ANNUAL REPORT 2010-11

AUSTRALIAN CAPITAL TERRITORY INSURANCE AUTHORITY

ACTIA

Australian Capital Territory Insurance Authority

ANNUAL REPORT 2010-11

NOMINAL DEFENDANT

Office of the NOMINAL DEFENDANT of the Australian Capital Territory

ANNUAL REPORT 2010-11

AUSTRALIAN CAPITAL TERRITORY INSURANCE AUTHORITY

ACTIA

Australian Capital Territory Insurance Authority

ANNUAL REPORT 2010-11

NOMINAL DEFENDANT

Office of the

NOMINAL DEFENDANT

of the Australian Capital Territory

ACT INSURANCE AUTHORITY

The Australian Capital Territory Insurance Authority is established under Section 7 of the *ACT Insurance Authority Act 2005*. The Authority commenced operations on 1 April 2001 to replace the Insurance Management Account that was introduced from 1 July 1998. 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.

GPO Box 158, Canberra City ACT 2601.

Produced by Publishing Services for the ACT Insurance Authority

Printed on recycled paper

Publication No 11/1103

The Authority may be contacted at:

GPO Box 158
Canberra ACT 2601

Level 3, Nara Centre, 1 Constitution Avenue, Civic 2601

Further information is available from:

John Fletcher
General Manager

ACT Insurance Authority

Phone: (02) 620 70268
Fax: (02) 620 70301
E-mail: john.fletcher @act.gov.au
Website: http://www.treasury.act.gov.au/actia/

ISBN-13: 978-0-642-60572-6
ISBN-10: 0-642-60572-6

ACTIA
Australian Capital Territory Insurance Authority

Mr Andrew Barr MLA
Treasurer
ACT Legislative Assembly
PO Box 1020
Canberra ACT 2601

Dear ~~Treasurer~~ Andrew

I am pleased to present the ACT Insurance Authority's Annual Report for the year ended 30 June 2011.

This Report has been prepared under section 6(1) of the *Annual Reports (Government Agencies) Act 2004* and in accordance with the requirements referred to in the Chief Minister's 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 hereby certify that the attached Annual Report is to the best of my knowledge an honest and accurate account and that all material information on the operations of the ACT Insurance Authority during the period 1 July 2010 to 30 June 2011 has been included and that it complies with the Chief Minister's Annual Report Directions.

I also hereby certify that fraud prevention has been managed in accordance with Public Sector Management Standard 2, Part 2.4.

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 3 months of the end of the financial year.

Yours sincerely

Megan Smithies
Director-General

21 September 2011

CONTENTS

SECTION A: PERFORMANCE AND FINANCIAL MANAGEMENT REPORTING

A.1 THE ORGANISATION

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

As the ACT Government's captive insurer for all ACT Government Directorates and statutory authorities, we meet the insurable claims and losses of ACT Government agencies.

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

The portfolio represents just over $21 billion of insured assets, with annual premium revenue of $50 million, and $396.4 million in investments and other assets.

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

A.1.1 Principal Objectives

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;
- 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;
- give advice to the Treasurer about insurance and the management of Territory risks;
- carry out the role of the Nominal Defendant of the ACT; and
- administer, on behalf of and under agreement with the Chief Minister and Cabinet Directorate, the Default Insurance Fund.

A.1.2 Functions

The functions of the Authority are specified in Section 8 of the *Insurance Act 2005* and include:

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

The ACTIA operational model is focused on satisfying the Authority's objectives and functions by taking a leadership role to reduce the total cost of risk to the Territory and individual agencies.

This focus leverages on the integration of core functions as the:

- Insurer and reinsurer of Territory risks
- Risk management advisor to Government
- Insurance advisor to Government.

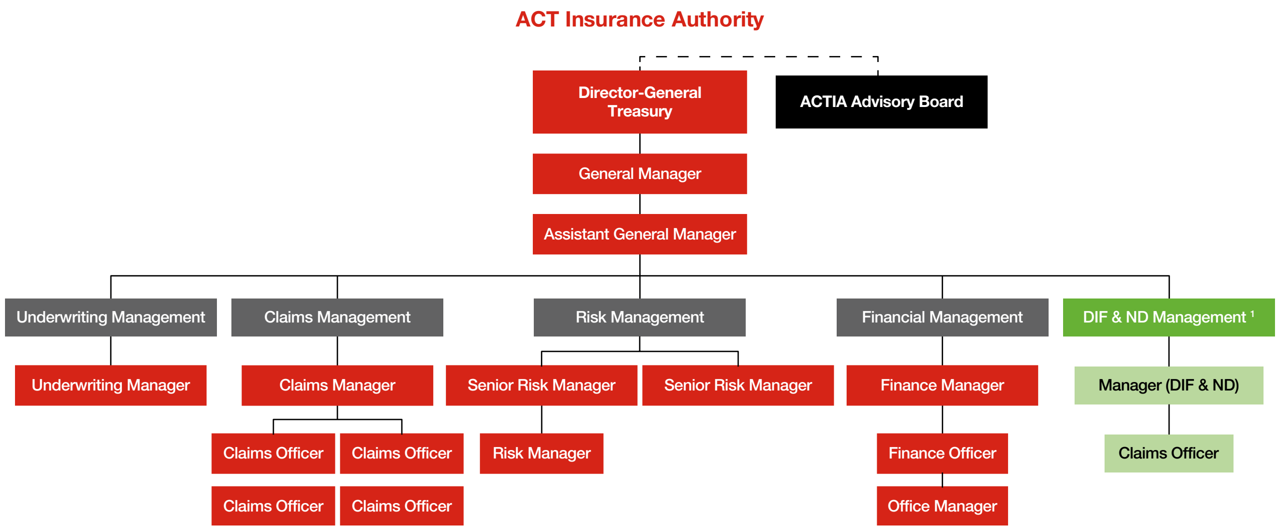
A.1.3 Clients

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.

A.1.4 Organisational Structure

The management structure of the Authority consists of 16 positions, structured as follows:



[1] The Default Insurance Fund (DIF) for private Workers' Compensation is managed by ACTIA under a Memorandum of Understanding with the Chief Minister and Cabinet Directorate. In addition, the Nominal Defendant Fund (ND) for the ACT is also managed by ACTIA fund management staff.

The ACTIA Advisory Board

The ACT Insurance Authority Advisory Board is appointed under Section 12 of the Act in accordance with Insurance Management Guidelines established under s.14 of the Act.

The Board consists of two members appointed by the Authority who possess sufficient skill and judgement with respect to the exercise by the Authority of its powers, functions or duties under the Act.

The current ACTIA Advisory Board members are:

Mr David Sandoe, OAM, ANZIIF (Fellow) CIP, IM, FAICD. Mr Sandoe has over 36 years insurance and financial services industry experience and currently is a Principal and General Manager of an independently owned Australian firm of actuaries and insurance consultants. He is an Honorary Life Member of the Australian & New Zealand Institute of Insurance & Finance.

Mr Peter Matthews, ANZIIF (Fellow), CIP, AIMM, MRIMA. Mr Matthews has some 30 years insurance and risk management experience and was until his retirement in October 2009, the General Manager of the Insurance Authority.

A.2 OVERVIEW

The Authority provided a high level of customer service to Territory Agencies and Authorities, meeting the needs of its client agencies as well as all of its statutory requirements. It was able to achieve full reinsurance cover, while maintaining premiums, despite increases in ordinary claims costs.

There was a significant increase in the operating result compared with the previous years. This was primarily due to a lower than expected ordinary claims expense and higher than expected returns from cash and investments held by the Authority.

A.3 HIGHLIGHTS

In 2010–11 the Authority achieved an operating surplus of $15.7 million, $18.3 million above budget. This was primarily due to a reduced discount rate on claims offset by better returns from investments.

ACT Government assets were the subject to considerable damage as a result of storm events in October and December 2010. The total estimate of cost for damage incurred is $17.5 million, comprising mainly of damage to infrastructure such as roads and storm water assets, with some building damage. ACTIA claims management staff provided assistance to affected agencies in the preparation and documentation of their claims. The Authority anticipates making a recovery of $12.5 million from reinsurers.

The public liability claims arising from the 2003 bushfires remain outstanding as legal action continues in the ACT Magistrates Court. The Territory has settled with all but one of the plaintiffs, a group known collectively as the "Stacks" plaintiffs.

The Authority has completed a review of the ACT Government Risk Management Policy for consideration by Government in 2011–12. The Authority's risk management team have provided a range of advisory and training services to client agencies in support of risk management activities.

ACTIA continues to provide assistance to agencies on insurance issues relating to contracts with external bodies. Staff also provided evidence of the Government's insurance when required and made arrangements for special insurance cover for events where this was warranted by the level of risk.

The ACTIA Advisory Board continued to provide important and valuable input to the Authority, particularly in relation to the reinsurance program and improvements to risk and claims management.

A.4 OUTLOOK

It is almost certain that the cost of reinsurance premiums will increase in the coming years as the insurance market hardens and as the impact of natural disasters in Australia and internationally is factored into property reinsurance premiums. Classes other than property continue to perform well and any increases should be modest, market driven increases.

While improved claims and incident reporting practices by agencies has led to an increase in estimated liabilities, the number of claims reported is stabilizing. That said, the portfolio is extremely volatile given the heavy bias towards liability risks.

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

ACTIA will further assist agencies with the provision of risk management training for agency managers and staff, and to develop tailored risk training programs for their staff to address specific needs. These courses will provide training and assistance on general risk management principles and procedures that will guide agencies in the identification, assessment and treatment of risks.

The Authority intends to implement the following key strategies 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, reduce premiums for clients;
- review the ACTIA business continuity and risk management plan;
- 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 implementation of the ACT Government Risk Management Framework;
- work with selected 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 ACT; and
- administer, on behalf of the Chief Minister's Directorate, the Default Insurance Fund.

A.5 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*.

Objectives

The key objectives of the ACT Insurance Authority 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;
- 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 –
  - (i) taking possession of, dealing with or disposing of, property; or
  - (ii) carrying on a third parties business as a going concern;
- develop and promote good practices for the management of Territory risks;
- give advice to the Minister about insurance and the management of Territory risks;
- carry out the role of the Nominal Defendant of the ACT; and
- administer, on behalf of and under agreement with the Chief Minister and Cabinet Directorate, the Default Insurance Fund.

Summary of the Authority's Operations

The Authority was established to insure the Territory. It operates as a 'captive insurer'. This means that it can only insure the Territory's risks. The Authority operates on a cost recovery basis by collecting premiums from ACT Government agencies. The Authority's operating costs are largely driven by provisioning for future claims and current claims expense.

For the 2010–11 financial year, the operating result is $15.7 million. The Authority made a small underwriting gain due predominately to $9.3 million higher than expected ordinary reinsurance recoveries. Return from investments was $6.3 million higher than expected supporting an operating result of $18.3 million higher than budgeted.

In relation to the balance sheet, the Authority maintains a reasonable investment balance in order to meet the cost of future claims. The Authority's financial position maintains reasonable liquidity on its balance sheet in terms of coverage of liabilities.

Risk Management

The Authority has developed and implemented a broad risk management plan in accordance with the Australian/New Zealand Standard on risk management AS/NZS ISO 31000:2009 and the ACT Government's "Enterprise Wide 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 IT dependencies.

The Authority's risk management plan identifies the following potential risks that may influence the future financial position of the Authority.

- Inadequate cash reserves within the Authority to meet the cost of future insurance claims on the Territory;
- Insufficient reinsurance coverage due to reduced reinsurance market capacity;
- Reduced investment income due to a subdued investment market;
- Escalating claims cost due to poor risk management in agencies; and
- Increases in or late notification of claims by agencies, and data errors may result in either the claim provision being misstated or reinsurers revising insurance terms. There is also the possibility that reinsurers may withdraw cover previously agreed. The Authority will continue to develop better claims reporting and recording practices.

Financial Performance

The following financial information is based on audited Financial Statements for 2009–10 and 2010–11, and the forward estimates contained in the 2010 2011 Budget Paper Number 4.

The Authority's operating result for 2010–11 is a surplus of $15.7 million, a difference of $18.3 million from Budget. The outcome was due predominately to higher levels of revenue: reinsurance recoveries from ordinary claims were higher than budget as was interest, gains and disbursements from investment activities. This was partially offset by an improvement in ordinary claims expense as result of lower claims numbers and settlement sizes.

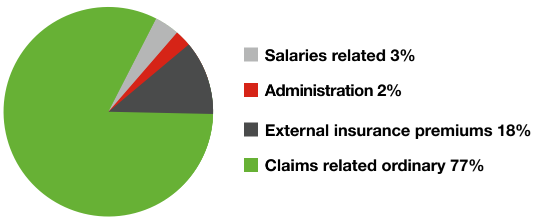
Total Expenditure

1. Components of Expenditure

For the financial year ended 30 June 2011, the Authority recorded a total expenditure for ordinary activities of $62.8 million and bushfire related costs of $0.8 million. The largest components of the Authority's ordinary expenditure for 2010–11 were insurance claims and related costs, which represent $49.0 million, and the purchasing of reinsurance, representing $10.8 million.

For the financial year ended 30 June 2011, the Authority recorded a total expenditure for the 2003 Bushfires of $0.8 million which reflects the downwards revision of the outstanding public liability claims.

Figure 1 – Components of Expenditure (excluding bushfire revisions)



2. Comparison to Budget

Expenditure

Total ordinary expenditure of $62.8 million was $2.7 million, or 4 percent lower than the 2010–11 budget of $65.5 million. This lower than budgeted expenditure was largely the result of:

- outwards reinsurance cost being less than budgeted by $1.8 million.
- a decrease in insurance claims expenditure of $0.8 million – actuarial assumptions were revised to take account of reduced discount rates, increased inflation and slower than anticipated claim payments.
- The small to medium claims class had lower than expected numbers reported and smaller settlement sizes. This was partially offset by unfavourable case development for existing open and newly reported large claims.

3. Comparison to 2009–10 Actual Expenditure

Total ordinary expenditure was $8.2 million, or 12 percent lower than the 2009–10 actual result. This largely reflects ordinary claims decreasing in value by $8.5 million due to changes in economic indicators and decreases in the size and number of small to medium claims settlements.

4. Future Trends

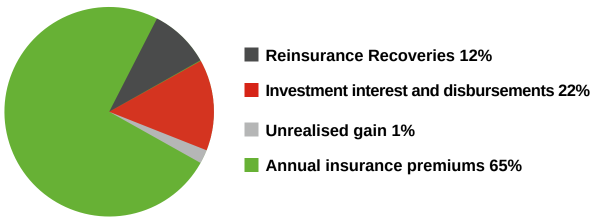
Total expenditure for 2011–12 is budgeted to decrease by $7.2 million from the 2010–11 actual result, predominately reflecting an overall lower cost of claims.

Total Income

1. Components of Income

For the financial year ended 30 June 2011, the Authority recorded a total ordinary income of $78.5 million and a reinsurance recovery from bushfires of $0.8 million, of which $50.1 million was received from insurance premiums. The remainder of the Authority's ordinary income is derived from reinsurance and other recoveries of $9.8 million and investment returns of $18.6 million.

Figure 2 – Components of Income (excluding bushfire revision)



2. Comparison to Budget

Revenue

Ordinary revenue for the year ending 30 June 2011 was $78.5 million, which was $15.6 million higher than the 2010–11 budget of $62.9 million. This increase is primarily due to better than anticipated investment returns of $6.3 million and an unanticipated reinsurance recovery on ordinary claims of $9.3 million.

3. Comparison to 2009–10 Actual Income

Revenue

Ordinary revenue of $78.5 million in 2010–11 was $14.3 million, or 22 percent higher than the 2009–10 actual result of $64.2 million. The increase was due to higher investment returns of $2.6 million, higher annual premiums of $2.0 million and reinsurance recoveries from ordinary claims of $9.5 million.

4. Future Trends

Total income for 2011–12 is budgeted to decrease by $6.2 million, from the 2010–11 actual result, predominately reflecting an expected decrease in ordinary reinsurance recoveries.

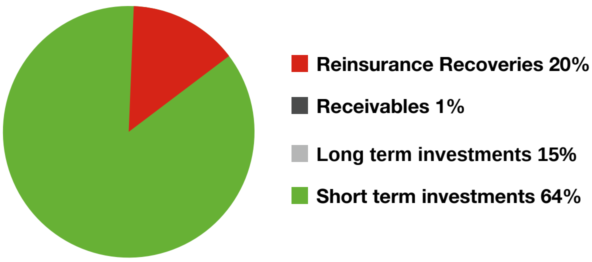
Authority Financial Position

Total Assets

1. Components of Total Assets

The total asset position as at 30 June 2011 is $396.4 million. The Authority held $251.3 million of its assets in cash equivalents and short term investments, $59.5.million in long-term investments and $81.2 million were anticipated reinsurance recoveries.

Figure 3 – Total Assets as at 30 June 2011



2. Comparison to Budget

The total asset position as at 30 June 2011 is $396.4 million, $51.1 million lower than the 2010–11 budget of $447.5 million. The decrease primarily reflects a reduction in reinsurance recoveries for the public liability bushfire claim not anticipated in the budget. This was partially offset by better than anticipated reinsurance recoveries on normal claims and higher investment balances.

3. Comparison to 2009–10 Actuals

The Authority's total asset position of $396.4 million is $50.7 million higher than the 2009–10 actual result of $345.7 million, due to an increase in investments held to meet the cost of future claims and the recognition of reinsurance recoveries from the 2010 storms.

4. Liquidity

'Liquidity' is the ability of the Authority to satisfy its short-term debts as they fall due. A common indicator for liquidity is the current ratio, which compares the ability to fund short term liabilities from short-term assets. A ratio of less than 1-to-1 may indicate a reliance on the next financial year's annual insurance premiums to meet short-term debts. Table 1 indicates the liquidity position of the Authority.

The Authority's current ratio for the financial year as at 30 June 2011 was 5.5 to 1, which is lower than the budgeted current ratio of 6.0:1. The decline reflects a slight increase in current outstanding claims liabilities.

The Authority is expecting to maintain a strong level of liquidity in the forward years with the current ratio at approximately 4:1 all years.

Table 1 – Current Ratio

Description	Prior Year Actual $'000s 2009–10	Current Year Budget $'000s 2010–11	Current Year Actual $'000s 2010–11	Forward Year Budget $'000s 2011–12	Forward Year Budget $'000s 2012-13	Forward Year Budget $'000s 2013-14
Current Assets	215,665	256,842	256,111	267,996	292,557	321,549
Current Liabilities	39,809	42,756	46,805	60,879	71,878	77,889
Current Ratio	5.4:1	6.0:1	5.5:1	4.4:1	4.1:1	4.1:1

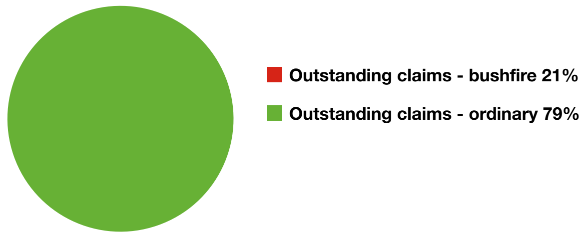
Total Liabilities

The majority of the Authority's total liabilities of $379.3 million relate to outstanding claims liabilities, $377.8 million.

The Authority's liabilities for the year ended 30 June 2011 of $379.3 million were $47.6 million lower than the 2010–11 budget of $426.9 million due primarily to a reduction in the public liability claim estimate for the 2003 bushfire.

Total liabilities are $35.0 million higher than the 2009–10 actual result of $344.3 million due primarily to an increase in the ordinary claims provision as a result of changing economic and actuarial assumptions.

Figure 4 – Total Liabilities as at 30 June 2011



ACT AUDITOR-GENERAL'S OFFICE

A11/04

Ms Megan Smithies
Director-General
Treasury Directorate
Level 1, Canberra Nara Centre
1 Constitution Avenue
CANBERRA CITY ACT 2601

Dear ~~Ms Smithies~~ Megan.

AUDIT REPORT – ACT INSURANCE AUTHORITY
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

The Audit Office has completed the audit of the financial statements of the ACT Insurance Authority for the year ended 30 June 2011.

I have attached the audited financial statements and unqualified audit report.

I have provided a copy of the financial statements and audit report to the Treasurer, Mr Andrew Barr MLA.

Yours sincerely

M. Cooper.

Dr Maxine Cooper
Auditor-General
14 September 2011

c.c. Mr John Gordon, Chair, Internal Audit Committee, Treasury Directorate
Mr John Fletcher, General Manager, ACT Insurance Authority
Ms Anne Anand, Senior Manager (Internal Audit Manager), Treasury Directorate

Level 4, 11 Moore Street, Canberra City, ACT 2601 | PO Box 275, Civic Square, ACT 2608
Telephone: 02 6207 0833 | Facsimile: 02 6207 0826 | Email: actauditorgeneral@act.gov.au

ACT AUDITOR-GENERAL'S OFFICE

A11/04

Mr Andrew Barr MLA
Treasurer
ACT Legislative Assembly
London Circuit
CANBERRA CITY ACT 2601

Dear Mr Barr

AUDIT REPORT – ACT INSURANCE AUTHORITY
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

The Audit Office has completed the audit of the financial statements of the ACT Insurance Authority for the year ended 30 June 2011.

I have attached a copy of the audited financial statements and unqualified audit report.

I have provided the original financial statements and audit report to the Director-General of the Treasury Directorate, Ms Megan Smithies.

Yours sincerely

M. Cooper.

Dr Maxine Cooper
Auditor-General
14 September 2011

Level 4, 11 Moore Street, Canberra City, ACT 2601 | PO Box 275, Civic Square, ACT 2608
Telephone: 02 6207 0833 | Facsimile: 02 6207 0826 | Email: actauditorgeneral@act.gov.au

ACT AUDITOR-GENERAL'S OFFICE

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 2011 have been audited. The financial statements are comprised of the operating statement, balance sheet, statement of changes in equity, cash flow statement, statement of appropriation and accompanying notes.

Responsibility for the financial statements

The Director-General of the Treasury Directorate is responsible for the preparation and fair presentation of the financial statements of the Authority 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.

Level 4, 11 Moore Street, Canberra City, ACT 2601 | PO Box 275, Civic Square, ACT 2608
Telephone: 02 6207 0833 | Facsimile: 02 6207 0826 | Email: actauditorgeneral@act.gov.au

Electronic presentation of the audited financial statements

Those viewing an electronic presentation of the 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 the financial statements. If users of the financial statements are concerned with the inherent risks arising from the electronic presentation of information, 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 year ended 30 June 2011:

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

(ii) present fairly the financial position of the Authority as at 30 June 2011 and the results of its operations and cash flows for the year then ended.

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

M. Cooper

Dr Maxine Cooper
Auditor-General
14 September 2011

ACT INSURANCE AUTHORITY
ANNUAL FINANCIAL STATEMENTS
For the Year Ended 30 June 2011

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 2011, and the financial position of the Authority on that date.

Megan Smithies
Chief Executive
ACT Insurance Authority
4 August 2011

ACT INSURANCE AUTHORITY
FINANCIAL STATEMENTS
For the Year Ended 30 June 2011

STATEMENT OF RESPONSIBILITY

In my opinion, the financial statements have been presented 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 2011, and the financial position of the Authority on that date.

John Fletcher
General Manager
ACT Insurance Authority
29 July 2011

ACT Insurance Authority
Operating Statement
For the Year Ended 30 June 2011

	Note No.	Actual 2011 $'000	Budget 2011 $'000	Actual 2010 $'000
Ordinary activities				
Underwriting				
Gross Earned Premiums	7	**50,125**	50,163	48,124
Outwards Reinsurance	7	**(10,752)**	(12,558)	(10,829)
Net Earned Premiums	8	**39,373**	37,605	37,295
Claims Expense	7	**(49,007)**	(49,804)	(57,488)
Claims Expense - Bushfire	7	**(811)**	-	66,557
Reinsurance (Losses)/Recoveries	7	**9,710**	392	(259)
Reinsurance (Losses)/Recoveries - Bushfire	7	**807**	-	(66,342)
Other Underwriting (Expense)/Income	7	**163**	-	337
Net Incurred Claims	9	**(39,138)**	(49,412)	(57,195)
Underwriting Gain/(Loss)	**7**	**235**	(11,807)	(19,900)
Other Revenue				
Interest Revenue	10	**187**	12,129	55
Distribution Revenue	10	**17,046**	-	14,718
Unrealised Gains from Investments	10	**1,166**	-	1,032
Other Revenue	10	**151**	128	148
		18,550	12,257	15,953
Other (Expenses)/ Income				
Construction Industry Premium Insurance	10	**(309)**	43	-
		(309)	43	-
General and Administration				
Employee Expenses	11	**(1,565)**	(1,395)	(1,390)
Superannuation Expenses	11	**(241)**	(248)	(225)
Supplies and Services	12	**(971)**	(1,454)	(1,055)
		(2,777)	(3,097)	(2,670)
Operating Surplus/ (Deficit)		**15,699**	(2,604)	(6,617)
Total Comprehensive Income/ (Deficit)		**15,699**	(2,604)	(6,617)

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

\

ACT Insurance Authority
Balance Sheet
As at 30 June 2011

	Note No.	Actual 2011 $'000	Budget 2011 $'000	Actual 2010 $'000
Current Assets				
Cash and Cash Equivalents	13	**42**	63	396
Investments	13	**251,235**	251,991	209,113
Receivables	14	**3,624**	2,008	3,571
Reinsurance Recoveries	15	**517**	1,030	694
Reinsurance Recoveries – Bushfire	15	**-**	1,664	1,207
Prepayments	18	**693**	86	684
Total Current Assets		**256,111**	256,842	215,665
Non Current Assets				
Investments	13	**59,491**	53,294	59,457
Reinsurance Recoveries	15	**10,424**	2,076	1,802
Reinsurance Recoveries - Bushfire	15	**70,278**	135,160	68,289
Prepayments	18	**115**	140	468
Total Non-Current Assets		**140,308**	190,670	130,016
Total Assets		**396,419**	447,512	345,681
Current Liabilities				
Payables	16	**150**	151	220
Outstanding Claims	17	**43,514**	40,484	35,184
Outstanding Claims - Bushfire	17	**2,218**	1,771	3,316
Employee Benefits	19	**482**	263	405
Other Liabilities	18	**693**	87	684
Total Current Liabilities		**47,057**	42,756	39,809
Non-Current Liabilities				
Outstanding Claims	17	**254,156**	238,650	225,095
Outstanding Claims - Bushfire	17	**77,908**	145,117	78,843
Employee Benefits	19	**57**	192	39
Other Liabilities	18	**115**	140	468
Total Non-Current Liabilities		**332,236**	384,099	304,445
Total Liabilities		**379,293**	426,855	344,254
Net Assets		**17,126**	20,657	1,427
Equity				
Contributed Equity		**43,855**	63,855	43,855
Accumulated (Deficits)		**(26,729)**	(43,198)	(42,429)
Total Equity		**17,126**	20,657	1,427

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 2011

	Accumulated Funds/ (Deficits) Actual 2011 $'000	Contributed Equity Actual 2011 $'000	Total Equity Actual 2011 $'000	Original Budget 2011 $'000
Balance at the Beginning of the Reporting Period	**(42,429)**	**43,855**	**1,427**	13,261
Comprehensive Income				
Operating Surplus/(Deficit)	**15,699**	**-**	**15,699**	(2,604)
Total Comprehensive Income/ (Deficit)	**15,699**	**-**	**15,699**	(2,604)
Transactions Involving Equity Holders Affecting Accumulated Funds				
Capital Injections	-	-	-	10,000
Balance at the End of the Reporting Period	**(26,730)**	**43,855**	**17,126**	20,657

	Accumulated Funds/ (Deficit) Actual 2010 $'000	Contributed Equity Actual 2010 $'000	Total Equity Actual 2010 $'000
Balance at the Beginning of the Reporting Period	**(35,812)**	**43,855**	**8,044**
Comprehensive Income			
Operating (Deficit)	(6,617)	-	(6,617)
Total Comprehensive Income/ (Deficit)	**(6,617)**	**-**	**(6,617)**
Transactions Involving Equity Holders Affecting Accumulated Funds			
Capital Injections	-	-	-
Balance at the End of the Reporting Period	**(42,429)**	**43,855**	**1,427**

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

\

ACT Insurance Authority
Cash Flow Statement
For the Year Ended 30 June 2011

	Note	Actual 2011 $'000	Budget 2011 $'000	Actual 2010 $'000
Cash Flows from Operating Activities				
Ordinary Activities				
Insurance Premiums Received		**50,125**	50,163	48,685
Net Workers' Compensation Premiums		**6**	-	-
Net Construction Industry Premiums		**380**	41	(1,024)
External Insurance Premiums		**(11,329)**	(12,557)	(11,418)
Insurance Claims Payments		**(11,597)**	(11,734)	(11,664)
Insurance Claims Payments – Bushfire		**(2,842)**	(2,412)	(3,172)
Reinsurance and Other Recoveries Received		**2,309**	1,366	2,297
Reinsurance Recoveries Received - Bushfire		-	-	-
		27,052	24,867	23,704
Other				
Interest Received		**10,905**	12,129	11,537
Distributions Received		**5,160**	-	3,039
Other Receipts		**187**	169	198
General and Administration Payments		**(2,666)**	(3,084)	(2,714)
Other Payments		**(3)**	-	-
		13,583	9,214	12,060
Net Cash Inflows from Operating Activities	23	**40,635**	34,080	35,764
Cash Flows from Financing Activities				
Capital Injections		-	10,000	-
Net Cash Inflows from Financing Activities		-	10,000	-
Cash Flows from Investing Activities				
Proceeds from Sale/ Maturities of Investments		1,133	911	-
Purchase of Investments		(42,122)	(44,991)	(35,430)
Net Cash (Outflows) from Investing Activities		**(40,989)**	(44,080)	(35,430)
Net (Decrease)/ Increase in Cash Held		**(354)**	-	334
Cash and Cash Equivalents at the Beginning of the Reporting Period		**396**	63	62
Cash and Cash Equivalents at the End of the Reporting Period	13	**42**	63	396

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

ACT Insurance Authority
Statement of Appropriation
For the Year Ended 30 June 2011

	Budget 2011 $'000	Total Appropriated 2011 $'000	Appropriation Drawn 2011 $'000	Appropriation Drawn 2010 $'000
Capital Injections	10,000	10,000	-	-

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

Column Heading Explanations

The *Budget* column shows the amounts that appear in the Cash Flow Statement in the Statement of Intent. This amount also appears in Cash Flow Statement.

The *Total Appropriated* column is inclusive of all appropriation variations occurring after the Original Budget.

The *Appropriation Drawn* is the total amount of the appropriation received by the Authority during the year. This amount appears in the Cash Flow Statement.

Variance between 'Total Appropriated' and 'Appropriation Drawn'

The difference between the Total Appropriated and Appropriation Drawn is due to additional funds not being required as a result of the Authority's improved cash position.

ACT INSURANCE AUTHORITY
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2011

NOTE INDEX

ACT INSURANCE AUTHORITY
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2011

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 is operated under the *Insurance Authority Act 2005*. The objectives of the Authority are:

- to carry out 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;
- to 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;
- to develop and promote good practices for the management of Territory risks;
- to give advice to the Treasurer about insurance and the management of Territory risks;
- to carry out the role of the Nominal Defendant of the ACT; and
- to administer, on behalf of and under agreement with the Chief Minister and Cabinet Directorate, the Default Insurance Fund, established on 1 July 2006.

Note 2. Summary of Significant Accounting Policies

(a) Basis of Accounting

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

The FMA and the *Financial Management Guidelines* issued under the Act, requires that a Territory Authority's financial statements include:
(i) an Operating Statement for the year;
(ii) a Balance Sheet at the end of the year;
(iii) a Statement of Changes in Equity for the year;
(iv) a Cash Flow Statement for the year;
(v) a Statement of Appropriation for the year;
(vi) a summary of the significant accounting policies adopted for the year; and
(vii) such other statements as are necessary to fairly reflect the financial operations of the Territory 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 financial assets and liabilities at fair value through the Operating Statement.

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

The ACT Insurance Authority is an individual reporting entity.

(b) Premium Revenue

Direct premium revenue comprises amounts charged to the policyholders, 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. Premium revenue is treated as earned from the date of attachment of risk. All premiums are written and earned in the current period as all policies cover the period from 1 July 2010 to 30 June 2011. As a consequence, the Liability Adequacy Test, which considers the adequacy of unearned premium liability, does not apply as there are no unearned premiums in the period.

Note 2. Summary of Significant Accounting Policies (Continued)

(c) Workers' Compensation

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

(d) Construction Industry Premiums and Other Insurance Contracts

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

(e) Cash and Cash Equivalents

For the purposes of the Cash Flow Statement and the Balance Sheet, cash includes cash at bank, cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(f) Receivables

All premium and other debtors are recognised at the amounts receivable as they are due for settlement no more than 30 days from the date of recognition. Collectibility of premium and other debtors is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. An allowance for impairment losses is raised when some doubt as to collection exists, to the extent that any relevant premium has been earned. The Authority assesses, at each reporting date, whether there is any indication that a receivable may be impaired. Receivables are also reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

(g) Outwards Reinsurance Premium

The Authority reinsures at a 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 injury to third parties.

Premiums paid to reinsurers are recognised as an expense in accordance with the pattern of reinsurance service received.

Note 2. Summary of Significant Accounting Policies (Continued)

(h) Claims

Claims expense and a liability for outstanding claims 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 assessed by reviewing individual claim files and estimating changes in the ultimate cost of settling claims, IBNRs and settlement costs using statistics based on past experience and trends.

The Authority has used the services of an independent actuary, PricewaterhouseCoopers Actuarial Services, to provide a full assessment of outstanding claims. Christa Majoribanks is the actuary responsible for the valuation of outstanding claims and is a Fellow of the Institute of Actuaries Australia. The valuation for this report was completed in July 2011, based on data at 30 June 2011.

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 expected future payments are then discounted to present value using the Commonwealth Government Bond risk free rate.

(i) Reinsurance and Other Recoveries Receivable

Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid, IBNER and IBNR are recognised as revenue.

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 (h) 'Claims'.

(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) Investments

Short-term investments and long-term investments held with the Territory Banking Account with the Territory Banking Account. The short-term in a unit trust called the Cash Enhanced Portfolio and the long-term investment in a unit trust called the Fixed Interest Portfolio. The price of units in the 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 trusts (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.

The 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 are paid monthly and those from the Fixed Interest Portfolio are paid quarterly.

Note 2. Summary of Significant Accounting Policies (Continued)

(l) Payables

Payables are a financial liability and are measured at the fair value of the consideration received when initially recognised and at amortised cost subsequent to initial recognition, 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 payables, accrued expenses and other payables.

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

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

Other payables are those unpaid invoices that do not directly relate to the normal operations of the Authority.

(m) Employee Benefits

Employee benefits include wages and salaries, annual leave, long service leave and applicable on-costs. On-costs include annual leave, long service leave, superannuation and other costs that are incurred when employees take annual and long service leave. These benefits accrue as a result of services provided by employees up to the reporting date that remain unpaid. They are recorded as a liability and as an expense.

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 leave and long service leave wholly within the next 12 months is measured based on the estimated amount of remuneration payable when the leave is taken.

Annual and long service leave including applicable on-costs that do not fall due within the next 12 months 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 date. Consideration is given to the present wage and salary levels, experience of employee departures and periods of service. At each reporting end, the estimated future payments are discounted using market yields on Commonwealth Government bonds with terms to maturity that match, as closely as possible, the estimated future cash flows. In 2010-11, the discount factor used to calculate the present value of these future payments is 92.2% (92.9% in 2009-10).

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 7 years qualifying service, the probability the employees will reach the required minimum period has been taken into account in estimating the provision for long service leave and the 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 the employees while take annual and long service leave while in service has been taken into account in estimating the liability for the on-costs.

Annual leave and long service leave liabilities are classified as current liabilities in the Balance Sheet where there are no unconditional right to defer the settlement of the liability for at least 12 months. However, where there is an unconditional right to defer settlement of the liability for at least 12 months, annual leave and long service leave have been classified as a non-current liability in the Balance Sheet.

(n) Rounding of Amounts

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.

Note 2. Summary of Significant Accounting Policies (Continued)

(o) Comparative Figures

Budget Figures
Budget information provided for 2010-11 matches the budget information contained in the Authority's Statement of Intent. The *Financial Management Act 1996* requires the financial statements to facilitate a comparison with the Statement of Intent.

Prior Year Comparatives
Comparative information has been disclosed in respect of the previous period for all 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.

(p) 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 12 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.

(q) Superannuation

Superannuation payments are made to the Territory Banking Account each year, 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 direct to Comsuper by the Authority. The CSS and PSS are defined benefit superannuation plans meaning that the defined benefits received by employees are based on 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.

Superannuation employer contribution payments, for the CSS and PSS, are calculated by taking the salary level at an employee's anniversary date and multiplying it by the actuarially assessed nominal CSS or PSS employer contribution rate for each employee. The productivity component payments are calculated by taking the salary level, at an employee's anniversary date and multiplying it by the employer contribution rate (approximately 3%) for each employee. Superannuation payments for the PSSAP are calculated by taking the salary level, at an employee's anniversary date, and multiplying it by the appropriate employer contribution rate. Superannuation payments for fund of choice arrangements are calculated by taking an employee's salary each pay and multiplying it by the appropriate employer contribution rate.

A superannuation liability is not recognised in the Balance Sheet as the Superannuation Provision Account recognises the total Territory superannuation liability for the CSS and PSS, and Comsuper and the external schemes recognise the superannuation liability for PSSAP and other schemes respectively.

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.

(r) Reporting Period

These financial statements state the financial performance, changes in equity and cash flows of the Authority for the year ended 30 June 2011 together with the financial position of the Authority as at 30 June 2011.

Note 2. Summary of Significant Accounting Policies (Continued)

(s) Equity Contributed by the ACT Government

Capital injections are made by the ACT Government, as owner of the Authority. Capital injections are treated as contributions to equity.

(t) Assets Backing General Insurance Liabilities

As part of its investment strategy, the Authority manages its investment portfolio to ensure that investments mature in accordance with the expected pattern of future cash flows arising from general insurance liabilities.

The Authority has determined that all assets are held to back general insurance liabilities on the basis that all assets are valued at fair value in the balance sheet. 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 unrealised profits or losses recognised in the operating statement.

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

The following new and revised accounting standards and interpretations have been issued by the Australian Accounting Standards Board but do not apply to the current reporting period. These standards and interpretations are applicable to future reporting periods. The Authority does not intend to adopt these standards and interpretations early. It is estimated that the effect of adopting the below pronouncements, when applicable, will have no material financial impact on the Authority in future reporting periods:

- AASB 7 Financial Instruments: Disclosures (application date 1 January 2011)
- AASB 9 Financial Instruments (application date 1 January 2013);
- AASB 101 Presentation of Financial Statements (application date 1 January 2011);
- AASB 107 Statement of Cash Flows (application date 1 January 2011);
- AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors (application date 1 January 2011);
- AASB 110 Events After Reporting Period (application date 1 January 2011);
- AASB 119 Employee Benefits (application date 1 January 2011);
- AASB 132 Financial Instruments: Presentation (application date 1 January 2011);
- AASB 139 Financial Instruments: Recognition and Measurement (application date 1 January 2011);
- AASB 1023 General Insurance Contracts (application date 1 January 2013);
- AASB 1031 Materiality (application date 1 January 2011);
- AASB 1053 Application of Tiers of Australian Accounting Standards (application date 1 January 2013);
- AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 [AASB 4, 101, 132, 136, 139 & 1023] (application date 1 January 2013);
- AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements [AASB 1,2, 3, 7, 8, 101, 107, 108, 110, 111, 112, 121, 124, 127, 128, 133, 134, 136, 141 & 1050 and Interpretations 2,4, 5, 15, 17, 127 & 129] (application date 1 January 2013);
- AASB 2010-6 Amendments to Australian Accounting Standards – Disclosures on Transfer of Financial Assets [AASB 1 & AASB 7] (application date 1 July 2011); and
- AASB 2010-07 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 7, 101, 108, 112, 120, 121, 127, 128, 132, 136, 137, 139 & 1023 and Interpretations 2, 5, 10, 12, 19 and 127] (application date 1 January 2013).

Note 3. Change in Accounting Policy and Accounting Estimates, and Correction of a Prior Period Error

Changes in Accounting Estimate

Changes in Actuarial Assumptions

The Authority uses actuaries (Refer Note 5: 'Actuarial Assumptions and Methods') to calculate the outstanding claims liability. Actuarial assumptions are based on past claims experience, risk exposure and projections of economic variables.

As such the estimate of the outstanding claims provision has changed.

This change has resulted in an increase to the estimate of the outstanding claims provision and expense in the current reporting period of approximately $27.6 million.

Changes in the Public Liability Bushfire Outstanding Claims and Reinsurance Recovery Provisions

The Authority uses actuaries to calculate the public liability bushfire outstanding claims and reinsurance recovery provisions. Actuarial assumptions are based on projections of economic variables and legal advice.

As such the estimates for the public liability bushfire outstanding claims and the reinsurance recovery provisions have changed.

This change has resulted in an increase of $803,000 and $807,000 respectively to the estimates for the public liability bushfire outstanding claims provision and the public liability bushfire reinsurance recovery provision in the current reporting period.

Revision of the Employee Benefit Discount Rate

As disclosed in Note 2(m) - *Employee Benefits*, annual leave and long service leave, including applicable on-costs, which do not fall due in the next 12 months, are measured at the present value of estimated payments to be made in respect of services provided by employees up to the reporting date. The estimated future payments are discounted back to present value using the government bond rate. Last financial year the discount rate was 92.9%, however, due to a change in the government bond rate, the rate is now 92.2%.

As such the estimate of the long service leave and annual leave liabilities has changed.

This change has resulted in a decrease to the estimate of the long service leave liability and expense in the current reporting period of approximately $2,000.

Change in Accounting Policy

Investment Classification

Following a review of the underlying structure of the characteristics of the Cash Enhanced Portfolio, due to an increase in the investment exposure to credit based securities, the investment is now more susceptible to movements in capital value and therefore is no longer considered to qualify as a cash equivalent.

As such the value of the Cash Enhanced Portfolio has changed.

This change has resulted in an unrealised gain to the Cash Enhanced Portfolio of $1,132,000.

Correction of Prior Period Errors

The Authority had no correction of prior period errors during the reporting period.

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 judgments 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 the year end for the estimated cost of claims incurred but not settled at the Balance Sheet date, including the cost of claims incurred but not yet reported to the Authority.

The estimated cost of claims includes direct expenses to be incurred in settling claims gross 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 liability established.

The estimation of claims incurred but not reported (IBNR) and claims incurred but not enough reported (IBNER) are generally subject to a greater degree of uncertainty than the estimation of the cost of settling property claims, where more information about the claim event is generally available.

IBNR claims may often not be apparent to the insured until many years after the events giving rise to the claims has happened.

The public liability and medical malpractice classes of business will typically display greater variations between initial estimates and final outcomes because there is a greater degree of difficulty in estimating IBNR and IBNER reserves.

For the property class, claims are typically reported soon after the claim event, and hence 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. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims 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 usually the estimation of the cost of notified but not paid claims. In estimating the cost of these, the Authority has regard to the claim circumstance as reported, any information available from the ACT Government Solicitor 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. The projections given by the various methodologies also assist in setting 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 computed using the above methods. In addition, the recoverability 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 judgments have been applied in estimating the liability for employee benefits. The estimated liability for employee benefits requires a consideration of the future wage and salary levels, experience of employee departures 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. Further information on this estimate is provided in Note 2(m): 'Employee Benefits' and Note 3: 'Changes in Accounting Policy and Accounting Estimates and Correction of a Prior Period Error'.

Note 5. Actuarial Assumptions and Methods

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

An actuarial process is used for determining the estimated value of outstanding claims liabilities, and is largely similar for all classes. A description is as follows:

- Estimates are made of IBNR claims through a combination of analyses of past reporting patterns and application of assumed development rates to numbers of claims already reported to the Authority.

- Analyses are made of numbers of past settlements. Adopted ultimate settlement proportions are applied to the estimated ultimate numbers of claims to obtain numbers of future settlements.

- Analyses are made of past settlement sizes, and past changes in case estimates.

- Estimates of outstanding claims are first adopted for the most developed insurance years, ensuring consistency of average sizes and relationship to case estimates. 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.

- In some classes (property, medical malpractice and public liability), separate analyses are made of large and small claims. In these 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.

- Allowances are incorporated for all future claims escalation, whether from external inflation or superimposed inflation, and projected payments are discounted to present values.

Note 5. Actuarial Assumptions and Methods (Continued)

Actuarial Assumptions

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

	Property & Motor	Public Liability	Medical Malpractice	Directors and Officers	Financial Crime	Professional Indemnity
Discounted Mean Term (for Outstanding Claims)	0.59 years	5.41 years	7.05 years	4.20 years	2.97 years	4.71 years
Ultimate Claim Numbers (2010-11 Insurance Year)*	69	111	137	7	1	16
Average Settlement Size	$58,200	$94,000[†] and $3.7m[††]	$267,000[†] and $5.3m[††]	$65,700	$150,000	$74,800
Expense Rate	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Discount Rate	4.8%	5.4%	5.8%	5.1%	4.9%	5.2%
Inflation and Superimposed Inflation	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%

* Ultimate claims reported for 2010-11 are the assumed number of claims that were incurred in the insurance year.
[†] Adopted average claim size for small claims with total cost up to $1 million.
[††] Adopted average claim size for large claims with total cost of $1 million or greater.

Ultimate Loss Ratios

The loss ratio indicates whether or not net earned premium is sufficient to meet net incurred claims. Where net incurred claims is greater than net earned premium, the ratio will be higher than 100%. If the ratio is higher than 100%, investment revenue is being used to meet the cost of claims. Net incurred claims equals claims expense, less reinsurance and other recoveries.

It is not possible to calculate an ultimate loss ratio for each class of business as the premiums provided are across multiple classes. However, the Authority has the overall loss ratios for the entire portfolio for the last three insurance years available. This loss ratio is the net loss ratio, with past claim payments in historical dollars and future claim payments inflated to date of payment. The earned premium is the historical net earned premium (i.e. no adjustment for inflation).

Insurance Year	Net Loss Ratio
2008-09	125%
2009-10	153%
20010-11	99%

Note 5. Actuarial Assumptions and Methods (Continued)

Process Used to Determine Assumptions

A description of the processes used to determine these assumptions is provided below.

Average weighted term to settlement
The average weighted term to settlement is calculated separately by class of business based on historic settlement patterns.

Average claim frequency
The claim frequency given is the total number of claims reported for each class of business that relate to the most recent insurance year. Average claims frequency is commonly defined as the number of expected claims as a percentage of a measure of risk exposure. However, due to the nature of the insurance classes that the Authority covers, a reliable measure of exposure is not available to calculate a useful frequency.

Expense rate
Claims handling expenses were calculated based on an assumed proportion of claims handling costs as a percentage of past payments (as advised by PricewaterhouseCoopers to the Authority).

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 to maturity.

Inflation
Economic inflation assumptions are set by reference to current economic indicators.

Superimposed inflation
Superimposed inflation occurs due to non-economic effects such as court settlements increasing at a faster rate than wages or CPI inflation. An allowance for superimposed inflation is made for each underlying model, where appropriate, after considering both the superimposed inflation present in the portfolio and industry superimposed inflation trends. While superimposed inflation is always considered to form part of the assumptions there currently is no allowance for inflation over and above economic inflation.

Note 5: Actuarial Assumptions and Methods (Continued)

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 performance and equity of the Authority.

Assumptions		**Difference**	
	$'000	$'000	% change
Current Net Outstanding Claims	286,859		
Economic Assumptions			
Discount rates increased by 1.0%	270,915	(15,944)	(5.6%)
Discount rates decreased by 1.0%	304,554	17,695	6.2%
Medical Malpractice			
Large Claims			
Average size on IBNR claims of $6.5m	307,659	20,800	7.3%
Average size on IBNR claims of $4.5m	272,993	(13,866)	(4.8%)
One additional claim p.a. for 2006 & later	320,286	33,427	11.7%
One less claim p.a. for 2006 & later	253,474	(33,385)	(11.6%)
Public Liability			
Large Claims			
Average size on IBNR claims of $4.5m	294,459	7,600	2.6%
Average size on IBNR claims of $2.5m	275,071	(11,789)	(4.1%)
One additional claim p.a. for 2006 and later	311,308	24,446	8.5%

Impact of Movement in Variable

Average weighted term to settlement
A decrease in the average term to settlement would lead to more claims being paid sooner than anticipated. Expected payment patterns are used in determining the outstanding claims liability. An increase or decrease in the average weighted term would have a corresponding increase or decrease on claims expense respectively.

Expense rate
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
The outstanding claims liability is calculated by reference to expected future payments. These payments are discounted to adjust for the time value of money. An increase or decrease in the assumed discount rate will have an opposing impact on total claims expense.

Inflation and superimposed inflation rates
Expected future payments are inflated to take account of inflationary increases. In addition to the general economic inflation rate an amount is superimposed to take account of non-economic inflationary factors, such as increases in court awards. Such rates of superimposed inflation are specific to the model adopted. An increase or decrease in the assumed levels of either economic or superimposed inflation would have a corresponding impact on claims expense, with particular reference to longer tail business.

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, financial risk and operational 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 20: 'Financial Instruments'.

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

The Authority has an objective to control insurance risk thus reducing the volatility of the operating result. The inherent uncertainty of insurance risk, which can lead to short-term variability is, to some extent, a feature of insurance business.

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.
- 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 provide high security. In order to assess this, the Authority uses ratings information from the public domain or gathered through internal investigations.
- In order 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 our obligations at the end of a contract period. The tables in Note 17: '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 are bushfire, earthquakes and hail storms. The Authority purchases catastrophe reinsurance cover to limit exposure to any single event.

ACT INSURANCE AUTHORITY
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2011

Note 7. Underwriting Result

	Notes	2011 $'000	2010 $'000
(a) Underwriting Revenues			
Gross Earned Premiums			
General Government Sector		**42,750**	41,217
Public Trading Enterprises		**7,375**	6,907
	8	**50,125**	48,124
Reinsurance Recoveries/ (Losses)	9	**9,710**	(259)
Reinsurance Recoveries/ (Losses) – Bushfire	9	**807**	(66,342)
Recoveries From Other Insurers	9	**163**	337
		10,680	(66,264)
		60,805	(18,140)

All underwriting revenues relate to operating activities.

	Notes	2011 $'000	2010 $'000
(b) Underwriting Expenses			
Gross Claims Expense	9	**49,007**	57,488
Gross Claims Expense/ (Credit) – Bushfire	9	**811**	(66,557)
		49,818	(9,069)
Outwards Reinsurance Premium Expense	8	**10,752**	10,829
		10,752	10,829
		60,570	1,760
(c) Underwriting Profit/(Loss)			
Underwriting Revenues		**60,805**	(18,140)
Underwriting Expenses		**(60,570)**	(1,760)
		235	(19,900)

The annual insurance premiums increased slightly in 2010-11 due an expected increase in the future claims costs for the public liability and property classes.

The expected cost of bushfire claims was impacted by reduced discount and inflation rates. Outstanding claims include a discount to allow for interest that is expected to be earned on claims until they are paid. A lower discount rate reduces the amount of expected interest and therefore increases the claim liability. A higher reinsurance recovery for bushfires was recognised to correspond to this increase in claims expense.

The expected cost of ordinary claims decreased due to changes in actuarial assumptions in the major claims classes. The decrease has been largely driven by a lower than expected number of claims reported as well as smaller settlements in more recent years.

Ordinary reinsurance recoveries increased predominately due to the recognition of a reinsurance recovery relating to 2010-11 storm damage claims.

ACT INSURANCE AUTHORITY
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2011

Note 8. Net Earned Premiums

	2011 $'000	2010 $'000
Gross Written Premiums		
General Government Sector	**42,750**	41,217
Public Trading Enterprises	**7,375**	6,907
	50,125	48,124
Outwards Reinsurance Premium Expense	**(10,752)**	(10,829)
Net Earned Premiums	**39,373**	37,295

The gross written premiums increased slightly in 2010-11 due an expected increase in the future claims costs for the public liability and property classes.

Note 9. Net Incurred Claims

	2011 Current Year $'000	2011 Prior Years $'000	2010 Current Year $'000	2010 Prior Years $'000
Gross Incurred Claims and Related Expenses				
- Undiscounted	**(79,954)**	**(27,396)**	(65,063)	(1,157)
- Undiscounted (Bushfire)	**-**	**(1,243)**	-	97,329
	(79,954)	**(28,639)**	(65,063)	96,172
- Discounted	**(57,139)**	**8,132**	(46,955)	(10,533)
- Discounted (Bushfire)	**-**	**(811)**	-	66,557
	(57,139)	**7,321**	(46,955)	56,024
Total Gross Incurred Claims and Related Expenses	**(49,818)**		**9,069**	
Reinsurance and Other Recoveries				
- Undiscounted	**12,144**	**(1,326)**	-	154
- Undiscounted (Bushfire)	**-**	**1,212**	-	(98,289)
- Other Underwriting Income	**-**	**163**	-	337
	12,144	**49**	-	(97,798)
- Discounted	**9,755**	**(45)**	-	(259)
- Discounted (Bushfire)	**-**	**807**	-	(66,342)
- Other Underwriting Income	**-**	**163**	-	337
	9,755	**925**	-	(66,264)
Total Reinsurance and Other Recoveries	**10,680**		**(66,264)**	
Net Incurred Claims (Discounted)	**(47,384)**	**8,246**	(46,955)	(10,240)
Total Net Incurred Claims (Discounted)	**(39,138)**		**(57,195)**	

The expected cost of ordinary claims was impacted by reduced discount and higher inflation rates. Changes in actuarial assumptions resulting from slower than anticipated payments during 2010-11, recognition of storm damage claims for 2010-11 and growth large medical malpractice claims, offset by lower than expected numbers of small claims developing in older years.

Bushfire claims and reinsurance recoveries decreased due to the withdrawal of some claimants and changes in economic assumptions.

ACT INSURANCE AUTHORITY
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2011

Note 10. Other Revenue and Expenses

	2011 $'000	2010 $'000
(a) Other Revenue		
Interest and Distribution Received		
Interest Received from Bank	**187**	55
Distribution Received from the Territory Banking Account	**17,046**	14,718
	17,233	14,773
Other Revenue:		
Recoveries from Other Agencies	**151**	148
Unrealised Gain on Investments	**1,166**	1,032
	1,317	1,180
	18,550	15,953
(b) Other Expenses		
Outwards Insurance Premium Expense –		
Construction Industry Gross	**2,173**	1,654
Construction Industry Premium Receipts Gross	**(1,864)**	(1,654)
Outwards Insurance Premium Expense – Externally		
Insured Contracts Gross	**577**	590
Externally Insured Contracts – Receipts Gross	**(577)**	(590)
	309	0

(a). In 2010-11, interest and distributions received increased due to higher interest rates and a greater amount of funds held in the Cash Enhanced Fund. The Authority is endeavouring to increase funds invested in order to meet the cost of future claims.

(b). Unrealised gain from investment is the difference between the carrying amount at market value and the value of the long-term investments held with the Territory Banking Account. During 2010-11, the unit price of the Cash Enhanced Fund and Fixed Interest Fund increased resulting in an unrealised gain.

ACT INSURANCE AUTHORITY
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2011

Note 11. Employee and Superannuation Expenses

	2011 $'000	2010 $'000
(a) Employee Expenses		
Salaries	**1,469**	1,392
Annual Leave Expense	**13**	4
Long Service Leave Expense	**78**	(18)
Other Employee Benefits and On-Costs	**-**	9
Workers Compensation Premium	**5**	3
Total Employee Expenses	**1,565**	1,390
(b) Superannuation Expense		
Superannuation Contribution to the Territory Banking Account	**174**	159
Productivity Benefit	**22**	20
Superannuation Payment to Comsuper (for the PSSAP)	**10**	12
Superannuation to External Providers	**35**	34
Total Superannuation Expenses	**241**	225

The Authority makes payment on a fortnightly basis to the Territory Banking Account for its portion of the Territory's Commonwealth Superannuation Scheme (CSS) and Public Sector Superannuation Scheme (PSS) superannuation liability. The productivity benefit for these schemes is paid directly to Comsuper.

Superannuation payments have been made direct to Comsuper to cover the superannuation liability for employees that are in the Public Sector Superannuation Scheme Accumulation Plan (PSSAP).

Superannuation payments are also made to external providers as part of the employee fund of choice arrangements, and to employment agencies for the superannuation contribution the Authority is required to make for the contract staff it employs.

[a] This relates to the ACTPS Enterprise Agreement sign-on bonus.

Note 12. Supplies and Services

	2011 $'000	2010 $'000
Rental Expenses	**113**	105
Contractors and Consultants	**504**	606
Insurance	**6**	6
Computing Costs	**105**	77
Repairs and Maintenance	**4**	2
Printing	**4**	5
Communications	**11**	9
Publications	**6**	5
Postage and Courier	**1**	1
Staff Development	**51**	12
Stationery	**14**	16
Travel	**39**	106
Audit Fees	**53**	48
Other	**60**	57
	971	1,055

The decrease in contractors and consultants is due to less demand for the services of the actuaries and insurance consultants than in the last reporting period.

Note 13. Cash and Cash Equivalents, and Investments

	2011 Current $'000	2011 Non-Current $'000	2011 Total $'000	2010 Current $'000	2010 Non-Current $'000	2010 Total $'000
(a). Cash and Cash Equivalents						
Current						
Cash at Bank	**42**	**-**	**42**	396	-	396
Total Cash and Cash Equivalents	**42**		**42**	396		396
(b). Investments						
Current						
Investments with Territory Banking Account – Cash Enhanced Portfolio	**251,235**	**-**	**251,235**	209,113	-	209,113
Non-Current						
Investments with Territory Banking Account – Fixed Interest Portfolio	**-**	**59,491**	**59,491**	-	59,457	59,457
Total Investments	**251,235**	**59,491**	**310,726**	209,113	59,457	268,570
Total Cash and Cash Equivalents, and Investments	**251,277**	**59,491**	**310,768**	209,509	59,457	268,966

The Authority holds a bank account with the Commonwealth Bank. The average interest rate on cash at bank was 4.5% (2010 4.6%). Other investments are held with the Territory Banking Account. The weighted average floating interest rate on the Cash Enhanced Portfolio is 6.71% (2010: 5.78%) and the rate of return of investment on the Fixed Interest Portfolio was 5.54% (2010 7.94%). These funds are able to be withdrawn upon request.

An increase in investments reflects the increase in funds invested in order to meet the cost of future claims.

ACT INSURANCE AUTHORITY
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2011

Note 14. Receivables

	2011 $'000	2010 $'000
Current		
Interest Receivable	**3,020**	1,852
Net GST Receivable	**115**	225
Other Receivables	**489**	1,494
	3,624	3,571
Less: Allowance for Impairment Losses	**-**	-
Total Receivables	**3,624**	3,571

Ageing Of Receivables

	Not Overdue	Past Due			Total
		Less than 30 Days	30 to 60 Days	Greater than 60 Days	
	$'000	$'000	$'000	$'000	$'000
2011					
Not Impaired[1] Receivables	3,446	109	-	69	3,624
Impaired Receivables					
2010					
Not Impaired[1] Receivables	3,571	-	-	-	3,571
Impaired Receivables	-	-	-	-	-

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

Reconciliation of the Allowance for Impairment Losses	2011 $'000	2010 $'000
Allowance for Impairment Losses at the Beginning of the Period	-	8
Additional Allowances Recognised	-	4
Reduction in Allowance Resulting from a Write Back against the Receivables	-	(12)
Allowance for Impairment Losses at the End of Reporting Period	-	-

Classification of ACT Government/ Non-ACT Government Receivables	2011 $'000	2010 $'000
Receivables with ACT Government Entities		
Interest Receivable	**3,017**	1,848
Contract Works Premium	**411**	1,101
Other	**37**	184
	3,465	3,133
Receivables with Non-ACT Government Entities		
Other Receivables	**159**	438
Total Receivables	**3,624**	3,571

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

Note 15. Reinsurance Recoveries

	2011 $'000	2010 $'000
(a) Current:		
Ordinary Reinsurance Recoveries – Undiscounted		
Undiscounted Expected Future Recoveries	**527**	705
Discounted Present Value	**(10)**	(11)
	517	694
Bushfire Reinsurance Recoveries – Undiscounted		
Undiscounted Expected Future Recoveries	**-**	1,220
Discount to Present Value	**-**	(13)
	-	1,207
Total Current Reinsurance Recoveries Discounted	**517**	1,901
(b) Non-Current		
Ordinary Recoveries – Undiscounted		
Undiscounted Expected Future Recoveries	**12,916**	7,493
Discount to Present Value	**(2,492)**	(443)
Less: Allowance for the Impairment of Reinsurance Assets	**-**	(5,248)
	10,424	1,802
Bushfire Reinsurance Recoveries - Undiscounted		
Undiscounted Expected Future Recoveries	**85,008**	85,000
Discount to Present Value	**(14,730)**	(16,711)
	70,278	68,289
Total Non-Current Reinsurance Recoveries Discounted	**80,702**	70,091
Total Ordinary Reinsurance Recoveries – Discounted	**10,941**	2,496
Total Bushfire Reinsurance Recoveries - Discounted	**70,278**	69,496
Total Reinsurance Recoveries Discounted	**81,219**	71,992
(c) Reconciliation of the Movement of Reinsurance Recoveries		
Provision for Reinsurance Recoveries at the Beginning of the Period	**71,992**	140,798
Reinsurance Received	**(963)**	2,297
Movement in Provision due to Changes in Claims	**10,190**	(71,103)
Provision for Reinsurance Recoveries at the End of Reporting Period	**81,219**	71,992

Bushfire reinsurance recoveries increased due to changes in economic assumptions. The Authority's self insured retention on this claim has been exceeded. A recovery is expected on ordinary public liability claims in the bushfire year as well as public liability in the 2006-07 insurance year, medical malpractice claims in the 1999-2000 and 2000–01 insurance years and property in the 2006-07 and 2010-11 insurance years. The provision for impairment of reinsurance assets recognises the amount the Authority estimates will not be paid due to financial difficulties of HIH Insurance Ltd (HIH) has been removed as all likely recoveries from HIH have been received. HIH was the lead medical malpractice reinsurer.

ACT INSURANCE AUTHORITY
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2011

Note 16. Payables

	2011 $'000	2010 $'000
Current Payables		
Trade Payables	**150**	220
Aging of Payables		
Payables are aged as follows:		
Not Overdue	**150**	220
	150	220
Classification of ACT Government/Non- ACT Government Payables		
Payables with ACT Government Entities		
Trade Payables	**26**	48
Payables with Non- ACT Government Entities		
Trade Payables	**124**	172
Total Payables	**150**	220

Note 17. Outstanding Claims

	2011 $'000	2010 $'000
(a) Undiscounted Expected Future Claim Payments		
Central Estimate	**343,945**	264,599
Risk Margin	**60,261**	47,322
Claims Handling Costs	**16,532**	13,082
	420,738	325,003
Discount to Present Value	**(123,068)**	(64,724)
Liability for Outstanding Claims	**297,670**	260,279
Current	**43,514**	35,184
Non-Current	**254,156**	225,095
	297,670	260,279
(b) Undiscounted Expected Future Claim Payments (Bushfire)		
Central Estimate	**95,160**	99,247
Discount to Present Value	**(15,034)**	(17,088)
Liability for Outstanding Claims	**80,126**	82,159
Current	**2,218**	3,316
Non-Current	**77,908**	78,843
	80,126	82,159
Total Undiscounted Expected Future Claim Payments	**515,898**	424,250
Total Discounted Claims Provision as per Balance Sheet	**377,796**	342,438

All figures in Note 17 (a) have been calculated by actuaries as outlined in Note 2(h): 'Claims'.

Note 17. Outstanding Claims (Continued)

(c) Risk Margin[a]

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 was analysed for each portfolio taking into account potential uncertainties relating to 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 regarding uncertainty for each class were applied to the net central estimates. The results were 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 great enough to reflect all possible future claims. A 75% level of sufficiency is the minimum required by the Australian Prudential Regulatory Authority (APRA).

Risk margins applied

Class	Risk margin (%)
Property	18
Financial Crime	30
Public Liability	17
Professional Indemnity	18
Directors and Officers	23
Medical Malpractice	17
Overall margin (weighted average)	17

(d) Inflation and Discount Rates [a]

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

	2011 %	**2010 %**
For the succeeding year		
Inflation rate	**4.0**	**4.0**
Discount rate	**4.8**	**4.5**
For the subsequent year		
Inflation rate	**4.0**	**4.0**
Discount rate	**5.1**	**5.0**

(e) Term to Settlement [a]

The weighted average expected term to settlement of the outstanding claims from the balance date is estimated to be 6.1 years (2010 – 4.4 years). 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.

[a] Notes (c) to (e) exclude bushfires

ACT INSURANCE AUTHORITY
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2011

Note 17: Outstanding Claims (Continued)

(f) Reconciliation of Movement in Discounted Outstanding Claims Liability

Change in Basis - In the 12 months from 30 June 2010 to 30 June 2011

	$'000
Gross 30 June 2010 Outstanding Claims Provision at 30 June 2010	260,279
Plus New Incurred Period	38,539
Less Expected payments to 30 June 2011 (Inflated and Undiscounted values)	30,840
Plus Expected Interest to 30 June 2011	8,850
Plus Expected change in Expense Margin	858
Plus Expected change in Risk Margin	3,042
Expected 30 June 2011 Gross Outstanding Claims Provision as at 30 June 2010	280,728
Between 30 June 2010 and 30 June 2011, there have been the following changes in experience and assumptions	
Plus (Actual less Expected) inflation	7,205
Plus Change in Future Inflation and Discounting Assumptions	(239)
Plus (Expected less Actual) Payments	
Directors and Officers	60
Financial Crime	46
Medical Malpractice	15,510
Professional Indemnity	310
Property and Motor	394
Public Liability	4,346
Sub-total	20,667
Plus Change in Actuarial Assumptions	
Directors and Officers	(382)
Financial Crime	(175)
Medical Malpractice	(13,201)
Professional Indemnity	(2,251)
Property and Motor	12,659
Public Liability	(9,373)
Sub-total	(12,722)
Plus Change in Expense margin at 30 June 2011	1,157
Plus Change in Risk margin at 30 June 2011	11,543
Overall change in basis	16,943
Gross Outstanding Claims Provision at 30 June 2011	297,670

ACT INSURANCE AUTHORITY
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2011

Note 17. Outstanding Claims (Continued)

(f) Reconciliation of Movement in Discounted Outstanding Claims Liability – Continued [a]

The expected gross central estimate of $270.06 million compares to the actual gross outstanding claims provision of $297.67 million, indicating a total increase of $27.61 million. This increasing of the provision may be broken down into six main components:

- a $7.205 million increase due to higher than expected inflation;
- a $0.239 million decrease due to increases in the assumed discount rates since 30 June 2010;
- a $20.667 million increase as a result of actual payments being less than expected over the 12 months. The increase in the estimate assumes that, all other things being equal, the difference in payments expected to be made in the 12 months would be deferred to some time in the future; and
- a $12.722 million decrease due to changes in actuarial assumptions. These have resulted from:
    - An increase in the Property insurance class largely resulting from the December 2010 storms. The impact on the **net** central estimate will be smaller due to expected reinsurance recoveries;
    - A reduction for the Medical Malpractice insurance class resulting from:
        - lower assumed ultimate number of claims and small finalisations in response to more favourable experience in small claims, offset by deterioration in case estimates of reported large claims; and
        - lengthening in the payment pattern leading to a greater impact from the discounting of the liability;
    - a reduction in the Public Liability insurance class resulting from lower than expected numbers of small settlements and more favourable experience in case estimate development for reported large claims.
    - a reduction in the Professional Indemnity insurance class resulting from favourable experience in the development of large claims
    - a reduction in the Directors' and Officers' insurance class resulting from lower than expected number of claims reported;
- a $1.157 million increase in the expense margin as a result of the increase in the central estimate of outstanding claims; and
- an increase of $11.543 million in the risk margin resulting from an increase in the central estimate of outstanding claims.

[a] Note (f) excludes bushfires

Note 17. Outstanding Claims (Continued)

Claims Development Table – Bushfires Claims

The following tables show the development of gross and net undiscounted oustanding claims relative to the ultimate expected claims for the three classes of bushfire-related claims in 2002-03 accident year.

i) Gross

Accident year			**2002-03**		
	Standing Timber $ '000	**Property $ '000**	**Public Liab $ '000**	**Prof. Indem $ '000**	**Total $ '000**
Estimate of ultimate claims cost					
At end of accident year	64,508	58,909	-	-	112,967
One year later	56,028	65,066	15,500	-	136,594
Two years later	56,028	60,496	15,500	-	132,024
Three years later	56,028	60,596	15,500	-	132,124
Four years later	56,028	60,596	15,500	-	132,124
Five years later	56,028	60,596	46,985	-	163,609
Six years later	56,028	60,596	193,503	1,485	311,612
Seven years later	56,028	60,596	96,526	1,882	215,032
Eight years later	56,028	60,596	95,336	1,834	213,794
Current estimate of cumulative claims cost	56,028	60,596	95,336	1,834	213,794
Cumulative payments	-51,024	-57,624	-10,336	-8	-118,632
Outstanding claims undiscounted	5,004	3,332	85,000	1,826	**95,162**
Discount	0	0	-14,731	-303	**-15,036**
Outstanding claims	5,004	3,332	70,269	1,523	**80,126**

ii) Net

Accident year			**2002-03**		
	Standing Timber $ '000	**Property $ '000**	**Public Liab $ '000**	**Prof. Indem $ '000**	**Total $ '000**
Estimate of ultimate claims cost					
At end of accident year	4,058	4,961	-	-	9,019
One year later	4,028	6,053	-	-	15,581
Two years later	4,028	6,784	-	-	16,312
Three years later	4,028	6,884	-	-	16,412
Four years later	4,028	6,984	-	-	16,512
Five years later	4,028	7,084	-	-	16,612
Six years later	4,028	6,884	5,827	1,485	18,224
Seven years later	4,028	6,884	5,827	1,882	18,621
Eight years later	4,028	6,884	5,827	1,834	18,573
Current estimate of cumulative claims cost	4,028	6,884	5,827	1,834	18,573
Cumulative payments	-4,028	-6,884	-5,827	-8	-16,747
Outstanding claims undiscounted	0	0	0	1,826	**1,826**
Discount	0	0	0	-303	**-303**
Outstanding claims	0	0	0	1,523	**1,523**

Note:
Claims incurred policy classes are public liability, financial crime and motor.
Claims made policy classes are medical malpractice, directors and officers and professional indemnity.
Table may not add to Balance Sheet due to rounding.

ACT INSURANCE AUTHORITY
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2011

Note 17. Outstanding Claims (Continued)

Claims development tables
Summary of all claims incurred classes

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	2003-04 $ '000	2004-05 $ '000	2005-06 $ '000	2006-07 $ '000	2007-08 $ '000	2008-09 $ '000	2009-10 $ '000	2010-11 $ '000	Total $ '000
Estimate of ultimate claims cost:									
At end of accident year	5,654	9,560	11,534	13,513	9,356	10,942	11,957	12,371	
One year later	8,717	11,904	11,670	13,385	11,211	14,397	14,000	0	
Two years later	8,670	10,604	9,304	14,670	8,209	15,941	0	0	
Three years later	7,537	6,433	9,744	18,324	10,547	0	0	0	
Four years later	6,815	7,242	9,495	14,276	0	0	0	0	
Five years later	8,055	8,683	7,542	0	0	0	0	0	
Six years later	4,921	5,744	0	0	0	0	0	0	
Seven years later	4,800	0	0	0	0	0	0	0	
Current estimate	4,800	5,744	7,542	14,276	10,547	15,941	14,000	12,371	85,221
Cummulative payments	(1,673)	(1,887)	(1,689)	(2,320)	(916)	(828)	(520)	(6)	(9,841)
Oustanding claims undiscounted	3,126	3,857	5,852	11,956	9,632	15,113	13,479	12,364	75,380
Discount	(732)	(976)	(1,315)	(3,137)	(2,396)	(3,560)	(3,921)	(4,386)	(20,422)
Outstanding claims	2,395	2,881	4,538	8,819	7,236	11,553	9,559	7,978	54,958
2003 and prior years									8,912
Outstanding claims									**63,870**

ii) Net

Accident year	2003-04 $ '000	2004-05 $ '000	2005-06 $ '000	2006-07 $ '000	2007-08 $ '000	2008-09 $ '000	2009-10 $ '000	2010-11 $ '000	Total $ '000
Estimate of ultimate claims cost:									
At end of accident year	5,654	9,560	11,534	13,513	9,356	10,942	11,957	12,371	
One year later	8,717	11,904	11,670	11,123	11,211	14,397	14,000	0	
Two years later	8,670	10,604	9,304	12,835	8,209	15,941	0	0	
Three years later	7,537	6,433	9,744	17,025	10,547	0	0	0	
Four years later	6,815	7,242	9,495	13,660	0	0	0	0	
Five years later	8,055	8,683	7,542	0	0	0	0	0	
Six years later	4,921	5,744	0	0	0	0	0	0	
Seven years later	4,800	0	0	0	0	0	0	0	
Current estimate	4,800	5,744	7,542	13,660	10,547	15,941	14,000	12,371	84,605
Cummulative payments	(1,673)	(1,887)	(1,689)	(2,320)	(916)	(828)	(520)	(6)	(9,841)
Oustanding claims undiscounted	3,126	3,857	5,852	11,340	9,632	15,113	13,479	12,364	74,764
Discount	(732)	(976)	(1,315)	(3,064)	(2,396)	(3,560)	(3,921)	(4,386)	(20,349)
Outstanding claims	2,395	2,881	4,538	8,276	7,236	11,553	9,559	7,978	54,415
2003 and prior years									8,603
Outstanding claims									**63,018**

ACT INSURANCE AUTHORITY
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2011

Claims development tables
Summary of all claims made classes

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	**2003-04 $ '000**	**2004-05 $ '000**	**2005-06 $ '000**	**2006-07 $ '000**	**2007-08 $ '000**	**2008-09 $ '000**	**2009-10 $ '000**	**2010-11 $ '000**	**Total $ '000**
Estimate of ultimate claims cost:									
At end of accident year	10,078	25,204	19,260	23,304	22,558	29,076	36,409	35,304	
One year later	14,480	21,000	20,133	25,216	30,013	19,786	35,445	0	
Two years later	14,512	23,861	14,193	22,316	29,878	20,708	0	0	
Three years later	14,605	18,275	22,217	28,970	22,316	0	0	0	
Four years later	14,016	22,778	12,525	38,089	0	0	0	0	
Five years later	15,317	25,955	14,578	0	0	0	0	0	
Six years later	11,767	28,768	0	0	0	0	0	0	
Seven years later	13,860	0	0	0	0	0	0	0	
Current estimate	13,860	28,768	14,578	38,089	22,316	20,708	35,445	35,304	209,066
Cummulative payments	(4,988)	(4,855)	(2,045)	(1,401)	(919)	(820)	(348)	(86)	(15,461)
	8,871	23,913	12,533	36,688	21,397	19,889	35,096	35,218	193,605
Oustanding claims undiscounted									
Discount	(2,313)	(6,105)	(3,842)	(11,526)	(7,341)	(7,882)	(14,176)	(14,168)	(67,354)
Outstanding claims	6,558	17,808	8,691	25,162	14,056	12,006	20,920	21,050	126,251
2003 and prior years									35,451
Outstanding claims									**161,703**

ii) Net

Accident year	**2003-04 $ '000**	**2004-05 $ '000**	**2005-06 $ '000**	**2006-07 $ '000**	**2007-08 $ '000**	**2008-09 $ '000**	**2009-10 $ '000**	**2010-11 $ '000**	**Total $ '000**
Estimate of ultimate claims cost:									
At end of accident year	10,078	25,204	19,110	23,304	22,558	29,076	36,409	35,304	
One year later	14,480	21,109	20,133	24,751	30,013	19,786	35,445	0	
Two years later	12,993	23,861	14,193	22,316	29,878	20,708	0	0	
Three years later	14,605	18,275	22,217	28,970	22,316	0	0	0	
Four years later	14,016	22,778	12,525	38,089	0	0	0	0	
Five years later	15,317	25,955	14,578	0	0	0	0	0	
Six years later	11,767	28,768	0	0	0	0	0	0	
Seven years later	13,860	0	0	0	0	0	0	0	
Current estimate	13,860	28,768	14,578	38,089	22,316	20,708	35,445	35,304	209,066
Cummulative payments	(4,988)	(4,855)	(2,045)	(1,401)	(919)	(820)	(348)	(86)	(15,461)
Oustanding claims undiscounted	8,871	23,913	12,533	36,688	21,397	19,889	35,096	35,218	193,605
Discount	(2,313)	(6,105)	(3,842)	(11,526)	(7,341)	(7,882)	(14,176)	(14,168)	(67,354)
Outstanding claims	6,558	17,808	8,691	25,162	14,056	12,006	20,920	21,050	126,251
2003 and prior years									35,451
Outstanding claims									**161,703**

ACT INSURANCE AUTHORITY
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2011

Claims development tables
Summary of all long tail policy classes

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	2003-04 $ '000	2004-05 $ '000	2005-06 $ '000	2006-07 $ '000	2007-08 $ '000	2008-09 $ '000	2009-10 $ '000	2010-11 $ '000	Total $ '000
Estimate of ultimate claims cost:									
At end of accident year	15,732	34,764	30,795	36,817	31,914	40,018	48,366	47,675	
One year later	23,197	32,904	31,802	38,601	41,224	34,183	49,444	0	
Two years later	23,181	34,465	23,497	36,986	38,087	36,650	0	0	
Three years later	22,142	24,708	31,961	47,294	32,863	0	0	0	
Four years later	20,831	30,019	22,021	52,365	0	0	0	0	
Five years later	23,373	34,638	22,119	0	0	0	0	0	
Six years later	16,688	34,512	0	0	0	0	0	0	
Seven years later	18,659	0	0	0	0	0	0	0	
Current estimate	18,659	34,512	22,119	52,365	32,863	36,650	49,444	47,675	294,287
Cummulative payments	(6,661)	(6,742)	(3,734)	(3,721)	(1,834)	(1,648)	(869)	(92)	(25,302)
Oustanding claims undiscounted	11,998	27,770	18,385	48,644	31,029	35,002	48,576	47,582	268,985
Discount	(3,046)	(7,082)	(5,157)	(14,665)	(9,738)	(11,443)	(18,098)	(18,554)	(87,775)
Outstanding claims	8,953	20,690	13,229	33,980	21,291	23,559	30,479	29,028	181,209

2003 and prior years	44,363
Claims handling expense	11,626
Risk margin	42,707
Outstanding claims	**279,905**
Short tail outstanding claims	17,765
Total gross outstanding claims as per balance sheet	**297,670**

ii) Net

Accident year	2003-04 $ '000	2004-05 $ '000	2005-06 $ '000	2006-07 $ '000	2007-08 $ '000	2008-09 $ '000	2009-10 $ '000	2010-11 $ '000	Total $ '000
Estimate of ultimate claims cost:									
At end of accident year	15,625	34,601	30,491	36,679	31,777	40,018	48,366	47,675	
One year later	23,075	32,820	31,664	35,738	41,224	34,183	49,444	0	
Two years later	21,612	34,348	23,497	35,152	38,087	36,650	0	0	
Three years later	22,142	24,592	31,961	45,995	32,863	0	0	0	
Four years later	20,831	30,019	22,021	51,749	0	0	0	0	
Five years later	23,373	34,638	22,119	0	0	0	0	0	
Six years later	16,688	34,512	0	0	0	0	0	0	
Seven years later	18,659	0	0	0	0	0	0	0	
Current estimate	18,659	34,512	22,119	51,749	32,863	36,650	49,444	47,675	293,671
Cummulative payments	(6,661)	(6,742)	(3,734)	(3,721)	(1,834)	(1,648)	(869)	(92)	(25,302)
Oustanding claims undiscounted	11,998	27,770	18,385	48,028	31,029	35,002	48,576	47,582	268,369
Discount	(3,046)	(7,082)	(5,157)	(14,592)	(9,738)	(11,443)	(18,098)	(18,554)	(87,703)
Outstanding claims	8,953	20,690	13,229	33,437	21,291	23,559	30,479	29,028	180,666

2003 and prior years	44,054
Claims handling expense	11,626
Risk margin	42,707
Outstanding claims	**279,053**
Short tail outstanding claims	7,806
Total net outstanding claims as per balance sheet	**286,859**

ACT INSURANCE AUTHORITY
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2011

Note 18. Prepayments and Other Liabilities

	Note No.	2011 $'000	2010 $'000
(a) Prepayments			
Current Construction Industry Premium Prepayments		**693**	684
Non-Current Construction Industry Premium Prepayments		**115**	468
		808	1,152
(b) Other Liabilities			
Current Construction Industry Premium Received in Advance from Agencies		**693**	684
Non-Current Construction Industry Premium Received in Advance from Agencies		**115**	468
	2 (d)	**808**	1,152

Premiums on large capital works are written to cover the life of the project. The decrease in prepayments and the corresponding liabilities in 2010-11 is due to greater one-off Commonwealth Government funding in 2009-10.

Note 19. Employee Benefits

	2011 $'000	2010 $'000
Current Employee Benefits		
Accrued Salaries	**42**	30
Annual Leave	**210**	197
Long Service Leave	**230**	169
Other	**-**	9
	482	405
Non-Current Employee Benefits		
Long Service Leave	**57**	39
	57	39
Total Employee Benefits	**539**	444

Employee Numbers	2011 Number	2010 Number
Full-time Equivalents at the End of the Reporting Period	**14**	14

For Disclosure Purposes Only
Estimate of When Leave is Payable

	2011 $'000	2010 $'000
Estimated Amount Payable Within 12 Months		
Annual leave	**162**	197
Long Service Leave	**26**	25
Accrued Salaries	**42**	30
Other	**-**	9
Total Employee Benefits Payable Within 12 Months	**230**	261
Estimated Amount Payable After 12 Months		
Long Service Leave	**261**	183
Annual Leave	48	-
Total Employee Benefits Payable After 12 Months	**309**	183
Total Employee Benefits	**539**	444

Note 20. Financial Instruments

(a) Accounting Policies, Terms and Conditions

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: 'Summary of Significant Accounting Policies'.

Derivative Instruments

The Authority is not a party to derivative financial instruments.

(b) 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:

	Carrying Amount 2011 $'000	Fair Value 2011 $'000	Carrying Amount 2010 $'000	Fair Value 2010 $'000
Financial Assets				
Cash and Cash Equivalents	**42**	**42**	396	396
Investments with the Territory Banking Account – Cash Enhanced Fund	**251,235**	**251,235**	209,113	209,113
Investments with the Territory Banking Account – Fixed Interest Fund	**59,491**	**59,491**	59,457	59,457
Receivables	**3,509**	**3,509**	3,346	3,346
Total Financial Assets	**314,277**	**314,277**	272,312	272,312
Financial Liabilities				
Payables	**150**	**150**	110	110
Total Financial Liabilities	**150**	**150**	110	110

ACT INSURANCE AUTHORITY
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2011

Note 20. Financial Instruments (Continued)

(c) Credit risk

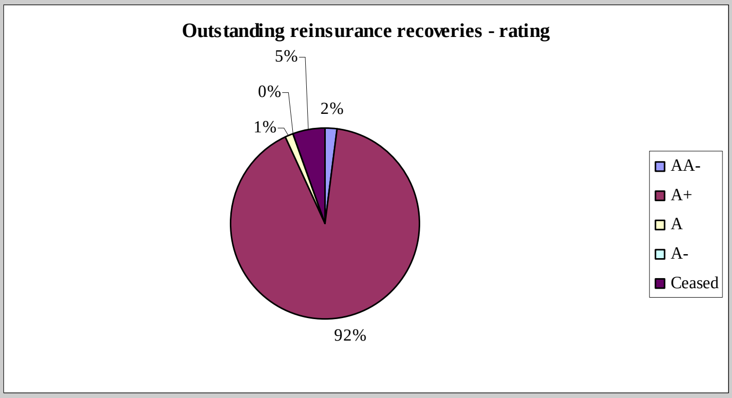
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Authority's credit risk is limited to the amount of the financial assets it holds less any allowance for impairment. 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. The Authority expects to collect all financial assets that are not past due or impaired.

Though not a financial instrument, the credit risk of a reinsurer defaulting is significant, refer to Note 15: 'Reinsurance Recoveries'. The Authority minimises this credit risk by:

- limiting individual reinsurer participation to 25% in the Industrial Special Risk (ISR) cover, the principle catastrophe reinsurance for the Fund;
- requiring each reinsurer to have a Standard and Poors security rating of 'A-' or higher on placement; and
- arranging replacement insurance for the unexpired portion of the treaty, in the event of reinsurer downgrades below acceptable levels.

The following graph shows the credit risk relating to the security of the individual reinsurers with which the Authority has outstanding recoveries.



Note: Ceased refers to HIH in liquidation.

There have been new reinsurers added to the reinsurance program for 2010-11. These reinsurers have a credit rating of AA-.

ACT INSURANCE AUTHORITY
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2011

Note 20. Financial Instruments (Continued)

(d) 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 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 increased during the year ended 30 June 2011 and as such have resulted in an increase in the amount of interest received. The majority of the Authority's financial assets are not subject to interest rate risk.

Interest rate risk for financial assets is managed by the Authority by only investing 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 no-interest bearing arrangements. The discount rates for the outstanding claims provision are derived from market yields on Commonwealth Government Bonds at the balance date. There have been no changes in risk exposure or processes for managing risk since last reporting period.

Sensitivity Analysis

Taking into account past performance, future expectations and economic forecasts, the impact on profit or loss and the impact on equity in the table below are 'reasonably possible' over the next 12 months if interest rates change by -/+ 1.0%.

30 June 2011	**(1.0%)**	**+1.0%**
	Profit/(Loss) Impact	**Profit/(Loss) Impact**
	$'000	**$'000**
Cash and Cash Equivalents	-	-
Outstanding Claims Provision Discount to Present Value	2,977	(2,977)
Total Increase/ (Decrease)	**2,977**	**(2,977)**

30 June 2010	**(1.0%)**	**+1.0%**
	Profit/(Loss) Impact	**Profit/(Loss) Impact**
	$'000	**$'000**
Cash and Cash Equivalents	(4)	4
Outstanding Claims Provision Discount to Present Value	3,424	(3,424)
Total Increase/ (Decrease)	**3,420**	**(3,420)**

Note 20. Financial Instruments (Continued)

(e) 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.

Though the majority of the Authority's liabilities are not financial instruments, but insurance claims, the Authority may be considered to have a liquidity risk. In order to limit liquidity risk in the future, the Authority has put in place the following strategies:
- to set premiums at a level that will fully cover claims costs and associated expenses; and
- to reduce claims cost by improving risk management practices at the agencies.

The Authority's exposure to liquidity risk 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 2011. 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.

2011	Notes	Floating interest rate $'000	Fixed interest maturing in: 1 year or less $'000	over 1 to 5 years $'000	more than 5 years $'000	Non-interest bearing $'000	Total $'000
Financial Instruments							
Financial Assets							
Cash and Cash Equivalents	13	42	-	-	-	-	42
Investments – Cash Enhanced	13	-	-	-	-	251,235	251,235
Investments – Fixed Interest	13	-	-	-	-	59,491	59,491
Receivables	14	-	-	-	-	3,508	3,508
Total Financial Assets		42	-	-	-	314,235	314,277
Weighted Average Interest Rate	6.71%						
Financial Liabilities							
Payables	16	-	-	-	-	150	150
Total Financial Liabilities		-	-	-	-	150	150
Net Financial Assets		42	-	-	-	314,085	314,127

Reconciliation of Net Financial Assets to Net Assets	**Notes**	**2011 $'000**
Net Financial Assets (as above)		314,127
Net GST Receivable		115
Employee Benefits	19	(539)
Reinsurance Recoveries	15	81,219
Other Assets		807
Other Liabilities		(807)
Outstanding Claims	17	(377,796)
Net Assets as per the Balance Sheet		17,126

Note 20. Financial Instruments (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 2010. 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.

2010	Notes	Floating interest rate $'000	Fixed interest maturing in: 1 year or less $'000	over 1 to 5 years $'000	more than 5 years $'000	Non-interest bearing $'000	Total $'000
Financial Instruments							
Financial Assets							
Cash and Cash Equivalents	13	396	-	-	-	-	396
Investments – Cash Enhanced	13	-	-	-	-	209,113	209,113
Investments – Fixed Interest	13	-	-	-	-	59,457	59,457
Receivables	14	-	-	-	-	3,346	3,346
Total Financial Assets		396	-	-	-	271,916	272,312
Weighted Average Interest Rate		5.78%					
Financial Liabilities							
Payables	16	-	-	-	-	110	110
Total Financial Liabilities		-	-	-	-	110	110
Weighted average interest rate	5.78%	-					
Net Financial Assets		396	-	-	-	271,806	272,202

Reconciliation of Net Financial Assets to Net Assets	**Notes**	**2010 $'000**
Net Financial Assets (as above)		272,202
Net GST Receivable		115
Employee Benefits	19	(444)
Reinsurance Recoveries	15	71,992
Other Assets		1,152
Other Liabilities		(1,152)
Outstanding Claims	17	(342,438)
Net Assets as per the Balance Sheet		**1,427**

Carrying Amount of Each Category of Financial Instruments	**2011 $'000**	**2010 $'000**
Financial Assets		
Financial Assets at Fair Value through the Profit and Loss Designated upon Initial Recognition	**310,726**	268,570
Loans and Receivables	**3,508**	3,346
Financial Liabilities		
Financial Liabilities Measured at Amortised Cost	**150**	110
Gains/ (Loss) on Each Category of Financial Asset		
Financial Assets at Fair Value through Profit and Loss Designated upon Initial Recognition	**1,166**	1,032

Note 20. Financial Instruments (Continued)

(f) 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 Cash Enhanced and the 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 the 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 last reporting period.

Taking into account past performance, future expectations, economic forecasts, and Treasury 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 12 months if interest rates change-/+ 0.5% for the Cash Enhanced Fund and -/+2.0% for the Fixed Interest Fund from the target benchmark with all other variables held constant.

June 2011		(0.5%)	0.5%
	Benchmark/ Volatility Factor	Profit/(Loss) Impact	Profit/(Loss) Impact
		$’000	$’000
Cash Enhanced Portfolio	UBS Australian Composite Bond Index -/+ 5.0%	(1,256)	1,256

June 2010		(0.5%)	0.5%
	Benchmark/ Volatility Factor	Profit/(Loss) Impact	Profit/(Loss) Impact
		$’000	$’000
Cash Enhanced Portfolio	UBS Australian Composite Bond Index -/+ 5.0%	(1,046)	1,046

June 2011		(2.0%)	2.0%
	Benchmark/ Volatility Factor	Profit/(Loss) Impact	Profit/(Loss) Impact
		$’000	$’000
Fixed Interest Portfolio	UBS Australian Composite Bond Index -/+ 2.0%	(1,190)	1,190

June 2010		(2.0%)	2.0%
	Benchmark/ Volatility Factor	Profit/(Loss) Impact	Profit/(Loss) Impact
		$’000	$’000
Fixed Interest Portfolio	UBS Australian Composite Bond Index -/+ 2.0%	(1,189)	1,189

ACT INSURANCE AUTHORITY
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2011

Note 20. Financial Instruments (Continued)

(g) Fair Value Hierarchy

The Authority is required to classify financial assets and financial liabilities into a fair value hierarchy that reflects the significance of the inputs used in determining their fair value. The fair value hierarchy is made up of the following three levels:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The carrying amount of financial assets measured at fair value, as well as the methods used to estimate the fair value are summarised in the table below. 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.

2011

	Classification According to Fair Value Hierarchy			
	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
Financial Assets				
Financial Assets at Fair Value from the Balance Sheet				
Investment with the Territory Banking Account – Cash Enhanced Portfolio	-	251,235	-	251,235
Investment with the Territory Banking Account - Fixed Interest Portfolio	-	59,491	-	59,491
Total	**-**	**310,726**	**-**	**310,726**

Transfer Between Categories

There have been no transfers of financial assets or financial liabilities between Level 1 and Level 2 during the reporting period.

2010

	Classification According to Fair Value Hierarchy			
	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
Financial Assets				
Financial Assets at Fair Value from the Balance Sheet				
Investment with the Territory Banking Account – Cash Enhanced Portfolio	-	209,113	-	209,113
Investment with the Territory Banking Account - Fixed Interest Portfolio	-	59,457	-	59,457
Total	-	268,570	-	268,570

Transfer Between Categories

There have been no transfers of financial assets or financial liabilities between Level 1 and Level 2 during the reporting period.

Note 21. Remuneration of Auditor

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

	Note	2011 $'000	2010 $'000
Audit Fees Paid to the ACT Auditor-General's Office	12	53	48

No other services were provided by the ACT Auditor-General's Office.

ACT INSURANCE AUTHORITY
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2011

Note 22. Contingent Liabilities and Contingent Assets

No contingent liabilities or assets were recognised at the reporting date.

Note 23. Cash Flow Reconciliation

(a) Reconciliation of Cash and Cash Equivalents at the end of the Reporting Period in the Cash Flow Statement to the Equivalent Items in the Balance Sheet.

	2011 $'000	2010 $'000
Total Cash and Cash Equivalents Recorded in the Balance Sheet	**42**	396
Cash and Cash Equivalents at the end of the Reporting Period as Recorded in the Cash Flow Statement	**42**	**396**

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

	2011 $'000	2010 $'000
Operating Surplus/ (Deficit)	**15,699**	(6,617)
Add/ Less Items Classified as Investing or Financing		
Changes in Net Market Value of Investments	**(1,166)**	(1,032)
Cash Before Changes in Operating Assets and Liabilities	**14,533**	**(7,649)**
Change in Operating Assets and Liabilities		
(Increase)/ Decrease in Reinsurance Recoveries	**(9,227)**	68,806
(Increase) in Interest Receivable	**(1,168)**	(197)
Decrease/ (Increase) in Other Receivables	**1,115**	(1,365)
(Decrease)/ Increase in Payables	**(70)**	68
Increase/ (Decrease) in Outstanding Claims	**35,358**	(23,899)
Increase in Employee Benefits	**95**	-
Net Changes in Operating Assets and Liabilities	**26,103**	**43,413**
Net Cash Inflows from Operating Activities	**40,635**	**35,764**

ACT AUDITOR-GENERAL'S OFFICE

A11/04

Ms Megan Smithies
Director-General
Treasury Directorate
Level 1, Canberra Nara Centre
1 Constitution Avenue
CANBERRA CITY ACT 2601

Dear ~~Ms Smithies~~ Megan,

REPORT OF FACTUAL FINDINGS - ACT INSURANCE AUTHORITY STATEMENT OF PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2011

The Audit Office has completed the review of the statement of performance of the ACT Insurance Authority for the year ended 30 June 2011.

I have attached the statement of performance and unqualified report of factual findings.

I have provided a copy of the statement of performance and report of factual findings to the Treasurer, Mr Andrew Barr MLA.

Yours sincerely

M. Cooper

Dr Maxine Cooper
Auditor-General
14 September 2011

c.c. Mr John Gordon, Chair, Internal Audit Committee, Treasury Directorate
Mr John Fletcher, General Manager, ACT Insurance Authority
Ms Anne Anand, Senior Manager (Internal Audit Manager), Treasury Directorate

Level 4, 11 Moore Street, Canberra City, ACT 2601 | PO Box 275, Civic Square, ACT 2608
Telephone: 02 6207 0833 | Facsimile: 02 6207 0826 | Email: actauditorgeneral@act.gov.au

ACT AUDITOR-GENERAL'S OFFICE

A11/04

Mr Andrew Barr MLA
Treasurer
ACT Legislative Assembly
London Circuit
CANBERRA CITY ACT 2601

Dear Mr Barr

REPORT OF FACTUAL FINDINGS - ACT INSURANCE AUTHORITY STATEMENT OF PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2011

The Audit Office has completed the review of the statement of performance of the ACT Insurance Authority for the year ended 30 June 2011.

I have attached a copy of the statement of performance and unqualified report of factual findings.

I have provided the original statement of performance and report of factual findings to the Director-General of the Treasury Directorate, Ms Megan Smithies.

Yours sincerely

M. Cooper

Dr Maxine Cooper
Auditor-General
14 September 2011

Level 4, 11 Moore Street, Canberra City, ACT 2601 | PO Box 275, Civic Square, ACT 2608
Telephone: 02 6207 0833 | Facsimile: 02 6207 0826 | Email: actauditorgeneral@act.gov.au

ACT AUDITOR-GENERAL'S OFFICE

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 2011 has been reviewed.

Responsibility for the statement of performance

The Director-General of the Treasury Directorate is responsible for the preparation and fair presentation of the statement of performance 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 to measure the results of the performance 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 2011*, 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 performance indicators reported in 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 performance 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.

Level 4, 11 Moore Street, Canberra City, ACT 2601 | PO Box 275, Civic Square, ACT 2608
Telephone: 02 6207 0833 | Facsimile: 02 6207 0826 | Email: actauditorgeneral@act.gov.au

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 the statement of performance. If users of the statement of performance are concerned with the inherent risks arising from the electronic presentation of information, 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 performance indicators, reported in the statement of performance of the Authority for the year ended 30 June 2011, 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 2011

ACT INSURANCE AUTHORITY
STATEMENT OF PERFORMANCE
For the year ended 30 June 2011

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 2011, and also fairly reflects the judgements exercised in preparing it.

Megan Smithies	John Fletcher
Chief Executive	General Manager
ACT Insurance Authority	ACT Insurance Authority
19 August 2011	29 July 2011

ACT INSURANCE AUTHORITY
Statement of Performance
For the Year Ended 30 June 2011

Description of Objectives

The ACT Insurance Authority's key objectives are:

- to carry out 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;
- to 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;
- to develop and promote good practices for the management of Territory risks;
- to give advice to the Treasurer about insurance and the management of Territory risks;
- to carry out the role of the Nominal Defendant of the ACT; and
- to administer, on behalf of and under agreement with the Chief Minister's and Cabinet Directorate, the Default Insurance Fund.

Objective	Performance Indicators	Original Target	Actual Result	Variance	Variance %	Explanation of Material Variances
Carry out the business of insurer of Territory risks	Conduct an annual customer satisfaction survey achieving high levels of overall customer satisfaction with insurance management services [1]	90%	89%	(1%)	(1.1%)	
	General and administrative expense as a percentage of total revenue. Industry benchmark 5.9%	4.6% excludes bushfires	3.5%	(1.1%)	(24%)	Ordinary revenue was higher than expected due to investment returns. General and administrative expenses were less than budget.
	Determine annual insurance premiums for Territory agencies that allow full funding of claim costs and associated expenses [2]	1	1	0	0%	
	The average number of days to process an insurance claim payment [3]	20	7	(13)	(65%)	Agency payments are processed as a priority.

Notes:

[1] Surveys are sent to the Director-Generals of all ACT Government Directorates and Statutory Authorities insured by ACTIA. Respondents are asked to rate performance against the ACTIA Customer Service Charter that details what agency's can expect from ACTIA when doing business with the Authority

[2] ACTIA completes an annual review of agency insurance premiums, with assistance from the fund actuary Pricewaterhousecoopers. Premiums are determined based on agency claims history, asset ownership and risk profile.

[3] This is from date settlement agreed until date of payment

Objective	Performance Indicators	Original Target	Actual Result	Variance	Variance %	Explanation of Material Variances
	Conduct annual property asset audits to ensure that values reflect insurance replacement costs [4]	1	1	0	0%	
Take out insurance of Territory risks with other entities	Review the Territory's insurance and reinsurance programs to ensure they are appropriate for its needs [5]	1	1	0	0%	
Satisfy or settle claims in relation to Territory risks	Hold quarterly reviews of all liability claims to assess the claim management strategy and reserve for matters where the Territory's liability may exceed $100,000	4	4	0	0%	
	Number of active insurance claims (includes pre-ACTIA claims)	9,000	8,275	(725)	(8%)	There were fewer claims and incidents reported to ACTIA
Develop and promote good practices for the management of Territory risks	Provide Risk Profile Reports to assist agencies by benchmarking and measuring their risk management progress	12	1	(11)	(8%)	Provision of reports agreed with Agency Heads on a bi-annual basis, rather than monthly, following Management Council consultation.
	Conduct risk management training courses	12	26	14	11%	Increased demand for risk management training.
	Work with selected agencies to minimise claims costs	4 agencies	4 agencies	0	0%	

Notes:

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

[5] 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.

A.8 ANALYSIS OF AGENCY PERFORMANCE

The financial year 2010–11 was a favourable year for the development of the Territory's insurance claims. No unanticipated large claims emerged and the number of matters reported was in line with expectations.

The Authority's property reinsurance policy has responded to a $17.5 million property damage claim resulting from storm and water damage.

While the liability profile is exhibiting increasing signs of maturity, considerable volatility continues. This is primarily due to ACTIA having been in existence only a short time so that there is limited data and very little experience from which to derive actuarial assumptions. The majority of ACTIA's claims are long tailed in nature, meaning that it may take many years for the matters to settle. This also results in increased uncertainty. Further revisions in the outstanding claims expense are expected in the future as ACTIA's portfolio grows and reaches a mature state.

ACTIA continues to promote good risk management practices in agencies. The Authority's risk management team continues to provide advice and assistance to agencies. During the year ACTIA staff delivered a total of 26 general and agency specific risk management training courses to various Territory agencies.

Improved claims management practices within ACTIA also contributed to the improved operating result. A new claims management process was introduced which closes claims and incidents in a shorter time. The result is less open claims/incidents resulting in a decline in case estimates and smaller actuarial margins. The reclassification of claims to incidents in earlier insurance years also helped to drive down reserves and decrease actuarial margins.

The performance indicators for the Authority for 2010–11 are outlined below:

- **Conduct an annual customer satisfaction survey**

Outcome

ACTIA's Customer Service Charter details the standards that our customers can expect when dealing with us. To gauge our effectiveness against these commitments ACTIA surveyed fund members to identify their level of satisfaction with the services provided.

Surveys were sent to the Chief Executives Officers of all ACT Government Directorates and Statutory Authorities insured by ACTIA.

The survey asked respondents to rate their level of satisfaction against key areas of service delivery including insurance claims management and risk management. Respondents were asked to confirm that they were satisfied with the overall performance of the Authority as their insurance service provider, 89% "agreed" or "strongly agreed" with this statement.

Although the overall satisfaction levels are high, ACTIA is liaising with all respondents to identify and clarify those areas in which its performance does not meet their expectations.

- **General and administrative expense as a percentage of total revenue**

Outcome

General and administrative expenses were 3.5% of ordinary revenue. This is 1.1% less than the target of 4.6%.

- **Determine annual insurance premiums for Territory agencies**

Outcome

ACTIA completes an annual review of agency insurance premiums, with assistance from the fund actuary PricewaterhouseCoopers. Premiums are determined based on agency claims history, asset ownership and risk profile. An insurance questionnaire, claims experience report and an ongoing asset review exercise enabled the renewal premiums to reflect current risk profiles.

- **Average Number of Days to Process an Insurance Payment**

Outcome

During 2010–11 it took an average of 7 days to reimburse agencies for insurance settlements. This is 13 days less than the target of 20 days.

- **Conduct annual property asset audits to ensure that values reflect replacement costs**

Outcome

ACTIA completed a review of the replacement values detailed in the Territory's asset schedule as part of the property reinsurance renewal. The Authority worked with individual agencies to refine the detail included in schedules provided by agencies for inclusion in the Authority's property reinsurance renewal.

- **Review the Territory's insurance and reinsurance programs**

Outcome

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. ACTIA was able to achieve placement of 100% of the Territory's reinsurance program. The cost of reinsurance renewals placed in 2010–11 for the following year was consistent with prices paid in the previous year despite market pressure to increase premiums.

- **Quarterly review of claims**

Outcome

Four claims review meetings were held for general liability and medical malpractice claims during 2010–11. Claims estimated at $100,000 or greater were reviewed and reserves adjusted where appropriate. The reviews were attended by representatives of the Government Solicitor's Office, ACTIA and ACTIA's insurance brokers, Marsh, as well as external insurers and their solicitors, where appropriate.

- **Number of active insurance claims and incidents**

Outcome

The Authority's claims management system shows that there were 1,585 open claims and incidents and that 6,690 claims and incidents were closed during the financial year. It is important to note, however, that the vast majority of reported incidents will not result in actual settlements.

It is expected that the number of open claims will increase over time due to the lengthy period between claims notification and settlement for much of ACTIA's business.

- **Provide Risk Management Profile Reports**

Outcome

In May 2011, ACTIA issued Risk Profile Reports to agency Chief Executive Officers, 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 classes of insurance. The reports also included suggested risk management actions for information and action.

In consultation with Director-Generals at Management Council, agreement was made to revise the timing for provision of reports to occur biannually, rather than monthly as originally planned, at

30 June to coincide with annual insurance cover renewal and at 30 December as a mid year review.

- **Conduct of risk management training courses**

Outcome

During 2010–11 the Authority's Risk Managers delivered 26 training sessions to approximately 232 Territory staff from various agencies. There were 14 training activities provided in addition to the planned target of 12. Training sessions delivered canvassed 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.

- **Work with selected agencies to minimise claim costs**

Outcome

ACTIA 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 and in developing effective mitigation strategies.

The Authority's risk managers provided support to executive managers in the stewardship of internal risk management accountability and decision making processes, in addition to working with key staff operationally within agencies.

The Authority provides support for activities such as: the design and support of incident reporting databases, provision of advice regarding risk management policies and procedures, tailored training and one on one assistance, support in developing, monitoring and reviewing effective risk management treatment strategies.

SECTION B: CONSULTATION AND SCRUTINY REPORTING

B.1 COMMUNITY ENGAGEMENT

The Authority strives to continually improve the delivery of services. Feedback from our Government clients on their expectation and level of satisfaction with the quality of our services is actively sought. It was not necessary for the Authority to undertake consultation with the public during 2010–11. However, two key roles of the Authority are to manage the risks of the Territory and to arrange appropriate insurance for those risks where possible. Hence it does not deal directly with the community, but it does assist agencies to manage insurance and risk issues that relate to community matters such as running public events. These activities may include:

- advice to an agency as to the adequacy of a community group's insurance cover; and
- assisting an agency to prepare a full risk assessment and management plan for a public event.

B.2 INTERNAL & EXTERNAL SCRUTINY

The valuation of outstanding insurance claims for 2010–11, completed by the Authority's actuaries PricewaterhouseCoopers, was peer reviewed by CumpstonSarjeant Consulting Actuaries. The valuation was found to be reasonable.

SECTION C: LEGISLATIVE AND POLICY BASED REPORTING

C.1 RISK MANAGEMENT AND INTERNAL AUDIT

C.1.1 Internal Audit

Internal Audit is an independent assurance and consulting activity that reviews and evaluates the effectiveness of the Authority's risk management, internal control, and governance practices. The results of the Authority's Internal Audit function are reported to the joint Chief Minister and Cabinet Directorate (CMCD)/ Treasury Directorate Audit Committee (the Committee) and through the Committee to the Directors-General. The Committee's functions are governed by the Audit Committee Charter.

The Committee is comprised of an Independent Chair and four members: two from CMCD and two from the Treasury Directorate. Alternate members have also been appointed in each Directorate to attend me ief Finance Officers from each Directorate and a representative from the Auditor General's Office are also invited to attend meetings as observers. The Directors-General of each Directorate have a standing invitation to attend Committee meetings.

The objective of the Committee is to provide independent assurance and assistance to the Directors General on their Directorate's risk, control and compliance framework, and its external accountability responsibilities.

The Committee, in fulfilling its objectives, assists the Director-General in the discharge of their responsibilities for exercising due care; diligence and skill in relation to the Directorate's reporting of financial information; application of accounting policies; adequacy of internal controls; financial and risk management and compliance with applicable laws.

The Authority has identified areas of operational risk and developed a cyclical internal audit program designed to review these risks over a 3-year period. Internal audit services for the Authority also include a review of the financial reporting requirements to ensure these complied with the Government's directions.

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

Name of Member	Position	Duration	Meetings Attended
Mr John Gordon	Independent Chair	July 2010 to June 2011	10 / 10
Ms Catherine Hudson	CMCD Committee Member	July 2010 to May 2011	7 / 9
Mr Andrew Kefford	CMCD Committee Member	May 2011 to June 2011	1 / 1
Ms Sue Hall	CMCD Committee Member	July 2010 to June 2011	6 / 10
Mr Luke McAlary	CMCD Alternate Committee Member	July 2010 to June 2011	1 / 1
Ms Kirsten Thompson	Treasury Directorate Committee Member	July 2010 to June 2011	9 / 10
Ms Marsha Guthrie	Treasury Directorate Committee Member	July 2010 to June 2011	8 / 10
Ms Kate Neser	Observer	July 2010	3 / 3
Mr Paul Ogden	Observer	August 2010 to June 2011	7 / 7
Ms Lisa Holmes	Observer	July 2010 to November 2010	4 / 7
Ms Anita Hargreaves	Observer	November 2010 to June 2011	2 / 3
Representative from Auditor-General's Office	Observer	July 2010 to June 2011	8 / 10

C.1.2 Risk Management Plan

The Authority has developed and implemented a broad risk management plan in accordance with the Australian/New Zealand Standard on risk management AS/NZS ISO 31000:2009 and the ACT Government's "Enterprise Wide 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 IT risks. The Risk Management Plan is reviewed annually.

C.2 FRAUD PREVENTION

The Authority conducts a risk assessment of its operational activities and its Fraud and Integrity Plan annually. A full risk assessment was carried out in 2010–2011. 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.

C.3 PUBLIC INTEREST DISCLOSURE

The *Public Interest Disclosure Act 1994* requires each ACT Government agency to establish and maintain procedures to facilitate the making of public interest disclosures. The Treasury Directorate's Procedures for Actioning Public Interest Disclosures applies to the Authority.

There were no incidents requiring disclosure under the Act during the financial year.

C.4 FREEDOM OF INFORMATION

Section 7 Statement

The ACT Insurance Authority was established in 2001 by the *Insurance Authority Act 2000*, and now operates under the amended *Insurance Authority Act 2005 (the Act)*. Its functions under the Act include to:

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

The Authority is responsible for:

- advising the Treasurer and Treasury on appropriate self-insurance strategies;
- the oversight of the management of the Government's own insurance arrangements;
- issuing policies of insurance to Government agencies; and
- the oversight of risk management policy and its implementation in ACT Government agencies.

Documents held include insurance claim files, insurance declarations and agreements, management files and finance records.

Section 8 Statement

The Authority's Section 8 Statement is included with that of the Treasury Directorate as published.

The Authority received no requests for access to documents under the Freedom of Information Act 1989 during 2010–11.

C.5 INTERNAL ACCOUNTABILITY

The Authority is responsible to the ACT Treasurer. In May 2005, the *Insurance Authority Act 2000* was replaced by the *Insurance Authority Act 2005*. The passing of the *Insurance Authority Act 2005* completed the change in governance arrangements commenced in 2003–04. Under the new Act the Director-General of Treasury is the Authority and an advisory Board is established.

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

C.5.1 Advisory Board

The ACT Insurance Authority Advisory Board is appointed under Section 12 of the Act in accordance with Insurance Management Guidelines established under s.14 of the Act.

Guideline No.1 of 2005 requires that the Board should consist of two members appointed in writing 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.

Name of Member	Position	Duration	Meetings Attended
Mr David Sandoe	Member (Chair)	July 10 to June 11	4
Mr Peter Matthews	Member	July 10 to June 11	4
Ms Megan Smithies	Under Treasurer	July 10 to June 11	2
Mr Roger Broughton	Executive Director Investment and Economics Division	July 10 to June 11	4
John Fletcher	General Manager ACTIA – Observer	July 10 to June 11	4
Mr Phang-Chun Lim	Observer	July 10 to June 11	4
Mr Peter Osborne	Observer	July 10 to June 11	4

In regard to these appointments and retirements, the Director-General of Treasury is the Authority and the appointees are chosen 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.

Mr David Sandoe, OAM,ANZIIF (Fellow) CIP, FAIM, FAICD. Mr Sandoe has over 37 years insurance and financial services industry experience and currently is a Principal and General Manager of an independently owned Australian firm of actuaries and insurance consultants. He is an Honorary Life Member of the Australian & New Zealand Institute of Insurance & Finance.

Mr Peter Matthews, ANZIIF (Fellow), CIP, AIMM, MRIMA. Mr Matthews has some 30 years insurance and risk management experience and was until his retirement in October, 2009 General Manager of the Insurance Authority.

The Board met on four occasions during 2010–11.

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

The Advisory Board was consulted on the following major issues during 2010–11:

- reviews of major claims;
- reinsurance program for 2011–12;
- risk management matters; and
- actuarial and financial matters.

C.5.2 Audit Arrangements

Internal Audit of the authority is provided by a joint Audit Committee, which provides services to the Authority, Treasury Directorate and the Chief Minister's and Cabinet Directorate. The Committee's functions are governed by the Audit Committee Charter. The membership includes appointees from the two agencies and an independent Chair. Observers also regularly attend meetings including a representative from the ACT Auditor-General's Office.

The Authority has identified areas of operational risk and developed a cyclical internal audit program designed to review these risks.

C.6 HR PERFORMANCE

The Authority is committed to providing employment opportunities for those in identified EEO groups. Officers with disabilities are employed and appropriate strategies have been implemented to ensure they have a safe and supportive work environment.

The Authority adheres to the principles of equity and diversity as detailed in the Public Service Equity and Diversity Framework. Where possible the Authority integrates the framework into its strategic and operational planning processes. While staff have been employed by the Authority on the basis of merit of their qualifications and skills, the Authority is committed to providing employment opportunities for those in identified EEO groups. 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 equity, diversity and work and life balance. 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.

C.7 STAFFING PROFILE

The following tables provides statistical information for permanent staff of the Authority for 2010–11:

FTE & Headcount

	Female	Male
FTE by Gender	9	5
Headcount by Gender	9	5
% of Workforce	64%	36%

Classifications

Classification Group	Female	Male	Total
Administrative Officers	5		5
Senior Officers	4	4	8
Executive Officers		1	1
Total	**9**	**5**	**14**

Employment Category by Gender

Employment Category	Female	Male	Total
Casual			
Permanent Full-time	9	4	13
Permanent Part-time			
Temporary Full-time		1	1
Temporary Part-time			
Total	**9**	**5**	**14**

Average Length of Service by Gender by age-group

Average Length of Service	Pre-Baby Boomers		Baby Boomers		Generation X		Generation Y		Total	
	F	M	F	M	F	M	F	M	F	M
0–2						1				1
2–4			1	1	2				3	1
4–6										
6–8				1	2		1		3	1
8–10				2						2
10–12										
12–14										
14+ years			1		2				3	

Total Average Length of Service by Gender

Gender	Average length of service
Female	10.8
Male	6.0
Total	**9.2**

Age Profile

Age Group	Female	Male	Total
<20			
20–24			
25-29	1		1
30-34	1		1
35-39	1		1
40-44	3	1	4
45-49	1		1
50-54	2	3	5
55-59			
60-64		1	1
65-69			
70+			

Agency Profile

Branch/Division	FTE	Headcount
ACT INSURANCE AUTHORITY	14	14
Total	**14**	**14**

Agency Profile by Employment Type

Branch/Division	Permanent	Temporary	Casual
ACT INSURANCE AUTHORITY	14	0	0
Total	**14**	**0**	**0**

Equity & Workplace Diversity

	A	B	C		
	Aboriginal and/or Torres Strait Islander Employment	Culturally & Linguistically Diverse (CALD) Employment	Employment of people with a disability	Number of employees who identify in any of the Equity & Diversity categories (A, B, C)*	Women
Headcount	0	0	1	1	9
% of Total Staff	0.0%	0.0%	7.1%	7.1%	64.3%

C.8 LEARNING AND DEVELOPMENT

The key development and learning priorities for the Authority have been identified as risk management, insurance and finance. During 2010–11 staff undertook formal training courses and attended conferences and seminars in these areas. Staff undertook 25 courses from the ACTPS Training Calender. There was one participant in the Executive Development Program.

The training undertaken in 2010–11 totalled $46,000. This expenditure represents the direct cost of training and development courses and does not include the salary equivalent of time away from the workplace in respect of staff that attended seminars and other training opportunities at no direct cost.

C.9 WORKPLACE HEALTH AND SAFETY

Work Safety Act 2008 (WSA) Reporting Requirements

During 2010–11 there were no occurrences of:

- Notices of non compliances issued to the Authority under section 171;
- Reports issues under section 166 in relation to any failure to comply with either a compliance agreement; enforceable undertaking; improvement notice and/or a prohibition notice;
- Improvement or prohibition notices received;
- Notices issued under section 167 – Failure to comply with a safety duty; and
- Notices issued under 170 – Failure to comply – failure not addressed.

Section 38 of the Work Safety Act 2008 outlines conditions under which a serious event at or near the workplace must be reported to Work Safety ACT. During 2010–11, the Authority was not required to notify any incidents under Section 38.

The Authority adheres to the Occupational Health and Safety principles set out in the Public Sector Management Standards. 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. Expert assistance is available where necessary and health and safety representatives are appropriately trained.

Measures taken during the year to ensure the health, safety and welfare of employees:

- two officers have purchased leave arrangements;
- four officers have flexible working arrangements;
- four officers are members of the Nara Centre Emergency Response Training Team;
- four officers had an influenza vaccination; and
- three officers hold a first aid certificate.

The Authority is covered by the following Treasury Agreements and services:

- The Treasury Work Safety Policy Statement;
- The Treasury Workplace Health and Safety Improvement Strategy 2010–12;
- The Treasury Consultative Committee;
- The Treasury Worker Consultation Unit;
- Injury Prevention programs;
- The Treasury Physiotherapy Program;
- The Treasury Wellness Reviews and Early Psychological Intervention Program;
- The Treasury Minimising Pain and Reducing Body tressing Injuries in the Workplace Program; and
- The Treasury Employee Health and Wellbeing Campaign.

Details of the above Treasury Agreements and Services can be found in the Treasury Directorate's Annual Report 2010–11.

C.10 WORKPLACE RELATIONS

The Authority's staff are covered under the Treasury Enterprise Agreement. There are no Special Employment Arrangements (SEAs) or Australian Workplace Agreements (AWAs) in place.

C.11 STRATEGIC BUSHFIRE MANAGEMENT PLAN

The Authority is office based and does not use any bush-fire prone government land.

C.12 STRATEGIC 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.

The Authority employs 14 staff occupying 213.72m^2 at the Nara Centre. The average area occupied by each is up to 15.27m^2.

C.13 GOVERNMENT CONTRACTING

The Authority employs consultants to perform a number specialised functions. Consultants provide insurance broking services, actuarial services, and legal advice. Contractors are employed to address short term staffing requirements. Expenditure on consultants and contractors was 52% of administration expenditure in 2010–11. The procurement selection and management processes for all contractors including consultants complied with the *Government Procurement Act 2001* and the *Government Procurement Regulation 2007*. KPIs have been developed for key consultants. Procurement processes above $20,000 have been reviewed by ACT 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.

External Sources of Labour

Contracts with a total financial year cost greater than $20,000

Name	Description	Cost	Date let	Procurement Type
Marsh	Insurance consultants	$407,000	June 2008	Open Tender
Pricewaterhouse Coopers	Actuarial advice and business services	$140,500	October 2007	Open Tender

C.15 TERRITORY RECORDS

The Authority complies with the *Territory Records Act 2002*.

The Authority has adopted the "whole of government" approach to record creation and storage, as directed by Territory Records Office for all new files created from 1 July 2009 onwards.

ACTIA generates individual claim files for each claimant or plaintiff, and relevant details are recorded in the Authority's claims management computer system. An archive field has been allocated in this system to record file movements to Territory archiving facilities. Boxed files are issued with a barcode reference number once they are archived by Record Services. These codes are then recorded in the archive field on the claimant file in the claims system database. A hard copy of all archive transfers complete with the box reference numbers is kept in a secure place. Staff within the Authority have undergone appropriate training in records management.

C.16 HUMAN RIGHTS ACT 2004

The Authority adheres to the principles as set out in the *Human Rights Act 2004*. The Authority is committed to a workplace that respects, protects and promotes human rights. Where possible the Authority will integrate the human rights standards into its strategic and operational planning processes. Staff are able to undertake training on human rights principles as part of their personal development programs and have access to information on human rights and the scrutiny process. The Authority has not developed any policy proposals that require consultation with the Human Rights Unit and the Authority does not administer any legislation which has substantial human rights implications.

C.17 COMMISSIONER FOR THE ENVIRONMENT

The Authority has made no reports to, nor received requests for information from, the Commissioner for the Environment. The activities of the Authority do not have a significant environmental impact.

C.18 ACT MULTICULTURAL STRATEGY 2010–13

The Authority adheres to the principles as set out in the ACT Multicultural Strategy 2010–2013. The Authority is committed to a client focused service delivery in a culturally and linguistically diverse society. Where possible the Authority will integrate the strategy into its strategic and operational planning processes

C.19 ABORIGINAL AND TORRES STRAIT ISLANDER REPORTING

The Authority adheres to the principles of the ACT Whole of Government Indigenous policy. However the nature of our business means that the strategic areas for action and change detailed in the ACT Whole of Government Indigenous Reporting Framework are not applicable to the Authority.

C.20 ECOLOGICALLY SUSTAINABLE DEVELOPMENT

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

The Treasury Directorate's Annual Report section on Ecologically Sustainable Development also applies to the Authority.

C.21 ACT WOMEN'S PLAN 2010–2015

The Authority is committed to valuing and investing in women. In particular it supports and promotes flexible work arrangements for female staff.

The Treasury Directorate's Annual Report section on the ACT Women's Plan also applies to the Authority.

C.22 MODEL LITIGANT GUIDELINES

This report is prepared in accordance with section 5AC of the *Law Officer Act 1992*.

The Chief Executive has the following procedures in place to ensure that the Authority is aware of and complying with the Guidelines.

(1) the General Manager is advised on a monthly basis on the status of all current litigation and legal proceedings. The General Manager is also advised on a weekly basis of the current status of all Freedom of Information requests

(2) the Authority's legal services are provided by the ACT Government Solicitor's office, which reviews the Authority's instructions to ensure compliance with the guidelines. The Authority is able to rely upon the ACTGS to identify those matters where a question arises as to compliance with the Model Litigant Guidelines and to address it or elevate it within the department as appropriate; and

(3) all staff involved in claims procedures or other decisions which may at some point become the subject of litigation are informed of the guidelines and instructed to comply with them, referring any queries to the ACTGS.

The Authority is not aware of any breaches of the Model Litigant Guidelines during the financial year.

ANNEXED REPORT: OFFICE OF THE NOMINAL DEFENDANT ACT

THE ORGANISATION

The ACT Insurance Authority became the Nominal Defendant of the ACT (the Fund) on 17 December 2008. The Fund is operated under the *Road Transport (Third Party Insurance) Act 2008*.

The objectives of the Fund are to:

- provide a safety net mechanism to meet the costs of third party personal injury claims made by injured parties where:
  - (a) the vehicle involved does not have a compulsory third party insurance policy; or
  - (b) the injured person is unable to identify the driver and vehicle at fault.
- ensure that persons, who are injured in the circumstances listed above, receive the same entitlements as an injured person would receive where the vehicle did have CTP insurance.
- collect recoveries from uninsured drivers at fault to the sum paid out by the Nominal Defendant of the ACT.
- raise levies on each licensed CTP insurer in the Territory as well as the Commonwealth and ACT Governments.

FINANCE

Revenue received by the Nominal Defendant during the year amounted to $6.9 million.

A total of $4.9 million was derived from levies on licensed insurers, and on recognised self insurers in the ACT – the Commonwealth of Australia and the Government of the Australian Capital Territory in accordance with the *Road Transport (Third Party Insurance) Act 2008.*

The amount required by the Nominal Defendant to settle claims is apportioned by the CTP regulator on each occasion among the licensed insurers having regard to the amount of third party premium income received by those licensed insurers and among the self insurers having regard to premiums that would otherwise have been payable for the numbers and types of vehicles operated in the territory by each self insurer.

In addition, the following revenue is received by the Nominal Defendant fund from the following sources:

- Any penalties or penalty interest imposed under the Act;
- Amounts recovered by the Nominal Defendant;
- Unregistered Vehicle Permits (UVPs) liability contributions to fund cost of claims of the Nominal Defendant in relation to unregistered vehicle permits;
- Interest accruing from the investment of the Nominal Defendant fund; and
- Unregistered Vehicle Fines liability contributions to assist to fund the cost of claims of the Nominal Defendant.

The following table represents monies treated as recoveries from other sources during the period totalling $ 1,175,000.

Source	Amount
Uninsured owner's & driver's	$74,000
Unregistered Vehicle Permits	$538,000
Unregistered Vehicle Fines	$529,000
Recoveries from Third Parties	$34,000
Total	**$1,175,000**

CLAIMS

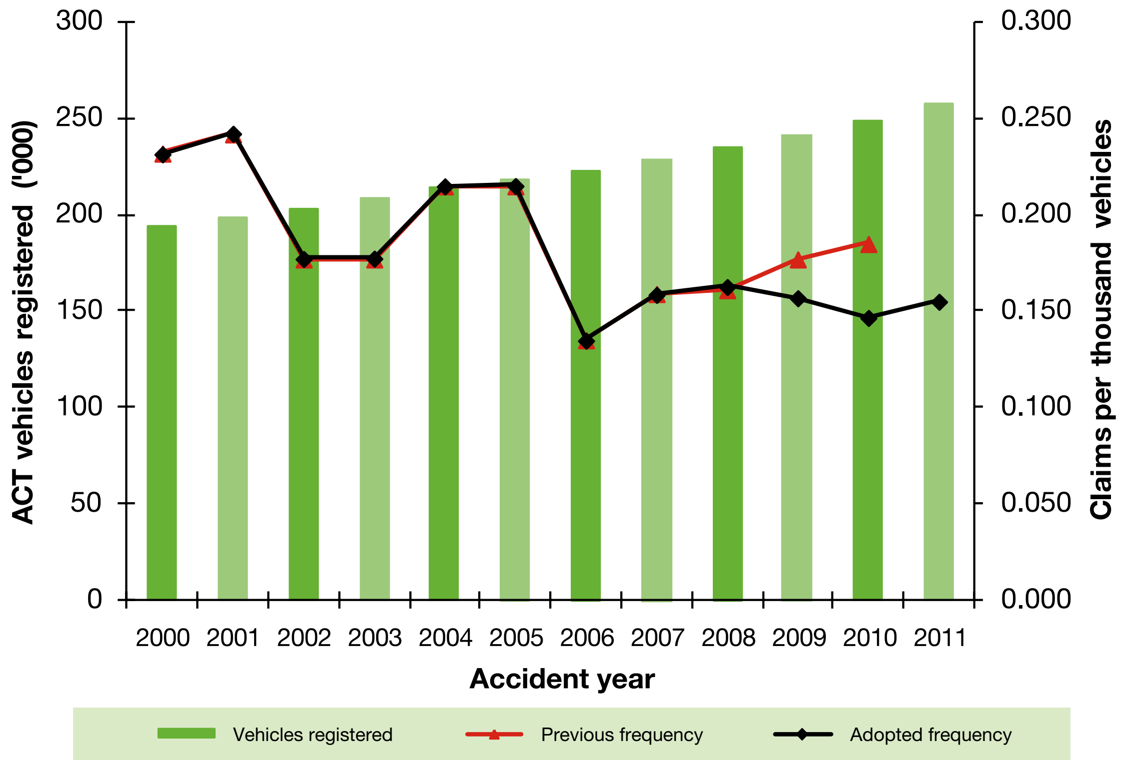
There are currently 80 open claims remaining as at 30 June 2011 with a combined total provision for claims payable of $14.1 million.

The total claims expense recognised during the reporting period was $3.3 million.

During the 2011 insurance year, damages resulting from the use of uninsured vehicles accounted for 31% of claims while damages resulting from unidentified vehicles accounted for 69% of claims.

During the same period there were approximately 0.155 claims per 1,000 vehicles registered in the ACT.
A comparison between the number of vehicles registered and the number of claims made to the Fund is shown in Figure 1.

Figure 1: Claim frequency and vehicle registrations



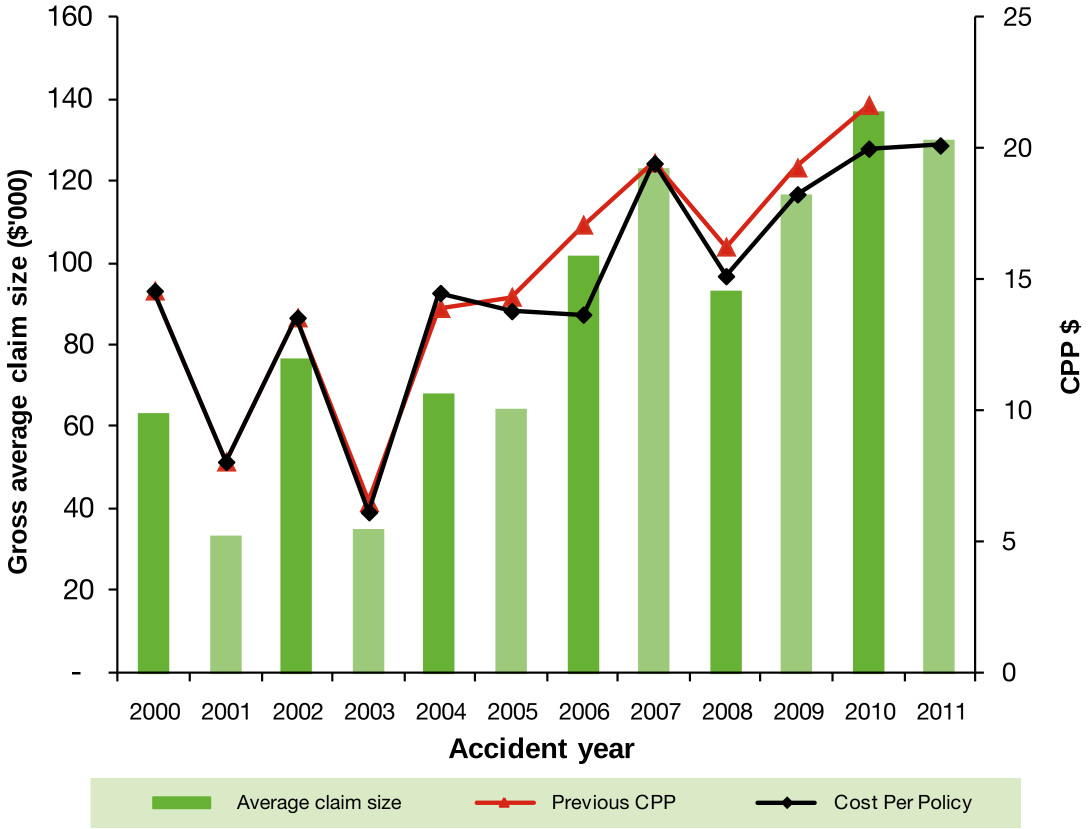
Source: Nominal Defendant Liability Valuation Report as at 30 June 2011 produced by KPMG Actuarial

Note:

- The vehicle registrations for 2011 are sourced from Road User Services ACT, and other years from previous actuarial reports.
- Claim frequency refers to number of road incidents giving rise to a claim, whether one or more claimants. The measure is expressed per thousand vehicles registered.

The average claim size in this period was $129,846, while the average CTP claim per policy cost was $20.13. A comparison between the average size of a claim and the cost of a CTP policy is shown at Figure 2.

Figure 2: Average claim size and cost per policy by accident year



Source: Nominal Defendant Liability Valuation Report as at 30 June 2010 produced by KPMG Actuarial

Note:

- Average claim size and Cost Per Policy (CPP) are in expected payment date values, but without allowance for time value of money (i.e. present value discounting), and are gross of all recoveries.
- The historical data component is sourced from previous actuarial reports.

Where the Nominal Defendant has made payments on a claim involving an uninsured motor vehicle, attempts are made to recover the cost of those payments from the owner or driver concerned. Although the financial resources of all uninsured drivers are investigated, in the majority of cases formal recovery action would be futile because the fund is unable to locate the uninsured driver or the uninsured has limited or no financial resources.

As at 30 June 2011 the Nominal Defendant had cash and investments of $17.2 million.

FREEDOM OF INFORMATION

Section 7 Statement

The functions and operations of the Fund are outlined in the “Operations and Principal Activities” section at the beginning of the annexed report.

Documents held include insurance claims, management files and finance records.

Section 8 Statement:

The Fund’s Section 8 Statement is included with that of the ACT Treasury as published.

The Fund received no requests for access to documents under the *Freedom of Information Act 1989* during 2010–11.

Financial Statements
For the Year Ended
30 June 2011

Office of the Nominal Defendant of the ACT

ACT AUDITOR-GENERAL'S OFFICE

A11/37

Ms Megan Smithies
Director-General
Treasury Directorate
Level 1, Canberra Nara Centre
1 Constitution Avenue
CANBERRA CITY ACT 2601

Dear Ms ~~Smithies~~ Megan

AUDIT REPORT – OFFICE OF THE NOMINAL DEFENDANT OF THE ACT FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

The Audit Office has completed the audit of the financial statements of the Office of the Nominal Defendant of the ACT for the year ended 30 June 2011.

I have attached the audited financial statements and unqualified audit report.

I have provided a copy of the financial statements and audit report to the Treasurer, Mr Andrew Barr MLA.

Yours sincerely

Bernie Sheville
Director, Financial Audits
9 September 2011

c.c. Mr John Gordon, Chair, Internal Audit Committee, Treasury Directorate
Mr John Fletcher, General Manager, ACT Insurance Authority
Ms Anne Anand, Senior Manager (Internal Audit Manager), Treasury Directorate

Level 4, 11 Moore Street, Canberra City, ACT 2601 | PO Box 275, Civic Square, ACT 2608
Telephone: 02 6207 0833 | Facsimile: 02 6207 0826 | Email: actauditorgeneral@act.gov.au

ACT AUDITOR-GENERAL'S OFFICE

A11/37

Mr Andrew Barr MLA
Treasurer
ACT Legislative Assembly
London Circuit
CANBERRA CITY ACT 2601

Dear Mr Barr

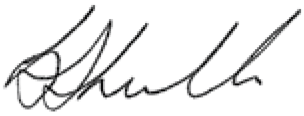
AUDIT REPORT – OFFICE OF THE NOMINAL DEFENDANT OF THE ACT FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

The Audit Office has completed the audit of the financial statements of the Office of the Nominal Defendant of the ACT for the year ended 30 June 2011.

I have attached a copy of the audited financial statements and unqualified audit report.

I have provided the original financial statements and audit report to the Director-General of the Treasury Directorate, Ms Megan Smithies.

Yours sincerely



Bernie Sheville
Director, Financial Audits
9 September 2011

Level 4, 11 Moore Street, Canberra City, ACT 2601 | PO Box 275, Civic Square, ACT 2608
Telephone: 02 6207 0833 | Facsimile: 02 6207 0826 | Email: actauditorgeneral@act.gov.au

ACT AUDITOR-GENERAL'S OFFICE

INDEPENDENT AUDIT REPORT
OFFICE OF THE NOMINAL DEFENDANT OF THE ACT

To the Members of the ACT Legislative Assembly

Report on the financial statements

The financial statements of the Office of the Nominal Defendant of the ACT (the Nominal Defendant) for the year ended 30 June 2011 have been audited. The financial statements are comprised of the operating statement, balance sheet, statement of changes in equity, cash flow statement and accompanying notes.

Responsibility for the financial statements

The Director-General of the Treasury Directorate is responsible for the preparation and fair presentation of the financial statements of the Nominal Defendant. 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

I am responsible for expressing an independent audit opinion on the financial statements of the Nominal Defendant.

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 evaluate the prudence of decisions made by the Nominal Defendant.

Level 4, 11 Moore Street, Canberra City, ACT 2601 | PO Box 275, Civic Square, ACT 2608
Telephone: 02 6207 0833 | Facsimile: 02 6207 0826 | Email: actauditorgeneral@act.gov.au

Electronic presentation of the audited financial statements

Those viewing an electronic presentation of the 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 the financial statements. If users of the financial statements are concerned with the inherent risks arising from the electronic presentation of information, 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 Nominal Defendant for year ended 30 June 2011:

(i) are presented in accordance with the Accounting Standards and other mandatory financial reporting requirements in Australia; and

(ii) present fairly the financial position of the Nominal Defendant as at 30 June 2011 and the results of its operations and cash flows for the year then ended.

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

Bernie Sheville
Director, Financial Audits
9 September 2011

Office of the Nominal Defendant of the ACT
Financial Statements
For the Year Ended 30 June 2011

Statement of Responsibility

In my opinion, the financial statements of the Office of the Nominal Defendant are in agreement with its accounts and records and fairly reflect the financial operations of the Office of the Nominal Defendant of the ACT for the year ended 30 June 2011 and the financial position of the Fund on that date.

Megan Smithies
Director-General
Treasury
05 September 2011

Office of the Nominal Defendant of the ACT
Financial Statements
For the Year Ended 30 June 2011

Statement by the General Manager

In my opinion, the financial statements of the Office of the Nominal Defendant of the ACT have been presented in accordance with generally accepted accounting principles, and are in agreement with the Fund's accounts and records and fairly reflect the financial operations of the Fund for the year ended 30 June 2011, and the financial position of the Fund on that date.

John Fletcher
General Manager
ACT Insurance Authority
5 September 2011

Office of the Nominal Defendant of the ACT
Operating Statement
For the Year Ended 30 June 2011

	Note No	Actual 2011 $'000	Actual 2010 $'000
Income			
Interest and Distribution Revenue	6	831	534
Levies	7	4,891	5,191
Unrealised Gain on Investments	11	-	73
Other Revenue	8	1,175	1,018
Total Income		**6,897**	**6,816**
Expenses			
Claims Expenses	9	3,285	5,041
Supplies and Services	10	335	410
Unrealised Loss on Investments	11	16	-
Total Expenses		**3,636**	**5,451**
Operating Surplus		**3,261**	**1,365**
Total Comprehensive Income		**3,261**	**1,365**

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

Office of the Nominal Defendant of the ACT
Balance Sheet
As at 30 June 2011

	Note No.	Actual 2011 $'000	Actual 2010 $'000
Current Assets			
Cash and Cash Equivalents	12	11,481	7,902
Receivables	13	1,493	1,565
Total Current Assets		**12,974**	**9,467**
Non-Current Assets			
Investments	14	5,748	5,764
Total Non-Current Assets		**5,748**	**5,764**
Total Assets		**18,722**	**15,231**
Current Liabilities			
Payables	15	41	214
Provision for Claims Payable	16	3,267	3,089
Total Current Liabilities		**3,308**	**3,303**
Non-Current Liabilities			
Provision for Claims Payable	16	10,788	10,563
Total Non-Current Liabilities		**10,788**	**10,563**
Total Liabilities		**14,096**	**13,866**
Net Assets		**4,626**	**1,365**
Equity			
Accumulated Funds		4,626	1,365
Total Equity		**4,626**	**1,365**

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

Office of the Nominal Defendant of the ACT
Statement of Changes in Equity
For the Year Ended 30 June 2011

	Accumulated Funds Actual 2011 $'000	Total Equity Actual 2011 $'000
Balance at the Beginning of the Reporting Period	**1,365**	**1,365**
Comprehensive Income		
Operating Surplus/(Deficit)	3,261	3,261
Total Comprehensive Income	**4,626**	**4,626**
Balance at the End of the Reporting Period	**4,626**	**4,626**

	Accumulated Funds Actual 2010 $'000	Total Equity Actual 2010 $'000
Balance at the Beginning of the Reporting Period	**-**	**-**
Comprehensive Income		
Operating Surplus/(Deficit)	1,365	1,365
Total Comprehensive Income	**1,365**	**1,365**
Balance at the End of the Reporting Period	**1,365**	**1,365**

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

Office of the Nominal Defendant of the ACT
Cash Flow Statement
For the Year Ended 30 June 2011

	Note No.	Actual 2011 $'000	Actual 2010 $'000
Cash Flows from Operating Activities			
Receipts			
Interest and Distribution Received		877	588
Recoveries		108	349
Fees and Fines		1,071	576
Levies		4,861	5,261
Goods and Services Input Tax Credits from the Australian Taxation Office		273	298
Total Receipts from Operating Activities		**7,190**	**7,072**
Payments			
Supplies and Services		509	210
Payment of Claims		2,879	3,150
Goods and Services Tax Paid to Suppliers		223	251
Total Payments from Operating Activities		**3,611**	**3,611**
Net Cash Inflows from Operating Activities	19	**3,579**	**3,461**
Net Increase in Cash and Cash Equivalents Held		3,579	3,461
Cash and Cash Equivalents at Beginning of Reporting Period		7,902	4,441
Cash and Cash Equivalents at End of Reporting Period	19	**11,481**	**7,902**

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

Office of the Nominal Defendant of the ACT
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2011

NOTE INDEX

Office of the Nominal Defendant of the ACT
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2011

NOTE 1 OBJECTIVES OF THE OFFICE OF THE NOMINAL DEFENDANT OF THE ACT

Operations and Principal Activities of the Office of the Nominal Defendant of the ACT

The ACT Insurance Authority took over the assets and liabilities of the Office of the Nominal Defendant of the ACT (the Fund) from the previous Nominal Defendant on 17 December 2008, and commenced operations on 1 January 2009. On establishment, $13.2 million was transferred to the Fund from the previous Nominal Defendant. The Fund is operated under the *Road Transport (Third Party Insurance) Act 2008*. The objectives of the Fund are to:

- provide a safety net mechanism to meet the costs of third party personal injury claims made by injured parties where:
  a. the vehicle involved does not have a compulsory third party insurance policy; or
  b. the injured person is unable to identify the driver and vehicle at fault;
- ensure that persons, who are injured in the circumstances listed above, receive the same entitlements as an injured person would receive where the vehicle did have Compulsory Third Party (CTP) insurance;
- collect recoveries from uninsured drivers at fault to the sum paid out by the Nominal Defendant of the ACT; and
- raise levies on each licensed CTP insurer in the Territory as well as the Commonwealth and ACT Governments.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

These general purpose financial statements have been prepared to comply with 'Generally Accepted Accounting Principles' (GAAP). These financial statements have been prepared in accordance with Australian Accounting Standards, and 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 which were valued in accordance with the (re)valuation policies applicable to the fund during the reporting period.

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

The Fund is an individual reporting entity.

(b) The Reporting Period

The financial statements state the financial performance, change in equity and cash flows of the Fund for the year ended 30 June 2011 together with the financial position of the Fund as at 30 June 2011.

Office of the Nominal Defendant of the ACT
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2011

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

(c) Comparative Figures

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. Some totals throughout this report may not add due to rounding.

(e) Revenue Recognition

Revenue is recognised at the fair value of the consideration received or receivable in the Operating Statement. All revenue is recognised to the extent that it is probable that the economic benefits will flow to the Fund and the revenue can be reliably measured.

Levies

Monies required to satisfy claims are apportioned by way of levies placed on Comprehensive Third Party Insurers and Self-Insurers in the ACT. The levies are calculated based on the market share. Levies are recognised in the Operating Statement when they have been earned.

Interest

Interest rate revenue is recognised using the effective interest method.

(f) Current and Non-Current Items

Assets and liabilities are classified as either 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 12 months after the reporting date. Liabilities are classified as current when they are due to be settled within 12 months after the reporting date or the Fund does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Assets or liabilities which do not fall within the current classification are classified as non-current.

Office of the Nominal Defendant of the ACT
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2011

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

(g) Cash and Cash Equivalents

For the purposes of the Cash Flow Statement and the Balance Sheet, cash includes cash at bank and cash on hand. Cash equivalents include any short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash equivalents include short-term investments held in the Justice and Community Safety (JACS) Trust Investment Account managed by an external fund manager on behalf of the Public Trustee for the ACT. Short-term investments in the JACS Trust Investment Account are measured at fair value.

(h) Receivables

Accounts receivable (including interest and other receivables) are recognised at fair value and subsequently measured at amortised cost, with any adjustments to the carrying amount being recorded in the Operating Statement.

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

a. becoming aware of financial difficulties of debtors; or
b. default payments.

(i) Investments

Long-term investments for the Fund are held with the Public Trustee for the ACT in a unit trust called the Fixed Interest Trust Portfolio. The price of units in the unit trust fluctuates in value. The net gain or loss on investments consists of the fluctuation in price of the unit trust 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.

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 reporting date.

Office of the Nominal Defendant of the ACT
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2011

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

(j) Payables

Payables are a financial liability and are measured at the fair value of the consideration received when initially recognised and at amortised cost subsequent to initial recognition, 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 Payables, Accrued Expenses and Other Payables.

Trade Payables 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 Fund.

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.

Other Payables are those unpaid invoices that do not directly relate to the normal operations of the Fund.

(k) Provision for Claims Payable

The provision covers claims reported but not yet paid, incurred but not yet reported claims ("IBNR"), incurred but not enough reported ("IBNER") and the anticipated direct and indirect costs of settling those claims. Claims outstanding are assessed by review of individual claim files and estimating changes in the ultimate cost of settling claims, IBNRs and settlement costs using statistics based on past experience and trends.

An assessment of outstanding claims is done annually by an independent actuary. The Fund has used the services of an independent actuary, KPMG Actuaries Pty Ltd, to provide a full assessment of outstanding claims at 30 June 2011.

The expected future payments are estimated on the basis of the ultimate cost of settling claims, which is affected by factors arising during the period to settlement such as normal inflation and "superimposed inflation". Superimposed inflation refers to factors such as trends in court awards, for example increases in the level and period of compensation for injury. The expected future payments are then discounted to present value using the Commonwealth Government Bonds risk free rate.

Payables estimated to fall due within a 12-month period are classified as a current liability and all other payables as a non-current liability.

(l) Recoveries

The Fund may receive recoveries from the uninsured drivers, claimant third parties, and court associated recoveries. The recoveries are included in the actuarial calculations, and are netted off from the value of outstanding claims.

Office of the Nominal Defendant of the ACT
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2011

NOTE 3 IMPACT OF ACCOUNTING STANDARDS ISSUED BUT YET TO BE APPLIED

The following new and revised accounting standards and interpretations have been issued by the Australian Accounting Standards Board but do not apply to the current reporting period. These standards and interpretations are applicable to future reporting periods. The Fund does not intend to adopt these standards and interpretations early. It is estimated that the effect of adopting the below pronouncements, when applicable, will have no material financial impact on the Fund in future reporting periods:

- AASB 7 Financial Instruments: Disclosures (application date 1 January 2011);
- AASB 9 Financial Instruments (application date 1 January 2013);
- AASB 101 Presentation of Financial Statements (application date 1 January 2011);
- AASB 107 Statement of Cash Flows (application date 1 January 2011);
- AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors (application date 1 January 2011);
- AASB 110 Events After Reporting Period (application date 1 January 2011);
- AASB 119 Employee Benefits (application date 1 January 2011);
- AASB 132 Financial Instruments: Presentation (application date 1 February 2011);
- AASB 139 Financial Instruments: Recognition and Measurement (application date 1 January 2011);
- AASB 1031 Materiality (application date 1 January 2011);
- AASB 1053 Application of Tiers of Australian Accounting Standards (application date 1 January 2013)
- AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 [AASB 4, 101, 132, 136, 139 & 1023] (application date 1 January 2013);
- AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements [AASB 1,2, 3, 7, 8, 101, 107, 108, 110, 111, 112, 121, 124, 127, 128, 133, 134, 136, 141 & 1050 and Interpretations 2,4, 5, 15, 17, 127 & 129] (application date 1 January 2013);
- AASB 2010-6 Amendments to Australian Accounting Standards – Disclosures on Transfer of Financial Assets [AASB 1 & AASB 7] (application date 1 July 2011); and
- AASB 2010-07 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 7, 101, 108, 112, 120, 121, 127, 128, 132, 136, 137, 139 & 1023 and Interpretations 2, 5, 10, 12, 19 and 127] (application date 1 January 2013).

NOTE 4 CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

(a) Measurement of the Provision for Outstanding Claims

The Fund is not required to comply with AASB 1023: General Insurance Contracts as its operations are not underpinned by contracts of insurance with its customers. Contracts of insurance need to be in existence in order for a reporting entity to apply AASB 1023. Instead, liabilities are reported under AASB 137: Provisions, Contingent Liabilities and Contingent Assets. The measurement of liabilities under AASB 137 is based on an actuarial assessment, in the context of the Fund’s claims, equating to the central estimate of claim liabilities (i.e. without an explicit risk margin).

NOTE 4 CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES - CONTINUED

(b) Actuarial Assumptions

The actuarial estimate of provision for claims payable comprises:

- future compensation payments on open reported claims;
- future compensation payments for claims that have been incurred but not reported (i.e. IBNR);
- any recoveries, including input tax credits, recoveries from owners of unregistered vehicles and sharing recoveries, where relevant;
- an estimate of the costs associated with managing the claims, such as the staff costs for employees managing the claims; and
- claims inflated and discounted to a 'present value' basis.

Analysis and estimates are analysed in aggregate, without being subdivided by claim types.

The approaches used in estimating the liability for all claims were as follows:

Method 1

- historical claim payments of the previous and current Nominal Defendant and outstanding case estimates were summarised by accident and payment year;
- adequacy of case estimates was assessed by comparing the outstanding case estimates for a given accident year at each year end, with payments in the following year added to outstanding case estimates at the following year end, and consideration given to the need to assume future increases in case estimates; and
- a rate of payout was assumed, with the projected payments then discounted to a present value, to allow for the expected timing of those payments.

Method 2

- projection of IBNR claims by examining the rate of reporting as a frequency relative to vehicle registrations;
- claim payments were inflated to a common year (the 2010-11 year) using historical inflation indices;
- the payment pattern per number of claims incurred was analysed for each accident year, and an assumption made regarding a base average claim size and payment pattern for the run off of claims incurred to 30 June 2011; and
- the average claim size and pattern was applied to the reported and projected future reported claim numbers to derive projected payments, with the projected payments adjusted for future claims inflation and discounting to present value, allowing for the expected timing of those payments.

A blend of methods was adopted reflecting the relative strengths of those methods in projecting liabilities at different stages of development.

NOTE 4 CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES - CONTINUED

(b) Actuarial Assumptions - Continued

Table 1 outlines the main assumptions which were made in estimating the provision for claims payable.

Table 1 – Selected Actuarial Assumptions

Assumption	2011	2010
Claim frequency per thousand vehicles	0.155 per 1,000	0.185 per 1,000
Gross average claim size 2010-11 values (Method 2)	$97,000	$84,400
Case estimate development factors (Method 1)	1.2 reducing to 1	1.2 reducing to 1
Claims inflation – wage inflation	4.25% pa	4.25% pa
Claims inflation – superimposed inflation	3.0% pa	3.0% pa
Discount rate	5.05% pa	4.86% pa
Discounted average term to settlement	3.30 years	3.32 years
Claims handling expenses	7%	5.5%

Projected Claim Numbers

The projected claim numbers have been determined based on assumed pattern of claim emergence using chain ladder projections or the application of average claim frequencies to measures of exposure. This projection results in an underlying assumed average claim frequency per thousand registered vehicles. Individual years will vary based on experience to date.

Case estimate development factors

For those years with reliance on Method 1, the projected increase over case estimates in each year ranges from 1.2 (i.e. an increase of 20%) for a more recent year, reducing to 1 after eight years of development (i.e. no further increase in estimates after that point).

Claims Inflation Rate

A base wage inflation rate of 4.25% per annum has been selected. However, claims costs have a tendency to increase above the rate of wage inflation over time. A rate of 3.00% per annum for additional (ie superimposed) inflation has been adopted. Method 2 uses these assumptions, while inflation is implicit in Method 1.

Discount Rate

The estimate of the Fund’s liability is provided on both a discounted (i.e. allowing for future investment income) and undiscounted basis. To discount the liability, the Fund has used the market yield as at 30 June 2011 on long-duration Commonwealth bonds, which gives weighted average discount rates of 5.05%.

NOTE 4 CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES – CONTINUED

Claims Handling Expenses

Based on an exercise of benchmarking against insurers in a range of compulsory third party schemes and the expenses applied to other Funds managed by the ACT Insurance Authority, the fund has adopted a claims handling expenses rate of 7% of gross provision for claims payable.

Sensitivity Analysis

The provision for claims payable valuation relies on two key methods, each of which relies on certain assumptions about the experience of claims which are already incurred, but not yet fully paid. To understand the impact of variations in these assumptions, the Fund made changes to each assumption and quantified the impact on the outstanding claims result for the Fund. This is referred to as a sensitivity analysis.

Impact of Movement in Variable

Claims frequency

The provision for claims payable is calculated by reference to expected claim frequency and average claim sizes. An increase in future reported claims would increase the liability.

Average claim size

The provision for claims payable is calculated by reference to expected claim frequency and average claim sizes. An increase in the base average claim size from which future payments are derived would have a proportionate impact on those periods relying on this method.

Case estimate development

The provision for claims payable relies in part on the case estimates held by the Fund. Allowance is made in the valuation for expected development on open claims. The impact on reported claim expense will reflect the extent that the development of case estimate differs from expected.

Discount rate

The provision for claims payable is calculated by reference to expected future payments. These payments are discounted to adjust for the time value of money. A decrease in the assumed discount rate will increase the total claims expense.

Inflation and superimposed inflation rates

Expected future payments are inflated to take account of inflationary increases. In addition to the general economic inflation rate, an amount is superimposed to take account of non-economic inflationary factors, such as increases in court awards. Such rates of superimposed inflation are specific to the model adopted. An increase in the assumed levels of either economic or superimposed inflation would have a corresponding and magnified impact on claims expense, given the long-tail nature of these liabilities.

As a result of changes in these variables, the provision of claims payable has increased by $403,000, refer to Note 9 ‘Claims Expense’ and 16 ‘Provision for Claims Payable’.

Office of the Nominal Defendant of the ACT
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2011

NOTE 4 CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES – CONTINUED

Uncertainty

General sources of uncertainty

General areas of uncertainty include:

- data error – the base data can contain material errors or may not be representative of the current portfolio of business;
- model error – incorrect or inappropriate models may be used to project the future claims;
- parameter error – the selected values for various assumptions within the valuation are in some cases based on judgement and may not accurately represent the future values for the parameters;
- random error – claims development is, by its nature, subject to random variation; and
- unforeseen development due to events including jury decisions, court interpretations, legislative changes, public attitudes, potential sources of 'latent claims' (e.g. child claims in the context of compulsory third party), and social/economic conditions such as inflation.

Fund specific sources of uncertainty

Specific sources of uncertainty of note include:

- the change in administration of the portfolio, with limited data post transfer, and any potential change in the way claims are managed which are as yet an unknown;
- the small number of claims in each year leads to significant volatility. Separating trends from variation can be challenging; and
- the currency of the data. Delays in entering data into the database will affect how up to date the data is. The need for numerous adjustments introduces additional risk to the process. The number of amendments is reducing over time, and the Fund's claims management are investigating building in error flagging to the database.

Office of the Nominal Defendant of the ACT
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2011

NOTE 4 CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES – CONTINUED

Scenario Assumptions	Scenario net central estimate including Claims Handling Expense	Difference from net Claims Expense including Claims Handling Expense	Difference %
Net central estimate including Claims Handling Expense	**14,055,035**	**Not applicable**	**Not applicable**
Future claim reports increase 10%	14,842,430	787,395	5.6%
Inflation +1%	14,400,500	345,465	2.5%
Projected Case Estimate +5% each year until development year 8	14,650,775	595,741	4.2%
Payment Per Claim Incurred +5%	14,529,179	474,144	3.9%
Discount -1% for all years	14,501,440	446,405	3.2%

Note:

- The net central estimate (or NCE) refers to the provision for claims payable, which is net of any recoveries, inclusive of claims handling expenses (CHE) and 'central' in the sense that it is not intentionally over or underestimated (i.e. does not include a margin for uncertainty).
- The Projected Case Estimate (or PCE) method relies on assumptions regarding the adequacy of case estimates at any given period to cover the remaining run off cost of those claims. Therefore, 'development factors' are assumed that are intended to mimic the natural rate of increase (or decrease) of estimates as additional information or other factors come to light.
- The Payment Per Claim Incurred (or PPCI) method relies on an assumption regarding the average payment made in each period for each claim that was incurred. An increase in assumption implies a higher average claim cost and therefore a higher estimate of liabilities.

NOTE 5 CHANGE IN ACCOUNTING POLICY AND ACCOUNTING ESTIMATES, AND CORRECTION OF A PRIOR PERIOD ERROR

Changes in Accounting Estimate

Changes in Actuarial Assumptions
The fund uses actuaries (Refer Note 4: 'Critical Accounting Judgements and Estimates') to estimate the provision for claims payable. Actual assumptions are based on past claims experience, risk exposure and projections of economic variables.

As such the estimate of the provision for claims payable has changed.

This change has resulted in an increase to the estimate of the provision for claims payable and expense in the current reporting period of approximately $403,000.

Change in Accounting Policy

The Fund had no changes in Accounting Policy during the reporting period.

Office of the Nominal Defendant of the ACT
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2011

NOTE 5 CHANGE IN ACCOUNTING POLICY AND ACCOUNTING ESTIMATES, AND CORRECTION OF A PRIOR PERIOD ERROR - CONTINUED

Correction of Prior Period Error

Monies required to satisfy claims are apportioned by way of levies placed on Comprehensive Third Party Insurers and Self-Insurers in the ACT. Levies are recognised in the Operating Statement when they have been earned. The proportion of levies received or receivable not yet earned at the reporting date in 2009-10 was recognised in the balance sheet as levies received in advance. As there is no mechanism in the *Road Transport (Third Party Insurance) Act 2008* for the Fund to repay levies, levies received in advance should have been recognised as revenue rather than a liability.

As this error was made in the 2009-10 reporting period, the Balance Sheet and Operating balances as at 30 June 2010 were restated as follows:

- Revenue Received in Advance of $1,365,000 was removed from the Fund's Balance Sheet;
- Accumulated Funds were increased by $1,365,000;
- Levies was increased by $1,365,000; and
- Operating Surplus was increased by $1,365,000.

The section below, 'Restatement of Financial Statements as a result of Correction of an Error' shows the restatement of each line item effected by the error.

Restatement of Financial Statements as a result of Correction of an Error

30 June 2010 Comparative Year

Financial Statement Line Item/ Balance Affected	Note No.	Actual 2010 $'000	Correction of Error Adjustment $'000	Restated Actual 2010 $'000
Operating Statement (Extract)				
Income				
Levies	7	3,826	1,365	5,191
Total Income		**5,451**	**1,365**	**6,816**
Operating Surplus		**-**	**1,365**	**1,365**
Balance Sheet (Extract)				
Current Liabilities				
Levies Received in Advance	16	1,365	(1,365)	-
Total Current Liabilities		**4,668**	**(1,365)**	**3,303**
Total Liabilities		**15,231**	**(1,365)**	**13,866**
Net Assets		**-**	**1,365**	**1,365**
Equity				
Accumulated Funds		-	1,365	1,365
Total Equity		**-**	**1,365**	**1,365**
Statement of Changes in Equity (Extract)				
Operating Surplus		-	1,365	1,365

Office of the Nominal Defendant of the ACT
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2011

NOTE 5 CHANGE IN ACCOUNTING POLICY AND ACCOUNTING ESTIMATES, AND CORRECTION OF A PRIOR PERIOD ERROR - CONTINUED

Restatement of Financial Statements as a result of Correction of an Error (Continued)

Financial Statement Line Item/ Balance Affected	Actual 2010 $'000	Correction of Error Adjustment $'000	Restated Actual 2010 $'000
Note 7. Levies (Extract)			
Levies from insurers	3,783	1,365	5,148
Levies from the Commonwealth Government	11	-	11
Levies from the ACT Government	32	-	32
Total Levies	**3,826**	**1,365**	**5,191**
Note 16. Levies Received in Advance (Extract)			
Levies Received in Advance	1,365	(1,365)	-
Total Levies Received in Advance	**1,365**	**(1,365)**	**-**

NOTE 6 INTEREST AND DISTRIBUTIONS

	2011 $'000	2010 $'000
Revenue Received from ACT Government Entities		
Interest Revenue from Investments	456	182
Distribution Revenue from Investments	359	346
Revenue from Non-ACT Government Entities		
Interest Revenue from Bank	16	6
Total Interest Revenue	**831**	**534**

NOTE 7 LEVIES

Claims and administrative costs of the Fund are paid by raising a levy on all licensed Compulsory Third Party insurers in the ACT and the Commonwealth and Territory Governments.

	2011	2010
Levies from Insurers[1]	4,836	5,148
Levies from the Commonwealth Government	15	11
Levies from the ACT Government	40	32
Total Levies	**4,891**	**5,191**

1 Correction of Prior Period Error see Note 5

Office of the Nominal Defendant of the ACT
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2011

NOTE 8 OTHER REVENUE

	2011 $'000	2010 $'000
Unregistered Vehicle Permits	538	463
Unregistered Vehicle Fines	529	206
Uninsured Owner/ Driver	74	99
Recoveries from Third Parties	34	250
Total Revenue	**1,175**	**1,018**

Recoveries from uninsured owners/ drivers and third parties are very unpredictable and may vary significantly from year to year.

NOTE 9 CLAIMS EXPENSES

Settlements	2,029	2,425
Medical Costs	221	227
Investigation Costs	34	47
Legal Costs	598	451
Movement in Provision for Claims Payable	403	1,891
Total Claims Expenses	**3,285**	**5,041**

NOTE 10 SUPPLIES AND SERVICES

Administration Expenses	197	137
Audit Fees	26	24
Purchased Administrative Services from the ACT Insurance Authority and Default Insurance Fund	112	249
Total Supplies and Services	**335**	**410**

Office of the Nominal Defendant of the ACT
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2011

NOTE 11 UNREALISED GAIN/ (LOSS) ON INVESTMENTS

	2011 $'000	2010 $'000
Unrealised Gain on Investments	-	73
Unrealised Loss on Investments	(16)	-
Total Unrealised (Loss)/Gain on Investments	**(16)**	**73**

NOTE 12 CASH AND CASH EQUIVALENTS

The Fund holds a bank account with the Commonwealth Bank as part of the whole-of-government banking arrangements. The Fund also held short-term investments with Public Trustee in the JACS Trust Investment Account throughout the year. The investment earned a floating interest rate of 4.5% (4.6% in 2010). These funds are able to be withdrawn upon request and are not subject to movement in market value and, as such, meet the definition of a cash equivalent.

Cash at Bank	4	391
Investments	11,477	7,511
Total Cash and Cash Equivalents	**11,481**	**7,902**

An increase in cash and cash equivalents reflects the building of funds in order to meet the cost of future claims.

NOTE 13 RECEIVABLES

Current Receivables		
Interest	85	131
GST Receivable	47	98
Accrued Levies	1,361	1,336
Total Receivables	**1,493**	**1,565**

Aging of Receivables

	Not Overdue	Past Due			Total
		Less Than 30 Days	30 to 60 Days	Greater than 60 days	
	$'000	$'000	$'000	$'000	$'000
2011					
Not Impaired[1]					
Receivables	1,493	-	-	-	1,493
Impaired					
Receivables	-	-	-	-	-
2010					
Not Impaired[1]					
Receivables	1,565	-	-	-	1,565
Impaired					
Receivables	-	-	-	-	-

1) 'Not Impaired' refers to Net Receivables (that is Gross Receivables less Impaired Receivables).
The Fund does not hold any collateral for receivables that are overdue or determined to be impaired.

Office of the Nominal Defendant of the ACT
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2011

NOTE 13 RECEIVABLES - CONTINUED

	2011 $'000	2010 $'000
Classification of ACT Government/Non-ACT Government Receivables		
Receivables with ACT Government Entities		
Interest	82	130
Accrued Levies	100	103
Total Receivables with ACT Government Entities	**182**	**233**
Receivables with Non-ACT Government Entities		
Interest	3	1
GST Receivable	47	98
Accrued Levies	1,261	1,233
Total Receivables with Non-ACT Government Entities	**1,311**	**1,332**
Total Receivables	**1,493**	**1,565**

NOTE 14 INVESTMENTS

The purpose of the investment in the Fixed Interest Trust Portfolio is to hold it for a period of longer than 12 months. The total carrying amount of the Fixed Interest Trust Portfolio investment below has been measured at fair value.

	2011 $'000	2010 $'000
Non-Current Investments		
Investments	5,748	5,764
Total Investments	**5,748**	**5,764**

Office of the Nominal Defendant of the ACT
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2011

NOTE 15 PAYABLES

	2011 $'000	2010 $'000
Current Payables		
Trade Payables	4	4
Accrued Expenses	37	210
Total Payables	**41**	**214**
Payables are Aged as follows:		
Not Overdue	41	214
Overdue for more than 60 days	-	-
Total Payables	**41**	**214**
Classification of ACT Government/Non-ACT Government Payables		
Payables with ACT Government Entities		
Accrued Expenses	37	210
Total Payables with ACT Government Entities	**37**	**210**
Payables with Non-ACT Government Entities		
Trade Payables	4	4
Total Payables with Non-ACT Government Entities	4	4
Total Payables	**41**	**214**

NOTE 16 PROVISION FOR CLAIMS PAYABLE

Inflated and Discounted Liability

	2011 $'000	2010 $'000
Gross Central Estimate	14,365	14,208
Recoveries	(1,315)	(1,337)
Claims Handling Expense	1,005	781
Net Central Estimate	**14,055**	**13,652**
Current Provision for Claims Payable		
Provision for Claims Payable	3,267	3,089
Non-Current Provision for Claims Payable		
Provision for Claims Payable	10,788	10,563
Total Provision for Claims Payable	14,055	13,652

There were 80 open claims as at 30 June 2011 and 63 as at 30 June 2010.

Office of the Nominal Defendant of the ACT
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2011

NOTE 17 FINANCIAL INSTRUMENTS

(a) Fair Values 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 2011 $'000	Fair Value 2011 $'000	Carrying Amount 2010 $'000	Fair Value 2010 $'000
Financial Assets					
Cash and Cash Equivalents	12	11,481	11,481	7,902	7,902
Receivables	13	1,493	1,493	1,565	1,565
Investments	14	5,748	5,748	5,764	5,764
Total Financial Assets		**18,723**	**18,723**	**15,231**	**15,231**
Financial Liabilities					
Payables	15	41	41	214	214
Total Financial Liabilities		**41**	**41**	**214**	**214**

Fair Value Hierarchy

The Fund is required to classify financial assets and financial liabilities into a fair value hierarchy that reflects the significance of the inputs used in determining their fair value. The fair value hierarchy is made up of the following three levels:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

Office of the Nominal Defendant of the ACT
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2011

NOTE 17 FINANCIAL INSTRUMENTS - CONTINUED

(a) Fair Values of Financial Assets and Liabilities - continued

2011

	Classification According to Fair Value Hierarchy Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial Assets				
Financial Assets at Fair Value through the Profit and Loss	-	-	-	-
Investment with the Public Trustee Fixed Interest Portfolio	-	5,748	-	5,748
	-	5,748	-	5,748

Transfer Between Categories
There have been no transfers of financial assets or financial liabilities between Level 1 and Level 2 during the reporting period.

2010

	Classification According to Fair Value Hierarchy Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial Assets				
Financial Assets at Fair Value through the Profit and Loss	-	-	-	-
Investment with the Public Trustee Fixed Interest Portfolio	-	5,764	-	5,764
	-	5,764	-	5,764

Transfer Between Categories
There have been no transfers of financial assets or financial liabilities between Level 1 and Level 2 during the reporting period.

Office of the Nominal Defendant of the ACT
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2011

NOTE 17 FINANCIAL INSTRUMENTS - CONTINUED

(b) 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.

Most of the Fund's financial assets are held in floating interest rate arrangements and all of its financial liabilities are non -interest bearing. This means that the Fund is not exposed to movements in interest payable, however, it is exposed to movements in interest receivable. Interest rates decreased during the year ended 30 June 2011 and this resulted in an decrease in the amount of interest received. There are no unrecognised financial assets or liabilities.

Interest rate risk for financial assets is managed by the Fund by only investing in floating interest rate investments that are low risk. Interest rate risk for financial liabilities is not actively managed by the Fund 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.

Carrying Amount of Each Category of Financial Assets and Liabilities
Financial Assets

	2011 $'000	2010 $'000
Financial Assets at Fair Value through the Profit and Loss Designated upon Initial Recognition	5,748	5,764
Loans and Receivables	1,446	1,467

(Loss)/gain on Each Category of Financial Assets and Financial Liabilities

	2011	2010
(Loss)/ Gain on Financial Assets at Fair Value through the Profit and Loss Designated upon Initial Recognition	(16)	73

Sensitivity Analysis

Taking into account past performance, future expectations and economic forecasts, the impact on profit or loss and the impact on equity in the table below are 'reasonably possible' over the next 12 months if interest rates change by -/+ 1.0% per annum.

	Carrying Amount $'000	-1.0% Profit/ (Loss) $'000	+1.0% Profit/ (Loss) $'000
Financial Assets:			
Cash and Cash Equivalents	11,481	(115)	115
Total(Decrease)/ Increase	**11,481**	**(115)**	**115**

Office of the Nominal Defendant of the ACT
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2011

NOTE 17 FINANCIAL INSTRUMENTS - CONTINUED

(c) 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 Fund's credit risk is limited to the amount of the financial assets it holds net any allowance for impairment.

Credit risk for investments is managed by the Fund by only investing surplus funds with the Public Trustee for the ACT. The Public Trustee for the ACT has set appropriate investment criteria for the external fund manager it has engaged to manage the surplus funds of agencies, resulting in an insignificant credit risk. No significant concentration of credit risk has been identified by the Fund.

A large proportion of the Fund's receivables are from major Australian insurers and the government. The credit risk of these receivables going into default is considered low. A small proportion of receivables are expected from drivers or owners identified as at fault. These receivables have been impaired as part of the actuarial valuation. The Fund expects to collect all financial assets that are not past due or impaired.

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

(d) Liquidity Risk

Liquidity risk is the risk that the Fund 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 Fund keeps sufficient cash on hand to meet its payables. The Fund's outstanding claims, while not financial liabilities, are unlikely to settle in any one financial year. At any particular point in time, through raising levies, the Fund has sufficient current financial assets to meet its current financial liabilities. This ensures that the Fund has enough liquidity to meet its emerging financial liabilities.

Office of the Nominal Defendant of the ACT
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2011

NOTE 17 FINANCIAL INSTRUMENTS – CONTINUED

(e) Price Risk

Price risk is the risk that the fair value or future cash flows 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 to which the Fund is exposed results from its investment in the fixed interest trust portfolio. The Fund has units in the fixed interest trust portfolio which fluctuate in value. The price fluctuations in the units of the fixed interest trust portfolio are caused by movements in the underlying investments of the portfolio. The underlying investments are managed by an external fund manager who invests in a variety of different 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 the bonds that make up the underlying investments of the fixed interest trust 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 Board Index before taking into account fund fees and expenses. The Fund's exposure to price risk and the management of this risk has not changed since last reporting period.

Sensitivity Analysis

Taking into account past performance, future expectations and economic forecasts, the impact on profit or loss and the impact on equity in the table below are 'reasonably possible' over the next 12 months if unit values change by -/+ 1.83%, which is two standard deviations from the 2010-11 average unit price.

	Units Held 30 June 2011	Unit Value 30 June 2011	Carrying Amount	(1.83%) Profit/ (Loss)	+1.83% Profit/ (Loss)
		$ 000's	$ 000's	$ 000's	$ 000's
Financial Assets:					
Investments in the Fixed Interest Trust Portfolio	5,910,583	5,748	5,748	(105)	105

Office of the Nominal Defendant of the ACT
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2011

NOTE 17 FINANCIAL INSTRUMENTS – CONTINUED

The following table sets out the Fund'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 2011. 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.

2011	Notes	Floating interest rate $'000	Fixed interest maturing in: 1 year or less $'000	over 1 to 5 years $'000	more than 5 years $'000	Non-interest bearing $'000	Total $'000
Financial Instruments							
Financial Assets							
Cash and Cash Equivalents	12	**11,481**	**-**	**-**	**-**	**-**	**11,481**
Receivables	13	**-**	**-**	**-**	**-**	**132**	**132**
Investments	14	**-**	**-**	**-**	**-**	**5,748**	**5,748**
Total Financial Assets		**11,481**	**-**	**-**	**-**	**5,880**	**17,361**
Weighted average interest rate			-	-	-	-	
Financial Liabilities							
Payables	15	**-**	**-**	**-**	**-**	**41**	**41**
Total Financial Liabilities		**-**	**-**	**-**	**-**	**41**	**41**
Weighted Average Interest Rate		-	-	-	-	-	-
Net Financial Assets/ Liabilities		**11,481**	**-**	**-**	**-**	**5,839**	**17,320**

Reconciliation of Net Financial Assets to Net Assets as per the Balance Sheet	**Note**	**2011 $'000**
Net Financial Assets (as above)		**17,320**
Accrued Levies	13	**1,361**
Provision for Claims Payable	16	**(14,055)**
Net Assets as per the Balance Sheet		**4,626**

Office of the Nominal Defendant of the ACT
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2011

NOTE 17 FINANCIAL INSTRUMENTS – CONTINUED

2010	Notes	Floating interest rate $'000	Fixed interest maturing in: 1 year or less $'000	over 1 to 5 years $'000	more than 5 years $'000	Non-interest bearing $'000	Total $'000
Financial Instruments							
Financial Assets							
Cash and Cash Equivalents	12	**7,902**	**-**	**-**	**-**	**-**	**7,902**
Receivables	13	**-**	**-**	**-**	**-**	**229**	**229**
Investments	14	**-**	**-**	**-**	**-**	**5,764**	**5,764**
Total Financial Assets		**7,902**	**-**	**-**	**-**	**5,993**	**13,895**
Weighted average interest rate		**5.23%**	**-**	**-**	**-**	**-**	
Financial Liabilities							
Payables	15	**-**	**-**	**-**	**-**	**214**	**214**
Total Financial Liabilities		**-**	**-**	**-**	**-**	**214**	**214**
Weighted Average Interest Rate		-	-	-	-	-	-
Net Financial Assets		**7,902**	**-**	**-**	**-**	**5,779**	**13,681**

Reconciliation of Net Financial Assets to Net Assets	**Note**	**2010 $'000**
Net Financial Assets (as above)		**13,681**
Accrued Levies	13	**1,336**
Provision for Claims Payable	16	**(13,652)**
Net Assets as per the Balance Sheet		**1,365**

NOTE 18 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

No contingent liabilities or assets were recognised at the reporting date.

NOTE 19 CASH FLOW RECONCILIATION

	2011 $'000	2010 $'000
(a). Reconciliation of Cash and Cash Equivalents at the End of the Reporting Period in the Cash Flow Statement to the Equivalent Items in the Balance Sheet		
Total Cash and Cash Equivalents Recorded in Balance Sheet	11,481	7,902
Cash and Cash Equivalents at the End of the Reporting Period as Recorded in the Cash Flow Statement	**11,481**	**7,902**

	2011 $'000	2010 $'000
(b). Reconciliation of Net Cash Inflows/ (Outflows) from Operating Activities to the Operating Surplus		
Operating Surplus	3,261	1,365
Add/(Less) Items Classified as Investing or Financing		
Gain in Net Market Value of Investments	-	(73)
Unrealised Loss on Investments	16	-
Cash before Operating Assets and Liabilities	**16**	**(73)**
Changes in Operating Assets and Liabilities		
Increase/(Decrease) in Receivables	72	74
Increase/(Decrease) in Provision for Claims Payable	403	2,095
(Decrease)/Increase in Payables	(173)	-
Net Changes in Operating Assets and Liabilities	**302**	**2,169**
Net Cash Inflows From Operating Activities	**3,579**	**3,461**

NOTE 20 AUDITOR'S REMUNERATION

Auditor's remuneration consists of financial audit services provided to the Fund by the ACT Auditor-General's Office.

	2011 $'000	2010 $'000
Audit Services		
Audit Fees Paid to the ACT Auditor-General's Office	26	24
Total Auditor's Fees	**26**	**24**

No other services were provided by the ACT Auditor-General's Office

GLOSSARY

Actuary

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

Compulsory Third Party Insurance (CTP) insurance

Insures against the risk of liability for personal injury caused by a motor accident.

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.

IBNR

Claims incurred but not yet reported or not enough reported

Insurance incident

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

Insurance claim

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 year

1 July to 30 June.

Medical malpractice insurance

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

Property insurance

Covers damage to or loss of policyholders' property.

Professional indemnity insurance

Covers professionals for causing loss or injury to their clients.

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.

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.

COMPLIANCE INDEX

ALPHABETICAL INDEX