4	$391.5	$364.3	$386.9	$408.5
Liabilities	$259.2	$257.8	$279.7	$302.9	$326.7	$350.8
+/- $	$130.2	$119.6	$111.8	$61.4	$60.2	$57.7
Funding Ratio	150%	146%	140%	120%	118%	116%
Capital Return	-	$60 million	$50 million	-	-	-
Funding Ratio – following return of capital	-	-	122%	-	-	-

General and administrative expense as a percentage of total annual premium revenue

Outcome

General and administrative expenses represent 4.7 per cent of ordinary revenue. This is 0.3 per cent less than the target of 5 per cent.

The Authority operated within budget for general and administrative expenses in 2015-16.

The Authority's management and staff continue to work on improving operational efficiency without compromising on the service delivery expectations of customers.

Average Number of Days to Reimburse Agencies Settlements

Outcome

During 2015-16 it took an average of nine days to reimburse agencies for insurance settlements. This is 21 days less than the target of 30 days. Agency reimbursements are processed as priority payments.

Review the Territory’s insurance and reinsurance program

Outcome

The Authority completed an annual review of the Territory's insurance and reinsurance programs. This included a review of the Territory's risk profile, reinsurance program structure, an analysis of market conditions and the suitability of insurance policy terms and conditions.

The review outcome was presented to the Board who provided advice to the Under Treasurer and the ACTIA General Manager on the suitability of the proposed arrangements.

The detail provided by agencies in response to an insurance questionnaire issued by the Authority, claims experience reports and an asset review exercise enables the Authority to develop and deliver the ACTIA Reinsurance Program.

The Authority was able to achieve placement of 100 per cent of the Territory’s reinsurance program for 2016-17 with the London and Australian reinsurance markets within budget.

The program renewal for the 2016-17 insurance year included an increase in the value of insured assets that totals $23 billion and growth in the general Territory wide risk exposure.

The Authority was able to position the Territory to take advantage of a competitive market and achieved a premium saving of $1.3 million on the reinsurance renewal, without compromising long term relationships with lead underwriters in the Australian and London reinsurance markets.

B.2.2 TAKE OUT INSURANCE OF TERRITORY RISKS WITH OTHER ENTITIES

Review the Territory's property asset register to ensure that values reflect insurance replacement costs

Outcome

The Authority undertook a review of the Territory’s insurance assets schedule and replacement values nominated by agencies in their annual insurance declaration. The Authority worked with individual agencies to refine the detail included in schedules for inclusion in the Authority’s property reinsurance renewal.

Facilitate the implementation of agreed recommendations from property asset management surveys

Outcome

The Authority’s property reinsurers undertake an annual program of property surveys in consultation with the Authority and Territory agencies. A selection of key assets is surveyed each year as part of a rolling program. This provides reinsurers with an overview of the Territory’s asset management practices, with a focus on property protection and emergency management systems. The surveys in 2015-16 confirmed that the Territory’s asset management practices were appropriate in the sample of assets surveyed.

The survey reports and recommendations were provided to agency’s representatives responsible for asset management arrangements for consideration and appropriate action.

B.2.3 GIVE ADVICE TO THE MINISTER ABOUT INSURANCE AND THE MANAGEMENT OF TERRITORY RISK

Annual Insurance Premium Allocation

Outcome

The Authority prepared a brief for the Chief Minister and Treasurer in early 2016 to seek approval for the annual agency insurance premiums for inclusion in the 2016-17 ACT Budget.

The brief provided a detailed schedule outlining the allocation of premiums per agency showing an overall saving of $5.7 million from the previous year's premium. The decrease in premiums is mainly due to a decrease in the projected ultimate number of claims and sizes due to favourable claims experience in particular for medical malpractice and public liability classes of insurance along with a decrease in administrative and reinsurance costs.

Annual Reinsurance Program Placement

Outcome

The Authority prepared a brief to seek the approval by the Chief Minister and Treasurer for the Authority to proceed with the renewal of the Territory's reinsurance program on the best available terms and conditions in the London and Australian insurance markets for the 2016-17 year.

The brief provided background information on the process applied to the development of the proposed reinsurance program including a summary of current insurance market conditions in the medical malpractice, public liability, property and directors and officers insurance classes.

The Authority subsequently placed the Territory reinsurance program for 2016-17 with the London and Australian insurance market and achieved a premium savings of $1.3 million.

Authority's Annual Report

Outcome

The Authority prepared a brief to provide the Chief Minister and Treasurer with a copy of the Authority's 2014-15 Annual Report.

The brief provided key points of the Authority's financial performance for the reporting year as well as a request for signature on the accompanying letter to the Speaker of the ACT Legislative Assembly in order distribute the Authority's annual report to Members of the Legislative Assembly.

B.2.4 SATISFY OR SETTLE CLAIMS IN RELATION TO TERRITORY RISKS

Quarterly review of claims

Outcome

Quarterly claims review meetings were held during 2015-16 to review all liability claims where the Territory's reserve exceeds $100,000 and medical malpractice claims where the Territory's reserve exceeds $250,000. The claim review meetings were attended by Authority staff and representatives of the Government Solicitor's Office, the Authority's insurance brokers, Marsh Pty Ltd, as well as external insurers and their solicitors, where appropriate. The Authority continues to work with key agencies, analysing claims data and developing strategies to reduce the incidence of claims against the Government by implementing robust risk management practices, which in turn assists in the reduction of costs incurred by the Territory. The Authority provides support to identify causes and contributing factors resulting in claims events.

Insurance claims data

Outcome

An actuarial assessment of the ultimate insurance claims data is provided by the Authority's actuary, PricewaterhouseCoopers Actuarial Pty Ltd at the end of each financial year.

The data is provided by major insurance class and includes an assessment of the discounted mean term relating to the average time it takes to finalise claims, ultimate claims numbers, and the average cost of large and small claims. These assumptions provide the basis for establishing the Authority's outstanding claims liabilities and annual agency premiums.

Further information regarding the actuarial process and the assumptions and methods used appears in the Authority's Financial Statements at Note 5: Actuarial Assumptions and Methods.

B.2.5 DEVELOP AND PROMOTE GOOD PRACTICES FOR THE MANAGEMENT OF TERRITORY RISKS

Provide Risk Management Profile Reports

Outcome

In November 2015 and June 2016, the Authority issued Risk Profile Reports to Directors-General, with additional distribution to agency officers involved in management of operational insurance and risk management.

The reports contained a detailed claims history, claims costs and provided a commentary on issues or trends, where identified, across different classes of insurance. The reports also included suggested risk management actions for information and action.

The feedback from Directorates regarding the reports has been positive and provides for an increased level of focus on risk management by senior managers and risk practitioners as a result.

Conduct general and targeted risk management training courses

Outcome

The Authority's risk managers delivered fourteen general and targeted risk management training sessions to approximately 219 territory staff in 2015-16. The courses remain popular and are consistently well attended by a range of territory staff including senior executive managers, senior officers and operational staff.

The Authority has also delivered an increased number of tailored training solutions directly to Directorate business units. These have included courses to provide territory staff with an understanding of the ACT Government Risk Management Framework and introductory level courses where training exercises relate specifically to attendee's job roles. The various training initiatives were a mixture of half day and full day training sessions.

Overall participant satisfaction with risk management training sessions delivered to Agency staff

Outcome

The risk management courses offered by the Authority have been well received and feedback from participants is very positive.

Participants indicated a high level of satisfaction with the courses provided and a majority indicated that they were informative/comprehensive, well presented and generally met their needs.

When prompted if they were satisfied with the risk management training courses overall, 98 per cent of respondents indicated that they were.

Conduct Risk Management Performance and Improvement Reviews

Outcome

The Authority has completed four risk management and performance improvement reviews.

The reviews involved a risk management questionnaire developed by the Authority to assess the maturity level of the risk management practices within territory agencies and business units. The review process asked agencies to self-assess their risk management arrangements against the key principles of the ACT Government Risk Management Framework.

The Authority has used the information provided from the annual reviews to assist in its discussions with reinsurance underwriters when negotiating the placement of the Authority's reinsurance program. The reports are supplemented by information contained in agency annual reports and from direct contact with agencies and stakeholders.

B.3 SCRUTINY

There were no inquiries or reviews from the ACT Auditor-General, the ACT Ombudsman, or any Legislative Assembly Committees in 2015-16. The only scrutiny from the Auditor-General during the reporting period was for the audit of the 2014-15 Financial Statements and the review of the 2014-15 Statement of Performance.

B.4 RISK MANAGEMENT PLAN

The Authority has developed and implemented a broad risk management plan in accordance with the ACT Government Risk Management Framework. The Authority's plan identifies and details risks and control measures and treatment/loss mitigation plans for identified categories of risk including financial, business and ICT risks. The Risk Management Plan is reviewed annually.

B.5 INTERNAL AUDIT

During 2015-16 the Authority's internal audit functions were provided by the Chief Minister, Treasury and Economic Development Directorate Audit and Risk Committee. The Committee's functions are governed by the Audit Committee Charter.

Membership includes an independent Chair, independent Deputy Chair, an executive member from another ACT Government agency and three appointees from within the Chief Minister, Treasury and Economic Development Directorate. A representative from the ACT Audit Office and advisors regularly attended meetings. The Executive Director, Corporate and the Chief Finance Officer attended as observers.

Four general meetings were held during the year. The number of general meetings attended by committee members and observers is as follows:

Name of Member	Position	Duration	Meetings Attended
John Gordon	Independent Member and Chair	July 2015 to June 2016	4
Carol Lilley	Independent Member and Deputy Chair	November 2015 to June 2016	3
Geoffrey Rutledge	Member	July 2015 to June 2016	4
Karen Doran	Member	July 2015 to February 2016	3
Leanne Cover	Independent Directorate Member	July 2015 to February 2016	1
Gary Rake	Member	July 2015 to August 2015	0
Sam Engele	Member	October 2015 to November 2015	1
Louise Gilding	Member	January 2016 to March 2016	1
Ian Thompson	Independent Directorate Member	March 2016 to June 2016	0
Peter Murray	Member	March 2016 to June 2016	0

Internal audit services were provided by private audit firms. Internal audits are selected from an internal audit program; this program is developed after identifying areas of operational and financial risk.

The internal audit program required the Authority to complete one audit activity in 2015-16, Management and Administration of Credit Cards.

B.6 FRAUD PREVENTION

The Authority conducts a risk assessment of its operational activities and its Fraud and Corruption Plan every two years. Appropriate delegations and separation of duties are in place for financial and administrative operations. There were no reports or allegations of fraud or corruption received during the year.

B.7 WORKPLACE HEALTH AND SAFETY

The Authority manages workplace health and safety in accordance with the provisions of the *Work Safety Act 2011*. The Authority is committed to maintaining the health and safety of its employees and arranges ongoing training throughout the year for the following:

> one work safety representative;
> three qualified first aid officers; and
> one fire warden.

B.7.1 REPORTING REQUIREMENTS UNDER THE *WORK SAFETY ACT 2011*

During the reporting period the Authority did not receive any notices under Part 10, 11 or any findings of a failure to comply with a safety duty under part 2 Division 2.2, 2.3 or 2.4 of the *Work Safety Act 2011*.

The Authority is committed to promoting and maintaining a high standard of health safety and well being for all staff, contractors and visitors. Resources are provided to ensure that all employees understand the basic principles of injury prevention and management.

The Authority was covered by the following Chief Minister, Treasury and Economic Development Directorate Human Resource Management arrangements:

> *CMTEDD Corporate Framework; and*
> *CMTEDD Strategic People Plan 2015-2017.*

Details of the above arrangements are available in the Chief Minister, Treasury and Economic Development Directorate 2015-16 Annual Report.

B.8 HUMAN RESOURCES MANAGEMENT

The Authority was supported by the Shared Services Strategic Human Resources team within the Chief Minister, Treasury and Economic Development Directorate. This team provide strategic, operational and technical advice and support as issues arise. Details of human resource management can be found in the Chief Minister, Treasury and Economic Development Directorate 2015-16 Annual Report.

The Authority is committed to the *ACT Public Service Code of Conduct, ACTPS Performance Framework and the ACT Public Service Respect, Equity and Diversity Framework* to build a positive, inclusive and diverse work place.

Staff have been employed by the Authority on the basis of merit, their qualifications, experience and skills. The Authority aims to create a workplace where the strengths, talents and contributions of all staff are recognised and valued. The Authority has adopted a range of measures aimed at achieving that objective.

These include:

> providing access to study leave;
> providing access to flex time and ensuring staff do not work excessive hours; and
> providing flexible working arrangements including part-time work.

B.8.1 LEARNING AND DEVELOPMENT

The key development and learning priorities for the Authority have been identified as risk management, insurance, finance and ICT. During 2015-16, staff undertook eight formal training courses and attended conferences and seminars in these areas.

In July 2015, the Authority's employees participated in a team building day facilitated by Performance Enablement Partners. The day involved the analysis of individual work styles, group dynamics and discussion on the application of the ACT Public Service Code of Conduct and signature behaviours in the workplace.

The cost of training courses undertaken in 2015-16 totalled $14,346.

B.8.2 WORKPLACE RELATIONS

The Authority's staff are covered under the *ACT Public Service Administrative and Related Classifications Enterprise Agreement 2013-2017* that continues to apply. The ACT Public Service Enterprise Agreements provide scope for Attraction and Retention Incentives (ARIns) to be agreed with staff to allow higher levels of remuneration or other benefits to be provided, where market rates exceed those payable. The Authority has no ARIn arrangements in place.

B.8.3 STAFFING PROFILE

The following tables provide statistical information for permanent staff of the Authority for 2015-16:

FTE and Headcount by Division/Branch

Division/Branch	FTE	Headcount
ACT Insurance Authority	15.6	16
TOTAL	**15.6**	**16**

FTE and Headcount by Gender

	Female	Male	Total
FTE by Gender	10.6	5	15.6
Headcount by Gender	11	5	16
% of Workforce	68.8%	31.3%	100%

Headcount by Classification and Gender

Classification Group	Female	Male	Total
Administrative Officers	7	1	8
Senior Officers	4	3	7
Executive Officers	-	1	1
TOTAL	**11**	**5**	**16**

Headcount by employment Category and Gender

Employment Category	Female	Male	Total
Casual	-	-	-
Permanent Full-time	10	4	14
Permanent Part-time	1	-	1
Temporary Full-time	-	1	1
Temporary Part-time	-	-	-
TOTAL	**11**	**5**	**16**

Headcount by Diversity Group

	Headcount	Percentage of Authority workforce
Aboriginal and Torres Strait Islander	-	-
Culturally & Linguistically Diverse	-	-
People with a disability	1	6.3%

NB: Employees may identify with more than one diversity groups.

Headcount by Age Group and Gender

Age Group	Female	Male	Total
Under 25	1	-	1
25-34	1	1	2
35-44	4	-	4
45-54	5	1	6
55 and over	-	3	3

Average Length of Service by Gender (Headcount)

	Female	Male	Total
Average length of service	9.5	8.5	9.2

Recruitment and Separation Rates by Classification Group

Division	Recruitment Rate	Separation Rate
ACT Insurance Authority	22.1%	7.4%

Recruitment and Separation Rates by Classification Group

Division	Recruitment Rate	Separation Rate
Administrative Officers	46.3%	15.4%
Senior Officers	-	-
Executive Officers	-	-

B.9 ECOLOGICALLY SUSTAINABLE DEVELOPMENT

Section 158A of the *Environmental Protection Act 1997* requires agencies to report on actions and initiatives taken during the reporting period to support ecologically sustainable development.

The Authority applies appropriate management practices that are consistent with the principles of ecologically sustainable development. The Authority uses recycled paper and cardboard where possible and uses energy efficient office machines. Recycling bins are provided for staff. Where possible electronic communications are used in preference to paper.

Indicator as at 30 June	Unit	2014-15 Result	2015-16 Result	% Change
Authority Staff and Area				
Authority Staff	FTE	13	15.6	20
Workplace floor area	Area (m^2)	213.72	214.46	0.3
Stationery Energy Usage				
Electricity use	Kilowatt hours	Refer to Chief Minister, Treasury and Economic Development Directorate Annual Report		N/A
Renewable Electricity use	Kilowatt hours			
Natural Gas use	Megajoules			
Transport Fuel Usage				
Total number of vehicles	Number	-	-	N/A
Total kilometres travelled	Kilometres	-	-	
Fuel use – petrol	Kilolitres	-	-	
Fuel use – Diesel	Kilolitres	-	-	
Fuel use – Liquid Petroleum Gas (LPG)	Kilolitres	-	-	
Fuel use – Compressed Natural Gas (CNG)	Kilolitres	-	-	
Water Usage				
Water use		Refer to Chief Minister, Treasury and Economic Development Directorate Annual Report		N/A
Resource Efficiency and Waste				
Reams of paper purchased	Reams	331	285	13.9
Recycled content of paper purchased	Percentage	99.4%	98.9%	0.5
Waste to landfill	Litres	Refer to Chief Minister, Treasury and Economic Development Directorate Annual Report		N/A
Co-mingled material recycled	Litres			
Paper & Cardboard recycled (include Secure paper)	Litres			
Organic material recycled	Litres			
Greenhouse Emissions				
Emissions from stationery energy use	Tonnes CO_2-e	Refer to Chief Minister, Treasury and Economic Development Directorate Annual Report		N/A
Emissions from Transport	Tonnes CO_2-e			
Total emissions	Tonnes CO_2-e			

C. FINANCIAL MANAGEMENT REPORTING

C.1 FINANCIAL MANAGEMENT ANALYSIS

The Authority's financial results are reported in Part 2 of this report. Part 2 Section A of the *2015-16 ACT Insurance Authority Annual Report* contains the Authority's Management Discussion and Analysis.

C.2 FINANCIAL STATEMENTS

The Authority's financial results are reported in Part 2 Section B of the *2015-16 ACT Insurance Authority Annual Report.*

C.3 CAPITAL WORKS

The Authority did not have capital works expenditure during the reporting period.

C.4 ASSET MANAGEMENT

The Authority has no assets other than furniture and fittings and investments. The Authority has some capacity to invest funds over the medium and long term.

C.5 GOVERNMENT CONTRACTING

The Authority engages consultants to perform a number of specialised functions. Consultants provide insurance broking services, risk management advice, actuarial services, and legal advice.

The procurement selection and management processes for all contractors including consultants complied with the *Government Procurement Act 2001* and the *Government Procurement Regulation 2007.*

Procurement processes above $25,000 have been reviewed by Shared Services Procurement Solutions, and if necessary, by the Government Procurement Board consistent with the provisions of the *Government Procurement Regulation 2007.* The Authority has complied with all employee and industrial relations obligations in relation to contractors employed.

C.5.1 EXTERNAL SOURCES OF LABOUR

Contracts with a total financial year cost greater than $25,000:

Contract Title	Procurement Methodology	Contractor Name	Contract Amount	Execution Date	Expiry/Extension Date
Insurance Broking Services	Public	Marsh Pty Ltd	$1,473,000	October 2012	September 2017
Provision of Actuarial Services	Public	PriceWaterhouseCoopers Actuarial Pty Ltd	$500,000	January 2013	January 2017

C.6 STATEMENT OF PERFORMANCE

The Authority's Statement of Performance is reported in Part 2 Section C of the *2015-16 ACT Insurance Authority Annual Report.* Narrative on the performance measures is also included in B.2 Performance Analysis.

PART 2

A. MANAGEMENT DISCUSSION AND ANALYSIS

GENERAL OVERVIEW

The Australian Capital Territory Insurance Authority (the Authority) is established under Section 7 of the *Insurance Authority Act 2005*.

The Authority operates as the captive insurer for the ACT Government and provides a range of insurance, claims and risk management services to ACT Government Directorates and Statutory Authorities.

The Authority operates on a cost recovery basis by collecting premiums from Directorates and Statutory Authorities to meet the cost of insurable claims and losses. The Authority's operating costs are largely driven by provisioning for future claims and current claims expense.

The Authority works to protect the assets and services of the Territory by providing a range of insurance services and risk management support to a large and diverse client base.

OBJECTIVES

> The key objectives of the ACT Insurance Authority are to:

> carry out the business of insurer of Territory risks;

> take out insurance of Territory risks with other entities;

> satisfy or settle claims in relation to Territory risks;

> with the Treasurer's approval, take action for the realising, enforcing, assigning or extinguishing rights against third party's arising out of or in relation to its business, including, for example –

- taking possession of, dealing with or disposing of, property; or
- carrying on a third party's business as a going concern.
- develop and promote good practices for the management of Territory risks; and

> give advice to the Minister about insurance and the management of Territory risks.

In addition, the Authority also performs the function of:

> the Office of the Nominal Defendant of the ACT, for claims against uninsured/unidentified vehicles for the ACT Compulsory Third Party Insurance Scheme; and

> the Default Insurance Fund, for default claims under the ACT Private Workers' Compensation Scheme.

RISK MANAGEMENT

The Authority has developed and implemented a risk management plan in accordance with the Australian/New Zealand Standard on risk management AS/NZS ISO 31000:2009 and the ACT Government's Risk Management Framework. The Authority's plan identifies and details risks and control measures and treatment action plans for risks in the financial, business and information technology dependencies.

The Authority's two key risks are external insurance arrangements being unsatisfactory and annual premiums not geared to fully fund claims over the claim development period. To manage these risks, the Authority uses skilled international insurance brokers and professional actuaries to access the world wide reinsurance market, spread risk and align premiums with claims experience as estimated by actuarial valuations.

FINANCIAL PERFORMANCE

The following financial information is based on audited Financial Statements for 2014-15 and 2015-16, and the forward estimates contained in the Authority's 2015-16 Statement of Intent.

The Authority's operating result for 2015-16 is a surplus of **$49.3 million**, being **$62.9 million** higher than the budgeted deficit of **($13.6) million**.

Underwriting Gain/(Loss)

1. Components of Underwriting Gain/(Loss)

For the financial year ended 30 June 2016, the Authority recorded a total gain of **$35.6 million**.

The largest components of the Authority's underwriting gain for 2015-16 were net earned premiums, which represent **$48.7 million**, and net incurred claims representing **($13.1) million**.

2. Comparison to Budget

The underwriting gain of **$35.6 million** was **$54.6 million**, or **287.4 percent** higher than the 2015-16 budgeted loss of **$19 million**.

The underwriting result comprises:

Net Earned Premiums

Net earned premium of **$48.7 million** was **$3.3 million**, or **7.3 percent** higher than the 2015-16 Budget of **$45.4 million**.

Net Incurred Claim

Net incurred claims of **($13.1) million** were **$51.2 million**, or **79.6 percent** lower than the 2015-16 Budget of **($64.3) million**.

The claims expense was lower than budget by **$50.6 million**, this is mostly due to the changes in actuarial assumptions used to determine the Authority's ordinary claims liability and subsequent claims expense. The key changes were the result of lower than expected inflation and changes in the actuarial assumptions resulting from the reduction in the number of reported claims as well as continued lower than expected reported numbers of large medical malpractice claims.

3. Comparison to 2014-15 Actual

The underwriting gain of **$35.6 million** was **$17 million**, or **32.3 percent** lower than the 2014-15 actual result of **$52.6 million** due to the changes in actuarial assumptions used to determine the Authority's ordinary claims liability and subsequent claims expense. In 2014-15, the reduction in outstanding claims liabilities was higher than the reduction experienced in 2015-16, which resulted in the claims expenses being significantly higher than the previous year.

4. Future Trends

The underwriting result for 2016-17 is budgeted to be a loss of **$5.4 million**. This is a decrease of **$41 million** from the 2015-16 actual gain of $35.6 million, this is due to an increase of **$35.2 million** for the claims expense and a reduction of **$5.8 million** in gross earned insurance premiums, which is expected to return to normal expected actuarial calculated levels for the cost of future claims.

Other Revenue

1. Components of Other Revenue

For the year ended 30 June 2016, the Authority recorded other revenue of **$18.2 million**.

The Authority collected **$13.4 million** in investment distributions, recorded a **$2.0 million** unrealised gain on investments and received **$2.1 million** in other sources including support services, contract works and external insurance contracts.

2. Comparison to Budget

Other revenue for the year ending 30 June 2016 was **$18.2 million**, which was **$8 million** higher than the 2015-16 budget of **$10.2 million**, this increase is predominantly due to higher than anticipated investment returns.

3. Comparison to 2014-15 Actual

Other revenue was **$18.2 million** in 2015-16, **$2.5 million**, or **16.1 percent** higher than the 2014-15 actual result of **$15.7 million**, due to an increase in distributions on investments.

4. Future Trends

Other revenue for 2016-17 is budgeted to be **$11 million**. This is a decrease of **$7.2 million** from the 2015-16 actual result of **$18.2 million**, predominantly due to a lower forecast of investment returns.

Other Expenses

1. Components of Other Expenses

For the financial year ended 30 June 2016, the Authority recorded other expenses of **$1.8 million** related to expenses for contract works and external insurance contracts.

2. Comparison to Budget

Other expenses for the year ending 30 June 2016 was **$1.8 million**, which was **$0.1 million** lower than the 2015-16 budget of **$1.9 million**, due to a reduction in contract works insurance.

3. Comparison to 2014-15 Actual

Other expenses was **$1.8 million** in 2015-16, **$0.1 million**, or **4.8 percent** lower than the 2014-15 actual result of **$1.9 million**, also due to a reduction in contract works insurance.

4. Future Trends

Other expenses for 2016-17 is budgeted to be **$1.8 million**.

General and Administration Expenses

1. Components of General and Administration Expenses

For the financial year ended 30 June 2016, the Authority recorded general and administration expenses of **$2.7 million**.

The Authority paid **$1.9 million** in salaries and superannuation and **$0.8 million** in administration.

2. Comparison to Budget

General and administration expenses for the year ending 30 June 2016 were **$2.7 million**, which was **$0.2 million** lower than the 2015-16 budget of **$2.9 million**. This decrease is predominantly due to lower than anticipated salaries, leave and superannuation due to employee leave and secondment arrangements.

3. Comparison to 2014-15 Actual

General and administration expenses were **$2.7 million** in 2015-16 was consistent with the 2014-15 actual result.

4. Future Trends

General and administration expenses for 2016-17 is budgeted to be **$3 million**, which is consistent with anticipated expenses.

FINANCIAL POSITION

In relation to the balance sheet, the Authority maintains an adequate asset position in order to meet the cost of future claim liabilities.

Total Assets

1. Components of Total Assets

The total asset position as at 30 June 2016 is **$377.4 million**. The Authority held **$3.8 million** of its assets in cash, **$190.1 million** in short-term investments and **$7.7 million** in other current receivables and prepayments. The Authority also held non-current assets of **$175 millio**n in long-term investments.

2. Comparison to Budget

The total asset position as at 30 June 2016 is **$377.4 million**, **$23 million** higher than the 2015-16 budget of **$354.4 million**. This is primarily due to an increase in the anticipated investments held and an increase in receivables.

3. Comparison to 2014-15 Actual

The Authority's total asset position of **$377.4 million** is **$12 million** lower than the 2014-15 actual position of **$389.4 million**. The decrease primarily reflects a reduction in investments due to a

$60 million return of capital to the ACT Government in 2015-16, which was partially offset by an increase in invested funds.

4. Future Trends

Total assets for 2016-17 is budgeted to be **$341.5 million**. This is a decrease of **$35.9 million** from the 2015-16 actual result of **$377.4 million**, this is predominantly due to a further **$50 million** expected return of capital to the ACT Government which will be partially offset by an increase in invested funds.

Total Liabilities

1. Components of Total Liabilities

The majority of the Authority's total liabilities of **$257.8 million** relate to outstanding claims liabilities of **$248.7 million**. The outstanding claims consist of current liabilities of **$23.7 million** and **$224.9 million** in non-current liabilities.

2. Comparison to Budget

The Authority's liabilities at 30 June 2016 of **$257.8 million** were **$61.8 million** lower than the 30 June 2016 budget of **$319.6 million** due primarily to a decrease in the estimated outstanding claims liabilities as a result of changes in economic and actuarial assumptions. This change in assumptions was the result of reductions in the number of reported and the average settlement size of large claims for both medical malpractice and public liability insurance classes.

3. Comparison to 2014-15 Actual

Total liabilities are **$1.3 million** lower than the 30 June 2015 actual result of **$259.2 million** due primarily to a small decrease in the ordinary claims provision as a result of changing economic and actuarial assumptions. This change in assumptions was the result of reductions in the number of reported and the average settlement size of large claims for both medical malpractice and public liability insurance classes.

CAPITAL FUNDING RATIO

The Authority's capital management plan takes into consideration the variability of the Authority's capital position that may result from changes in claims experience and investment returns, the opportunity cost of holding capital in the Territory's captive fund and the capital targets of other like captive insurers in the public sector.

The Authority manages its capital position between the range of 100 to 110 percent. These parameters guide decision making to address a capital position outside the target ratio range. This would include action to seek capital injections (in a deficit situation) or returning excess capital (in a surplus situation).

Funding Ratio

Description	Budget at 30 June 2017 $'000	Actual at 30 June 2016 $'000	Budget at 30 June 2016 $'000	Prior Year Actual at 30 June 2015 $'000
Total Assets	341,481	377,439	354,401	389,438
Total Liabilities	279,662	257,848	319,610	259,177
Current Funding Ratio	122%	146%	111%	150%

The Authority's funding ratio at 30 June 2016 is **146 percent**. This is higher than the budgeted funding ratio of **111 percent** due to lower than expected outstanding claims liabilities.

The Authority's 2016-17 Budget anticipates a capital return of **$50 million** to bring the funding ratio to **122 percent** with the consideration of further capital returns in future years to remain consistent with the target funding ratio.

B. 2015-16 FINANCIAL STATEMENTS

ACT Audit Office

AUDITOR-GENERAL AN OFFICER OF THE ACT LEGISLATIVE ASSEMBLY

INDEPENDENT AUDIT REPORT
ACT INSURANCE AUTHORITY

To the Members of the ACT Legislative Assembly

Report on the financial statements

The financial statements of the ACT Insurance Authority (the Authority) for the year ended 30 June 2016 have been audited. These comprise the operating statement, balance sheet, statement of changes in equity, cash flow statement and accompanying notes.

Responsibility for the financial statements

The Under Treasurer is responsible for the preparation and fair presentation of the financial statements in accordance with the *Financial Management Act 1996*. This includes responsibility for maintaining adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and the accounting policies and estimates used in the preparation of the financial statements.

The auditor's responsibility

Under the *Financial Management Act 1996,* I am responsible for expressing an independent audit opinion on the financial statements of the Authority.

The audit was conducted in accordance with Australian Auditing Standards to provide reasonable assurance that the financial statements are free of material misstatement.

I formed the audit opinion following the use of audit procedures to obtain evidence about the amounts and disclosures in the financial statements. As these procedures are influenced by the use of professional judgement, selective testing of evidence supporting the amounts and other disclosures in the financial statements, inherent limitations of internal control and the availability of persuasive rather than conclusive evidence, an audit cannot guarantee that all material misstatements have been detected.

Although the effectiveness of internal controls is considered when determining the nature and extent of audit procedures, the audit was not designed to provide assurance on internal controls.

The audit is not designed to provide assurance on the appropriateness of budget information included in the financial statements or to evaluate the prudence of decisions made by the Authority.

Electronic presentation of the audited financial statements

Those viewing an electronic presentation of these financial statements should note that the audit does not provide assurance on the integrity of information presented electronically, and does not provide an opinion on any other information which may have been hyperlinked to or from these financial statements. If users of these financial statements are concerned with the inherent risks arising from the electronic presentation of information, then they are advised to refer to the printed copy of the audited financial statements to confirm the accuracy of this electronically presented information.

Independence

Applicable independence requirements of Australian professional ethical pronouncements were followed in conducting the audit.

Audit opinion

In my opinion, the financial statements of the Authority for the year ended 30 June 2016:

(i) are presented in accordance with the *Financial Management Act 1996*, Australian Accounting Standards and other mandatory financial reporting requirements in Australia; and

(ii) present fairly the financial position of the Authority at 30 June 2016 and results of its operations and cash flows for the year then ended.

This audit opinion should be read in conjunction with other information disclosed in this report.

M. Cooper.

Dr Maxine Cooper
Auditor-General
14 September 2016

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

STATEMENT OF RESPONSIBILITY

In my opinion, the financial statements are in agreement with the ACT Insurance Authority's accounts and records and fairly reflect the financial operations of the Authority for the year ended 30 June 2016 and the financial position of the Authority on that date.

David Nicol
Under Treasurer
Chief Minister, Treasury and
Economic Development Directorate
Delegate for the Chief Executive Officer
ACT Insurance Authority
14 September 2016

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

STATEMENT BY THE GENERAL MANAGER

In my opinion, the financial statements have been prepared in accordance with generally accepted accounting principles, and are in agreement with the ACT Insurance Authority's accounts and records and fairly reflect the financial operations of the Authority for the year ended 30 June 2016 and the financial position of the Authority on that date.

John Fletcher
General Manager
ACT Insurance Authority
14 September 2016

ACT INSURANCE AUTHORITY
OPERATING STATEMENT
FOR THE YEAR ENDED 30 JUNE 2016

	Note No.	Actual 2016 $'000	Budget 2016 $'000	Actual 2015 $'000
Ordinary activities				
Underwriting				
Gross Earned Insurance Premiums	7	**56,917**	56,912	56,522
Reinsurance Premiums (Expense)	7	**(8,210)**	(11,549)	(11,267)
Net Earned Premiums	8	**48,707**	45,363	45,255
Claims (Expense)/Credit	7	**(13,727)**	(64,327)	11,394
Reinsurance Recoveries/(Loss)	7	**343**	-	(4,953)
Other Underwriting Income	7	**292**	-	907
Net Incurred Claims	9	**(13,092)**	(64,327)	7,348
Underwriting Gain/(Loss)	**7**	**35,615**	(18,964)	52,603
Other Revenue				
Interest Revenue	10	**631**	340	330
Distribution Received	10	**13,419**	7,896	10,921
Unrealised Gains on Investments	10	**2,012**	-	2,409
Other Revenue	10	**2,136**	2,013	2,015
		18,198	10,249	15,675
Other Expenses				
Other Expenses	10	**(1,802)**	(1,889)	(1,892)
		(1,802)	(1,889)	(1,892)
General and Administration				
Employee Expenses	11	**(1,584)**	(1,720)	(1,594)
Superannuation Expenses	11	**(268)**	(273)	(245)
Depreciation	12	**(9)**	(29)	-
Supplies and Services	13	**(821)**	(926)	(838)
		(2,681)	(2,948)	(2,677)
Operating Surplus/(Deficit)		**49,330**	(13,552)	63,709
Other Comprehensive Income		**-**	-	-
Total Comprehensive Income/(Deficit)		**49,330**	(13,552)	63,709

The above Operating Statement should be read in conjunction with the accompanying notes.

ACT INSURANCE AUTHORITY
BALANCE SHEET
AT 30 JUNE 2016

	Note No.	Actual 2016 $'000	Budget 2016 $'000	Actual 2015 $'000
Current Assets				
Cash	15	**3,787**	3,363	875
Investments	16	**190,124**	283,233	319,991
Receivables	17	**7,410**	5,024	4,563
Prepayments	22	**307**	250	297
Total Current Assets		**201,628**	291,870	325,726
Non Current Assets				
Investments	16	**175,001**	62,114	63,121
Plant and Equipment	19	**287**	96	7
Intangibles		**-**	45	-
Prepayments	22	**523**	276	584
Total Non-Current Assets		**175,811**	62,531	63,712
Total Assets		**377,439**	354,401	389,438
Current Liabilities				
Payables	20	**371**	2,406	218
Outstanding Claims	21	**23,737**	28,286	22,130
Employee Benefits	23	**453**	490	461
Other Liabilities	22	**7,793**	250	2,270
Total Current Liabilities		**32,354**	31,432	25,079
Non-Current Liabilities				
Outstanding Claims	21	**224,933**	288,113	233,477
Employee Benefits	23	**38**	65	37
Other Liabilities	22	**523**	-	584
Total Non-Current Liabilities		**225,494**	288,178	234,098
Total Liabilities		**257,848**	319,610	259,177
Net Assets		**119,591**	34,791	130,261
Equity				
Accumulated Funds		**119,591**	34,791	130,261
Total Equity		**119,591**	34,791	130,261

The above Balance Sheet should be read in conjunction with the accompanying notes.

ACT INSURANCE AUTHORITY
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2016

	Accumulated Funds Actual 2016 $'000	Total Equity Actual 2016 $'000	Original Budget 2016 $'000
Balance at 1 July 2015	**130,261**	**130,261**	**108,343**
Comprehensive Income			
Operating Surplus/(Deficit)	49,330	49,330	(13,552)
Total Comprehensive Income	**179,591**	**179,591**	**94,791**
Transactions Involving Owners Affecting Accumulated Funds			
Capital (Distributions)	(60,000)	(60,000)	(60,000)
Total Transactions Involving Owners Affecting Accumulated Funds	**(60,000)**	**(60,000)**	**(60,000)**
Balance at 30 June 2016	**119,591**	**119,591**	**34,791**

	Accumulated Funds Actual 2015 $'000	TotalEquity Actual 2015 $'000
Balance at 1 July 2014	**66,552**	**66,552**
Comprehensive Income		
Operating Surplus	63,709	63,709
Total Comprehensive Income	**130,261**	**130,261**
Balance at 30 June 2015	**130,261**	**130,261**

The above Statement of Change in Equity should be read in conjunction with the accompanying notes.

ACT INSURANCE AUTHORITY
CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2016

	Note No.	Actual 2016 $'000	Budget 2016 $'000	Actual 2015 $'000
Cash Flows from Operating Activities				
Receipts				
Annual Insurance Premiums Received		**56,917**	56,912	56,594
Interest Received		**631**	340	330
Distribution from Investments with the Territory Banking Account		**10,991**	7,896	10,671
Reinsurance and Other Recoveries Received		**778**	-	1,335
Contract Works Insurance Receipts		**1,133**	1,514	1,444
External Insurance Contracts Receipts		**378**	376	1,082
Goods and Services Tax Collected from Customers and Received from the Australian Taxation Office		**24,644**	26,206	25,181
Other Receipts		**59**	123	109
Workers' Compensation Insurance Receipts		**89,942**	90,141	88,890
Total Receipts from Operating Activities		**185,474**	183,508	185,636
Payments				
Employees		**1,584**	1,720	1,534
Superannuation		**275**	273	245
Supplies and Services		**882**	926	889
Contract Works Insurance Payments		**1,279**	1,513	1,287
External Insurance Contracts Payments		**378**	376	1,116
Goods and Services Tax Paid to Suppliers and the Australian Taxation Office		**24,744**	26,205	24,759
Reinsurance Premiums Payments		**8,210**	11,549	11,267
Insurance Claims Payments		**20,663**	23,537	31,395
Workers' Compensation Insurance Payments		**84,428**	90,143	87,841
Total Payments for Operating Activities		**142,443**	156,242	160,333
Net Cash Inflows from Operating Activities	**25**	**43,031**	27,266	25,303
Cash Flows from Investing Activities				
Receipts				
Proceeds from Sale/Maturities of Investments		**130,000**	85,000	99,000
Total Receipts from Investing Activities		**130,000**	85,000	99,000
Payments				

ACT INSURANCE AUTHORITY
CASH FLOW STATEMENT - CONTINUED
FOR THE YEAR ENDED 30 JUNE 2016

	Note No.	Actual 2016 $'000	Budget 2016 $'000	Actual 2015 $'000
Payments for Investments		**110,000**	50,000	130,000
Payments for Plant and Equipment		**119**	100	5
Payments for Intangibles		**-**	50	-
Total Payments for Investing Activities		**110,119**	50,150	130,005
Net Cash Inflows/(Outflows) from Investing Activities		**19,881**	34,850	(31,005)
Cash Flows from Financing Activities				
Payments				
Capital Distributions		**60,000**	60,000	-
Total Payments for Financing Activities		**60,000**	60,000	-
Net Cash (Outflows) from Financing Activities		**(60,000)**	(60,000)	-
Net Increase/(Decrease) in Cash		**2,912**	2,116	(5,702)
Cash at the Beginning of the Reporting Period		**875**	1,247	6,578
Cash at the End of the Reporting Period	**15**	**3,787**	3,363	875

The above Cash Flow Statement should be read in conjunction with the accompanying notes.

NOTE INDEX

NOTE 1. OBJECTIVES OF THE ACT INSURANCE AUTHORITY

Operations and Principal Activities of the ACT Insurance Authority

The ACT Insurance Authority (the Authority) was established on 1 April 2001. The Authority operates under the Insurance Authority Act 2005. The objectives of the Authority are to:

> carry out the business of insurer of Territory risks;

> take out insurance of Territory risks with other entities;

> satisfy or settle claims in relation to Territory risks;

> take action, with the Treasurer's approval, for the realising, enforcing, assigning or extinguishing rights against third parties arising out of or in relation to its business, including, for example:
- taking possession of, dealing with or disposing of, property; or
- carrying on a third party's business as a going concern;

> develop and promote good practices for the management of Territory risks; and

> give advice to the Treasurer about insurance and the management of Territory risks.

In addition, the Authority also performs the function of:

> the Office of the Nominal Defendant of the ACT, for claims against uninsured unidentified vehicles for the ACT Compulsory Third Party Insurance Scheme; and

> the Default Insurance Fund, for default claims under the ACT Private Workers' Compensation Scheme.

Financial Statements for these entities are available in Volume 2 of the Chief Minister, Treasury and Economic Development Directorate 2015-16 Annual Report.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The *Financial Management Act 1996* (FMA) requires the preparation of annual financial statements for ACT Government Agencies.

The FMA and the Financial Management Guidelines issued under the Act, requires that an Authority's financial statements to include:

I. an Operating Statement for the year;

II. Balance Sheet at the end of the year;

III. Statement of Changes in Equity for the year;

IV. Cash Flow Statement for the year;

V. the significant accounting policies adopted for the year; and

VI. such other statements as are necessary to fairly reflect the financial operations of the Authority during the year and its financial position at the end of the year.

These general purpose financial statements have been prepared to comply with 'Generally Accepted Accounting Principles' (GAAP) as required by the FMA. The financial statements have been prepared in accordance with:

I. Australian Accounting Standards; and

II. ACT Accounting and Disclosure 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 assets such as those included in financial instruments which were measured at fair value in accordance with the valuation policies applicable to the Authority during the reporting period.

These financial statements are presented in Australian dollars, which is the Authority's functional currency.

The Authority is an individual reporting entity.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

(b) The Reporting Period

These financial statements state the financial performance, changes in equity and cash flows of the Authority for the year ended 30 June 2016 and the financial position of the Authority at 30 June 2016.

(c) Comparative Figures

Budget Figures

To facilitate a comparison with the Budget Papers, as required by the *Financial Management Act 1996*, budget information for 2015-16 has been presented in the financial statements. Budget numbers in the financial statements are the original budget numbers that appear in the Authority's Statement of Intent contained in the ACT Budget Statements.

Prior Year Comparatives

Comparative information has been disclosed in respect of the previous period for amounts reported in the financial statements, except where an Australian Accounting Standard does not require comparative information to be disclosed.

Where the presentation or classification of items in the financial statements is amended, the comparative amounts have been reclassified where practical. Where a reclassification has occurred, the nature, amount and reason for the reclassification is provided.

(d) Rounding

All amounts in the financial statements have been rounded to the nearest thousand dollars ($'000). Use of '-' represents zero amounts or amounts rounded down to zero.

(e) Insurance Premium Revenue

Direct insurance premium revenue comprises amounts charged to agencies, but excludes duties, Goods and Services Tax (GST) and other amounts collected on behalf of third parties. The earned portion of premiums received and receivable is recognised as revenue. All premiums are written and earned in the current reporting period as all policies cover the period from 1 July 2015 to 30 June 2016.

(f) Contract Works Insurance

The Authority purchases contract works insurance cover for ACT Government capital construction works. Premiums are recovered from ACT Government agencies by the Authority based on the value of each agency's capital works program. The Authority bears no risk on these contracts and does not underwrite the business, but rather acts and an agent for the Territory, the amounts involved are included in other revenue and expenses and not reflected in the gross earned insurance premiums and claims expense. Cover for policies which extend further than the current reporting period are recorded as prepayments with corresponding transactions recorded in other liabilities as premiums received in advance (refer to Note 22: 'Prepayments and Other Liabilities').

(g) External Insurance Contracts

The Authority arranges insurance cover for travel, aviation, standing timber and public liability for volunteers on behalf of ACT Government agencies. The Authority bears no risk on these contracts. Similar to contract works insurance, each agency pays its share of the premium to the Authority for the purpose of financing the insurance premium payment to an external insurer. As the Authority is not underwriting the business, but rather acting as an agent for the Territory, the amounts involved are included in other revenue and expenses and not reflected in the gross earned insurance premiums and claims expense.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

(h) Reinsurance Premium

The Authority reinsures at catastrophe level for those classes for 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 personal injury to third parties.

All premiums are written and earned in the current reporting period as all policies cover the period from 1 July 2015 to 30 June 2016.

(i) Claims

A liability for outstanding claims and related claims expenses are recognised in the financial statements. The liability covers claims reported but not yet paid; incurred but not yet reported (IBNR); incurred but not enough reported (IBNER) and the anticipated direct and indirect costs of settling those claims. Claims outstanding are actuarially assessed by reviewing individual claim files and estimating changes in the ultimate cost of settling claims, IBNRs and associated settlement costs using statistics based on past experience and trends.

The Authority has used the services of an independent actuary, PwC Actuarial Services, to provide an estimate of the liability for outstanding claims. The estimated liability was completed in July 2016, based on data at 30 June 2016. The movement in outstanding claims liability can either reduce claims expense in the case of a reduction in liability or increase claims expense in the case of an increase in liability.

The liability for outstanding claims is measured as the central estimate of the present value of the expected future payments, against claims incurred at the reporting date under general insurance contracts issued by the Authority, with an additional risk margin to allow for the inherent uncertainty in the central estimate. 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 present value of future payments is estimated using the Commonwealth Government Bond risk free rate.

(j) Acquisition Costs

Under the *Insurance Authority Act 2005*, the Authority is responsible for managing the insurance costs of the Territory and Territory entities. The costs incurred in obtaining and recording policies of insurance (acquisition costs) are not material and are therefore not separately identified from other costs.

(k) Workers' Compensation

The Authority processes the payment of the ACT Government workers' compensation premium to the Commonwealth Government workers' compensation insurer (Comcare), which levies a single premium covering all ACT Government agencies. Each agency pays its share of the insurance premium to the Authority for the purpose of financing the premium payment to Comcare. As the Authority is not underwriting this workers' compensation insurance business, but rather acting as an intermediary for the Territory, the amounts involved are recorded in the Cash Flow Statement only and are not included in insurance premium revenue and claims expense.

(l) Current and Non-Current Items

Assets and liabilities are classified as current or non-current in the Balance Sheet and in the relevant notes. Assets are classified as current where they are expected to be realised within twelve months after the reporting date. Liabilities are classified as current when they are due to be settled within twelve months after the reporting date or the Authority does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

Assets or liabilities which do not fall within the current classification are classified as non-current.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

(m) Cash

For the purposes of the Cash Flow Statement and the Balance Sheet, cash is subject to an insignificant risk of changes in value. The Authority holds general operating bank accounts with the Westpac Banking Corporation.

(n) Receivables

Accounts receivable are initially recognised at fair value and subsequently measured at amortised cost, with any adjustments to the carrying amount being recorded in the Operating Statement.

Receivables include interest, goods and services taxation (GST) and court ordered recoveries.

The collectability of receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off. An allowance for impairment is raised when some doubt as to the collection exists. The allowance for impairment is based on objective evidence and a review of overdue balances. The Authority considers the following is objective evidence of impairment:

I. becoming aware of financial difficulties of debtors;

II. default payments; or

III. debts more than 90 days overdue.

(o) Reinsurance and Other Recoveries Receivable

Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid, incurred but not yet reported (IBNR) and the cost of claims incurred but not enough reported (IBNER) are recognised as revenue. Other underwriting income represents amounts received from third party contributors of a claim or claimants found wholly or partially liable by the courts.

In 2015-16, reinsurance resulted in losses as the recoveries receivable was written back to income due to the expectation that the Authority will not receive any reinsurance recoveries in future reporting periods.

Recoveries receivable are assessed in a manner similar to the assessment of outstanding claims. Recoveries are measured at the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims described in
Note 2 (i) 'Claims'.

(p) Investments

Short-term investments are held with the Territory Banking Account in a unit trust called the Cash Enhanced Portfolio. Long-term investments are held with the Territory Banking Account in a unit trust called the Fixed Interest Portfolio. The prices of the units in both these unit trusts fluctuate in value. The net gain or loss on investments consists of the fluctuation in price of the unit trusts between the end of the last reporting period and the end of this reporting period as well as any profit on the sale of units in the unit trust (the profit being the difference between the price at the end of the last reporting period and the sale price). The net gains or losses do not include interest or dividend income.

These short-term and long-term investments are measured at fair value with any adjustments to the carrying amount being recorded in the Operating Statement. Fair value is based on an underlying pool of investments which have quoted market prices at the reporting date.

Distributions from the Cash Enhanced Portfolio and from the Fixed Interest Portfolio are paid quarterly.

(q) Acquisition and Recognition of Plant and Equipment

Plant and equipment is initially recorded at cost.

Plant and equipment with a useful life greater than twelve months and minimum value of $5,000 is capitalised.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

(r) Measurement of Plant and Equipment After Initial Recognition

Plant and equipment is measured at cost less depreciation.

(s) Depreciation of Non-Current Assets

Depreciation is applied to physical assets such as plant and equipment. Depreciation for non-current assets is determined as follows:

Class of Fixed Asset	Depreciation Method	Useful Life
Fixtures and fittings	Straight Line	5-10 years

The useful lives of all major assets held are reassessed on an annual basis.

(t) Payables

Payables are initially recognised at fair value based on the transaction cost and subsequent to initial recognition at amortised cost, with any adjustments to the carrying amount being recorded in the Operating Statement. All amounts are normally settled within 30 days after the invoice date.

Payables include trade creditors, GST payable and accrued expenses.

Trade creditors represent the amounts owing for goods and services received prior to the end of the reporting period and unpaid at the end of the reporting period and relating to the normal operations of the Authority.

Accrued expenses represent goods and services provided by other parties during the reporting period that are unpaid at the end of the reporting period and where an invoice has not been received by period end.

(u) Employee Benefits

Employee benefits include:

> short-term employee benefits such as wages and salaries, annual leave loading and applicable on-costs, if expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services;

> other long-term benefits, such as long service leave and annual leave; and

> termination benefits.

On-costs include annual leave, long service leave, superannuation and other costs that are incurred when employees take annual leave and long service leave.

Wages and Salaries

Accrued wages and salaries are measured at the amount that remains unpaid to employees at the end of the reporting period.

Annual and Long Service Leave

Annual and long service leave including applicable on-costs that are not expected to be wholly settled before twelve months after the end of the reporting period when the employees render the related service are measured at the present value of estimated future payments to be made in respect of services provided by employees up to the end of the reporting period. Consideration is given to the future wage and salary levels, experience of employee departures and periods of service. At the end of each reporting period end, the present value of future annual leave and long service leave payments is estimated using market yields on Commonwealth Government bonds with terms to maturity that match, as closely as possible, the estimated future cash flows.

Annual leave liabilities have been estimated on the assumption that they will be wholly settled within three years. In 2015-16, the rate used to estimate the present value of future annual leave payments is 101.4% at 30 June 2016 (101.0% at 30 June 2015).

In 2015-16, the rate used to estimate the present value of future payments for long service leave is 114.7% at 30 June 2016 (104.2% at 30 June 2015).

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

(u) Employee Benefits - continued

The long service leave liability is estimated with reference to the minimum period of qualifying service. For employees with less than the required minimum period of seven years qualifying service, the probability that employees will reach the required minimum period has been taken into account in estimating the provision for long service leave and applicable on-costs.

The provision for annual leave and long service leave includes estimated on-costs. As these on-costs only become payable if the employee takes annual and long service leave while in-service, the probability that employees will take annual and long service leave while in service has been taken into account in estimating the liability for on-costs.

Annual leave and long service leave liabilities are classified as current liabilities in the Balance Sheet where there are no unconditional rights to defer the settlement of the liability for at least twelve months. Conditional long service leave liabilities are classified as non-current because the Authority has an unconditional right to defer the settlement of the liability until the employee has completed the requisite years of service.

(v) Superannuation

The Authority makes superannuation payments on a fortnightly basis to the Territory Banking Account, to cover the Authority's superannuation liability for the Commonwealth Superannuation Scheme (CSS) and the Public Sector Superannuation Scheme (PSS). This payment covers the CSS/PSS employer contribution, but does not include the productivity component. The productivity component is paid directly to the Commonwealth Superannuation Corporation (CSC) by the Authority. The CSS and PSS are defined benefit superannuation plans meaning that the defined benefits received by employees are based on the employee's years of service and average final salary.

Superannuation payments have also been made directly to superannuation funds for those members of the Public Sector who are part of superannuation accumulation schemes. This includes the Public Sector Superannuation Scheme Accumulation Plan (PSSAP) and schemes of employee choice.

The total Territory superannuation liability for the CSS, PSS, and CSC is recognised in the Chief Minister, Treasury and Economic Development Directorate's Superannuation Provision Account and the external schemes recognise the superannuation liability for the PSSAP and other schemes respectively. This superannuation liability is not recognised at individual agency level.

The ACT Government is liable for the reimbursement of the emerging costs of benefits paid each year to members of the CSS and PSS in respect of the ACT Government service provided after 1 July 1989. These reimbursement payments are made from the Superannuation Provision Account.

(w) Assets Backing General Insurance Liabilities

The Authority holds assets to back general insurance liabilities.

The Authority's investment portfolio is managed by the Territory Banking Account within Chief Minister, Treasury and Economic Development Directorate's Asset Liability Management team.

Financial assets are valued at fair value through profit or loss. Initial recognition is at cost in the Balance Sheet and subsequent measurement is at fair value with any resultant realised or unrealised profits or losses recognised in the Operating Statement.

(x) Budgetary Reporting – Explanation of Major Variances between Actual Amounts and Original Budget Amounts

Explanations of major variances between the 2015-16 original budget and the 2015-16 actual results are discussed in Note 26 'Budgetary Reporting - Explanation of Major Variances between Actual Amounts and Original Budget Amounts'.

The definition of 'major variances' is provided in Note 4 'Significant Accounting Judgements and Estimates' - (d) Budgetary Reporting – Explanation of Major Variances between Actual Amounts and Original Budget Amounts.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

(y) Accounting Standards Accepted for Early Adoption

AASB 2015-2: 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101' and AASB 2015-7: 'Amendments to Australian Accounting Standards – Fair Value Disclosures of Not-For-Profit Public Sector Entities' have been early adopted for the 2015-16 reporting period, even though the standards are not required to be applied until annual reporting periods beginning on or after 1 July 2016.

AASB 2015-2 amends AASB 101: 'Presentation of Financial Statements' to clarify that immaterial information should not be disclosed and the presentation of information in notes should be tailored to provide users with the clearest view of financial performance and financial position.

AASB 2015-7 amends AASB 13: 'Fair Value Measurement' to provide disclosure relief to not-for profit public sector agencies from certain disclosures about the fair value measurements of property, plant and equipment held for their current service potential rather than to generate net cash inflows. This includes relief from disclosures of quantitative information about the significant unobservable inputs used in fair value measurements and of the sensitivity of certain fair value measurements to changes in unobservable inputs.

(z) Impact of Accounting Standards Issued but yet to be Applied

The following revised accounting standard has been issued by the Australian Accounting Standards Board but does not apply to the current reporting period. This standard is applicable to future reporting periods. The Authority does not intend to adopt this standard early. Where applicable, these Australian Accounting Standards will be adopted from their application date.

> AASB 2015-6: 'Amendments to Australian Accounting Standards – Extending Related Party Disclosures to Not-for-Profit Public Sector Entities' [AASB 10, 124 and 1049](application date 1 July 2016). This standard extends the scope of AASB 124: 'Related Party Disclosures' to include the not-for-profit sector and updates AASB 124 to include implementation guidance (including illustrative examples) to assist not-for-profit entities to apply the new requirements. The impact has been assessed and while there is no material financial impact in implementing this standard there will be increased disclosure required by the Authority.

NOTE 3. CHANGE IN ACCOUNTING POLICY AND ACCOUNTING ESTIMATES

(a) Changes in Accounting Policy

The Authority had no changes in accounting policy during the reporting period.

(b) Changes in Accounting Estimates

The Authority had the following changes in accounting estimates during the reporting period.

Changes in Actuarial Assumptions

The Authority uses an actuary to estimate the outstanding claims liabilities. This estimate is based on actuarial assumptions and methods (refer to Note 5: 'Actuarial Assumptions and Methods'). Actuarial assumptions are based on past claims experience, risk exposure and projections of economic variables.

As a result of changes in these variables the estimate of the outstanding claims provision has changed. This change has resulted in a decrease to the estimate of the outstanding claims provision and claim expense in the current reporting period (refer to Note 9: 'Net Incurred Claims' and Note 21: 'Outstanding Claims').

NOTE 4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The Authority makes estimates and assumptions in respect of certain key amounts recorded in the financial statements. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key areas in which critical estimates are applied are described below.

(a) The Ultimate Liability Arising from Claims Made Under Insurance Contracts

A provision is made at year-end for the estimated cost of claims incurred but not settled at the Balance Sheet date, including the cost of IBNR and IBNER claims to the Authority.

The estimated cost of claims includes direct expenses to be incurred in settling claims net of the expected value of salvage and other recoveries. The Authority takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original estimate of the liability.

The estimation of IBNR and IBNER are generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified, as the cost of these claims may often not be apparent until many years after the claim event. The public liability and medical malpractice classes of business typically display higher levels of IBNR and IBNER claims.

For the property class, claims are typically reported soon after the claim event, and therefore tend to display lower levels of volatility.

In calculating the estimated cost of unpaid claims, the Authority uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowances are made for factors which may cause these to change, including:

changes in the Authority's processes which might accelerate or slow down the development and/or recording of paid or incurred claims, compared with the statistics from previous periods;

- changes in the legal environment;
- the effects of inflation;
- changes in the mix of business;
- the impact of large losses;
- movements in industry benchmarks; and
- medical and technological developments.

A component of these estimation techniques is the estimation of the cost of notified but not paid claims (case estimation) which takes into account the claim circumstance as reported, any information available from the ACT Government Solicitor Office and information on the cost of settling claims with similar characteristics in previous periods.

Large claims are assessed separately, being measured on a case by case basis or projected separately, in order to allow for the possible distortive effect of the development and incidence of these large claims.

Where possible, the Authority adopts multiple techniques to estimate the required level of provisions. This assists in giving greater understanding of the trends inherent in the data being projected and the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year.

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions.

Details of specific assumptions used in deriving the outstanding claims liability at year end are detailed in Note 5 'Actuarial Assumptions and Methods.'

NOTE 4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES - CONTINUED

(b) Assets Arising from Reinsurance Contracts

Assets arising from reinsurance contracts are also calculated using the above methods. In addition, the security of these assets is assessed on a periodic basis to ensure that the balance is reflective of the amounts that will ultimately be received, taking into consideration factors such as counterparty and credit risk. Impairment is recognised where there is objective evidence that the Authority may not receive amounts due and these amounts can be reliably measured.

(c) Employee Benefits

Significant judgements have been applied in estimating the liability for employee benefits. The estimated liability for annual and long service leave requires a consideration of the future wage and salary levels, experience of employee departures, probability that leave will be taken in service and periods of service. The estimate also includes an assessment of the probability that employees will meet the minimum service period required to qualify for long service leave and that on-costs will become payable.

The significant judgements and assumptions included in the estimation of annual and long service leave liabilities include an assessment by an actuary. The Australian Government Actuary performed this assessment in May 2014. The assessment by an actuary is performed every 5 years. However it may be performed more frequently if there is a significant contextual change in the parameters underlying the 2014 report. The next actuarial review is expected to be undertaken by May 2019.

(d) Budgetary Reporting – Explanation of Major Variances between Actual Amounts and Original Budget Amounts

Significant judgements have been applied in determining what variances are considered as 'major variances' requiring explanations in Note 26 'Budgetary Reporting – Explanation of Major Variances between Actual Amounts and Original Budget Amounts'. Variances are considered to be major variances if both of the following criteria are met:

> the line item is a significant line item: the line item actual amount accounts for more than 10% of the relevant associated category (Income, Expenses and Equity totals) or sub-element (e.g. Current Liabilities and Receipts from Operating Activities totals) of the financial statements; and

> the variances (original budget to actual) are greater than plus (+) or minus (-) 10% of the budget for the financial statement line item.

Further information on this is provided in Note 2(x) 'Budgetary Reporting – Explanation of Major Variances between Actual Amounts and Original Budget Amounts'.

NOTE 5. ACTUARIAL ASSUMPTIONS AND METHODS

The Authority writes seven classes of insurance: medical malpractice, public liability, property, directors and officers, professional indemnity, financial crime and special purpose motor.

An actuarial process is used for estimating the liability for outstanding claims and is largely similar for all classes. A description is as follows:

> Estimates of claims incurred by the Authority but not yet reported at the balance date (IBNR claims) are made by analysing past reporting patterns and applying assumed development rates to numbers of claims already reported to the Authority;

> The number of past settlements are analysed and adopted ultimate settlement proportions are applied to the estimated ultimate numbers of claims to obtain expected numbers of future settlements;

> Past settlement sizes and past changes in case estimates are analysed;

> Estimates of outstanding claims are first adopted for the most developed insurance years, taking into account the average sizes and relationship to current estimates of the claims from the Authority. The same process is extended to the more recent years, taking into account the experience of the earlier years and any differences in experience to date;

> Separate analyses of large and small claims are made for all classes. The incidence and sizes of large claims for recent years is drawn from experience in the more developed years;

> Analyses are made on data, which is gross of reinsurance, and the resulting estimates of outstanding liabilities are therefore gross of reinsurance. Subsequent allowances, where needed, are then made for potential reinsurance recoveries to arrive at estimates of net outstanding liabilities; and

> Allowances are made for all future claims escalation, whether from external inflation or superimposed inflation, and projected payments are discounted to present values to reflect the time value of money.

(a) Actuarial Assumptions

The following assumptions have been made in estimating the outstanding claims liabilities.

	Property and Motor	Public Liability	Medical Malpractice	Directors and Officers	Financial Crime	Professional Indemnity
Discounted Mean Term (for Outstanding Claims)	0.84 Years	5.80 Years	7.35 Years	4.46 Years	3.40 Years	4.07 Years
Ultimate Claim Numbers (2015-16 Insurance Year)*	66	145	98	2	0.2	4
Average Settlement Size	$141,700†	$93,900† and $3.525m††	$255,000† and $4.9m††	$77,500†	$150,000†	$77,600†
Expense Rate	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Discount Rate	1.7%	2.1%	2.2%	2.0%	1.7%	2.0%
Inflation and Superimposed Inflation	3.5%	3.2%	3.1%	3.4%	3.7%	3.3%

*Ultimate claims reported for 2015-16 are the assumed number of claims incurred in the insurance year.

†The adopted average claim size for small claims has a total cost up to $1 million.

††The adopted average claim size for large claims has a total cost of $1 million or greater.

NOTE 5. ACTUARIAL ASSUMPTIONS AND METHODS - CONTINUED

(b) Process Used to Determine Assumptions

Discounted mean term

The discounted mean term to settlement is calculated separately by class of insurance based on historic settlement patterns. A decrease in the discounted mean term to settlement would lead to more claims being paid sooner than anticipated. An increase or decrease in the discounted mean term would have a corresponding decrease or increase on claims expense respectively.

Ultimate claim numbers

The ultimate number of claims for each insurance class is the estimated total number of claims expected to emerge from each insurance year. The ultimate number of claims is estimated by analysing historical claim reporting rates and applying them to the observed claims reported to date in order to project the timing and number of future claims reported. All else being equal, an increase in the ultimate number of claims will increase the liability.

Average settlement size

The average settlement size is based on past claims experience. For public liability and medical malpractice classes the incidence of large claims are greater and therefore their average sizes for small and large claims are shown separately.

Expense rate

Claims handling expenses are calculated based on an assumed proportion of claims handling costs as a percentage of past payments. An estimate for the internal costs of handling claims is included in the outstanding claims liability. An increase or decrease in the expense rate assumption would have a corresponding impact on claims expense.

Discount rate

Discount rates derived from market yields on Commonwealth Government Bonds as at the balance date have been adopted. The discount rates shown above are the rates which match the weighted term and the outstanding claims liability is discounted to adjust for the time value of money. All else being equal, an increase or decrease in the discount rate would have a corresponding decrease or increase on claims expense respectively.

Inflation

Economic inflation assumptions are set by reference to current economic indicators. An increase or decrease in the assumed levels of economic inflation would have a corresponding increase or decrease on claims expense.

Superimposed inflation

Superimposed inflation is the tendency for payments to increase over time at a faster rate than a suitable standard measure of inflation. This can be driven by factors such as increases in court settlement sizes and an assumption is set considering both any superimposed inflation present in the portfolio and industry superimposed inflation trends. Currently, there has been no allowance for inflation over and above economic inflation measures used.

NOTE 5. ACTUARIAL ASSUMPTIONS AND METHODS - CONTINUED

(c) Sensitivity Analysis – Insurance Contracts

The Authority conducts sensitivity analyses to quantify the exposure to risk of changes in the key underlying variables. The valuations included in the reported results are calculated using certain assumptions about these variables as disclosed above. The movement in any key variable will impact the financial performance and equity position of the Authority.

Assumptions	Note No.	Net Provision $'000	Difference $'000	%
Current Net Outstanding Claims Provision	**21**	**248,670**		
Economic Assumptions				
Discount rates increased by 1.0%		237,040	(11,630)	(4.7)
Discount rates decreased by 1.0%		261,148	12,477	5.0
Medical Malpractice				
Large Claims				
Assumed average size on IBNR Claims is $4.9 million				
Increase by $1.0 million		284,519	35,848	14.4
Decrease by $1.0 million		213,532	(35,139)	(14.1)
High uncertainty in IBNR claim numbers for more recent insurance years				
1 additional claim per annum for 2007 and later		292,841	41,171	17.8
1 less claim per annum for 2007 and later		204,874	(43,796)	(17.6)
Public Liability				
Large Claims				
Assumed average size on IBNR Claims is $3.4 million				
Increase by $1.0 million		255,365	6,695	2.7
Decrease by $1.0 million		242,109	(6,562)	(2.6)
High uncertainty in IBNR claim numbers for the more recent insurance years				
1 additional claim per annum for 2007 and later		275,722	27,052	10.9
1 less claim per annum for 2007 and later		227,968	(20,702)	(8.3)

NOTE 5. ACTUARIAL ASSUMPTIONS AND METHODS - CONTINUED

(c) Sensitivity Analysis – Insurance Contracts - continued

Current Net Outstanding Provision

The current net outstanding claims provision is the gross outstanding claims net of reinsurance recoveries.

Economic Assumptions

The liability for outstanding claims is sensitive to movements in the discount rate, with a 1% increase in the discount rate this would result in a decrease of $11.6 million in claims liability whereas a decrease in the discount rate of 1% would result in an increase of $12.5 million in the liability.

Medical Malpractice and Public Liability

The liability for outstanding claims is sensitive to movements in the average claim size; a change in average claim size by $1.0 million has a subsequent effect on the outstanding claim provision of either an increase of $35.8 million or a decrease of $35.1 million in the liability for large Medical Malpractice claims and either an increase of $6.7 million or a decrease of $6.6 million in the liability for large Public Liability claims.

A significant proportion of the outstanding claims provision is associated with large Medical Malpractice and Public Liability claims. As such, the provision is sensitive to movements in the assumed number of large claims, with a greater uncertainty for more recent insurance years where experience is still relatively undeveloped. A change in the assumption of allowing for one additional IBNR claim from 2007 and onwards has the subsequent effect on the outstanding claim provision of either an increase of $41.1 million or a decrease of $43.8 million in the liability for large Medical Malpractice claims and either an increase of $27.1 million or a decrease of $20.7 million in the liability for large Public Liability claims.

NOTE 6. INSURANCE CONTRACTS - RISK MANAGEMENT POLICIES AND PROCEDURES

The financial condition and operation of the Authority are affected by a number of key risks including insurance risk, interest rate risk, credit risk, liquidity risk and price risk. Notes on the Authority's policies and procedures in respect to managing insurance risks are set out in this note. The Authority's policies and procedures for managing other risks are disclosed in Note 24 'Financial Instruments'.

(a) Objectives in Managing Risks Arising from Insurance Contracts and Policies for Mitigating those Risks

The Authority's objective is to support the ACT Government by protecting the budget from financial loss through management of the ACT Government's self insured liabilities.

The Authority has developed, implemented and maintains a sound and prudent risk management strategy and a reinsurance management strategy. These strategies incorporate the Authority's policies and procedures, processes and controls for risk management. These strategies address all material risks, financial and non-financial, likely to be faced by the Authority.

Key aspects of the processes established to mitigate insurance risks include:

- actuarial models are used to calculate premiums and monitor claims patterns. Past experience and statistical methods are used as part of the process;
- documented procedures are followed for claims management; and
- reinsurance is used to limit the Authority's exposure to large claims and catastrophes. When selecting a reinsurer, the Authority only considers those companies that have a Standard and Poors credit risk rating of 'A' - or higher. In order to assess this, the Authority uses ratings information from the public domain or gathered through internal investigations.

To limit the concentration of credit risk in purchasing reinsurance, the Authority has regard to existing reinsurance assets and seeks to limit excessive exposure to any single reinsurer or group of related reinsurers.

(b) Development of Claims

There is a possibility that changes may occur in the estimate of the liability for outstanding claims at the end of a premium (contract) period. The tables in Note 21 'Outstanding Claims' show the Authority's estimate of outstanding claims for each underwriting year at successive year ends.

(c) Concentration of Insurance Risk

The Authority's exposure to concentrations of insurance risk is mitigated by the Authority purchasing reinsurance on all classes of insurance policies. The main sources of concentration risk for property assets are bushfire, earthquake and storm damage. The Authority purchases catastrophe level reinsurance cover to limit exposure to any single event.

NOTE 7. UNDERWRITING RESULT

	Note No.	2016 $'000	2015 $'000
Underwriting Revenues			
Gross Earned Insurance Premiums			
General Government Sector		**46,631**	46,232
Public Trading Enterprises		**8,370**	8,412
External		**1,916**	1,877
	8	**56,917**	56,522
Reinsurance (Losses)/Recoveries	9 and 18	**343**	(4,953)
Recoveries Claims Related	9	**292**	907
		635	(4,046)
Underwriting Revenues		**57,552**	52,476
All underwriting revenues relate to operating activities.			
Underwriting Credit/(Expenses)			
Gross Claims (Expenses)/Credit [a]		**(13,727)**	11,394
	9	**(13,727)**	11,394
Reinsurance Premiums		**(8,210)**	(11,267)
	8	**(8,210)**	(11,267)
Underwriting (Expenses)/Credit		**(21,937)**	127
Underwriting Gain			
Underwriting Revenues		**57,552**	52,476
Underwriting (Expenses)/ Credit		**(21,937)**	127
Underwriting Gain		**35,615**	52,603

[a] The change in underwriting gain is due to the increase in the gloss claims change from a credit result in 2014-15 to an expense result in 2015-16. This increase is the result of the significant reduction of outstanding claims provision in 2014-15 which did not occur in 2015-16. Refer to Gross Incurred Claims and Related Expenses – Discounted in Note 9: 'Net Incurred Claims'.

NOTE 8. NET EARNED INSURANCE PREMIUMS

	Note No.	2016 $'000	2015 $'000
Gross Written Premiums			
General Government Sector		**46,631**	46,232
Public Trading Enterprises		**8,370**	8,412
External		**1,916**	1,877
	7	**56,917**	56,522
Reinsurance Premium Expense [a]	7	**(8,210)**	(11,267)
Net Earned Insurance Premiums		**48,707**	45,255

[a] *The decrease in Reinsurance Premium expenses in 2015-16 was the result of the Authority negotiating a reduction in the cost of reinsurance.*

NOTE 9. NET INCURRED CLAIMS

2016	Current Year $'000	Prior Years $'000	Note No.	Total $'000
Gross Incurred Claims and Related Expenses – Undiscounted [a]	(56,810)	58,692		**1,882**
Reinsurance and Other Recoveries - Undiscounted	343	-	7	**343**
Other Underwriting Income	292	-	7	**292**
Net Incurred Claims - Undiscounted	**(56,175)**	**58,692**		**2,517**
Gross Incurred Claims and Related Expenses - Discounted [a]	(48,075)	34,348	7	**(13,727)**
Reinsurance and Other Recoveries - Discounted	343	-	7	**343**
Other Underwriting Income	292	-	7	**292**
Total Net Incurred Claims Discounted [b]	**(47,440)**	**34,348**		**(13,092)**

2015	Current Year $'000	Prior Years $'000	Note No.	Total $'000
Gross Incurred Claims and Related Expenses - Undiscounted [a]	(53,504)	88,719		**35,215**
Reinsurance and Other Recoveries - Undiscounted	-	(4,953)	7	**(4,953)**
Other Underwriting Income	907	-	7	**907**
Net Incurred Claims - Undiscounted	**(52,597)**	**83,766**		**31,169**
Gross Incurred Claims and Related Expenses - Discounted [a]	(42,453)	53,847	7	**11,394**
Reinsurance and Other Recoveries - Discounted	-	(4,953)	7	**(4,953)**
Other Underwriting Income	907	-	7	**907**
Total Net Incurred Claims Discounted [b]	**(41,546)**	**48,894**		**7,348**

[a] The gross incurred claims and related expenses both undiscounted and discounted are separated into those contributed from the most recent year and those from prior years, which are impacted by changes in economic factors and the assumptions used to derive the provision for outstanding claims in the actuarial valuation.

[b] The change in total net incurred claims discounted between 2014-15 and 2015-16 has been largely the result of changes to the actuarial assessment of outstanding claims liabilities relating to insurance claims from prior years. In 2014-15, the prior year's adjustment saw a reduction in gross incurred claims and related expenses discounted of $53.8 million, this was the result of lower than expected inflation, which reduces the outstanding claims liabilities. The reduction was also driven by changes in actuarial assumptions used in the assessment of the outstanding claims liabilities, which changed due to decreases in the observed numbers and size of medical malpractice claims as well as reductions in the number and estimated cost of open large public liability claims. During 2015-16, the prior year's adjustment has been much less, with a reduction in the prior gross incurred claims and related expenses of $34.3 million.

The 2015-16 valuation resulted in a reduction in the net outstanding claims provision shown in Note 21 'Outstanding Claims'. This is due to lower than expected inflation and changes in the actuarial assumptions resulting from the reduction in the number of reported claims as well as continued lower than expected reported numbers of large medical malpractice claims. A reduction in the net outstanding claims provision reduces the incurred claims and related expense.

NOTE 10. OTHER REVENUE AND EXPENSES

	2016 $'000	2015 $'000
Other Revenue		
Interest from Bank	**631**	330
Distributions [a]	**13,419**	10,921
Unrealised Gains on Investments	**2,012**	2,409
	16,063	13,660
Other Revenue:		
Income from Support Services	**334**	117
Contract Works Insurance	**1,298**	1,519
External Insurance Contracts	**504**	379
	2,136	2,015
	18,199	15,675
Other Expenses		
Contract Works Insurance	**1,298**	1,508
External Insurance Contracts	**504**	384
	1,802	1,892

[a] The investment performance on the Cash Enhanced Portfolio was 2.51% in 2015-16 (2014-15 3.1%) and the rate of return on the Fixed Interest Portfolio was 6.84% in 2015-16 (2014-15 5.61%). The Authority held more funds in the fixed interest portfolio during 2015-16, this along with the increase in the rate of return have resulted in an increase in distributions being received.

NOTE 11. EMPLOYEE AND SUPERANNUATION EXPENSES

	2016 $'000	2015 $'000
Employee Expenses		
Salaries	**1,517**	1,512
Annual Leave Movement	**(2)**	(8)
Long Service Leave Movement	**54**	75
Workers' Compensation Insurance Premium	**15**	15
Total Employee Expenses	**1,584**	1,594
Superannuation Expenses		
Superannuation Contribution to the Territory Banking Account	**167**	159
Productivity Benefit	**22**	19
Superannuation Payment to ComSuper (for the PSSaP)	**13**	13
Superannuation to External Providers	**65**	53
Total Superannuation Expenses	**268**	244

NOTE 12. DEPRECIATION

	2016 $'000	2015 $'000
Depreciation		
Plant and Equipment	9	-
Total Depreciation	**9**	**-**

NOTE 13. SUPPLIES AND SERVICES

	Note No.	2016 $'000	2015 $'000
Actuarial Costs		**160**	149
Audit Fees	14	**53**	58
Communications and Computing Costs		**102**	96
Contractors and Consultants		**169**	186
Rent		**90**	119
Staff Development		**14**	8
Support Services		**90**	66
Travel		**51**	65
Other		**91**	91
		821	838

NOTE 14. AUDITOR'S REMUNERATION

Auditor's remuneration consists of financial audit services provided to the Authority by the ACT Audit Office.

	2016 $'000	2015 $'000
Audit Services		
Audit fees paid or payable to the ACT Audit Office	**53**	58
Total Audit Fees	**53**	58

No other services were provided by the ACT Audit Office.

NOTE 15. CASH

The Authority holds a general operating bank account with Westpac Banking Corporation as part of the whole-of-government banking arrangements.

	2016 $'000	2015 $'000
Cash		
Cash	**3,787**	875
Total Cash	**3,787**	875

The increase in the cash balance is due to less movement of funds to investments.

NOTE 16. INVESTMENTS

Short-term investments were held with the Territory Banking Account in the Cash Enhanced Portfolio throughout the year. These funds are able to be withdrawn upon request.

The purpose of the investment in the Fixed Interest Portfolio is to hold it for a period of longer than twelve months. The total carrying amount of the Fixed Interest Portfolio investment below has been measured at fair value.

	2016 $'000	2015 $'000
Investments		
Current		
Investments with Territory Banking Account – Cash Enhanced Portfolio [a]	**190,124**	319,991
Non-Current		
Investments with Territory Banking Account – Fixed Interest Portfolio [b]	**175,001**	63,121
Total Investments [c]	**365,125**	383,112

[a] *The decrease in a Cash Enhanced Portfolio is due to movement of funds between the Cash Enhanced and Fixed Interest portfolios.*

[b] *The increase in the Fixed Interest Portfolio balance is due to the corresponding movement of funds from the Cash Enhanced portfolio.*

[c] *The overall decrease in investments is due to the payment of capital distribution of $60 million to ACT Government. This was partially offset by the investment of funds derived from income sources.*

NOTE 17. RECEIVABLES

	2016 $'000	2015 $'000
Current		
Distribution Receivable [a]	**6,637**	4,210
Contract Works Insurance Premiums	**192**	-
Goods and Services Tax Receivable	**141**	58
Other Receivables	**440**	295
Total Receivables	**7,410**	4,563

[a] *The increase in distribution receivable is the result of an increase in the rate of return on fixed investments.*

Ageing of Receivables

	Not Overdue		Overdue			Total
	Less than 30 Days $'000	Greater than 60 Days $'000	Less than 30 Days $'000	30 to 60 Days $'000	Greater than 60 Days $'000	$'000
2016						
Not Impaired[1] Receivables	**7,180**	**227**	**-**	**3**	**-**	**7,410**
Impaired Receivables	**-**	**-**	**-**	**-**	**-**	**-**
2015						
Not Impaired[1] Receivables	4,327	236	-	-	-	4,563
Impaired Receivables	-	-	-	-	-	-

Receivables not overdue predominantly relate to distribution receivable and support services. Not overdue receivables greater than 60 days relate to court ordered costs awarded to the Territory and terms are determined by the court.

[1] *'Not Impaired' refers to Net Receivables (Gross Receivables less Impaired Receivables).*

Classification of ACT Government/Non-ACT Government Receivables

	2016 $'000	2015 $'000
Receivables with ACT Government Entities		
Distribution Receivable	**6,637**	4,210
Contract Works Insurance Premium	**192**	-
Other Receivables	**20**	-
	6,849	4,210
Receivables with Non-ACT Government Entities		
Goods and Services Tax Receivable	**141**	58
Other Receivables	**420**	295
Total Receivables	**561**	353
	7,410	4,563

The Authority does not hold any collateral for receivables that are overdue or determined to be impaired.

NOTE 18. REINSURANCE RECOVERIES

	Note No.	2016 $'000	2015 $'000
Reconciliation of the Movement of Reinsurance Recoveries			
Provision for Reinsurance Recoveries at the Beginning of the Period		**-**	5,377
Reinsurance Received		**(343)**	(424)
Movement in Reinsurance Provisions due to Changes in Claims [a]	7	**343**	(4,953)
Provision for Reinsurance Recoveries at the End of Reporting Period		**-**	-

[a] The movement in reinsurance provision is recorded as Reinsurance Recoveries/(Losses). It is expected that the Authority will not receive any reinsurance recoveries in future periods.

NOTE 19. PLANT AND EQUIPMENT

Plant and equipment include furniture and fittings assets and do not include assets held for sale.

	2016 $'000	2015 $'000
Plant and Equipment		
Plant and Equipment at Cost	**295**	7
Less: Accumulated Depreciation	**(9)**	-
Total Written Down Value of Plant and Equipment	**287**	7

2016	**Plant and Equipment $'000**
Carrying Amount at the Beginning of the Reporting Period	**7**
Additions	**293**
Depreciation	**(9)**
Other Movements	**(4)**
Carrying Amount at the End of the Reporting Period	**287**

2015	**Plant and Equipment $'000**
Carrying Amount at the Beginning of the Reporting Period	**-**
Additions	**7**
Depreciation	**-**
Other Movements	**-**
Carrying Amount at the End of the Reporting Period	**7**

NOTE 20. PAYABLES

	2016 $'000	2015 $'000
Current		
Trade Creditors	**46**	25
Accrued Expenses	**325**	193
Total Payables	**371**	218
Ageing of Payables		
Payables are aged as follows:		
Not Overdue	**371**	218
Total Payables	**371**	218

Classification of ACT Government/Non-ACT Government Payables

	2016 $'000	2015 $'000
Payables with ACT Government Entities		
Accrued Expenses	**121**	115
Payables with Non-ACT Government Entities		
Trade Creditors	**46**	25
Accrued Expenses	**204**	78
Total Payables	**371**	218

NOTE 21. OUTSTANDING CLAIMS

	Note No.	2016 $'000	2015 $'000
Expected Future Claim Payments and Discounted Liability for Outstanding Claims			
Central Estimate [a]		**237,970**	256,842
Risk Margin		**38,078**	40,809
Claims Handling Costs		**11,899**	12,842
Total Undiscounted Expected Future Claims		**287,947**	310,492
Discount to Present Value		**(39,277)**	(54,885)
Total Discounted Outstanding Claims Provision	21(d)	**248,670**	255,607
Current		**23,737**	22,130
Non-Current		**224,933**	233,477
	21(d)	**248,670**	255,607

[a] *The central estimate for outstanding claims has decreased in 2015-16 due to changes in actuarial assumptions (refer to Note 21 (d): 'Reconciliation of Movement in Discounted Outstanding Claims Liability'). The actuary forecast that there will be fewer claims reported across the insurance classes as well as the experience in large claims for medical malpractice and public liability have been settling for less.*

NOTE 21. OUTSTANDING CLAIMS - CONTINUED

(a) Risk Margin

The process of determining risk margin

The overall risk margin was determined allowing for diversification between different portfolios and the relative uncertainty of the outstanding claims estimate for each portfolio. Uncertainty for each portfolio was analysed taking into account potential variability in the actuarial models and assumptions, the quality of the underlying data used in the models, the general insurance environment, and the impact of legislative reform.

The estimate of uncertainty is greater for long tail classes when compared to short tail classes due to the longer time until settlement of outstanding claims.

The assumptions were applied to the net central estimates and aggregated, allowing for diversification in order to arrive at an overall provision which is intended to have a 75% probability of adequacy, meaning that the outstanding claims liability has a 75% chance of being sufficient enough to reflect all possible future claims. A 75% probability sufficiency is required by the Australian Prudential Regulatory Authority (APRA) for APRA regulated insurers.

Risk margins applied

Class	Adopted Risk Margin	
	2015-16 (%)	2014-15 (%)
Directors and Officers	**18**	18
Financial Crime	**30**	30
Medical Malpractice	**15**	15
Professional Indemnity	**18**	18
Property and Motor	**23**	23
Public Liability	**15**	15
Overall margin (weighted average) [1]	**15.3**	15.2

[1] The weighted average is based on the size of the net central estimate of the liability. That is, even if the adopted risk margin for each insurance class doesn't change, the weighted average may still change due to movements in the underlying liabilities for each insurance class.

(b) Inflation and Discount Rates

The following average inflation (normal and superimposed) rates and discount rates were used in the measurement of outstanding claims:

	2016 %	2015 %
For the succeeding year		
Inflation rate	**3.5**	4.0
Discount rate	**1.6**	2.0
For the subsequent year		
Inflation rate	**3.5**	4.0
Discount rate	**1.5**	2.0

(c) Term to Settlement

The weighted average expected term to settlement of the outstanding claims from the balance date is estimated to be 6.8 years in 2015-16 (6.3 years in 2014-15). The weighted average expected term to settlement has been based on industry averages and it has been adjusted to reflect the specific classes of insurance offered by the Authority.

NOTE 21. OUTSTANDING CLAIMS - CONTINUED

(d) Reconciliation of Movement in Discounted Outstanding Claims Liability

Change in Basis - In the 12 months from 30 June 2015 to 30 June 2016

	$'000	$'000
Gross Central Estimate at 30 June 2015 (30 June 2015 basis) [a]		**211,401**
Expense margin at 30 June 2015		10,570
Risk Margin at 30 June 2015		33,636
Gross Outstanding Claims Provision at 30 June 2015 (30 June 2015 basis) [a]		**255,607**
New Incurred Period		41,184
Expected payments to 30 June 2015 (Inflated and Undiscounted values)		(20,229)
plus Expected interest to 30 June 2015		3,969
plus Expected change in Expense Margin		1,246
plus Expected change in Risk Margin		4,160
Expected Gross Outstanding Claims Provision at 30 June 2016 (30 June 2015 basis)		**285,937**
plus (Actual less Expected) inflation [b]		(2,570)
plus Change in future discounting assumptions		16,495
plus Change in future inflation assumptions		(5,362)
plus (Expected less Actual) payments [c]		(1,862)
Directors and Officers	50	
Financial Crime	(31)	
Medical Malpractice	(1,820)	
Professional Indemnity	248	
Property & Motor	448	
Public Liability	(758)	
plus Change in actuarial assumptions		(37,571)
Directors and Officers	(130)	
Financial Crime	(400)	
Medical Malpractice	(27,623)	
Professional Indemnity	(473)	
Property & Motor	646	
Public Liability	(9,590)	
plus Change in Expense margin at 30 June 2016		(1,544)
plus Change in Risk margin at 30 June 2016		(4,852)
Overall change in basis		(37,267)
Gross Outstanding Claims Provision at 30 June 2016 (30 June 2016 basis)		**248,670**

[a] *Gross central estimates are inflated and discounted excluding expenses*

[b] *Includes both past and future inflation*

[c] *A negative number indicates actual payments were more than expected*

NOTE 21. OUTSTANDING CLAIMS - CONTINUED

(d) Reconciliation of Movement in Discounted Outstanding Claims Liability - continued

The expected gross outstanding claims provision of $285.94 million compares to the actual gross outstanding claims provision of $248.67 million, indicating a total decrease of $37.27 million. This decrease may be broken down into seven main components:

> A $37.57 million decrease due to changes in assumptions used in the actuarial valuation. These have resulted from:
  - a reduction in the Medical Malpractice insurance class resulting from a reduction in the assumed number of large claims due to reported large claim numbers continuing to be lower than expected. Furthermore, payments on known large claims were also lower than expected;
  - a reduction in the Public Liability insurance class driven by the number of reported large claims continuing to be lower than expected;
  - An increase in the Property and Motor insurance class largely resulting from both a higher than expected number of claims reported leading to an increase in the assumed ultimate number of small finalisations, as well as increase estimated costs on small claims;
  - a decrease in the Professional Indemnity insurance class due to lower than expected number of claims reported;
  - a reduction in the Directors and Officers insurance class due to reduced payment size assumptions in response to lower average settlement sizes on recent finalisations; and
  - a reduction in the Financial Crime insurance class resulting from a reduction in the estimated cost on one large claim.

> A $5.36 million decrease due to a reduction in the future inflation assumption since 30 June 2015;

> A $4.85 million decrease in the risk margin resulting from a decrease in the central estimate of outstanding claims;

> A $2.57 million decrease due to lower than expected inflation;

> A $1.86 million decrease due to actual payments being more than expected over the 12 months. The decrease in the estimate assumes that, all other things being equal, the difference between actual and expected payments is due to timing;

> A $1.54 million decrease in the expense margin as a result of the decrease in the central estimate of outstanding claims; and

> A $16.5 million increase due to decreases in the assumed discount rates since 30 June 2015, all else being equal, a decrease in the discount rates increases the outstanding claims liability.

NOTE 21. OUTSTANDING CLAIMS - CONTINUED

(e) Claims Development Tables

Summary of all claims incurred classes includes public liability, financial crime and special purpose motor

The following tables show the development of gross and net undiscounted outstanding claims relative to the ultimate expected claims for the eight most recent accident years.

i) Gross

Accident year	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	Total
	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000
Estimate of ultimate claims cost:									
At end of accident year	10,942	11,957	12,371	12,476	11,063	12,750	11,277	11,077	
One year later	14,397	14,000	11,055	9,476	9,472	13,019	8,439	0	
Two years later	15,941	12,849	8,726	8,822	8,767	11,579	0	0	
Three years later	12,840	23,512	7,525	9,445	8,403	0	0	0	
Four years later	10,480	16,396	6,997	7,891	0	0	0	0	
Five years later	9,562	9,685	6,086	0	0	0	0	0	
Six years later	8,523	9,483	0	0	0	0	0	0	
Seven years later	7,939	0	0	0	0	0	0	0	
Current estimate	7,939	9,483	6,086	7,891	8,403	11,579	8,439	11,077	70,897
Cumulative payments	(5,684)	(8,407)	(2,660)	(3,530)	(3,925)	(4,498)	(771)	(61)	(29,536)
Outstanding claims undiscounted	2,255	1,076	3,426	4,361	4,478	7,081	7,667	11,016	41,361
Discount	(282)	(64)	(465)	(592)	(693)	(913)	(847)	(1,058)	(4,915)
Outstanding claims	1,973	1,012	2,961	3,770	3,785	6,168	6,820	9,958	36,447
2007/08 and prior years									4,959
Outstanding claims									**41,406**

ii) Net

At end of accident year	10,942	11,957	12,371	12,476	11,063	12,750	11,277	11,073	
One year later	14,397	14,000	11,055	9,476	9,472	13,019	8,439	0	
Two years later	15,941	12,849	8,726	8,822	8,767	11,579	0	0	
Three years later	12,840	17,657	7,525	9,445	8,403	0	0	0	
Four years later	10,480	16,396	6,997	7,891	0	0	0	0	
Five years later	9,562	9,685	6,086	0	0	0	0	0	
Six years later	8,523	9,483	0	0	0	0	0	0	
Seven years later	7,939	0	0	0	0	0	0	0	
Current estimate	7,939	9,483	6,086	7,891	8,403	11,579	8,439	11,073	70,894
Cumulative payments	(5,684)	(8,407)	(2,660)	(3,530)	(3,925)	(4,498)	(771)	(57)	(29,533)
Outstanding claims undiscounted	2,255	1,076	3,426	4,361	4,478	7,081	7,667	11,016	41,361
Discount	(282)	(64)	(465)	(592)	(693)	(913)	(847)	(1,058)	(4,915)
Outstanding claims	1,973	1,012	2,961	3,770	3,785	6,168	6,820	9,958	36,447
2007/08 and prior years									4,959
Outstanding claims									**41,406**

Gross and net tables reflect the same figures due to there being zero re-insurance recoveries expected.

NOTE 21. OUTSTANDING CLAIMS - CONTINUED

(e) Claims Development Tables - Continued

Summary of all claims made classes includes medical malpractice, directors and officers and professional indemnity

The following tables show the development of gross and net undiscounted outstanding claims relative to the ultimate expected claims for the eight most recent accident years.

i) Gross

Accident year	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	Total
	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000
Estimate of ultimate claims cost:									
At end of accident year	29,076	36,409	35,304	34,565	40,445	30,388	30,218	29,335	
One year later	19,786	35,445	31,893	34,725	49,380	28,288	25,619	0	
Two years later	20,708	31,759	33,376	28,823	29,666	24,449	0	0	
Three years later	19,103	23,450	19,158	26,141	23,287	0	0	0	
Four years later	18,415	30,294	25,618	22,981	0	0	0	0	
Five years later	20,860	23,223	22,975	0	0	0	0	0	
Six years later	17,850	21,018	0	0	0	0	0	0	
Seven years later	16,438	0	0	0	0	0	0	0	
Current estimate	16,438	21,018	22,975	22,981	23,287	24,449	25,619	29,335	186,102
Cumulative payments	(5,654)	(10,874)	(6,212)	(6,684)	(4,077)	(1,356)	(1,848)	(96)	(36,801)
Outstanding claims undiscounted	10,784	10,144	16,763	16,298	19,210	23,093	23,770	29,239	149,301
Discount	(1,151)	(1,101)	(1,955)	(2,021)	(2,415)	(4,417)	(4,192)	(6,098)	(23,350)
Outstanding claims	9,633	9,043	14,808	14,276	16,794	18,676	19,579	23,141	125,951
2007/08 and prior years									32,213
Outstanding claims									**158,163**

ii) Net

At end of accident year	29,076	36,409	35,304	34,565	40,445	30,388	30,218	29,335	
One year later	19,786	35,445	31,893	34,725	41,989	28,288	25,619	0	
Two years later	20,708	31,759	33,376	28,823	29,666	24,449	0	0	
Three years later	19,103	23,450	19,158	26,141	23,287	0	0	0	
Four years later	18,415	30,294	25,618	22,981	0	0	0	0	
Five years later	20,860	23,223	22,975	0	0	0	0	0	
Six years later	17,850	21,018	0	0	0	0	0	0	
Seven years later	16,438	0	0	0	0	0	0	0	
Current estimate	16,438	21,018	22,975	22,981	23,287	24,449	25,619	29,335	186,102
Cumulative payments	(5,654)	(10,874)	(6,212)	(6,684)	(4,077)	(1,356)	(1,848)	(96)	(36,801)
Outstanding claims undiscounted	10,784	10,144	16,763	16,298	19,210	23,093	23,770	29,239	149,301
Discount	(1,151)	(1,101)	(1,955)	(2,021)	(2,415)	(4,417)	(4,192)	(6,098)	(23,350)
Outstanding claims	9,633	9,043	14,808	14,276	16,794	18,676	19,579	23,141	125,951
2007/08 and prior years									32,213
Outstanding claims									**158,163**

Gross and net tables reflect the same figures due to there being zero re-insurance recoveries expected.

NOTE 21. OUTSTANDING CLAIMS - CONTINUED

(e) Claims Development Tables - Continued

Summary of all long tail policy classes excludes property

The following table shows the development of undiscounted outstanding claims relative to the ultimate expected claims for the eight most recent accident years.

i) Gross and Net

Accident year	2008-09 $ '000	2009-10 $ '000	2010-11 $ '000	2011-12 $ '000	2012-13 $ '000	2013-14 $ '000	2014-15 $ '000	2015-16 $ '000	Total $ '000
Estimate of ultimate claims cost:									
At end of accident year	40,018	48,366	47,675	47,041	51,509	43,138	41,495	40,412	
One year later	34,183	49,444	42,948	44,201	58,852	41,307	34,058	0	
Two years later	36,650	44,608	42,102	37,645	38,433	36,028	0	0	
Three years later	31,943	46,962	26,684	35,586	31,690	0	0	0	
Four years later	28,895	46,689	32,615	30,873	0	0	0	0	
Five years later	30,423	32,908	29,061	0	0	0	0	0	
Six years later	26,373	30,501	0	0	0	0	0	0	
Seven years later	24,377	0	0	0	0	0	0	0	
Current estimate	24,377	30,501	29,061	30,873	31,690	36,028	34,058	40,412	256,999
Cummulative payments	(11,338)	(19,280)	(8,872)	(10,214)	(8,002)	(5,854)	(2,620)	(157)	(66,337)
Outstanding claims undiscounted	13,039	11,220	20,189	20,659	23,688	30,174	31,438	40,255	190,662
Discount	(1,433)	(1,165)	(2,420)	(2,613)	(3,108)	(5,330)	(5,039)	(7,156)	(28,264)
Outstanding claims	11,606	10,056	17,769	18,046	20,579	24,844	26,399	33,099	162,397
2007/08 and prior years									37,172
Claims handling expense									10,273
Risk margin									32,944
Outstanding claims									**242,786**
Short tail outstanding claims									5,885
Total gross outstanding claims as per balance sheet									**248,670**

Gross and net figures represent the same result due to there being zero re-insurance recoveries expected.

NOTE 22. PREPAYMENTS AND OTHER LIABILITIES

	2016 $'000	2015 $'000
Prepayments		
Current		
Contract Works Insurance Premium Prepayments	**138**	297
External Insurance Premium Prepayments	**169**	-
Total Current Prepayments	**307**	297
Non-Current		
Contract Works Insurance Premium Prepayments	**85**	584
External Insurance Premium Prepayments	**438**	-
Total Non-Current Prepayments	**523**	584
Other Liabilities		
Current		
Workers' Compensation Insurance Premium Received in Advance from Agencies [a]	**4,017**	-
Icon Water Limited Workers' Compensation Insurance Payments [b]	**3,470**	1,973
Contract Works Insurance Premium Received in Advance from Agencies	**138**	297
External Insurance Premium Received in Advance from Agencies	**168**	-
Total Current Other Liabilities	**7,793**	2,270
Non-Current		
Contract Works Insurance Premium Received in Advance from Agencies	**85**	584
External Insurance Premium Received in Advance from Agencies	**438**	-
Total Non-Current Other Liabilities	**523**	584

[a] *Workers' compensation insurance premiums received in advance have increased due to an increase in funds being held on behalf of Territory agencies as directed by Chief Minister, Treasury and Economic Development Directorate.*

[b] *Icon Water Limited formerly ACTEW Corporation Limited withdrew from the ACT Workers' Compensation Scheme on 1 September 2012. The Scheme remains liable for all outstanding claims incurred prior to this date. ACTEW had entered into an agreement to compensate the Territory for growth in the outstanding liability arising after this date. The Authority has agreed to invoice Icon Water Limited for these costs and to hold the funds until advised by the Chief Minister, Treasury and Economic Development Directorate to release them.*

NOTE 23. EMPLOYEE BENEFITS

	2016 $'000	2015 $'000
Current		
Accrued Salaries	**7**	66
Annual Leave	**119**	122
Long Service Leave	**327**	273
Total Current Employee Benefits	**453**	461
Non-Current		
Long Service Leave	**38**	37
Total Non-Current Employee Benefits	**38**	37
Total Employee Benefits	**491**	498

	2016 Numbers	2015 Numbers
Employee Numbers		
Full-time Equivalents at the End of the Reporting Period	**15.6**	13

Estimate of When Leave is Payable	2016 $'000	2015 $'000
Estimated Amount Payable Within 12 Months		
Accrued Salaries	**7**	66
Annual leave	**71**	73
Long Service Leave	**37**	31
Total Employee Benefits Payable Within 12 Months	**115**	170
Estimated Amount Payable After 12 Months		
Annual Leave	**48**	49
Long Service Leave	**328**	279
Total Employee Benefits Payable After 12 Months	**376**	**328**
Total Employee Benefits	**491**	**498**

NOTE 24. FINANCIAL INSTRUMENTS

Details of the significant policies and methods adopted, including the criteria for recognition, the basis of measurement, and the basis on which income and expenses are recognised, with respect to each class of financial asset and financial liability are disclosed in Note 2 'Significant Accounting Policies'.

(a) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

A small percentage of the Authority's financial assets are held in floating interest rate arrangements, whereas the Authority's financial liabilities are not subject to floating interest rates. This means that the Authority is not exposed to movements in interest payable; however, it is exposed to movements in interest receivable. Interest rates have remained relatively steady during the year ended 30 June 2016 however, an increase in the average balance being held in the general cash account during the year has resulted in an increase in the amount of interest received.

Interest rate risk for financial assets is managed by the Authority by only holding limited funds in cash. These funds are only invested in arrangements that are low risk. The interest rate risk for financial liabilities is not actively managed by the Authority as these liabilities are held in non-interest bearing arrangements. There have been no changes in risk exposure or processes for managing risk since the last reporting period.

Sensitivity Analysis

A sensitivity analysis has not been undertaken for the interest rate risk of the Authority as it has been determined that the possible impact on income and expenses or total equity from fluctuations in interest rates is immaterial.

(b) Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Authority's credit risk is limited to the amount of the financial assets it holds net of any allowance for impairment. The Authority expects to collect all financial assets that are not past due or impaired.

Credit risk is managed by the Authority for investments by only investing surplus funds with the Territory Banking Account, which has appropriate investment criteria for the external fund manager engaged to manage the Territory's surplus funds. There is no other collateral held as security for financial assets.

A large proportion of the Authority's receivables are from other ACT Government agencies which mean that the credit risk of these receivables going into default is low.

There have been no changes in credit risk exposure since the last reporting period.

NOTE 24. FINANCIAL INSTRUMENTS - CONTINUED

(c) Liquidity Risk

Liquidity risk is the risk that the Authority will encounter difficulties in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. To limit its exposure to liquidity risk, the Authority ensures that it has sufficient amounts of financial assets to meet its financial liabilities. The Authority manages its premium revenue to meet the cost of future claims payments.

The Authority's exposure to liquidity risk in relation to its financial instruments and the management of this risk has not changed since the previous reporting period.

The following table sets out the Authority's maturity analysis for financial assets and liabilities as well as the exposure to interest rates, including the weighted average interest rates by maturity period as at 30 June 2016. All financial assets and liabilities which have a floating interest rate or are non-interest bearing will mature in one year or less. All amounts appearing in the following maturity analysis are shown on an undiscounted cash flow basis.

				Fixed Interest Maturing In:				
2016	Note No.	Weighted Average Interest Rate	Floating Interest Rate	1 Year or Less	Over 1 to 5 Years	Over 5 years	Non-Interest Bearing	Total
		%	$'000	$'000	$'000	$'000	$'000	$'000
Financial Instruments								
Financial Assets								
Cash	15	**2.81**	**3,787**	-	-	-	-	**3,787**
Investments – Cash Enhanced Portfolio	16		-	-	-	-	**190,124**	**190,124**
Investments – Fixed Interest Portfolio	16		-	-	-	-	**175,001**	**175,001**
Receivables	17		-	-	-	-	**7,269**	**7,269**
Total Financial Assets			**3,787**	-	-	-	**372,394**	**376,181**
Financial Liabilities								
Payables	20		-	-	-	-	**(371)**	**(371)**
Total Financial Liabilities			-	-	-	-	**(371)**	**(371)**
Net Financial Assets			**3,787**	-	-	-	**372,023**	**375,810**

Reconciliation of Net Financial Assets to Net Assets	Note No.	2016 $'000
Net Financial Assets (as above)		**375,810**
Employee Benefits	23	**(491)**
Plant and Equipment	19	**287**
Other Assets	17 and 22	**971**
Other Liabilities	22	**(8,316)**
Gross Outstanding Claims	21	**(248,670)**
Net Assets as per the Balance Sheet		**119,591**

NOTE 24. FINANCIAL INSTRUMENTS - CONTINUED

(c) Liquidity Risk - continued

The following table sets out the Authority's maturity analysis for financial assets and liabilities as well as the exposure to interest rates, including the weighted average interest rates by maturity period as at 30 June 2015. All financial assets and liabilities which have a floating interest rate or are non-interest bearing will mature in one year or less. All amounts appearing in the following maturity analysis are shown on an undiscounted cash flow basis.

				Fixed Interest Maturing In:				
2015	**Note No.**	**Weighted Average Interest Rate**	**Floating Interest Rate**	**1 Year or Less**	**Over 1 to 5 Years**	**Over 5 years**	**Non-Interest Bearing**	**Total**
		%	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Financial Instruments								
Financial Assets								
Cash	15	2.82	875	-	-	-	-	875
Investments – Cash Enhanced Portfolio	16		-	-	-	-	319,991	319,991
Investments – Fixed Interest Portfolio	16		-	-	-	-	63,121	63,121
Receivables	17		-	-	-	-	4,505	4,505
Total Financial Assets			875	-	-	-	387,617	388,492
Financial Liabilities								
Payables	20		-	-	-	-	(218)	(218)
Total Financial Liabilities			**-**	**-**	**-**	**-**	(218)	(218)
Net Financial Assets			875	-	-	-	387,399	388,274

Reconciliation of Net Financial Assets to Net Assets	**Note No.**	**2015 $'000**
Net Financial Assets (as above)		**388,274**
Employee Benefits	23	(498)
Plant and Equipment	19	7
Other Assets	17 and 22	939
Other Liabilities	22	(2,854)
Gross Outstanding Claims	21	(255,607)
Net Assets as per the Balance Sheet		**130,261**

NOTE 24. FINANCIAL INSTRUMENTS - CONTINUED

(c) Liquidity Risk - continued

Carrying Amount of Each Category of Financial Asset and Financial Liability	2016 $'000	2015 $'000
Financial Assets		
Financial Assets at Fair Value through the Profit and Loss Designated upon Initial Recognition	**365,125**	383,112
Loans and Receivables Measured at Amortised Cost	**7,269**	4,563
Financial Liabilities		
Financial Liabilities Measured at Amortised Cost	**371**	218
Gains on Each Category of Financial Asset		
Financial Assets at Fair Value through Profit and Loss Designated upon initial Recognition	**2,012**	2,409

(d) Price Risk

Price risk is the risk that the fair value or future cashflows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether these changes are caused by factors specific to individual financial instruments or its issuer, or factors affecting all similar financial instruments traded in the market.

The price risk which the Authority is exposed to results from its investment in the Cash Enhanced and Fixed Interest portfolios. The Authority has units in the Cash Enhanced and Fixed Interest portfolios which fluctuate in value. The price fluctuations in the units of the Cash Enhanced and Fixed Interest portfolios are caused by movements in the underlying investments of the portfolios. The underlying investments are managed by an external fund manager who invests in a variety of different investment funds and bonds, including bonds issued by the Commonwealth Government, the State Government guaranteed Treasury corporations and semi-government authorities, as well as investment grade corporate issues. To limit price risk, all bonds that make up the underlying investments of the fixed interest portfolio must have a long term credit rating of BBB- or greater. Anything rated BBB- or greater is considered 'investment grade'.

The aim of the fund manager is to match the total return of the UBS Australian Composite Bond Index before taking into account fund fees and expenses. The Authority's exposure to price risk and management of the risk has not changed since the last reporting period.

NOTE 24. FINANCIAL INSTRUMENTS - CONTINUED

(d) Price Risk - continued

Sensitivity Analysis

Taking into account past performance, future expectations, economic forecasts, and the Territory Banking Account management's knowledge and experience of the financial markets, the impact on profit or loss and the impact on equity in the table below are 'reasonably possible' over the next twelve months if interest rates change -/+ 0.5% for the Cash Enhanced Portfolio and -/+5.0% for the Fixed Interest Portfolio from the target benchmark with all other variables held constant.

2016	Benchmark/ Volatility Factor	Profit/(Loss) Impact $'000	Profit/(Loss) Impact $'000
	UBS Australian Composite Bond Index -/+ 0.5%	**(0.5%)**	**0.5%**
	Cash Enhanced Portfolio	**(951)**	**951**
	Fixed Interest Portfolio	**(875)**	**875**

2015	Benchmark/ Volatility Factor	Profit/(Loss) Impact $'000	Profit/(Loss) Impact $'000
	UBS Australian Composite Bond Index -/+ 0.5%	(0.5%)	0.5%
	Cash Enhanced Portfolio	(1,600)	1,600
	Fixed Interest Portfolio	(3,156)	3,156

NOTE 24. FINANCIAL INSTRUMENTS - CONTINUED

(e) Fair Value of Financial Assets and Liabilities

The carrying amounts and fair values of financial assets and liabilities at the end of the reporting period are:

	Note No.	Carrying Amount 2016 $'000	Fair Value 2016 $'000	Carrying Amount 2015 $'000	Fair Value 2015 $'000
Financial Assets					
Cash	15	**3,787**	**3,787**	875	875
Investment with the Territory Banking Account – Cash Enhanced Portfolio	16	**190,124**	**190,124**	319,991	319,991
Investment with the Territory Banking Account - Fixed Interest Portfolio	16	**175,001**	**175,001**	63,121	63,121
Receivables	17	**7,269**	**7,269**	4,563	4,563
Total Financial Assets		**376,322**	**376,322**	388,550	388,550
Financial Liabilities					
Payables	20	**371**	**371**	218	218
Total Financial Liabilities		**371**	**371**	218	218

NOTE 24. FINANCIAL INSTRUMENTS - CONTINUED

(f) Fair Value Hierarchy

The carrying amount of financial assets measured at fair value. All other financial assets and liabilities are measured, subsequent to initial recognition, at amortised cost and as such are not included in the table below.

	Classification According to the Fair Value Hierarchy			
2016	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
Financial Assets at Fair Value through the Profit and Loss				
Investment with the Territory Banking Account – Cash Enhanced Portfolio	-	190,124	-	190,124
Investment with the Territory Banking Account - Fixed Interest Portfolio	-	175,001	-	175,001
Total	**-**	**365,125**	**-**	**365,125**

	Classification According to the Fair Value Hierarchy			
2015	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
Financial Assets at Fair Value through the Profit and Loss				
Investment with the Territory Banking Account – Cash Enhanced Portfolio	-	319,991	-	319,991
Investment with the Territory Banking Account - Fixed Interest Portfolio	-	63,121	-	63,121
Total	**-**	**383,112**	**-**	**383,112**

Investments with the Territory Banking Account are measured at fair value with any adjustments to the carrying amount being recorded in the Operating Statement. Fair value is based on an underlying pool of investments which have quoted market prices on the held units at the reporting date.

Transfer Between Categories

There have been no transfers of financial assets or financial liabilities between Level 1, 2 or 3 during the current and previous reporting periods.

NOTE 25. CASH FLOW RECONCILIATION

(a) Reconciliation of Cash at the End of the Reporting Period in the Cash Flow Statement to the Equivalent Items in the Balance Sheet

	2016 $'000	2015 $'000
Total Cash Recorded in the Balance Sheet	**3,787**	875
Cash at the End of the Reporting Period as Recorded in the Cash Flow Statement	**3,787**	875

(b) Reconciliation of the Operating Surplus to the Net Cash Inflows from Operating Activities

	2016 $'000	2015 $'000
Operating Surplus	**49,330**	63,709
Add/(Less) Non-Cash Items		
Depreciation of Plant and Equipment	**9**	-
Loss on transferred Assets	**4**	-
Add/(Less) Items Classified as Investing or Financing		
Unrealised Gains on Investments	**(2,012)**	(2,409)
Cash Before Changes in Operating Assets and Liabilities	**47,330**	61,300
Change in Operating Assets and Liabilities		
Decrease in Reinsurance Recoveries	**-**	5,377
(Increase) in Distribution Receivable	**(2,427)**	(251)
(Increase) in Other Assets	**(368)**	-
(Increase)/ Decrease in Other Receivables	**(174)**	483
Increase/(Decrease) in Payables	**153**	(48)
(Decrease) in Outstanding Claims	**(6,937)**	(42,790)
Increase in Other Liabilities	**5,462**	1,172
(Decrease)/Increase in Employee Benefits	**(7)**	60
Net Changes in Operating Assets and Liabilities	**(4,298)**	(35,997)
Net Cash Inflows from Operating Activities	**43,031**	25,303

NOTE 26. BUDGETARY REPORTING – EXPLANATION OF MAJOR VARIANCES BETWEEN ACTUAL AMOUNTS AND ORIGINAL BUDGET AMOUNTS

The following are brief explanations of major line item variances between budget estimates and actual outcomes. Variances are considered to be major variances if both of the following criteria are met:

(a) The line item is a significant line item: the line item actual amount accounts for more than 10% of the relevant associated category (Income, Expenses and Equity totals) or sub-element (e.g. Current Liabilities and Receipts from Operating Activities totals) of the financial statements; and

(b) The variances (original budget to actual) are greater than plus (+) or minus (-) 10% of the budget for the financial statement line item.

Operating Statement Line Items	Actual 2015-16 $'000	Original Budget[1] 2015-16 $'000	Variance $'000	Variance %	Variance Explanation
Ordinary activities					
Reinsurance Premiums	(8,210)	(11,549)	3,339	(28.91)	The Authority was able to negotiate a significant reduction in premiums from the overseas and local reinsurance markets.
Claims Expense	(13,727)	(64,327)	50,600	(78.66)	The variance of $50.6 million is the result of a reduction of the outstanding claims liabilities which impacts the expense. The budgeted amount was based on actuarial assumptions from the Authority's December 2014 review of claims expense.
Reinsurance Recoveries	343	-	343	#	During 2015-16, the Authority received unexpected reinsurance recoveries from the collapsed insurer HIH and a small contribution from reinsurers relating to a storm damage claim.
Other Underwriting Income	292	-	292	#	This item is unbudgeted due to the uncertainty to receipt.
Distribution Received	13,419	7,896	5,523	69.95	The higher distribution received is due to the rate of return on the fixed interest portfolio being higher than expected. During 2015-16, the Authority held more funds in the fixed interest portfolio which resulted in a higher than expected distribution received.
Unrealised Gains on Investments	2,012	-	2,012	#	This item is unbudgeted due to the volatility of the market value on investments.
Supplies and Services	(821)	(926)	105	(11.33)	The variance of $0.105 million is the result of lower than expected rent and travel costs.

[1] Original Budget refers to the amounts presented to the Legislative Assembly in the original budgeted financial statements in respect of the reporting period (2015-16 Statement of Intent).

 # Represents variances which are the result of an item which has not budgeted for in 2015-16.

NOTE 26. BUDGETARY REPORTING – EXPLANATION OF MAJOR VARIANCES BETWEEN ACTUAL AMOUNTS AND ORIGINAL BUDGET AMOUNTS - CONTINUED

Balance Sheet Line Items	Actual 2015-16 $'000	Original Budget[1] 2015-16 $'000	Variance $'000	Variance %	Variance Explanation
Assets					
Current Investments	190,124	283,233	(93,109)	(32.87)	The lower than expected current investments is mainly due to the transfer of funds from current to non-current investments being partially offset by investment of funds derived from income sources.
Non-Current Investment	175,001	62,114	112,887	181.74	The non-current investments were higher than budgeted mainly due to the corresponding transfer of funds from current investments.
Liabilities					
Current Outstanding Claims	23,737	28,286	(4,549)	(16.08)	The current outstanding claims was the result of revised economic and actuarial assumptions. The actuary's forecast that there will be fewer claims reported. Also large claims for medical malpractice and public liability have settled for less than expected.
Current Other Liabilities	7,793	250	7,543	3017.33	The current other liabilities value was the result of additional funds being held on behalf of Territory agencies for workers' compensation premiums as directed by Chief Minister, Treasury and Economic Development Directorate.
Non-Current Outstanding Claims	224,933	288,113	(63,180)	(21.93)	The non-current outstanding claims was the result of revised economic and actuarial assumptions. The actuary's forecast that there will be fewer claims reported. Also large claims for medical malpractice and public liability have settled for less than expected.

[1] *Original Budget refers to the amounts presented to the Legislative Assembly in the original budgeted financial statements in respect of the reporting period (2015-16 Statement of Intent).*

NOTE 26. BUDGETARY REPORTING – EXPLANATION OF MAJOR VARIANCES BETWEEN ACTUAL AMOUNTS AND ORIGINAL BUDGET AMOUNTS - CONTINUED

Cash Flow Statement Line Items	Actual 2015-16 $'000	Original Budget[1] 2015-16 $'000	Variance $'000	Variance %	Variance Explanation
Cash Flows from Operating Activities					
Payments					
Insurance Claims Payments	(20,663)	(23,537)	2,874	(12.21)	The insurance claims payments were less than budget due to actual claim payments being less than expected.
Cash Flows from Investing Activities					
Receipts					
Proceeds from Sale/Maturities of Investments	130,000	85,000	45,000	52.94	The proceeds from investments were higher than budget due to an increase in funds withdrawn from investments as the result of the timing of receiving and paying workers' compensation premiums as well as moving funds between investment portfolios.
Payments					
Payment for Investments	(110,000)	(50,000)	(60,000)	120.0	The payments for investments were higher than budget due to an increase in funds invested as the result of holding surplus funds received from agencies for the workers' compensation premiums and the movement of funds between investment portfolios.

[1] *Original Budget refers to the amounts presented to the Legislative Assembly in the original budgeted financial statements in respect of the reporting period (2015-16 Statement of Intent).*

C. STATEMENT OF PERFORMANCE

ACT Audit Office

AUDITOR-GENERAL AN OFFICER OF THE ACT LEGISLATIVE ASSEMBLY

REPORT OF FACTUAL FINDINGS

ACT INSURANCE AUTHORITY

To the Members of the ACT Legislative Assembly

Report on the statement of performance

The statement of performance of the ACT Insurance Authority (the Authority) for the year ended 30 June 2016 has been reviewed.

Responsibility for the statement of performance

The Under Treasurer is responsible for the preparation and fair presentation of the statement of performance of the Authority in accordance with the *Financial Management Act 1996*. This includes responsibility for maintaining adequate records and internal controls that are designed to prevent and detect fraud and error, and the systems and procedures used to measure the results of the accountability indicators reported in the statement of performance.

The auditor's responsibility

Under the *Financial Management Act 1996* and *Financial Management (Statement of Performance Scrutiny) Guidelines 2016*, I am responsible for providing a report of factual findings on the statement of performance.

The review was conducted in accordance with Australian Auditing Standards applicable to review engagements, to provide assurance that the results of the accountability indicators reported in the statement of performance have been fairly presented in accordance with the *Financial Management Act 1996*.

A review is primarily limited to making inquiries with representatives of the Authority, performing analytical and other review procedures and examining other available evidence. These review procedures do not provide all of the evidence that would be required in an audit, therefore, the level of assurance provided is less than that given in an audit. An audit has not been performed and no audit opinion is being expressed on the statement of performance.

The review did not include an assessment of the relevance or appropriateness of the accountability indicators reported in the statement of performance or the related performance targets.

No opinion is expressed on the accuracy of explanations provided for variations between actual and targeted performance due to the often subjective nature of such explanations.

Electronic presentation of the statement of performance

Those viewing an electronic presentation of this statement of performance should note that the review does not provide assurance on the integrity of information presented electronically, and does not provide an opinion on any other information which may have been hyperlinked to or from this statement of performance. If users of this statement of performance are concerned with the inherent risks arising from the electronic presentation of information, then they are advised to refer to the printed copy of the reviewed statement of performance to confirm the accuracy of this electronically presented information.

Independence

Applicable independence requirements of Australian professional ethical pronouncements were followed in conducting the review.

Review opinion

Based on the review procedures, no matters have come to my attention which indicate that the results of the accountability indicators, reported in the statement of performance of the Authority for the year ended 30 June 2016, are not fairly presented in accordance with the *Financial Management Act 1996*.

This review opinion should be read in conjunction with the other information disclosed in this report.

M. Cooper.

Dr Maxine Cooper
Auditor-General
14 September 2016

ACT INSURANCE AUTHORITY STATEMENT OF PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2016

STATEMENT OF RESPONSIBILITY

In our opinion, the Statement of Performance is in agreement with the ACT Insurance Authority's records, and fairly reflects the service performance of the ACT Insurance Authority for the year ended 30 June 2016, and also fairly reflects the judgements exercised in preparing it.

David Nicol
Under Treasurer
Chief Minister, Treasury and
Economic Development Directorate
Delegate for the Chief Executive Officer
ACT Insurance Authority
14 September 2016

John Fletcher
General Manager
ACT Insurance Authority
14 September 2016

ACT INSURANCE AUTHORITY STATEMENT OF PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2016

DESCRIPTION OF OBJECTIVES

The ACT Insurance Authority's (ACTIA's) key objectives are to:

> carry on the business of insurer of Territory risks;

> take out insurance of Territory risks with other entities;

> satisfy or settle claims in relation to Territory risks;

> take action, with the Treasurer's approval, for the realising, enforcing, assigning or extinguishing rights against third parties arising out of or in relation to its business, including, for example:

- taking possession of, dealing with or disposing of, property; or
- carrying on a third party's business as a going concern;

> develop and promote good practices for the management of Territory risks; and

> give advice to the Treasurer about insurance and the management of Territory risks.

In addition, the Authority also performs the function of:

> the Office of the Nominal Defendant of the ACT, for claims against uninsured/unidentified vehicles for the ACT Compulsory Third Party Insurance Scheme; and

> the Default Insurance Fund, for default claims under the ACT Private Workers' Compensation Scheme.

ACT INSURANCE AUTHORITY STATEMENT OF PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2016

Objective	Accountability Indicators	Original Target	Actual Result	Variance		Explanation of Material Variances
				Amount	%	
Carry on the business of insurer of Territory risks	a. Results from an annual customer satisfaction survey:		24 responses received of the 67 surveys distributed			
	> Overall customer satisfaction with insurance management services.	>90%	96%	-	-	
	> Overall customer satisfaction of claims management.	>80%	94%	-	-	
	> Overall customer satisfaction of annual insurance renewal.	>80%	95%	-	-	
	> Overall customer satisfaction of financial management services.	>90%	84%	(6%)	(100)	Recent changes in the processing of settlement payments have affected the frequency of contact the Authority has with agencies, three agencies returned a neutral response to the survey.
	b. Determine annual insurance premiums for Territory agencies that allow full funding of claim costs and associated expenses.	Annual premium determination completed	Annual premium determination completed	-	-	
	c. Maintain the ACTIA Funding Ratio within the targeted range of 100%-110% as outlined in the ACTIA Capital Management Plan.	111%	146%	35%	31.5	The higher funding ratio is due to a decrease in the outstanding claims liabilities as a result of changes in actuarial assumptions. To reduce the funding ratio, the Authority has included in the 2016-17 Budget a return of $50 million in capital to the ACT Government.
	d. General and administrative expense as a percentage of total annual premium revenue.	5%	4.7%	(0.3%)	(6)	
	e. The average number of days to reimburse agencies settlements from the day all required documents are received from the agency.	30 days	9 days	(21 days)	(70)	Agency payments are processed as a priority.
	f. Review the Territory's insurance and reinsurance programs to ensure they are appropriate for its needs.	Annual review completed	Annual review completed	-	-	

ACT INSURANCE AUTHORITY STATEMENT OF PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2016

Objective		Accountability Indicators	Original Target	Actual Result	Variance		Explanation of Material Variances
					Amount	%	
Take out insurance of Territory risks with other entities	g.	Review the Territory property asset register to ensure that values provided by agencies reflect insurance replacement costs.	Annual review completed	Annual review completed	-	-	
	h.	Facilitate the implementation by Territory agencies of agreed recommendations from reinsurer's Property Asset Management Surveys.	>90% completed	96%	-	-	
Give advice to the Minister about insurance and the management of Territory Risk	i.	Provide briefing material on the agency Annual Insurance Premiums.	Brief provided to Minister	Brief provided to Minister	-	-	
	j.	Provide briefing material on the Reinsurance Program.	Brief provided to Minister	Brief provided to Minister	-	-	
	k.	Provide briefing material on the Authority's Annual Report.	Brief provided to Minister	Brief provided to Minister	-	-	
Satisfy or settle claims in relation to Territory risks	l.	Hold quarterly reviews of all liability and medical malpractice claims to assess the claim management strategy and reserve for matters where the Territory's liability may exceed $100,000 for Public Liability and exceeds $250,000 for Medical Malpractice.	Quarterly claims review meetings held	Quarterly claims review meetings were held	-	-	
	m.	Insurance claims data: **Property & Motor**					
		Discounted Mean Term (for Outstanding Claims)[1]	0.66 Years	0.84 Years	0.18 Years	27.3	The discounted mean term (for outstanding claims) is higher than the target due to a number of larger claims that have emerged which have a longer time on average between reporting and settlement.
		Ultimate Claim Numbers[2]	58	66	8	13.8	The ultimate claim numbers are higher than the target due to higher than expected number of claims being reported. This is due to an increase in storm events during 2015-16.
		Average Small Claim (<$1 m) Settlement Size[3]	$58,935	$63,584	$4,649	7.9	

[1 2 3] The discounted mean term, ultimate claims numbers, and the average claim settlement size are defined and explained further in the accompanying notes.

ACT INSURANCE AUTHORITY STATEMENT OF PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2016

Objective	Accountability Indicators	Original Target	Actual Result	Variance Amount	Variance %	Explanation of Material Variances
Satisfy or settle claims in relation to Territory risks - continued	m. Insurance claims data: continued: **Public Liability**					
	Discounted Mean Term (for Outstanding Claims)[1]	5.01 Years	5.80 Years	0.79 Years	15.8	The average time to settle claims has exceeded the target due to a lower than expected discount rate.
	Ultimate Claim Numbers[2]	123	145	22	17.9	The ultimate claim numbers are higher than the target due to higher than expected number of claims being reported.
	Average Small Claim (<$1 m) Settlement Size[3]	$87,348	$88,030	$682	0.8	
	Average Large Claim (>$1 m) Settlement Size[3]	$3,318,601	$3,525,204	$206,603	6.2	
	Medical Malpractice					
	Discounted Mean Term (for Outstanding Claims)[1]	6.59 Years	7.35 Years	0.76 Years	11.5	The average time to settle claims has exceeded the target due to a lower than expected discount rate.
	Ultimate Claim Numbers[2]	95	98	3	3.2	
	Average Small Claim (<$1 m) Settlement Size[3]	$300,000	$254,965	($45,035)	(15)	The average settlement size of small claims was lower than the target due to recent settlement of claims settling for lower than expected values.
	Average Large Claim (>$1 m) Settlement Size[3]	$5,000,000	$4,900,000	($100,000)	(2)	

[1 2 3] *The discounted mean term, ultimate claims numbers, and the average claim settlement size are defined and explained further in the accompanying notes.*

ACT INSURANCE AUTHORITY STATEMENT OF PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2016

Objective		Accountability Indicators	Original Target	Actual Result	Variance		Explanation of Material Variances
					Amount	%	
Develop and promote good practices for the management of Territory risks	n.	Provide Risk Profile Reports to assist agencies by profiling and measuring their risk management progress.	Bi-annual reports provided to agencies	Risk Profile reports were issued in November 2015 and June 2016	-	-	
	o.	Deliver a program of general and targeted risk management training courses to Territory agencies					
	>	Introduction to whole of Government Risk Management	7	14	7	100	Training programs for the whole of Government Risk Management was higher than the original target due to higher than expected demand from agencies for specific training courses covering areas such as Risk Register Reviews and Business Continuity Plan workshops.
	>	Managing Risks in Events	2	0	(2)	(100)	Training for risks in events were lower than the target due to a reduction in demand from agencies. Other agency specific training courses were completed.
	>	Managing Risk in Projects	3	0	(3)	(100)	Training for risks in projects were lower than the target due to a reduction in demand from agencies. Other agency specific training courses were completed.
	p.	Overall participant satisfaction with introduction to risk management training sessions delivered to agency staff members.	>90%	132 responses were received 98%	-	-	
	q.	Conduct Risk Management Performance and Improvement Reviews.	4 agencies	4 agencies	-	-	

The above Statement of Performance should be read in conjunction with the accompanying notes.

NOTES

a. Surveys are sent to the Directors-General and Chief Executive Officers of all ACT Government Directorates and Statutory Authorities insured by ACTIA. Respondents are asked to rate ACTIA's performance against the Client Service Charter that details what agencies can expect when doing business with ACTIA. The satisfaction levels are determined by the respondents selecting either strongly agree, agree, neither agree nor disagree (neutral) and disagree, any strongly agreed or agree responses were taken as a satisfied result.

b. ACTIA completes an annual review of agency insurance premiums, with assistance from the fund actuary, PricewaterhouseCoopers Actuarial Pty Ltd. Premiums are determined based on agency claims history, asset ownership and risk profile.

c. The Authority has a funding target ratio of between 100-110% as set out in the ACTIA capital management plan. The funding ratio is calculated by dividing total assets by total liabilities. These parameters guide decision making to address a capital position outside the targeted ratio range. This would include action to seek capital injections (in a deficit situation) or returning excess capital (in a surplus situation) to the ACT Government.

d. ACTIA general and administrative expenses as a percentage of Annual Premium revenue are measured against the Authority's average over three years.

e. ACTIA processes payments to insured Agencies as a priority. The number of days to reimburse agencies is measured from the date all required documentation is received by the Authority to the date payment is made.

f. ACTIA completes an annual review of the Territory's insurance arrangements. This includes a review of the Territory's reinsurance program structure, an analysis of market conditions and the suitability of policy terms and conditions.

g. ACTIA completes a review of the replacement values detailed in the Territory's asset schedule as part of the property reinsurance renewal.

h. An annual Property Loss Control Survey Program is undertaken by the Authority's reinsurers. Agreed recommendations are communicated to surveyed Territory agencies for consideration.

i. ACTIA prepares a brief for decision by the Minister each year seeking agreement to premiums for inclusion in the ACTIA budget.

j. ACTIA prepares a brief for decision by the Minister each year seeking agreement to proceed with renewal of the Territory's reinsurance program on the best available terms in the London and Australian insurance markets for the following insurance year.

k. ACTIA prepares a brief for information to the Minister each year on the ACTIA Annual Report.

l. Quarterly claims review meetings are held to review all claims where the Territory's reserve exceeds $100,000 for public liability and where the Territory's reserve exceeds $250,000 for medical malpractice claims. Meetings are attended by representatives of the ACT Government Solicitor's Office, ACTIA's insurance brokers, Marsh Pty Ltd, as well as external insurers and their solicitors.

m. The actuarial assessment of the measure for insurance claims data is provided by the Authority's actuary, PricewaterhouseCoopers Actuarial Pty Ltd at the end of each financial year. The 'original target' and 'actual result' figures are based on claims experience and include general actuarial assumptions of growth, for example, population and price indexation. The 'original target' are based on actuarial assumptions provided during the mid-term estimate of outstanding claims liabilities at 31 December 2014 and the 'actual results' are based on the valuation at 30 June 2016. The assumptions provide the basis for establishing the Authority's outstanding claims provision and measuring the impact of action taken by the Authority to influence that outcome. The Authority works with agencies and our legal advisors to develop strategies to reduce the occurrence and cost of insurance claims against the Territory by promoting the implementation of good risk and claim management practices. The data displays an actuarial assessment of the discounted mean term to finalise claims, ultimate claims numbers, and the average cost of large and small claims.

[1]The discounted mean term is the average time it takes to make payment of discounted settlements. The payments are weighted according to the size of the settlement, small payments have less weighting and large payments have a greater weighting on the mean term. Applying a lower discount rate to payments occurring further into the future results in an increase to the discounted mean term where an increase in discount rate will lower the payment value in the future resulting in a lower discounted mean term. If discount rates changes, the value of the expected future payments also changes. Applying changes in discount rate to payments paid in the near future has little or no impact where payment made in the future will have a higher impact. The average weighted discount rate used in the valuation of 'actual results' for the average claim settlement size was 2.17% (2.95% on original target) resulting in increase to discounted mean terms for those insurance classes with larger long-term payments.

[2]The ultimate number of claims for each insurance class is the estimated total number of claims expected to emerge from each insurance year. The ultimate number of claims is estimated by analysing historical claim reporting rates and applying them to the observed claims reported to date in order to predict the timing and number of future claims reported.

[3] For Medical Malpractice, Property and Motor and Public Liability insurance classes, the Authority has adopted the average small and large claim settlement size based past claims experience. The average weighted inflation rate used in the valuation of actual results for the average claim settlement size was 3.1% (3.6% on original target).

n. Risk Profile Reports are provided to Directorates, the reports contain a detailed claims history, claims costs and provide a commentary on issues or trends, where identified, across classes of insurance. The reports also included suggested risk management actions for information and action. The reports are provided biannually.

o. ACTIA delivers a program of risk management training courses that covers general introductory and intermediate level risk management and topic specific training sessions in the modification and use of risk management software tailored to meet agency requirements.

p. ACTIA delivers risk management training courses and attendees are requested to complete feedback forms. Attendees are asked to assess the course based on areas such as, course suitability, facilitators' knowledge and whether they would recommend the training. The satisfaction levels are determined by the respondents selecting either strongly agree, agree, disagree and strongly disagree where strongly agreed and agree are taken as a satisfied result.

q. ACTIA conducts risk management performance reviews to measure the level of risk management maturity within Directorates and their associated Divisions or Business Units. The above accountability indicators were examined by the ACT Audit Office in accordance with the Financial Management Act 1996.

The above accountability indicators were examined by the ACT Audit Office in accordance with the Financial Management Act 1996.

GLOSSARY OF TECHNICAL TERMS

Actuary

An actuary uses complex mathematical methods, to analyse past loss data and other statistics to develop systems for determining outstanding claims liability and future premiums.

Actuarial Report

A financial report prepared by an actuary, typically on the adequacy of an insurance company's claims provision.

Catastrophe

A major event giving rise to losses and claims under a large number of policies in a class (e.g. a hailstorm, cyclone or earthquake).

Compulsory Third Party Insurance (CTP) Insurance

A prescribed class of insurance business covering accidental bodily injury to or death of third parties as a result of a road accident. All owners of a motor vehicle using public roads are required to have CTP cover purchased in the state in which each vehicle is registered. Third party property damage insurance is not compulsory and is classified with comprehensive motor vehicle insurance. The parties involved in a road traffic accident are:

> First party: The insured or policyholder;
> Second party: The insurer; and
> Third party: All persons involved except driver of vehicle at fault.

Claims Incurred

The expenses relating to claims arising from risks covered during an accounting period, including claims paid, claims outstanding and claims settlement expenses associated with such risks.

Claims Incurred But Not Enough Reported/Recorded ("IBNER")

The understatement of the cost of claims reported prior to the close of an accounting period for which the insurer had insufficient information to be able to make an assessment of the amount of the claims.

Claims Incurred But Not Reported ("IBNR")

Claims arising from incidents occurring prior to the close of an accounting period which are expected to be reported in subsequent accounting periods.

Claims Outstanding (or Liability for Outstanding Claims)

The estimated amount of unpaid claims and claims settlement expenses for which an insurer is liable. The estimate will usually include:

> Case estimates for reported claims;
> Provision for IBNER claims costs; and
> Provision for IBNR claims costs.

Claims Reported

Claims resulting from accidents or occurrences which have taken place and of which the insurer has received notice or report of loss.

Directors and Officers Insurance

Covers directors and officers of a company for negligent acts or omissions, and for misleading statements that result in suits against the company, often by shareholders.

Discount Rate

Outstanding claims include a discount to allow for interest that is expected to be earned on investments until claims are paid. A lower discount rate reduces the amount of expected interest and therefore increases the claim liability.

Earned Premiums

The amount of the total premium payable under a policy (i.e. the gross written premium) that relates to the proportion of the risk covered by the policy which has expired up to the date of calculation.

Insurance Claims

An insurance incident which has developed to the stage where there has been a demand for compensation which may or may not involve legal proceedings.

Insurance Incident

An incident or event that may give rise to an insurance claim at a future date.

Insurance Year

1 July to 30 June.

Long-tail Business

Insurance business, for example, employer liability insurance, where the financial outcome of some claims may not be known for several years.

Medical Malpractice Insurance

Professional liability coverage for physicians and other specialists against suits alleging negligence or errors and omissions that have harmed patients.

Outstanding Claims

The accounting liability raised by the insurer for claims relating to events (whether notified to the insurer or not) which have occurred to date but which have not been paid.

Professional Indemnity Insurance

Covers professionals for causing loss or injury to their clients.

Property Insurance

Covers damage to or loss of policyholders' property.

Public Liability Insurance

Insurance for what the policyholder is legally obligated to pay because of bodily injury or property damage caused to another person.

Reinsurance

Insurance bought by insurers. A reinsurer assumes part of the risk. The business is global and some of the largest reinsurers are based abroad. Reinsurers don't pay policyholder claims. Instead, they reimburse insurers for claims paid.

Reinsurance Recoveries

The amount recovered or recoverable under a contract of reinsurance as a result of claims paid on the occurrence of an event, or series of events, specified as being reinsured.

Risk Management

Management of the varied risks to which a business firm or association might be subject. It includes analysing all exposures to gauge the likelihood of loss and choosing options to better manage or minimize loss. These options typically include reducing and eliminating the risk with safety measures.

Settlement Costs

The costs incurred by an insurer in connection with settling claims. These may include not only the amount paid to the insured but also indirect costs related to handing claims (e.g. the salaries of staff in the claims handling area, and solicitors' fees).

Super-imposed Inflation

Claim settlement trends/movements (usually up) that are not aligned with normal inflation. For example, significant settlements are awarded by the courts, well above what would normally be paid if average inflation indices were applied.

Underwriting Result

Traditional measure for determining the profitability of a general insurer.

This is the surplus or deficit that emerges after reinsurance cost, unearned premiums, claims expenses and underwriting expenses applicable to a period are deducted from premium revenue.

It is a deficient measure in that it does not have regard to investment earnings arising on insurance funds held (i.e. unearned premium and claims provisions).

Unidentified Motor Vehicle

A motor vehicle, including a trailer that cannot be identified after reasonable inquiry and search.

ALPHABETICAL INDEX